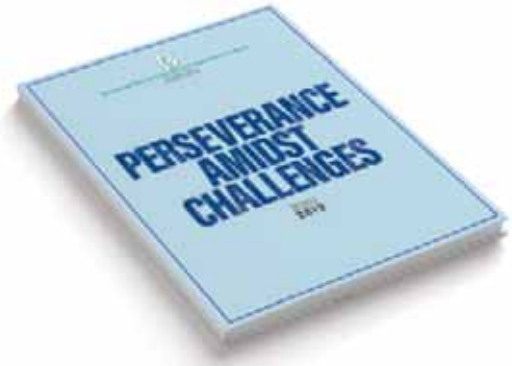
Boustead Heavy Industries Corporation Berhad

197101000758 (11106-V)
(A member of Boustead Group)

PERSEVERANCE AMIDST CHALLENGES

ANNUAL REPORT 2019



Cover Rationale

We remain steadfast and resilient as we face challenges in the current market landscape. With determination and a strong mindset, we will continue to persevere in times of adversity and emerge stronger. We are committed to work hard to improve efficiency and productivity, unlock opportunities for new businesses and maximise our shareholders' value.

48th Annual General Meeting

Refer to pages 217 to 221 for Information on BHIC's 48th Annual General Meeting

Mutiara 5, Ground Floor
Royale Chulan Damansara
2 Jalan PJU 7/3, Mutiara Damansara
47810 Petaling Jaya, Selangor

21 July 2020 (Tuesday)

9.30 a.m.

Scan to view or download BHIC's Annual Report 2019 here

ONLINE VERSION

BHIC's Annual Report 2019 is also available at our website:

www.bhic.com.my

WHAT'S INSIDE



OVERVIEW OF BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD

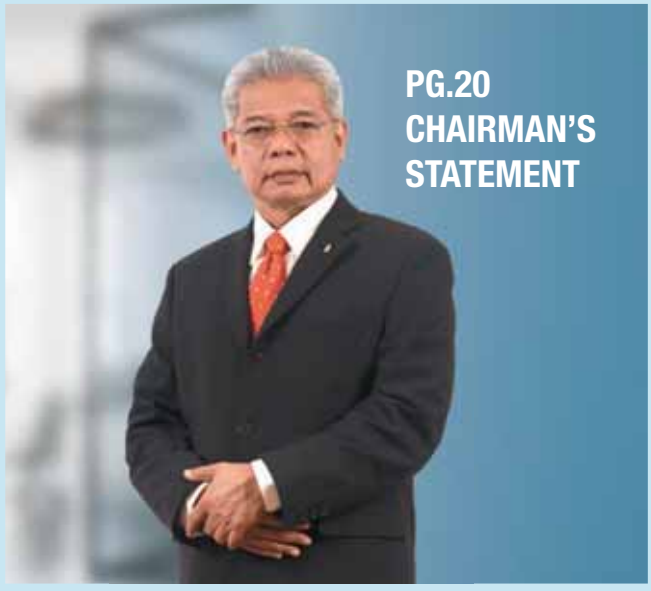
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OVERVIEW OF BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD

VISION

THE LEADING MARITIME AND DEFENCE SOLUTIONS PROVIDER

MISSION

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

WHO WE ARE

Boustead Heavy Industries Corporation Berhad (BHIC) is a company with diverse interests in the marine and defence and security related industries, namely in the following areas:

- Shipbuilding of military and paramilitary and commercial vessels
- Ship repair including Maintenance, Repair and Overhaul (MRO) of military, paramilitary, commercial and private vessels
- MRO of electronics, electrical and control systems, engines, communication equipment and weaponry
- MRO of helicopters and submarines
- Manufacturing of aerospace components
- Management of Integrated Logistics Support

OUR CORE VALUES



FACTS AT A GLANCE

TOTAL EQUITY **RM116** MILLION	NET ASSETS PER SHARE **47** SEN	EMPLOYEES **1,691**
REVENUE **RM169** MILLION	TOTAL ASSETS **RM469** MILLION	LOSS BEFORE TAX **RM114** MILLION



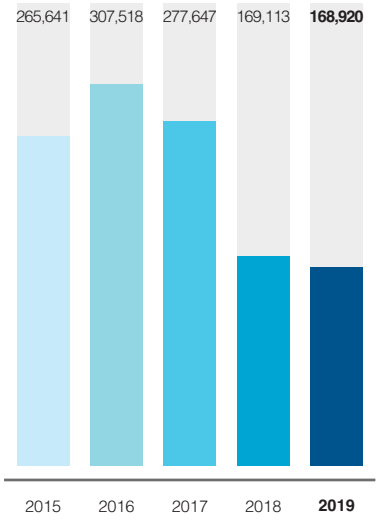
FIVE-YEAR FINANCIAL HIGHLIGHTS

		2019	2018	2017	2016	2015
FINANCIAL PERFORMANCE						
Revenue		**168,920**	169,113	277,647	307,518	265,641
(Loss)/Profit before taxation		**(113,514)**	(104,615)	11,770	82,208	(3,949)
(Loss)/Profit after taxation		**(116,636)**	(108,326)	10,576	80,507	(7,538)
(Loss)/Profit attributable to shareholders		**(116,636)**	(108,326)	10,576	76,696	(30,739)
(Loss)/Earnings per share	sen	**(46.94)**	(43.60)	4.26	30.87	(12.37)
DIVIDENDS						
Dividends for the year		**–**	3,727	12,423	–	–
Net dividend per share	sen	**–**	1.50	5.00	–	–
GEARING						
Borrowings		**301,186**	273,591	227,817	254,233	355,032
Gearing	times	**2.60**	1.18	0.66	0.73	1.32
OTHER FINANCIAL STATISTICS						
Net assets per share	sen	**47**	94	139	139	109
Shareholders' equity		**115,979**	232,615	344,668	346,515	269,819
Total equity		**115,979**	232,615	344,668	346,515	269,820
Total assets		**468,970**	581,254	660,805	719,422	738,931

All figures are in RM'000 unless otherwise stated.

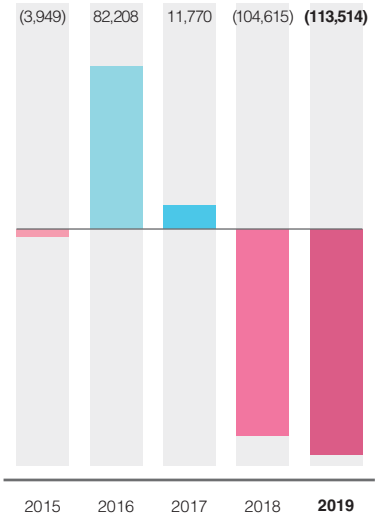
REVENUE

(RM'000)



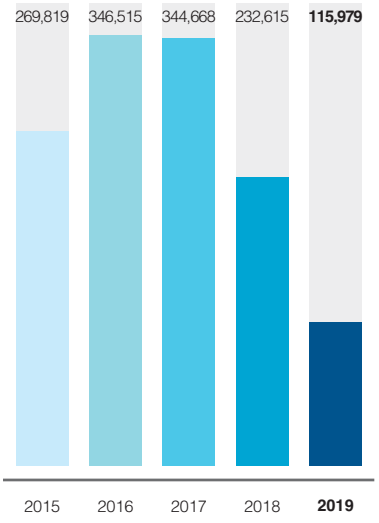
(LOSS) / PROFIT BEFORE TAXATION

(RM'000)



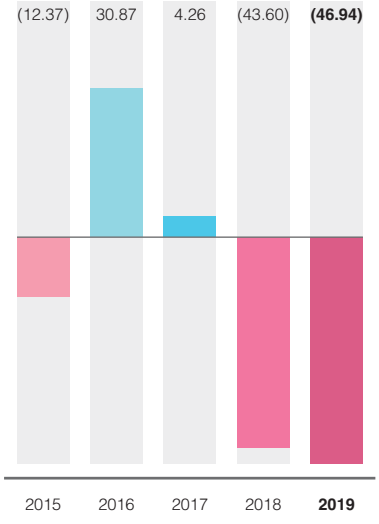
SHAREHOLDERS' EQUITY

(RM'000)



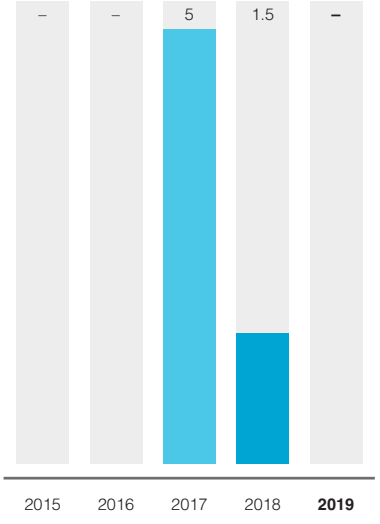
(LOSS) / EARNINGS PER SHARE

(sen)



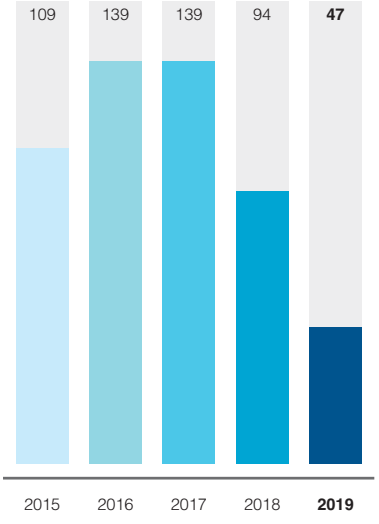
NET DIVIDEND PER SHARE

(sen)



NET ASSETS PER SHARE

(sen)



CORPORATE INFORMATION

BOARD OF DIRECTORS

Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired)
Non-Independent Non-Executive Chairman
(Appointed as Non-Independent Non-Executive Director on 10 July 2019 / Redesignated as Non-Independent Non-Executive Chairman on 1 December 2019)

Admiral Tan Sri Dato Seri Panglima (Dr.) Ahmad Kamarulzaman Ahmad Badaruddin (Retired)
Independent Non-Executive Director
(Appointed on 1 May 2019)

Tan Sri Dato' Wira Aziah Ali
Independent Non-Executive Director
(Appointed on 10 July 2019)

Vice Admiral Dato' Syed Zahiruddin Putra Syed Osman (Retired)
Independent Non-Executive Director
(Appointed on 21 August 2019)

Dato' Maznah Abdul Jalil
Non-Independent Non-Executive Director
(Appointed on 10 July 2019)

(Dr.) Salihin Abang
Independent Non-Executive Director
(Appointed on 10 July 2019)

Hajah Saadatul Nafisah Bashir Ahmad
Independent Non-Executive Director
(Appointed on 10 July 2019)

Rozi Baharudin
Independent Non-Executive Director
(Appointed on 2 January 2019)

Izaddeen Daud
Non-Independent Non-Executive Director
(Appointed on 11 June 2020)

Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor
Non-Executive Chairman
(Resigned on 30 November 2019)

Datuk Azzat Kamaludin
Non-Independent Non-Executive Director
(Resigned on 10 July 2019)

Dato' Ishak Osman
Independent Non-Executive Director
(Resigned on 10 July 2019)

Abd Malik A Rahman
Independent Non-Executive Director
(Resigned on 1 May 2019)

Fahmy Ismail
Non-Independent Non-Executive Director
(Appointed on 10 July 2019)
(Resigned on 11 June 2020)

SECRETARIES

Lilyrohayu Ab. Hamid @ Kassim
Suzana Sanudin

AUDITORS

Ernst & Young PLT
Level 23A, Menara Milenium
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

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 32-01, Level 32, 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
AmBank Islamic Berhad
Malayan Banking Berhad
Maybank Investment Bank Berhad
MBSB Bank Berhad

FINANCIAL CALENDAR







Financial Year

1 January to 31 December 2019

Results

1Q Announced on 23 May 2019

2Q Announced on 23 August 2019

3Q Announced on 20 November 2019

4Q Announced on 25 February 2020

Annual Report 2019

Issued on
22 June 2020

48th Annual General Meeting

To be held on
21 July 2020

BOARD OF DIRECTORS

Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Ahmad Badaruddin (Retired)
Independent
Non-Executive Director

Dato' Maznah Abdul Jalil
Non-Independent
Non-Executive Director

Izaddeen Daud
Non-Independent
Non-Executive Director

Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired)
Non-Independent
Non-Executive Chairman



Vice Admiral
Dato' Syed Zahiruddin Putra
Syed Osman (Retired)
Independent
Non-Executive Director

Tan Sri Dato'
Wira Aziah Ali
Independent
Non-Executive
Director

Hajah Saadatul Nafisah
Bashir Ahmad
Independent
Non-Executive
Director

Rozi Baharudin
Independent
Non-Executive
Director

(Dr.) Salihin Abang
Independent
Non-Executive
Director



BOARD AT A GLANCE

BOARD COMPOSITION

- 1 Non-Independent Non-Executive Chairman
- 2 Non-Independent Non-Executive Directors
- 6 Independent Non-Executive Directors



Male **Female**

5 **4**

The gender composition of BHIC's Board of Directors reflects our commitment to the Malaysian Code of Corporate Governance to have at least a third of the Board comprising women

67%

The Board comprises 67% Independent Directors including one Senior Independent Non-Executive Director



The Chairman of the Board is a Non-Independent Non-Executive Director



The positions of the Chairman of the Board and the Chief Executive Officer of BHIC are held by different individuals

PROFILE OF DIRECTORS

ADMIRAL TAN SRI DATO' SERI RAMLAN MOHAMED ALI (RETIRED)

Non-Independent Non-Executive Chairman

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	68	Male	10 July 2019	1 year



Number of Board Meetings Attended: 6/6

Committee Memberships:

- Executive Committee – Chairman
- Audit Committee – Member
- Nominating & Remuneration Committee – Member
- Sustainability Committee – Member

Working Experience

- 1970 to 2008 – Royal Malaysian Navy (RMN) (Retired as Chief of Navy). He used to sit on the Boards of Lembaga Tabung Angkatan Tentera, Boustead Naval Shipyard and SMEO (Ordnance) and Boards of Training Institutes in the RMN and Malaysian Armed Forces (MAF) during his tenure in the RMN
- 1970 – Britannia Royal Naval College, Dartmouth, United Kingdom
- 2009 to current – Director in various private companies within BHIC Group
- 2019 to current – Non-Executive Chairman of BHIC and director in various private companies within BHIC Group

Qualification

- Master of Science in Engineering Business Management, University of Warwick, United Kingdom
- Advanced Diploma in Engineering Business Management, Universiti Teknologi Malaysia

Details of any interest in the securities of BHIC

- 2,000 ordinary shares

Directorship in other public listed companies

- Nil

Directorship in public companies

- Nil

Family relationship with any director and/or major shareholder of BHIC

- None

Conflict of interests with BHIC

- None

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

VICE ADMIRAL DATO' SYED ZAHIRUDDIN PUTRA SYED OSMAN (RETIRED)

Independent Non-Executive Director

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	61	Male	21 August 2019	11 months



Number of Board Meetings Attended: 3/5

Committee Memberships:

- Executive Committee – Member
- Nominating & Remuneration Committee – Member

Working Experience

- 1977 to 2019 – Royal Malaysian Navy (retired as Joint Force Commander)

Qualification

- 1978 – Britannia Royal Naval College, Dartmouth, United Kingdom
- 1996 – Indonesian Naval Staff and Command College, Jakarta, Indonesia
- 1998 – Master in Human Resource Management, University of New South Wales, Australia
- 1998 – Diploma in Executive Business Management, Universiti Teknologi Malaysia
- 2001 – Indonesia National Resilience Institute (LEMHANAS), Jakarta, Indonesia
- 2009 – Senior International Defense Planning & Management Program, Monterey, United States of America

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

- Nil

Directorship in other public listed companies

- Nil

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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' WIRA AZIAH ALI

Independent Non-Executive Director

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	67	Female	10 July 2019	1 year



Number of Board Meetings Attended: 6/6

Committee Memberships:

- Executive Committee – Member
- Sustainability Committee – Chairman
- Audit Committee – Member

Working Experience

- 1976 to 2005 – Judicial and Legal Service
- 2005 to 2018 – Judiciary (Retired as Federal Court Judge)

Qualification

- 1976 – Bachelor of Law (Honours), Universiti Malaya

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

- Nil

Directorship in other public listed companies

- Boustead Plantations Berhad

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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

DATO' MAZNAH ABDUL JALIL
Non-Independent Non-Executive Director

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	67	Female	10 July 2019	1 year



Number of Board Meetings Attended: 6/6

Committee Memberships:

- Audit Committee – Member
- Risk Committee – Member
- Sustainability Committee – Member

Working Experience

- 1979 to 1992 – Manager, Corporate Finance & Advisory, Amanah Merchant Bank Berhad
- 1992 to 1995 – Executive Director, Corporate Affairs, Master-Carriage (Malaysia) Sdn Bhd
- 1995 to 2006 – Senior Group Director, Corporate Finance & Advisory, DRB-Hicom Berhad
- 2006 to 2008 – Head, Corporate Finance & Principal Investment, Hong Leong Financial Group
- 2009 to 2011 – Executive Vice President, Kenanga Investment Bank Berhad
- 2012 to November 2019 – Director/Chairman, Prestariang Berhad
- 2019 to April 2020 – Director, FELCRA Berhad
- 2011 to current – Chairman, SCS Global Advisory (M) Sdn Bhd, Director, Pavillion REIT
- 2017 to current – Director, OPUS Asset Management Sdn Bhd
- 2019 to current – Director, Lembaga Tabung Angkatan Tentera

Qualification

- 1977 – Bachelor's Degree in Business Administration (Finance), Northern Illinois University, United States of America
- 1979 – Master in Business Administration (Finance), Central Michigan University, United States of America

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

- Nil

Directorship in other public listed companies

- Malayan Flour Mill Berhad
- Innature Berhad

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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

HAJAH SAADATUL NAFISAH BASHIR AHMAD

Independent Non-Executive Director

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	64	Female	10 July 2019	1 year



Number of Board Meetings Attended: 6/6

Committee Memberships:

- Audit Committee – Member
- Nominating & Remuneration Committee – Member
- Sustainability Committee – Member

Working Experience

- 1979 to 2016 – Government of Malaysia (Retired as Director of Government Audit Sector in the National Audit Department of Malaysia)
- 2016 to 2018 – Audit Committee Member and Investment and Integrity Committee Member, Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM)
- 2016 to 2019 – International Consultant, Asian Development Bank

Qualification

- 1978 – Diploma in Accountancy, Institut Teknologi MARA
- 1987 – Degree in Accountancy, Institut Teknologi MARA
- 1987 – Chartered Accountant, The Malaysian Institute of Accountants
- 1993 – Diploma in Taxation, HELP University, Malaysia
- 1998 – Master of Commerce (International Accounting & Finance), University of Wollongong, Australia

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

- Nil

Directorship in other public listed companies

- Nil

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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

(Dr.) SALIHIN ABANG
Independent Non-Executive Director

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	47	Male	10 July 2019	1 year



Number of Board Meetings Attended: 6/6

Committee Memberships:

- Executive Committee – Member
- Audit Committee – Chairman
- Risk Committee – Member
- Sustainability Committee – Member

Working Experience

- 2002 to current – Founder & Managing Partner – Salihin Chartered Accountants (AF 1426)

Qualification

- 1997 – Bachelor of Accounting, Universiti Islam Antarabangsa Malaysia
- 2001 – Chartered Accountant, Malaysian Institute of Accountants
- 2003 – Certified Financial Planner, Financial Planning Association of Malaysia
- 2007 – Fellow, Chartered Tax Institute of Malaysia
- 2008 – Master of Science in Accounting, Universiti Islam Antarabangsa Malaysia
- 2011 – ASEAN Senior Management Development Program, Harvard Business School Alumni Club of Malaysia
- 2017 – ASEAN Chartered Professional Accountant (ACPA)
- 2017 – Fellow, International Accountant, Association of International Accountants (United Kingdom)
- 2017 – Honorary Member, Institute of Cooperative and Management Auditors
- 2018 – Honorary Doctorate Degree in Management, Universiti Malaysia Terengganu

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

- Nil

Directorship in other public listed companies

- Bintulu Port Holdings Berhad
- G3 Global Berhad

Directorship in public companies

- Wasiyyah Shoppe Berhad

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

- None

Conflict of interests with the Company

- None

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

IZADDEEN DAUD
Non-Independent Non-Executive Director

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	51	Male	11 June 2020	–



Number of Board Meetings Attended: 0/0

Committee Memberships:

- Nil

Working Experience

- 1991 – Auditor, Ernst & Young PLT
- 1992 – Senior Officer, Oriental Bank Berhad
- 1992 to 1998 – Senior Manager, Perwira Affin Merchant Bank Berhad
- 1999 to 2006 – Assistant Vice President, Permodalan Nasional Berhad
- 2006 to 2007 – Chief Executive Officer, ASM Investment Services Berhad
- 2007 to 2009 – Managing Director, MARA Incorporated
- Current – Executive Chairman of E&E Gas Sdn Bhd

Qualification

- Certified Financial Planner, Financial Planning Association of Malaysia
- Fellow Member, Institute of Public Accountant, Australia
- Bachelor of Science (Hons) in Accounting and Law, De Monfort University, Leicester, United Kingdom

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

- Nil

Directorship in other public listed companies

- Olympia Industries Berhad
- Boustead Holdings Berhad

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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

ADMIRAL TAN SRI DATO' SERI PANGLIMA (Dr.) AHMAD KAMARULZAMAN AHMAD BADARUDDIN (RETIRED)

Independent Non-Executive Director

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	61	Male	1 May 2019	1 year 2 months



Number of Board Meetings Attended: 7/8

Committee Memberships:

- Risk Committee – Chairman

Working Experience

- 1977 to 2018 – RMN (Retired as Chief of Navy)
- Current – Advisory and consulting roles on business transformation, strategic initiatives, turnaround, integration and global networking

Qualification

- 1998 to 1999 – Master of Business Administration in Strategic Management, Strathclyde Business School, University of Strathclyde, Scotland, United Kingdom
- Master of Arts in Defence Studies and International Relations, Universiti Kebangsaan Malaysia
- Distinguished Graduate in Political Warfare, Fu Hshing Kang College, Republic of China
- Distinguished Graduate In Political Warfare, US Naval War College, Newport, Rhode Island, United States of America
- Executive Program in Business Management, Kenan-Flagler Business School, University of North Carolina, Chapel Hill, North Carolina, United States of America
- 2019 – Advanced Management Program, Harvard Business School, Harvard University, Boston, Massachusetts, United States of America

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

- 55,000 ordinary shares

Directorship in other public listed companies

- T7 Global Berhad
- OCR Group Berhad
- TRC Synergy Berhad

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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

ROZI BAHARUDIN

Independent Non-Executive Director

Nationality	Age	Gender	Date of Appointment	Length of Service
Malaysian	61	Female	2 January 2019	1 year 6 months



Number of Board Meetings Attended: 10/10

Committee Memberships:

- Executive Committee – Member
- Nominating & Remuneration Committee – Chairman

Working Experience

- 1988 to 1992 – Head, Human Resource Consultancy Division, KPMG Peat Marwick
- 1990 (May to August) – Seconded to KPMG Peat Marwick, London, United Kingdom
- 1992 to 1996 – Partner, PA Consulting Group, Malaysia
- 1996 to 1998 – Chief Executive Officer and Partner, ASPAC Human Resource Consulting
- 1999 to 2018 – General Manager, Human Resource and Administration, Indah Water Konsortium Sdn Bhd

- 2004 (June) – Attended general management course at The Institute of Management Development, Lausanne, Switzerland
- 2007 (October) – Attended general management course at The Institute of Labour Relations-Cornell University, New York, USA
- 2014 (July) – Attended general management course at The Said Business School, Oxford University, United Kingdom

Qualification

- 1982 to 1987 – Bachelor of Business Administration (Management) and Master of Arts (Social Science), Eastern Michigan University, Ypsilanti, Michigan, United States of America

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

- 5,000 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

- None

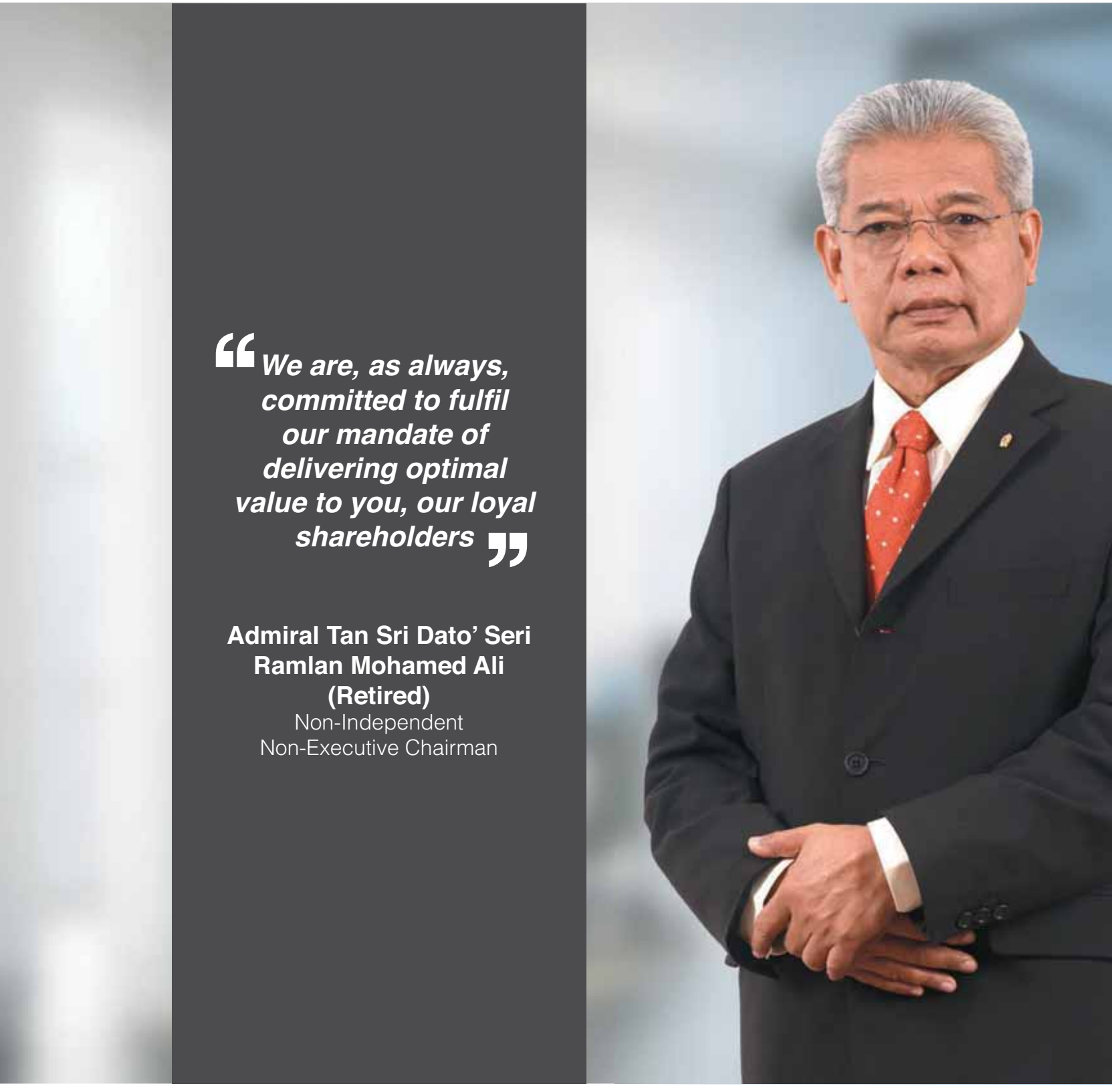
Conflict of interests with the Company

- None

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

CHAIRMAN'S STATEMENT



"We are, as always, committed to fulfil our mandate of delivering optimal value to you, our loyal shareholders"

Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired)
Non-Independent
Non-Executive Chairman



Dear Shareholder,

It is my privilege and pleasure to address you for the first time following my appointment as Non-Independent Non-Executive Chairman of BHIC on 1 December 2019. I am humbled and honored by this appointment, and I am fully committed to serve the BHIC Board of Directors, the Company and its esteemed shareholders to the best of my abilities.

2019 was a very challenging year for the BHIC Group. Amid stuttering global economy, austerity measures in public spending which affected the defence and security industry in Malaysia, sluggish growth in the marine industry and geopolitical uncertainties, the Group faced strong headwinds and many challenges which had an adverse impact on its business.

Against the background of intense competition in our industries and ever changing economic, political and technological landscape, there is certainly a need for us to revisit our business strategies and some of the targets set, reconfigure our organisational structure and review our resources to remain competitive.

The Group knows it has its work cut out to weather the challenging business circumstances. We are very much aware that we need to adapt and adjust in order to remain as the primary maritime defence and security service provider and a leading player in the marine industry in Malaysia.

Amid the multitude of internal and external challenges testing our resolve, we are, as always, committed to fulfil our mandate of delivering optimal value to you, our loyal shareholders. We have initiated several measures that underscore our serious intent to turn the corner and put the Group back on the path of profitability. These include:

i. revitalising our Board of Directors which now consists of members of high calibre with diverse backgrounds from the public and private sectors;

ii. strengthening corporate governance, integrity and risk management, and giving clarity to the BHIC Board of Director and management on their responsibilities, as well as ensuring all business decisions are made based on accurate information and data; and

iii. continuously implementing Strategic Transformation Programmes which entail among others revising our organizational structure by merging certain business units, closing of non-profitable businesses and improving the skills, efficiency and productivity of our employees.

CHAIRMAN'S STATEMENT

Although the Littoral Combat Ships (LCS) Programme undertaken by our associate, Boustead Naval Shipyard Sdn Bhd, is facing many challenges, we are working hard to deliver the ships with the support of the Malaysian Government and Royal Malaysian Navy (RMN).

We are steadfast in our focus to reduce our operational costs and complete the projects in hand, such as the LCS Programme, in accordance with the specifications of our clients. In addition, we will continue with our efforts to diversify our markets, enlarge our client base and secure new contracts. Given our facilities, experience and track record in the defence and security and marine industries, we are confident of achieving these.

The year ahead looks set to be an even more challenging one compared with 2019, as the global economy reels from the unprecedented Covid-19 pandemic. We are determined to work harder and will be counting on your continuous support in facing the challenges.

On behalf of the BHIC Board of Directors, the Management and employees, I would like to record our appreciation to our former Non-Executive Chairman, Vice Admiral Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor (Retired) and our former Directors for their contributions to the Group during their tenure. I would also like to thank our former CEO, Ir. Ee Teck Chee, for his service to the Group and extend a warm welcome to our new CEO, Sharifuddin Md. Zaini Al-Manaf.



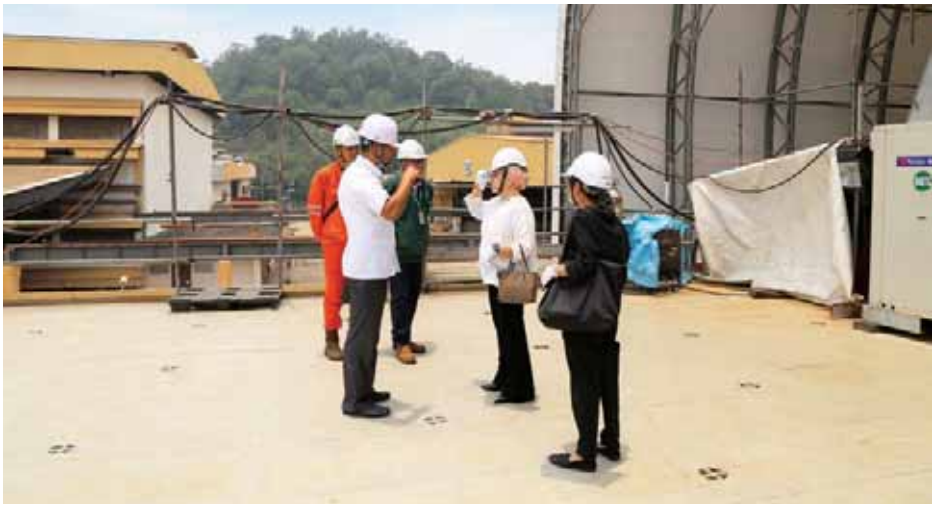




BHIC Group has emerged as a leading player in the defence and security and marine industries in Malaysia owing to its impressive facilities, highly skilled and experienced human capital and track record in delivering quality products and services to clients among government agencies and the commercial sector









BHIC Board and Audit Committee members visited BNS in Lumut to be briefed on the development of the LCS Programme and the progress of LCS1, MAHARAJA LELA

In closing, I would like to express my appreciation to several Malaysian Government agencies, namely the Prime Minister's Office, Ministry of Finance, Ministry of Defence, Ministry of Home Affairs, Ministry of Transport, Ministry of International Trade and Industry, Royal Malaysian Navy (RMN), Royal Malaysian Air Force, Malaysian Army and Malaysian Maritime Enforcement Agency for supporting the BHIC Group.

I would also like to record my gratitude to you, our valued shareholders, and to our clients, bankers, vendors, suppliers, business partners and regulatory bodies for their support.

Thank you.

ADMIRAL TAN SRI DATO' SERI RAMLAN MOHAMED ALI (RETIRED)
Non-Independent Non-Executive Chairman

SENIOR MANAGEMENT TEAM

(From left to right):

- **Mohd Fakhrul Arifin Adinan,** Acting Chief Financial Officer; • **Sharifuddin Md. Zaini Al-Manaf,** Chief Executive Officer
- **Low Kok Chiang,** Chief Operating Officer, Boustead Naval Shipyard Sdn Bhd



PROFILE OF SENIOR MANAGEMENT TEAM

MOHD FAKHRUL ARIFIN ADINAN

Acting Chief Financial Officer

Nationality	Age	Gender
Malaysian	35	Male

Length of Service	Date of Appointment to Present Position
6 years	1 November 2019

Working Experience

- 2005 to 2012 – Ernst & Young PLT (Last position: Audit Manager)
- 2012 to 2014 – Teluk Datai Resorts Sdn Bhd (Last position: Assistant Vice President, Finance)
- 2014 to 2019 – Financial Controller, BHIC
- 2019 to present – Acting Chief Financial Officer, BHIC

Qualification

- 2004 – Diploma in Accountancy, Universiti Teknologi MARA
- 2006 – Bachelor of Accountancy (Hons), Universiti Teknologi MARA
- 2010 – Certified Public Accountant, Malaysian Institute of Certified Public Accountants
- 2010 – Chartered Accountant, Malaysian Institute of Accountants

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

- Nil

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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

SHARIFUDDIN MD. ZAINI AL-MANAF

Chief Executive Officer

Nationality	Age	Gender
Malaysian	50	Male

Length of Service	Date of Appointment to Present Position
3 months	1 April 2020

Working Experience

- 1994 to 2007 – Country Business Manager – Malaysia, Singapore & Indonesia, Shell Bitumen
- 2007 to 2009 – General Manager, Global Supply & Trading, Petrofield (M) Sdn Bhd
- 2009 to 2014 – Director & Country Manager, Petrolink
- 2016 to 2020 – Chief Executive Officer, Orkim Sdn Bhd
- 2020 to present – Chief Executive Officer, BHIC

Qualification

- 1994 – Bachelor of Engineering (Hons) in Aeronautical Engineering, Imperial College, London, United Kingdom

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

- Nil

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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

LOW KOK CHIANG

Chief Operating Officer of BNS Sdn Bhd

Nationality	Age	Gender
Malaysian	45	Male

Length of Service	Date of Appointment to Present Position
2 months	1 May 2020

Working Experience

- 1999 to 2011 – Senior Project Manager, Keppel, Singapore
- 2011 to 2016 – Assistant General Manager (Offshore/ Marketing), PaxOcean Marine and Offshore Pte Ltd, Singapore
- 2016 to 2019 – Senior Manager (Commercial), Singapore Technology Engineering Marine Ltd, Singapore
- 2019 to 2020 – Assistant General Manager (Commercial), Asian Sealand Offshore and Marine Pte Ltd, Singapore
- 2020 to present – Chief Operating Officer, Boustead Naval Shipyard Sdn Bhd

Qualification

- 1994 to 1997 – Diploma in Shipbuilding and Offshore Engineering, Ngee Ann Polytechnic, Singapore
- 1997 to 1998 – Advanced Diploma in Naval Architecture and Offshore Technology, Ngee Ann Polytechnic, Singapore
- 1998 to 1999 – Bachelor of Engineering in Naval Architecture and Offshore Technology, University of Strathclyde, Scotland
- 2004 to 2006 – Master of Science in Marine Technology, University of Newcastle Upon Tyne, England

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

- Nil

Directorship in public companies

- Nil

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

- None

Conflict of interests with the Company

- None

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




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MALAYSIA



CEO's STATEMENT

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FINANCIAL PERFORMANCE



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OPERATIONAL REVIEW

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SUSTAINABILITY

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STRATEGIC PLANNING AND TRANSFORMATION

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PROSPECTS



CEO's STATEMENT

Dear Shareholder,

It is my pleasure to address you for the first time as the CEO of BHIC.

The BHIC Group serves a wide range of customers across the aviation, marine and land business sectors in which there are opportunities embedded within the defence and commercial segments. Being an enthusiast of the aviation industry and having had the opportunity to be involved in the marine industry both as a user of vessel services and a vessel owner, I find BHIC's businesses exciting and full of potential. The short time I have been with BHIC thus far has not only confirmed what I had anticipated about the company at the macro level but has also allowed me to discover the opportunities to improve at the micro level. I can anticipate a bright future ahead for the Group.



"The road before us is challenging but my Management team is unwavering in our efforts to steer BHIC Group out of the headwinds and back towards the path of profitability and growth"

Sharifuddin Md. Zaini Al-Manaf
Chief Executive Officer

Following a challenging 2018, we continued to be faced with an equally testing 2019. There were commendable successes but unfortunately we ended the year under review with a loss.

The Group managed to deliver some projects on time, at cost and to the satisfaction of our customers. In the Littoral Mission Ships (LMS) Programme, we delivered LMS1 KD KERIS to the Royal Malaysian Navy (RMN) on 31 December 2019 as scheduled. We would have delivered LMS2 SUNDANG in April 2020 but the Covid-19 outbreak has delayed its delivery which is now targeted for October 2020. These ships will strengthen RMN's fleet capability and boost Malaysia's maritime defence and security.

Other key projects undertaken by the Group in 2019 were In-Service Support (ISS) and Refit services for RMN's submarines; maintenance, repair and overhaul (MRO) of helicopters, commercial and naval ships; supply of Communication Suite for RMN ships; and maintenance and supply of spare parts for radars and guns for the Malaysian Army. These were delivered to our customers' satisfaction.

The Littoral Combat Ship (LCS) Programme continues to be a matter of the highest priority to the Board and the Management team. It is by far the most challenging and complex project we have undertaken. Being the 'first in class' ship, the construction of the LCS comes with huge challenges which we continue to discover and manage.

CEO's STATEMENT

FINANCIAL PERFORMANCE

BHIC Group recorded a loss after tax (LAT) of RM116.6 million for the financial year ended 31 December 2019 (FY2019) on the back of revenue of RM168.9 million.

This was mainly due to lower MRO activities, for both defence and commercial segments, higher impairments of RM57.9 million arising from receivables of RM25.1 million and goodwill in investment in Associates of RM32.8 million. The Group's results were compounded by negative contribution from the Associates' of RM57.7 million.

Higher finance cost of RM16.9 million in FY2019 was primarily due to the drawdown of borrowings for working capital purposes.



Among the MRO works we carried out in 2019 were on helicopters which belong to Malaysian Government agencies

Our Associates' results were impacted by adjustments made pursuant to changes in Malaysian Financial Reporting Standards 15 (Revenue from Contract with Customers) and cost overruns on the LCS Programme. However, the profits from the progress of the LMS Programme helped cushion the Associates' results. MRO works undertaken by the Associates' for seven RMN vessels in FY2019 were carried out on time and at cost.

Our Joint Venture (JV) companies contributed positively to the Group. BHIC AeroServices Sdn Bhd (BHICAS) clocked in a total of 3,865 flying hours in FY2019 for its Royal Malaysian Air Force (RMAF) and Malaysian Maritime Enforcement Agency (MMEA) contracts. Further, BHICAS recorded a tax exemption of RM7.3 million under MRO pioneer status granted by Malaysian Investment Development Authority (MIDA) effective from 12 March 2012 to 11 March 2017.

Our FY2019 results underscore the challenging year not only faced by the Group but also by other players in the defence and marine industries in Malaysia. This was a continuation of the equally challenging year that the Group went through during the financial year ended 31 December 2018 when we recorded LAT of RM108.3 million.

OPERATIONAL REVIEW

The highlights of our operations in 2019 are as follows:

i. Boustead Naval Shipyard Sdn Bhd (BNS) undertook MRO works on seven RMN ships and delivered six of them on time and one ahead of schedule.

ii. BNS delivered the first of four units of LMS, KD KERIS to RMN on 31 December 2019 as scheduled. The second LMS was successfully launched and named SUNDANG in July 2019.

iii. Boustead DCNS Naval Corporation Sdn Bhd (BDNC) provided In-Service Support (ISS) and Refit services to RMN's Scorpene submarines, KD TUNKU ABDUL RAHMAN and KD TUN RAZAK.

iv. BHIC Marine Technology Academy Sdn Bhd conducted several training programmes namely on Dock Master for Royal Navy of Oman Marine Engineering Officers, Bridging Electro Technical Officer for Politeknik Ungku Omar merchant ship engineers, Safety in the Use of Chemicals for RMN personnel, various types of Safety and Health training for our Business Units and vendors, and Industrial Application Technical Training for RMN's young technicians.

v. BHIC Defence Techservices Sdn Bhd (BDTS) supplied and delivered Communication Suite for Squadron 23rd Frigate of the RMN ships, namely KD LEKIU and KD JEBAT. In addition, BDTS undertook maintenance and supply of spare parts for Skyguard Radar and 35mm Oerlikon Gun for the Malaysian Army.

vi. BHICAS undertook MRO services, spare part supplies, integrated logistics support and ISS for helicopters owned by Malaysian Government agencies.

vii. Airbus Helicopters Simulation Centre Sdn Bhd (AHSC), a JV between BHIC and Airbus Helicopters Malaysia Sdn Bhd, provides H225 Full Flight Simulator (FFS) for helicopter pilot training to local and foreign customers. AHSC managed to secure a total of 818 training hours for H225 FFS in 2019.





Our well trained, experienced and skilled workforce is the backbone of our MRO business and has made BHIC Group the leading MRO services provider in the defence and security sector in Malaysia

2.1 Marine

2.1.1 MRO

Our marine MRO business performed well during the year under review. The Group continues to leverage on its strength and position as a leading marine MRO player in the defence and security segment in Malaysia. Activities in this area cover surface ships, submarines, and naval system and equipment.

For RMN's surface ships, MRO works on the following vessels were completed in 2019:

i. KD LAKSAMANA TUN ABDUL JAMIL
ii. KD LAKSAMANA HANG NADIM
iii. KD HANG TUAH
iv. KD JERAI
v. KD MAHAWANGSA
vi. BOT TUNDA 1
vii. KD SRI INDERASAKTI





BHIC Group is entrusted by the Malaysian Government to undertake MRO works on strategic assets such as surface ships and submarines

CEO's STATEMENT

Boustead DCNS Naval Corporation Sdn Bhd (BDNC) and BHIC Submarine Engineering Services Sdn Bhd (BSES) jointly provide In-Service Support (ISS) and Refit services for RMN's Scorpene submarines. They are currently working on completing the Refit work on KD TUN RAZAK.

Our marine MRO business in the commercial segment was encouraging but fell short of its financial targets in 2019. We are reviewing our cost structure, supply chain and the ability to execute project efficiently to ensure that profit margins on MRO works are comparable to the industry average.



BHIC Group is committed to ensure the RMN submarines' availability through the provision of high-quality In-Service Support and Refit services

2.1.2 Shipbuilding

Our performance in the shipbuilding segment in 2019 yielded mixed results.

For the LCS Programme, we have had to face a series of challenges over the past few years. The learning curve for the Project Team has been very steep. We have had to build our capabilities whilst delivering key project milestones in carrying out the project. This proved to be achievable but very challenging. We also had to accommodate variation orders, some of which had an impact on cost and time. We have engaged and will continue to consult with various stakeholders to obtain the final approval for these variation orders. Given the scale and complexity of the LCS Programme, it is not unusual to have variation orders involving the ship design and equipment.



BNS, adjacent to the RMN base in Lumut, Perak, specialises in the construction of naval vessels including the LCS

The project team made a major stride in the LCS Programme on 30 September 2019 by signing a Statement of Progress (SOP) with the RMN Project Team at BNS.

For the LMS Programme, I am delighted to share that its progress had been on track before the outbreak of the Covid-19. However, the movement restrictions imposed to curb the pandemic caused delays to the Programme.

We were originally awarded the contract to build two of the ships in Malaysia and another two in China. However in mid-2019, the Malaysian Government announced that all four LMS are to be built at Wuchang Shipbuilding Industrial Group (WSIG) Shipyard in Shuangliu, China to achieve cost savings through economies of scale.

CEO's STATEMENT

The LMS project is undertaken via cooperation among BNS, RMN and three Chinese parties, namely WSIG, China Shipbuilding & Offshore International Co Ltd (CSOC) and China Classification Society.

We delivered LMS1 KD KERIS to RMN on schedule on 31 December 2019 at a ceremony in Wuchang, China.

The keel laying ceremony for SUNDANG was held on 16 January 2019. The ship would have been delivered on schedule in April 2020 had it not been for the Covid-19 outbreak. SUNDANG is now planned to be delivered in October 2020.

The steel cutting and the keel laying ceremonies for LMS3 and LMS4 were held in China on 18 September 2019 and 7 November 2019 respectively. However, with the pandemic, a delay of three to four months in their construction is now anticipated.



LMS2 SUNDANG looking regal at WSIG Shipyard in Wuchang, China



The physical handing over ceremony of LMS1 KD KERIS to RMN at Wuchang Port in Qidong, China on 31 December 2019 marked a milestone in the LMS Programme

2.1.3 Ship repair

Our shipyards undertook various ship repair works on ships owned by Malaysian Government agencies and the commercial sector, and leisure boats owned by individuals. BNS carried out repair works on RMN ships while Boustead Langkawi Shipyard Sdn Bhd completed repair works on 48 leisure boats, 46 ferries and one government vessel. Boustead Penang Shipyard Sdn Bhd undertook several repair works for small vessels such as ferries, fiber boats and dredgers, and also carried out fabrication works of oil tanks.

2.1.4 Aviation

Our aviation business, undertaken by BHIC AeroServices Sdn Bhd (BHICAS) is a significant contributor to the Group. The following are the major works carried out in 2019:

i. maintenance services and spare part supplies for RMAF H225M helicopters under an ISS contract;

ii. maintenance services and integrated logistics support for three units of Dauphin AS365N3 helicopters owned by MMEA;

iii. ISS for six units of RMN's Fennec AS555SN helicopters; and

iv. helicopters simulation training for H225 / H225M and Dauphin AS365 N/N3+.

BHICAS received an extension for the provision of integrated maintenance and logistic support services for three units of MMEA's Dauphin AS365N3 helicopters for another year up to 30 June 2020. The original contract, valued at RM62.58 million, was awarded to BHICAS in 2016.

During the year, BHICAS completed three repair works on M502-3 RMN's AS555 Fennec, M70-03 MMEA's Dauphin AS365N3 and M55-09 RMAF's H225M. This signifies the Group's capabilities as a leading MRO service provider to rotary aircrafts in Malaysia.

Meanwhile, Airbus Helicopters Simulation Center Sdn Bhd (AHSC), in which BHIC has a 30% stake, has been operating a second simulator since April 2019, namely the Dauphin AS365 N/N3+ FFS which is wholly owned by Airbus Helicopters Malaysia Sdn Bhd. This simulator attracts a wider customer base compared to the H225 simulator.

AHSC serves 40 organisations from 25 countries in Asia and the Middle East. It offers training programmes approved by Airbus conducted by experienced qualified instructors, supported by Original Equipment Manufacturers (OEM) data packs which are designed and tested by Airbus.



BHICAS is capable of undertaking a maximum of four helicopter repair works at a time

CEO's STATEMENT



MRO works on Malaysian Government agencies helicopters are undertaken by experienced and highly-skilled personnel at BHICAS





The team at Boustead Langkawi Shipyard features highly skilled technical personnel and expert craftsmen furnishing the interiors of marine leisure crafts and recreational boats

SUSTAINABILITY

At BHIC, we are fully mindful of the need to operate in a sustainable manner and to take a holistic view about our conduct as a business entity over the long term. We have embraced sustainability as a key reason for our existence. We are committed to not forsaking long term interests to our host economies, environment and society over short term gains.

In doing so, we are guided by the sustainable principles spelled out in the Sustainable Development Goals of the United Nations Development Programme (UNDP), Global Reporting Initiative and Boustead Group's Sustainability Policy. These act as a moral compass in steering us in becoming a responsible corporate citizen that puts emphasis in leaving a positive impact on the economy, environment and society in our pursuit of profit and growth.

Our sustainability initiatives are presented in the Sustainability Report section in this Annual Report on pages 44 to 72.



In living up to our corporate social responsibility, we extend a helping hand to those with special needs, such as the donation given by BDNC to Sabah Cheshire Home in Kota Kinabalu, Sabah which provides care for persons with special abilities

CEO's STATEMENT

STRATEGIC PLANNING AND TRANSFORMATION

Ongoing transformation efforts to boost efficiency and productivity and to reduce operational costs have yielded positive effects to the Group. These efforts which began in earnest in 2017, coordinated by the Strategic Planning and Transformation team, include closing down unprofitable businesses which registered, on average, an annual loss of RM26.4 million, rationalising our workforce to match projects in hand and market conditions, improving management of our shipyards and consolidating business units. These have resulted in a more optimal allocation of resources and greater productivity and efficiency. Continuous improvement programmes at BNS have resulted in significant cost savings amounting to RM6.3 million and the timely delivery of RMN ships for MRO projects.



Strategic transformation programmes are aimed at, among others, boosting productivity and enhancing efficiency to reduce cost and deliver better products and services to our customers

PROSPECTS

I foresee the defence and security segment to continue being one of the main contributors to the Group in the future. We are encouraged by the commitment of the Government of Malaysia, as underlined by various pronouncements by the Ministry of Defence, to safeguard the nation's maritime security and not compromising on maritime border protection. In this regard, we expect to benefit from the increase in Malaysia's defence budget of RM15.6 billion announced in the 2020 Budget which is an increase of RM1.7 billion from the RM13.9 billion allocated in 2018.

Despite this, the Group remains cautious about our prospects in the upcoming financial year amidst the unprecedented Covid-19 pandemic affecting the global economy. We expect the impending economic slowdown to affect the defence budget but are confident that the Malaysian Government will not waver from its commitment to protect our maritime interests.

We believe with our current facilities and capabilities, the Group will benefit from the RMN's 15to5 Transformation Programme in creating a lean and mean armada and to reduce its operational costs while safeguarding the nation's maritime security and interests.

Another cause for the Group to be optimistic is the business opportunities presented in the Defence White Paper which was tabled and passed by the Dewan Rakyat on 2 December 2019. It charts the strategic direction of Malaysia's defence sector between 2020 to 2030.

I remain optimistic on the prospect of the Group handling more works on cargo vessels and workboats as well as MRO in the aviation sector. We expect a corresponding increase in aviation and marine business activities when the global economy eventually rebounds once the worst of the Covid-19 effects are over.

To grow the business further, the Group will be expanding its footprint in the commercial segment of the aviation and marine sectors by capitalising on its existing capabilities.

With the facilities that we have and our experienced and skilful personnel, I am confident that the Group can cast its net wider in the aviation, marine and land sectors and enlarge our market coverage.

To this end, the BHIC Management team has identified several potential new businesses for the Group to venture into. These include expanding the products and services offered to the commercial segments of the aviation and marine sectors to reduce to our dependence on Government-related projects. I believe that we can reach out to a bigger and more diversified client base in areas of our core competencies such as shipbuilding, ship repair, MRO, ISS and Refit services.



The Group is looking to expand its market and clients base in the aviation, marine and land business sectors moving forward

CEO's STATEMENT

ACKNOWLEDGMENT

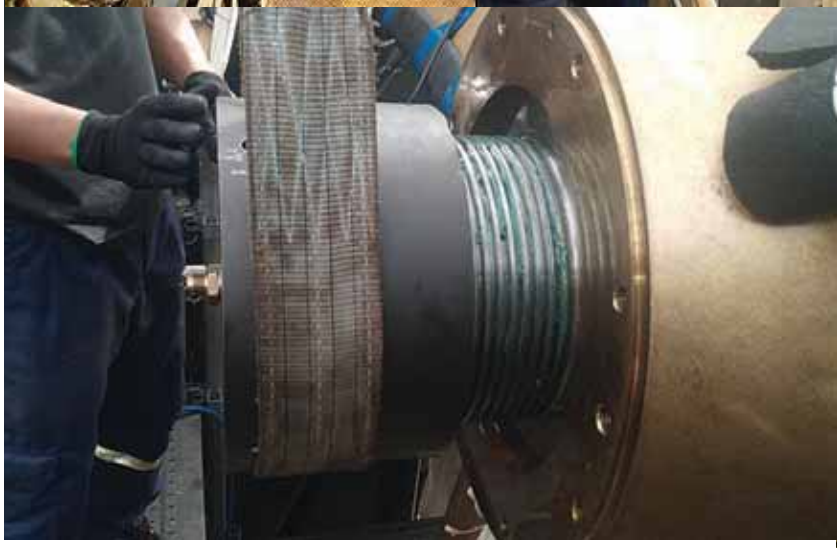
I would like to thank you, our esteemed shareholder, for your support to the Group, and also to the Malaysian Government, our customers, business partners and other stakeholders.

Thank you to our employees for your dedication and passion throughout these challenging times. I would like to acknowledge those who did well in 2019, and I am counting on them to continue giving their best to the organisation.

Let us all close ranks, stay focused and work harder and smarter to deliver better results and make BHIC a high performance, innovative and dynamic company we can all be proud of.

SHARIFUDDIN MD. ZAINI AL-MANAF
Chief Executive Officer
Boustead Heavy Industries Corporation Berhad







Through our joint venture company BDNC, BHIC contributes to safeguarding Malaysia's maritime interests by providing In-Service Support and Refit services to RMN's submarine fleet



SUSTAINABILITY REPORT

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INTRODUCTION



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OUR COMMITMENT

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STAKEHOLDER ENGAGEMENT

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MATERIALITY MATRIX

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SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS

INTRODUCTION

BHIC Group recognises the importance of adhering to sustainable principles in carrying out its business. In our drive to generate profit and to maximise our shareholders' value, we are mindful of the impact of our operations to the economies, environment and communities in which we operate.

The principle objective of our sustainability initiatives is to conduct our business and to grow in a way that benefits the local economy, environment and society.

Our sustainability efforts are guided by the following objectives in those three key areas:

Economic

Ensuring the sustainability of our business is in line with our drive towards attaining profitability and generating positive impact to the local economy while maintaining high ethical standards and acting in full adherence to all rules, regulations and laws.

Environment

Protecting the environment by embracing green and eco-friendly practices aimed at reducing our use of resources and minimising emissions and wastes generated by our business activities.

Social

Strengthening our reputation as an employer of choice and responsible corporate citizen by investing in our employees by upgrading their skills, developing their talents and taking care of their welfare and well-being.

Reaching out and giving back to society through assisting those in need, promoting youth development and actively engaging local communities through various social initiatives and Corporate Social Responsibility (CSR) activities.

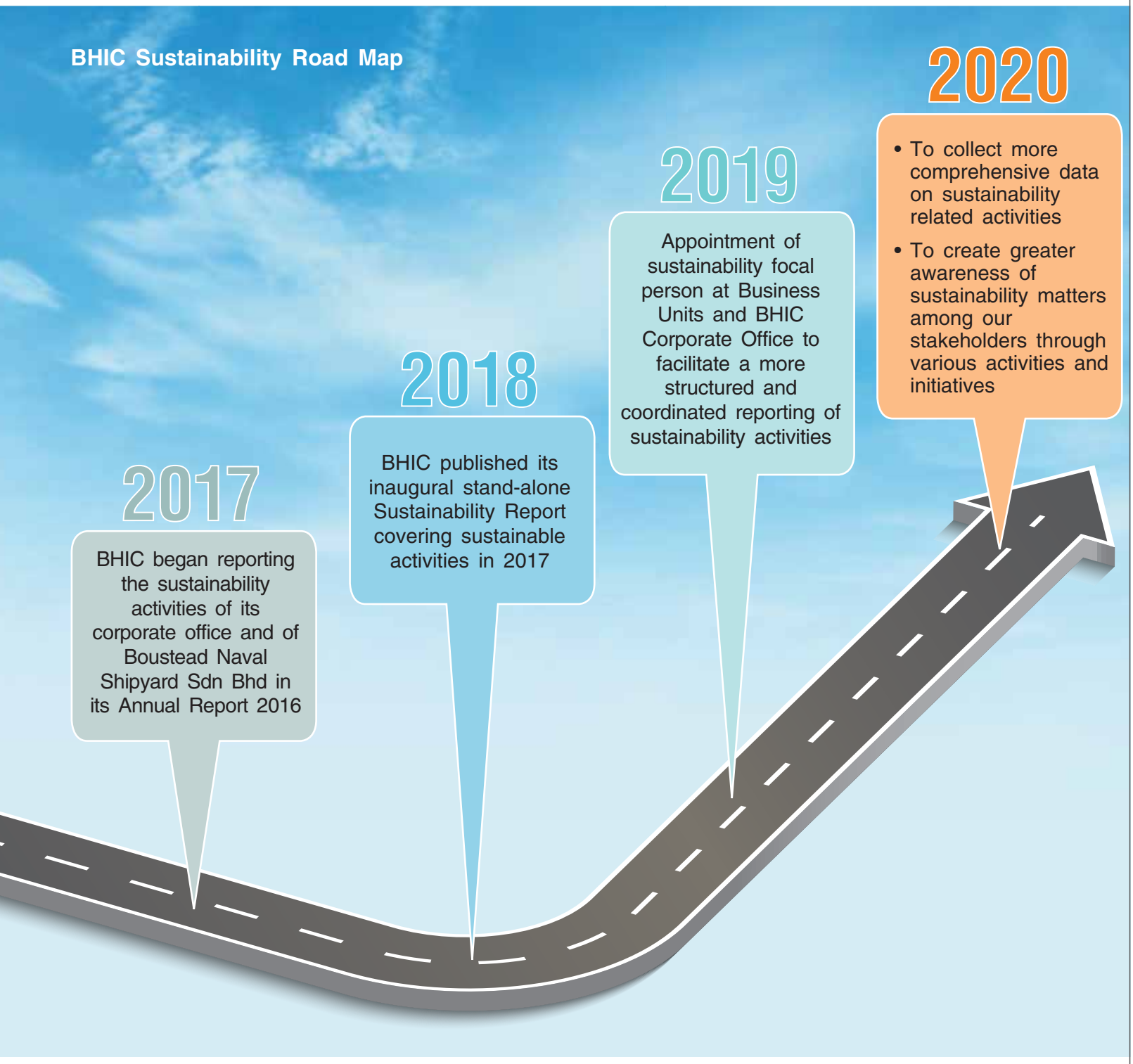
Scope

This report covers BHIC Group's sustainability activities undertaken between 1 January to 31 December 2019.

Approach

In preparing this report, we were guided by Bursa Malaysia Securities Berhad Listing Requirements, Bursa Malaysia Sustainability Reporting Guide and Global Reporting Initiative Standards. The reporting of our sustainability activities is also anchored on the 17 Sustainable Development Goals outlined by the United Nations Development Programme.

BHIC Sustainability Road Map



OUR COMMITMENT

"At BHIC, we are committed to Sustainable Development by ensuring Positive Impact on Economy, Environment and Society whilst carrying out our Business Activities"

As a member of the Boustead Group family, BHIC Group is committed to promoting sustainability in line with the Boustead Group's Sustainability Policy.

We believe practicing sustainability is not only a way to secure the future of our business but also to promote the economy, safeguard the environment and give back to society. We are committed to continue entrenching sustainability values in our operations as we pursue profitability in a socially responsible and environmental friendly manner.



Boustead

SUSTAINABILITY POLICY

As one of the nation's leading diversified conglomerates, we strive to ensure the sustainable growth of our businesses whilst holding true to our core values of Respect, Integrity, Teamwork and Excellence, consistent with our pursuit for nation building:

1. To continuously invest our resources in ensuring our products and services are relevant and meet the needs of our customers.
2. To be fully committed to environmentally friendly business practices towards the conservation and preservation of the environment.
3. To ensure that our employees operate in a safe and conducive work environment.
4. To continuously create and sustain an engaged work culture that attracts, retains, and motivates our employees.
5. To strengthen communities and contribute towards the enrichment of our society by:
   - prioritising opportunities given to local businesses and;
   - integrating corporate social responsibility initiatives that encompass healthcare, education and welfare of Malaysians throughout our business operations.

SUSTAINABLE DEVELOPMENT GOALS

POLICIES AND GUIDELINES

BHIC Group is supported by various policies and guidelines in undertaking its sustainability efforts and in reporting them in a transparent manner. The relevant areas covered by these policies and guidelines are as follows:

Policies and Guidelines in BHIC related to Sustainability



In addition to the above, we are also guided by internationally recognised sustainability principles and guidelines in undertaking our sustainability related activities.

OUR COMMITMENT

SUSTAINABILITY GOVERNANCE

BHIC Group's commitment to sustainability is underscored by the establishment of a well-defined structure within the Group to plan, carry out and report sustainability initiatives. This structure consists of a Board Sustainability Committee (BSC) made of several Board Members of BHIC and a Sustainability Management Committee (SMC) entrusted to provide advice to the BSC on sustainability matters and oversee sustainability activities within the Group.



BOARD SUSTAINABILITY COMMITTEE (BSC)

Chairman:

Tan Sri Dato' Wira Aziah Ali

Membership:

i. Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired)
ii. Dato' Maznah Abdul Jalil
iii. Puan Hajah Saadatul Nafisah Bashir Ahmad
iv. (Dr.) Salihin Abang

i. **BHIC Board of Directors** is the highest authority overseeing the Group's sustainability strategy and direction
ii. **BSC** assists the Board of Directors in fulfilling its responsibilities in relation to the Group's sustainability objectives, policies and practices
iii. **SMC** oversees sustainability initiatives and reporting within the Group and advises BSC on sustainability matters
iv. **SPT** acts as the SMC Secretariat and the coordinator / focal point for sustainability initiatives and reporting within the Group

SUSTAINABILITY MANAGEMENT COMMITTEE (SMC)

Membership consists of Senior Management and Heads of various departments of BHIC, namely:

	Position	Role
1	Chief Executive Officer	Chairman
2	Head, Strategic Planning and Transformation	Secretariat
3	Chief Operating Officer	Member
4	Chief Financial Officer	Member
5	Head, Group Human Capital Management	Member
6	Head, Group Risk Management	Member
7	Head, Group Administration	Member
8	Head, Group Supply Chain and Vendor Development Management	Member
9	Head, Group Corporate Communications	Member

STAKEHOLDER ENGAGEMENT

At BHIC Group, we value the feedback of our stakeholders with regard to our business operations. Their views are not only important to us in gauging our performance in delivering products and services to them but also in assessing the impacts of our operations to the economy, environment and society at large.

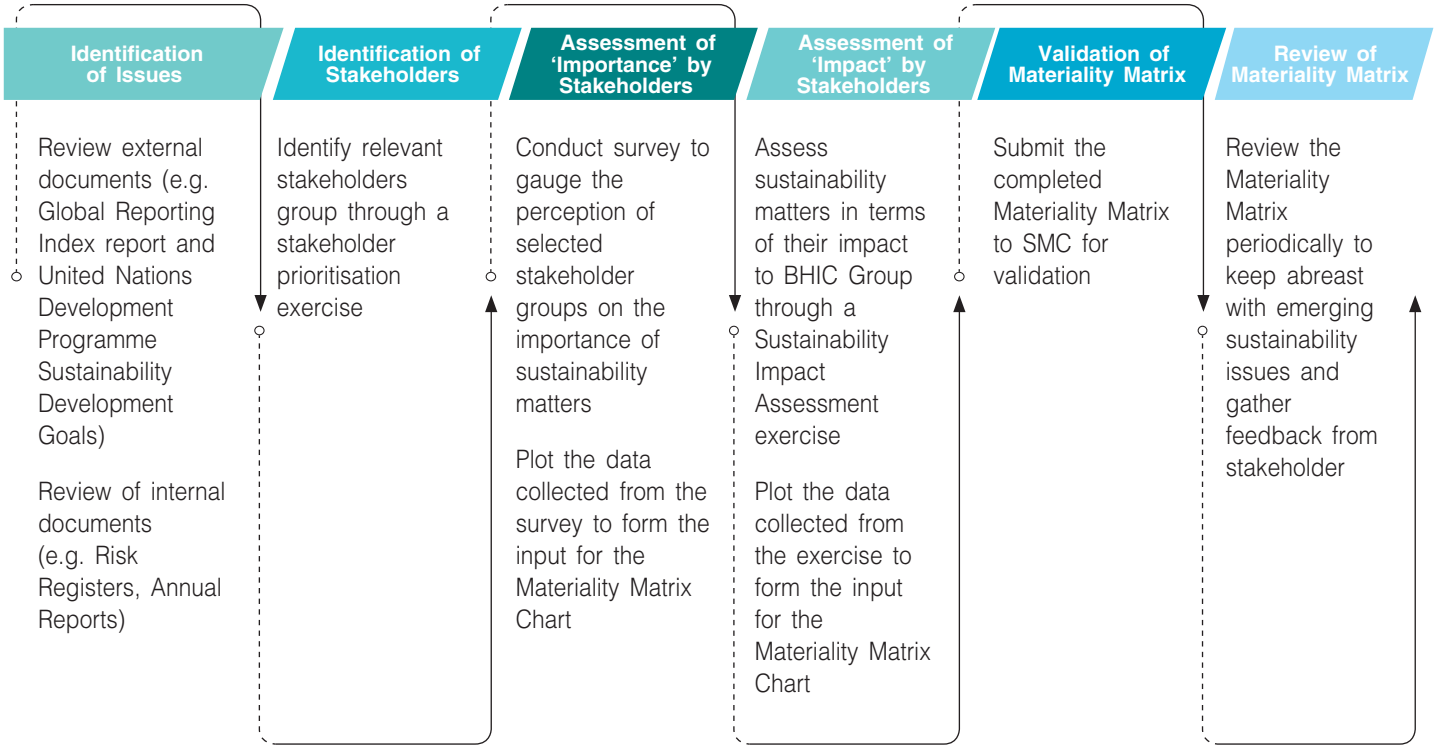
We continuously engage our stakeholders through various platforms throughout 2019 to gain insight into their interests and concerns on sustainability matters. Among the stakeholder engagement activities carried out during the year were:

Stakeholder Group	Engagement Method	Areas of Interest and Concern
Government Agencies	Meetings Correspondences On-site visits	Legal and regulatory compliance Anti-corruption Vendor Development Health and Safety
Shareholders and Investors	Annual General Meeting Quarterly report Annual Report Bursa announcements Press releases	Return on investment Market share Earning prospect
Customers	Meetings Feedback forms Correspondences	Quality products and services Sustainability of the Company's operations Emergency response plan Delivery of projects that meets their expectation on cost, quality and time
Board of Directors	Meetings Correspondences Retreats	Maximising shareholders value Governance Mitigating business risks Business strategies and directions Financial performance Engagement with stakeholders
Employees	Internal communications Employee engagement initiatives Sports and recreational activities	Rewards and remuneration Training and development Company strategies and directions and objectives Career prospect Safe and conducive working environment
Vendors / suppliers business partners	Meetings Correspondences Events Training sessions Dialogue sessions	Licensing and certification Legal and commercial issues Business opportunities Mitigating business risks Financial performance Sustainability of the Company's operations Shared growth through partnerships Emergency response management
Local communities	CSR programmes	Safety and security of operations Employment and business opportunities Socio-economic spin-off Infrastructure development Social and welfare contribution

MATERIALITY MATRIX

In addressing economic, environmental and social issues deemed most significant to BHIC Group, we embarked on a comprehensive materiality assessment exercise in 2019. This exercise consisted the following process:

PROCESS TO DETERMINE MATERIAL SUSTAINABILITY MATTERS

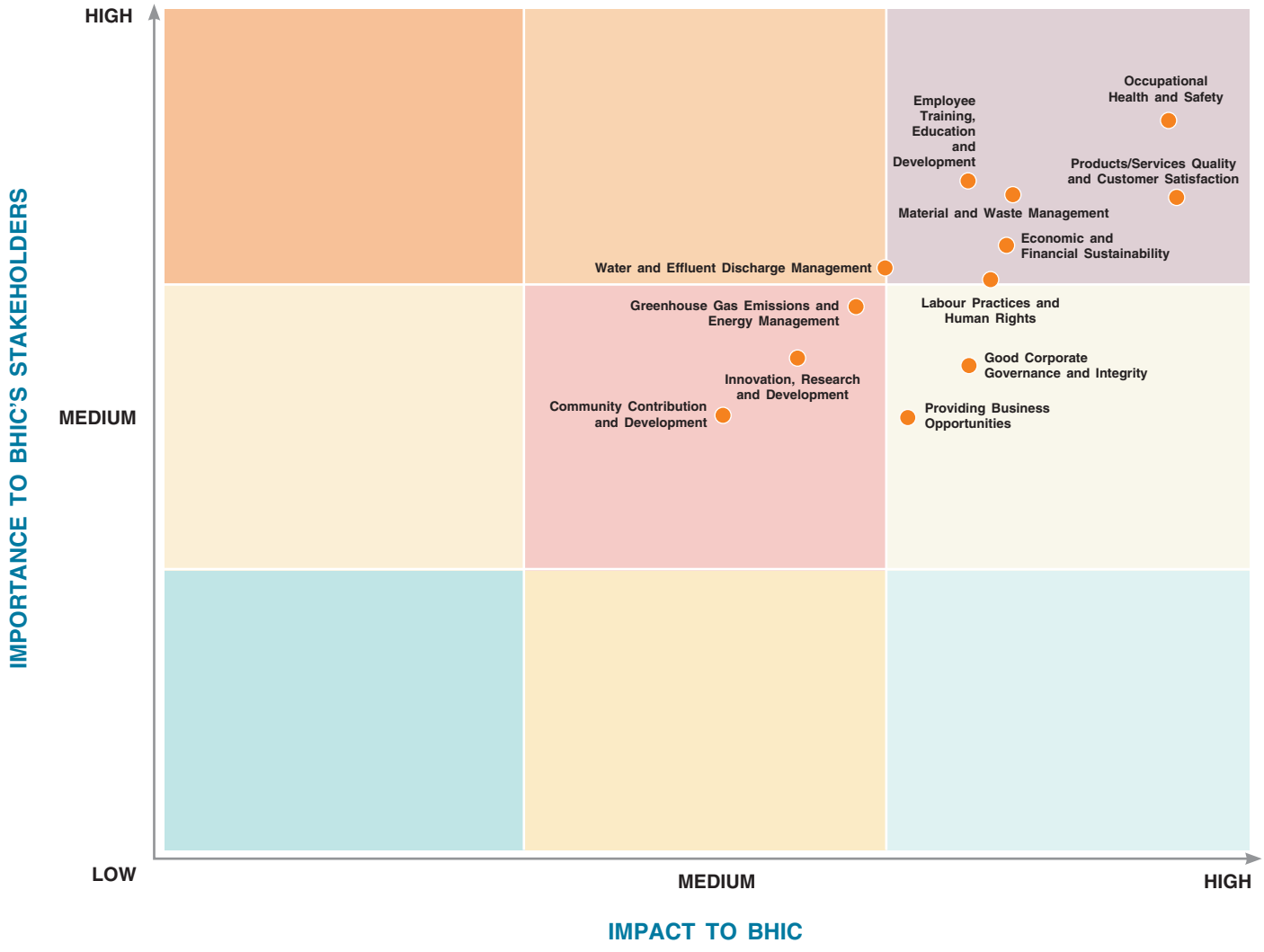


Through a structured stakeholder prioritisation exercise, we identified key internal and external stakeholder group for sampling of which a total of 66 respondents were from the following groups:

Board of Directors	9 members	
Management	25 personnel	
Employees	22 personnel	
Suppliers/Vendors	10 representatives of companies	

We were able to gauge the stakeholders' concern on sustainability issues with regards to the importance and impact to BHIC Group. We will expand our materiality-focused stakeholder engagement to other stakeholder groups in the coming years.

This process allows us to align the internal and external perspectives, to identify areas for potential optimisation and to periodically develop the sustainability-related management approach and reporting. The assessment was carried out in accordance to the methodology described in the Sustainability Reporting Guidelines published by Bursa Malaysia.



SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS

ECONOMIC

BHIC Group strives to inculcate sustainability principles into its strategies and business operations. This approach enabled us to achieve synergy and cost efficiency across the Group towards attaining profitability in a sustainable manner. It allows us to focus on the future with the objective of sustaining our business and contributing to the growth of local and national economy.

PRODUCTS / SERVICES QUALITY AND CUSTOMER SATISFACTION

Delivering products and services of high quality and meeting customer's satisfaction are among our key targets in doing business. To this end, we conducted regular engagements with our customers through meetings and satisfaction surveys to evaluate our performance in meeting their expectations. In this manner, we are able to improve our products and services delivery, attract new customers and enhance our competitiveness to maintain our position among the leading companies in the defence and marine industries in Malaysia.



Among the efforts undertaken to meet customer's expectation included putting in place Quality Management System at Business Units and conducting regular internal quality checks and scheduled supplier quality audits.

Underlining the high standards we uphold in our commitment to deliver quality products and services, several companies within the Group had attained the following ISO certifications:

ISO 9001:2015	ISO 45001:2018 / OHSAS 18001:2007
i. BHIC AeroServices Sdn Bhd	i. Boustead DCNS Naval Corporation Sdn Bhd
ii. BHIC Allied Defence Technology Sdn Bhd	ii. Boustead Naval Shipyard Sdn Bhd
iii. BHIC Bofors Asia Sdn Bhd	iii. Boustead Penang Shipyard Sdn Bhd
iv. BHIC Defence Techservices Sdn Bhd	
v. BHIC Marine Technology Academy Sdn Bhd	
vi. BHIC Navaltech Sdn Bhd	
vii. BHIC Submarine Engineering Services Sdn Bhd	
viii. Boustead DCNS Naval Corporation Sdn Bhd	
ix. Boustead Langkawi Shipyard Sdn Bhd	
x. Boustead Naval Shipyard Sdn Bhd	
xi. Boustead Penang Shipyard Sdn Bhd	

ECONOMIC AND FINANCIAL SUSTAINABILITY

BHIC Group is committed to deliver strong, sustainable economic and financial performance through effective implementation of its business strategies. In so doing, we are not only focused on achieving profitability but attaining continuous growth, generating value for our shareholders and operating in a sustainable manner.

GOOD CORPORATE GOVERNANCE AND INTEGRITY

Ethics, integrity and transparency have increasingly become among the key areas of focus in today's business world. We realise that embedding good corporate governance and integrity principles into our strategies and operations not only helps the Group to mitigate risks and reduce business malpractices but also enhances stakeholders' trust.

BHIC Group is committed to fulfil its business objectives in an honest, ethical and lawful manner. This approach is consistent with our core values of BELONGING, HONOUR, INTEGRITY and COMMITMENT. In addition to being guided by these four principles, we are always mindful of conducting ourselves in compliance with the laws, rules and regulations. We operate in a transparent, above-board manner and are uncompromising in fulfilling our fiduciary duties and responsibilities as a Public Listed and Government Linked Company.

We have put in place the following policies and processes to guide our employees to conduct business in an ethical way:

- Code of Ethics and Conduct Policy
- Whistleblowing Policy
- Due Diligence Process

The review and enforcement of our corporate governance practices and the monitoring of integrity matters are undertaken by the Group Internal Audit (GIA) of our holding company, Boustead Holdings Berhad. We also have an in-house Integrity Department and a Compliance Unit, under BHIC's Group Risk Management Department, which oversees integrity, ethics and compliance matters within the Group. In 2019, the Integrity Department conducted series of sharing sessions with all levels of employees within the Group to raise awareness of the new requirements of Corporate Liability Provision as per Section 17A of the Malaysian Anti-Corruption Commission Act 2009 (MACC Act 2009).

In addition, we have adopted the Guidelines on Adequate Procedures as per Section 17A of the MACC Act 2009. Our existing policies and procedures shall be enhanced accordingly to meet the requirements of the Guidelines on Adequate Procedures through the following:

i. conducting enterprise-wide risk assessment;

ii. enhancing control measures;

iii. undertaking systematic review, monitoring and enforcement of policies and procedures; and

iv. creating awareness through frequent communications with employees on the importance of complying with laws, rules, regulations, policies and procedures.



Several integrity sharing sessions were conducted throughout 2019 to raise awareness among the Group's employees

SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS
ECONOMIC

PROVIDING BUSINESS OPPORTUNITIES

From an economic sustainability viewpoint, we continue to generate positive impact to our vendors who are an integral part of our supply chain. This is achieved through our Vendor Development Programme (VDP) which comes under the ambit of the Ministry of Entrepreneur Development and Cooperatives (MEDAC).

We nurtured and supported the development of vendors in our defence and marine industries by undertaking initiatives to provide them with training and skills upgrading. In doing so, we help build human capital capabilities among our vendors especially Small Medium Enterprises (SME) involved in highly skilled, high technology and innovative driven activities. These are accomplished by getting them involved in complex projects such as naval shipbuilding, MRO of defence assets and systems design and integration.

As at 31 December 2019, we have a total of 3,175 registered vendors under the VDP. The breakdown according to local and foreign companies are as follows:

REGISTERED VENDORS UNDER BHIC's VDP as at 31 December 2019	
LOCAL COMPANIES	**FOREIGN COMPANIES**
2,613	562





BHIC Group participated in Vendor Innovation Partnership Programme (VIP²), formerly known as GLC ExplorAce, organised by MEDAC held at Kuala Lumpur Convention Centre on 12 to 13 November 2019

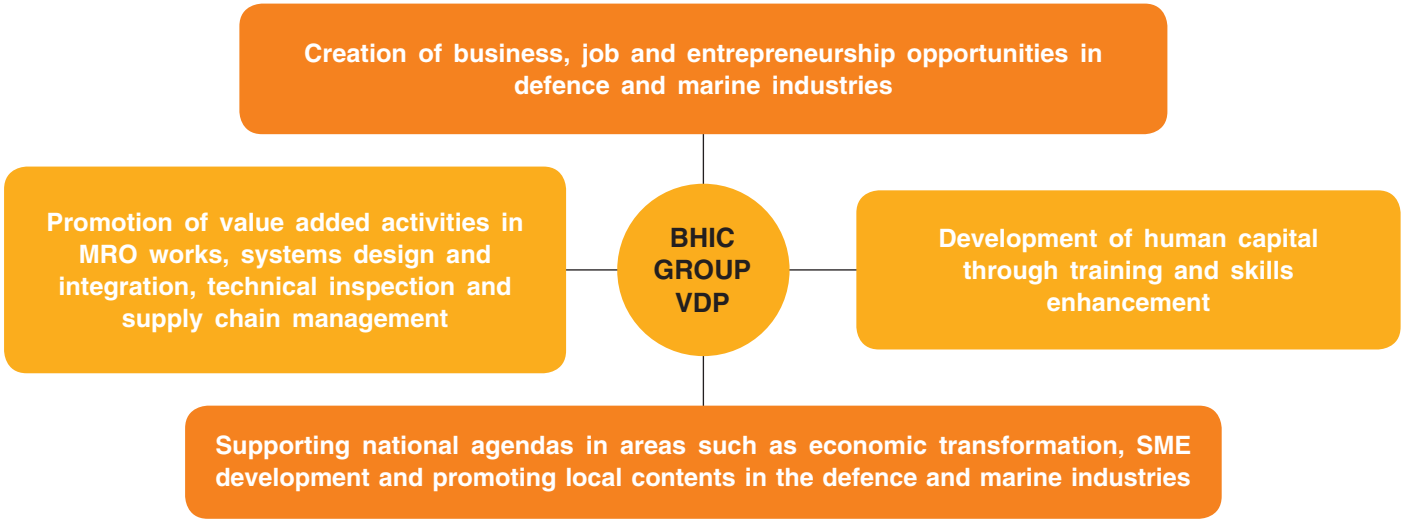
BENEFITS OF THE VDP

Our VDP goes beyond just generating economic benefits to our vendors. There are also many qualitative outcomes from our efforts to nurture and guide them. These included the following:

- **Develop Project Management Skills and Technical Know-how**
- **Provide Exposure to Latest Technologies, Best Management Practises and Networking Opportunities**
- **Enhance the Quality of Vendors' Products and Services**
- **Help Vendors Build Track Record and Experience to Handle Complex Projects**

The VDP provides opportunities to our vendors to be involved in value added activities in the Malaysian defence and marine industries, in areas such as shipbuilding, ship repair and MRO. By engaging our vendors in these areas, we help generate many positive multiplier effects in these segments including creating job opportunities, upgrading their skills and helping them penetrate new markets.

Multiplier Effects of BHIC's VDP



Our projects such as the construction of LCS, the provision of In-Service Support and refit services for surface ships and submarines provided our vendors with the exposure to activities involving high technologies and highly skilled services.

Through the multiplier effects created by our VDP, we also help enhance the BHIC Group brand and increase its profile as a responsible corporate citizen that helps promote local companies especially among SMEs. Indirectly, we contributed to the fulfilment of various national agendas such as economic transformation, SMEs development and promoting local content in the defence and marine industries.

SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS
ECONOMIC

RESEARCH AND DEVELOPMENT (R&D) AND INNOVATION



BHIC Group acknowledges that promoting Research and Development (R&D) and innovation is important in helping the organisation to stay ahead of the competition. We are very much aware that an organisation which is innovative and puts strong emphasis on R&D has a competitive edge over its rivals, as we continuously develop new products, services and solutions.

There are several outcomes of being innovative and in carrying out R&D. These included producing highly desirable products and services of high quality which guarantees continuous demand from the market, contributing to the development of industries and generating positive multiplier effects in the economy, as the innovations and R&D outcomes are commercialised.

We aim to ensure that all our products and services are relevant to the needs of our customers and industries. This is in line with the national agenda of transforming Malaysia's economy into a fully developed nation through high income, innovative driven and high technology based activities.

Leading BHIC Group in R&D activities is our associate BNS, which undertake construction and repair of naval assets. In 2019, BNS spent a total of **RM29.7 million** on R&D, mainly on engaging consultants for the design of new navy ships and in shipbuilding related activities.

Our involvement in the LCS and LMS projects generates opportunities in innovation and R&D. These included the adoption of high technology in conceptual and basic design development of the ship construction. In these activities, we benefit from the transfer of technology and know-how from our project partners and industry experts. The knowledge and experience gained from these projects are subsequently utilised in various areas. Examples included the provision of ISS of naval assets post-delivery as well as MRO services. R&D initiatives were conducted to improve the design of the second batch of the New Generation Patrol Vessels (NGPV) for the RMN.

Through innovation and R&D, we cultivated a culture of continuous improvement to always do things better and more efficiently to produce quality results. These entails a constant review of our processes and procedures to attain improvements, enhance efficiency and productivity, and save cost.

Through continuous innovative and improvement efforts in areas such as MRO, supply chain management and austerity measures, BNS managed to save a total of **RM6.3 million** in 2019 mainly in the area of shiprepair.

We endeavour to optimise our growth by tapping on the knowledge and experience of established companies in the defence, marine and aviation industries. This is attained through collaborating and establishing strategic alliances with carefully chosen partners which are among the leading players in their respective fields. They include Naval Group from France, a renowned global defence contractor and manufacturer of Scorpene Submarines and Gowind Class Frigates, and Airbus Helicopters Malaysia a division of Airbus Group, a global pioneer in aerospace and defence related services.

During the Langkawi International Maritime and Aerospace Exhibition (LIMA) 2019, four companies within the BHIC Group signed collaboration agreements with several higher organisation of learning institutions. With the collaboration agreements signed, innovative new ideas and products can be explored / developed through information and knowledge sharing.

Agreements signed by companies within BHIC Group during LIMA 2019

Company	Signatory	Description
Boustead Langkawi Shipyard Sdn Bhd	Istanbul Shipyard, Turkey	Collaboration Agreement for the design, concept, technology and construction of Fast Interceptor Craft
BHIC Marine Technology Academy Sdn Bhd	National Institute of Occupational, Safety and Health (NIOSH)	Collaboration Agreement to promote and coordinate training courses conducted by NIOSH
Boustead Naval Shipyard Sdn Bhd	Universiti Teknologi Malaysia Universiti Malaysia Terengganu Universiti Kuala Lumpur International Islamic University Malaysia	Collaboration Agreement to develop design and engineering capabilities for future naval shipbuilding projects
Boustead Heavy Industries Corporation Berhad	National Defence University of Malaysia	Collaboration Agreement on maritime technology



Signing of Collaboration Agreement between BHIC Marine Technology Academy Sdn Bhd and National Institute of Occupational Safety and Health (NIOSH) Malaysia to promote and coordinate training courses during LIMA 2019

SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS

ENVIRONMENT

Safeguarding the quality of life for future generations is paramount to BHIC Group. We are committed to have in place business processes, procedures and practices that deliver products and services which are environmentally friendly. We also strive to minimise our carbon footprint by reducing greenhouse gas (GHG) emissions in our operations. We are committed in ensuring that all our activities complies with acts, rules, laws and regulations on the environment while encouraging our employees to embrace sustainable and environmentally friendly practices.

Testimony to our commitment to safeguard the environment we have put in place a Health, Safety and Environment (HSE) Policy Statement to guide us. The statement spells our intent to ensure the safety of our employees, vendors, contractors and visitors in our facilities.



Boustead Heavy Industries Corporation Berhad

Health, Safety and Environment Policy Statement

BHIC is committed to protect the health and safety of its employees and those under its responsibility, including Contractors and Visitors, and to conduct its activities in an environmentally responsible manner.

In order to achieve this, BHIC will:

- Ensure that all places and work procedures under the control of the company is in safe condition and without risk to health by taking every practicable and reasonable steps to prevent any accident or injury from happening.
- Provide the necessary resources and organization structure needed to ensure continuous improvement with regards to Health, Safety and Environment (HSE) management systems and practices.
- Ensure that appropriate contingency measures are taken to handle any emergency situation.
- Comply with all applicable HSE legislation, regulations and other legal requirements to which the company subscribes.
- Continuously look for ways to reduce the impact to the environment of the group's operations and activities and promote environment good practices throughout the company.

This policy shall be communicated to and understood by all employees and apply to all areas within the Company's operations.

The Management shall review the policy at defined intervals to ensure its continuing effectiveness and suitability.

Ir. Ee Yeck Chee
Chief Executive Officer

Date: 1 July 2019

WASTE AND WATER MANAGEMENT

Among the efforts we have undertaken to protect the environment is in the area of management of water usage and scheduled wastes. They can pose substantial threats to public health and the environment if not handled, managed and disposed of responsibly.

The hazardous wastes in metric tonnes generated by BHIC Group and our associates BNS are as follows:

Hazardous wastes generated by BHIC Group in 2019	
BHIC	**BNS**
325.33 metric tonnes	21.26 metric tonnes



At BHIC Group, we pay keen attention to safeguarding environment in undertaking business activities and in our pursuit of profit our growth

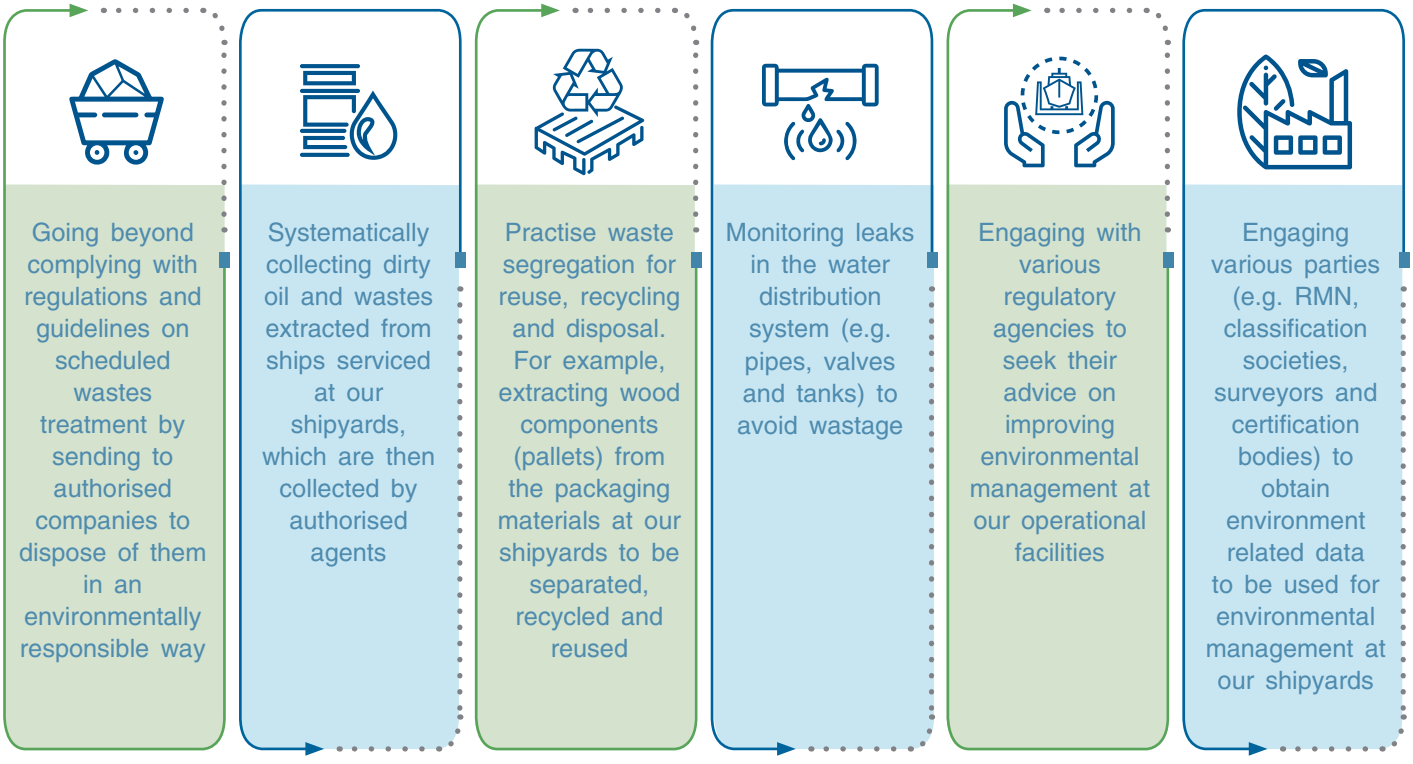
In 2019, BHIC Group used a total of 264,012 m^3 of water. We continuously strive to reduce our water consumption by encouraging our staff to conserve water at our offices and operational facilities.

Leading the way in environmentally friendly and 'going green' efforts within the Group is our associates BNS. The shipyard has put in place various measures and made several improvements to safeguard the environment.

BHIC Group practices zero burning at our facilities. In addition, our shipyards have in place procedures and the required infrastructure to prevent oil spillages to contaminate the local water ways, in line with environmental regulations and guidelines.

All equipment, machineries and vehicles used at our shipyards and other premises are maintained on a regular basis to minimise emissions and maximise energy efficiency.

Among our efforts to safeguard the environment are listed below:



We are committed to continuously monitor the impacts of our operations on the environment with the view to reduce our carbon footprint and minimise our emissions.

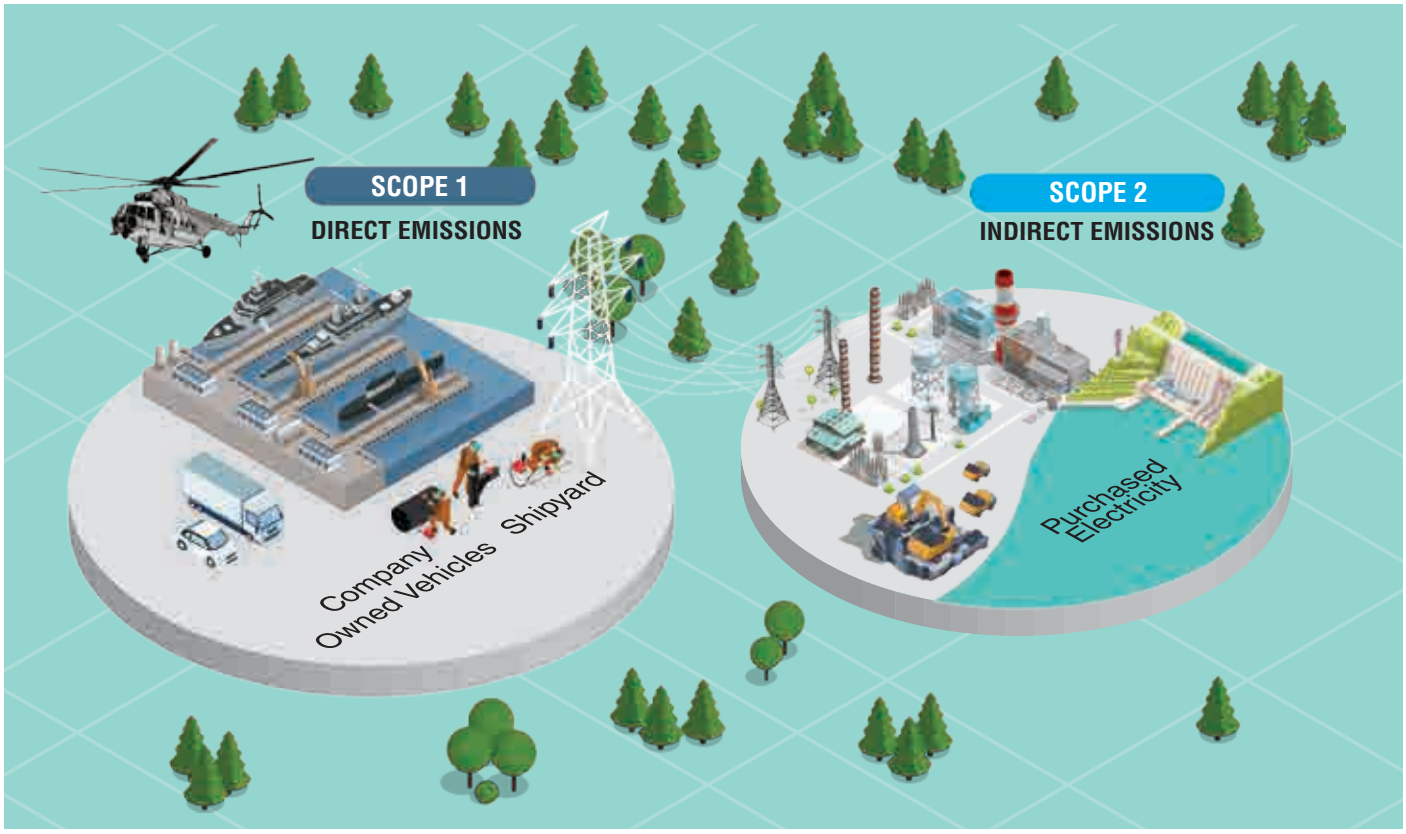
SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS
ENVIRONMENT

GREENHOUSE GAS EMISSIONS AND ENERGY MANAGEMENT

Following the inaugural Sustainability Report published by BHIC in 2019, we have taken a step further to track and report more indicators related to our environmental performance. This is done to measure our energy consumption and the impacts of our activities on the environment more accurately and extensively. This entails collecting data from our Business Units and departments which contributed to GHG emissions in 2019 which is our baseline year of reporting.



This Sustainability Report covers Scope 1 and Scope 2 emissions of GHG (as defined by GHG Protocol issued by World Research Institute) as represented in the diagram below:



Definitions

Scope 1: Direct emissions from assets and sources owned or controlled by the company

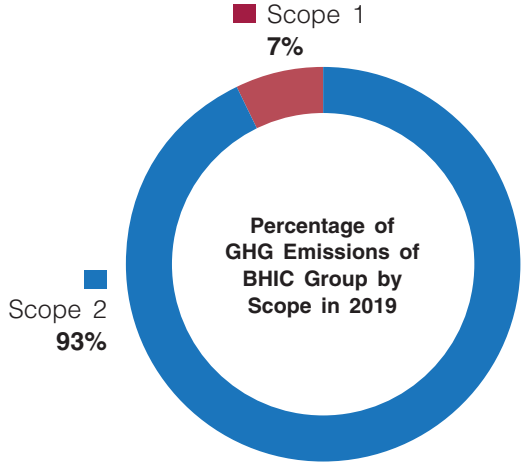
Scope 2: Indirect emissions from the generation of purchased energy (e.g. electricity)

Source:
Scope 1 and Scope 2 GHG Inventory Guidance available at https://ghgprotocol.org/sites/default/files/Guidance_Handbook_2019_FINAL.pdf

We track emissions based on the internationally acknowledged and widely used GHG Protocol Corporate Accounting and Reporting Standard in Scope 1 and Scope 2. The following is the total GHG emissions of BHIC Group by scope in 2019:

Total GHG Emissions of BHIC Group by Scope (*tCO_2e) in 2019	
Scope 1	Scope 2
727.15 tCO_2e-	10,214.37 tCO_2e-

tCO_2e = Tonnes of Carbon Dioxide Equivalent

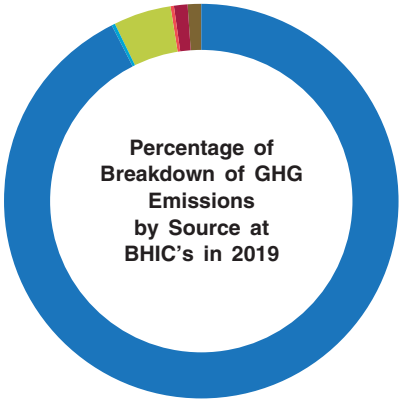


Since 2019 is our base year, we can only make comparison with data to be collected in the next reporting period.

The operations at our shipyards involve activities that require high energy consumption, in shipbuilding and ship repair in the use of heavy machineries and equipments. In addition, street lighting, office buildings, hangars, warehouses and stores also consume significant amount of electricity. We are mindful of the need to be prudent about our energy use as lower energy consumption can contribute to both cost savings and to the reduction of our carbon footprint.

SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS
ENVIRONMENT

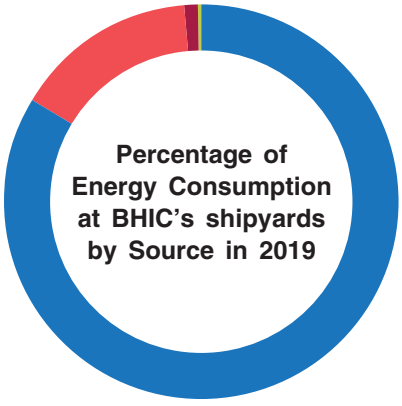
Breakdown of GHG Emissions by Source at BHIC's Shipyards (in tonnes) in 2019	
Electricity Generation	5.37
Heavy Machineries	571.39
Welding & Oxygen-Cutting	7.23
Cars	86.22
Light Goods Vehicles	56.94
Purchased Electricity	10,214.37



- **93.3%** Purchased Electricity
- **0.1%** Electricity Generation
- **5.2%** Heavy Machineries
- **0.1%** Welding & Oxygen-Cutting
- **0.8%** Cars
- **0.5%** Light Goods Vehicles

The breakdown of energy consumption at our shipyards according to sources are as follows:

Energy Consumption at BHIC's Shipyards by Source (in GigaJoules) in 2019	
Diesel	9,230.21
Petrol	446.49
Acetylene	77.79
Purchased Electricity	53,413.00



- **84.6%** Purchased Electricity
- **14.6%** Diesel
- **0.7%** Petrol
- **0.1%** Acetylene

SOCIAL

OCCUPATIONAL SAFETY AND HEALTH

We believe that, our strong commitment to occupational, health and safety (OSH) is beneficial to our employees and stakeholders. The fewer lost time injury (LTI) incident and medical leave among our employees, the more productive our organisation will be.

We provide a safe and healthy working environment for our employees by adhering to OSH standards. This is done through the following:

i. ensuring compliance with local regulatory requirements;
ii. complying with health and safety management systems (e.g. OSHAS 18001, ISO 45001);
iii. continuously improving our OSH practices and performance; and
iv. ensuring workplace configuration, layout, processes and procedures contribute to safeguarding the health and safety of employees and protecting the environment.

The use of personal protection equipment is mandatory for high risk activities undertaken at our facilities. In addition, we regularly engage outside parties such as NGOs and health consultants to provided awareness and training on OSH for our employees.

Being a health conscious organisation, we also conducted several activities in 2019 to promote awareness about good health to our employees. These include safety briefings to our staff especially in areas where heavy equipment are used such as shipyards and Cardiopulmonary resuscitation (CPR) demonstration. In addition, our staff participated in blood donation drive carried out by our parent company Boustead Holdings Berhad.



Among the OSH related initiatives carried out in 2019 were, safety briefings, CPR training and blood donation drive

SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS
SOCIAL

In cementing our commitment to OSH best practices, our associate BNS was certified for ISO 45001:2018 on 27 November 2019. Despite having safety measures and established OSH compliant policies and procedures, an unfortunate incident occurred, resulting in a casualty. A thorough investigation was carried out to identify the cause of this incident. Based on the findings, we took immediate actions to prevent the possibility of such incident from recurring. Some of the preventive measures put in place following the investigation are as follows:

- Ensuring all manholes and holes are covered before undertaking work at the blasting chamber
- Making it compulsory to use 'dead man's switch' on the nozzles of hoses during blasting work
- Developing exhaustive safety checklist and adhering to them meticulously, and undertaking Job Safety Analysis prior to commencing of blasting work
- Undertaking declaration of health of workers prior to doing blasting work
- Providing additional lighting at blasting area and mounting torchlights on nozzles to improve visibility
- Improving ventilation system at blasting chamber
- Undertaking scheduled monitoring during blasting work
- Enlarging passageways for hoses and cables to avoid workers from tripping



Lloyd's Register

Certificate of Approval

This is to certify that the Management System of:

Boustead Naval Shipyard Sdn. Bhd.
199001007732 (199302-K)

Pangkalan TLDM, 32100 Lumut, Perak, Malaysia

has been approved by Lloyd's Register to the following standards:

ISO 45001:2018

Approval Number(s): ISO 45001 – 00011281

The scope of this approval is applicable to:

(1) Construction of marine vessels up to 5,000 DWT
(2) Provision of repair & maintenance service for marine vessels up to 5,000 DWT
(3) Contract and project management, including warranty management for the supply, servicing, maintenance and repair of weapon and electronic system.

Luis Cunha
Area Operations Manager - SAMEA
Issued by: Lloyd's Register of Shipping (M) Bhd
for and on behalf of: Lloyd's Register Quality Assurance Limited

Lloyd's Register Group Limited, its affiliates and subsidiaries, including Lloyd's Register Quality Assurance Limited (LRQA), and their respective officers, employees or agents are, individually and collectively, referred to in this clause as 'Lloyd's Register'. Lloyd's Register assumes no responsibility and shall not be liable to any person for any loss, damage or expense caused by reliance on the information or advice in this document or howsoever provided, unless that person has signed a contract with the relevant Lloyd's Register entity for the provision of this information or advice and in that case any responsibility or liability is exclusively on the terms and conditions set out in that contract.
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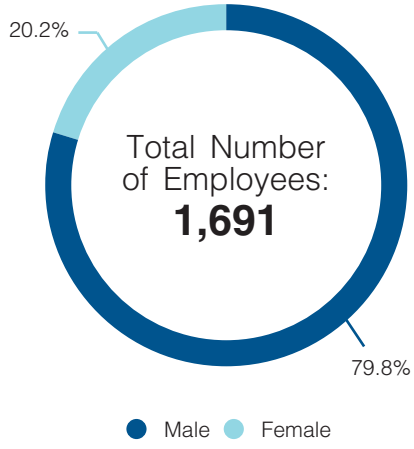
Page 1 of 1

DIVERSITY OF WORKFORCE

BHIC Group practices workforce diversity and equal opportunity in our recruitment policy. We believe in the concept of strength in diversity and inclusivity as employees from different backgrounds and experiences can offer a multitude of strengths to the organisation.

BHIC Group's Workforce Statistics as at 31 December 2019

GENDER

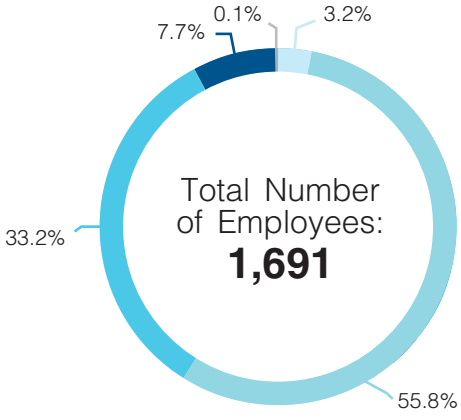


NUMBER OF INTAKE UNDER PROTEGE PROGRAMME (formerly known as Skim Latihan 1Malaysia)



Male	Female
55	29
(65.5%)	(34.5%)

AGE



- **Gen Z**
  Born after 1995
- **Millennials**
  Born between 1981 to 1994
- **Gen X**
  Born between 1965 to 1980
- **Baby Boomers**
  Born between 1946 to 1964
- **Traditionalists**
  Born between 1909 to 1945

SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS
SOCIAL

TRAINING, EDUCATION AND DEVELOPMENT



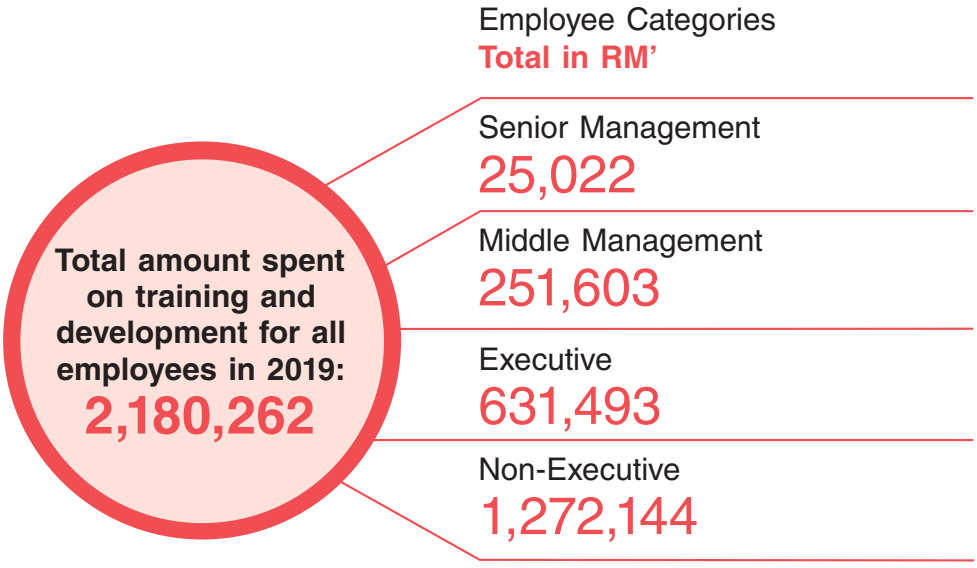
In addition to respecting universal principles such as human rights, equal opportunities and meritocracy, we strive to promote personal and professional growth of our employees.

We believe our investments and efforts in the areas of training, education and development of our employees have contributed to their job satisfaction, morale and motivation. We felt strongly that employees with such characteristics and who are well taken care off by their employers can be more efficient and productive.

Underlining our commitment to human capital development, we continuously focus on providing training to our employees and investing in their skills development. This helps them to acquire new knowledge and skills plus gain exposure to new technologies and methods to perform their job more efficiently. We spent a considerable amount sending them to attend training courses, seminars and workshops throughout 2019. In addition, we also promote lifelong learning among our employees by encouraging them to pursue further studies, for example supporting those enrolled in industrial PhD programme.

We promote healthy living by encouraging them to be involved in sporting activities through our in-house sports club activities and to participate in events such as BHP Orange Run, Hari Sukan Negara and futsal and bowling tournaments.

Below is the amount spent by the Group in 2019 on training and development:



Our sustainability efforts in the social category included promoting human capital development and providing training to young people through our corporate social responsibility programmes such as Protege Programme and Young Engineers Scheme (YES). We also continue to invest in upgrading the skills of our employees, for example in project management, risk management and professional engineer certification.

Key areas of training conducted for BHIC Group employees in 2019

1. Project Management Professional® Certification
2. Professional Engineers Development Programme
3. Enterprise Risk Management
4. Leadership and Management
5. Corporate Liability
6. Continuous Improvement Awareness Programme









Various training courses held in 2019, for BHIC Group employees helped expose them to new skills and knowledge to prepare them to move up the corporate ladder, assume higher responsibilities in the organisation and undertake more complex task

SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS
SOCIAL

LABOUR PRACTICES AND HUMAN RIGHTS

Respect for internationally acknowledged labour practices and human rights is an integral part of our social responsibility as a corporate entity. These included implementing labour practises that protect the rights of our employees. Adhering to such practices contributes to enhancing our corporate image as a socially responsible organisation.



Among the actions taken in the areas of labour practices and human rights were:

- Ensuring full compliance with relevant acts, rules and regulations
- Adopting fair recruitment practices by embracing diversity, inclusivity and equal opportunity
- Protecting the rights of employees and providing them with safe, secure and healthy working environment
- Continuously building strong industrial relations and encouraging open dialogue with employees
- Providing health and wellness benefits through the Group's insurance coverage
- Promoting performance and career development through investment in training





We provide an open platform for our employees to interact with the company's leadership through employee engagement sessions such as townhall meetings

COMMUNITY CONTRIBUTIONS AND DEVELOPMENT

In keeping with our social sustainability agenda, we undertook continuous efforts to giving back to society.



We believe that our involvement in social activities can contribute to the wellbeing of the local communities and society at large. Through our CSR initiatives, we also enhance the BHIC brand and public profile in the eyes of the communities in which we operate.

The following are the community activities in which we were involved in 2019:

- Donations to orphanages and associations
- Treating orphans and army veterans to *iftar* (buka puasa) and Hari Raya open house
- Blood Donation
- Partaking in *gotong royong* at orphanages, old folks home etc.
- Sports and recreational activities







Extending a helping hand to the needy and worthy causes is a key part of our CSR initiative that portrays our 'sharing is caring' side. This includes inviting orphans to our iftar and Hari Raya open house events and donating to army veterans' associations and sports events

SUSTAINABILITY PERFORMANCE – MATERIAL MATTERS
SOCIAL




BNS employees partaking in ibadah korban during Hari Raya Aidil Adha 2019 as part of its CSR activities

CONCLUSION

We are very much aware of our responsibilities in conducting our business and creating wealth for our shareholders in a sustainable manner. We are committed to conduct and grow our business in a sustainable manner befitting our stature as one of Malaysia's leading players in the defence and marine industries, in support of the national agenda on sustainable development.

The principles of sustainability are integral to our pursuit of profitability. We are conscious of the need to embed sustainable practices in our business strategies not just for the economy and society in which we operate but also for our own sustenance and survival.

In pursuing economic growth, BHIC Group is committed to attain economies of scale and generate innovative solutions in a sustainable way for the benefit of our industries. In the area of environment, we strive to adopt sustainable practices and environmentally friendly methods to minimise our carbon footprint. In the social aspect, we are committed to cultivate a positive relationship with our stakeholders and the communities in which we have a presence and serve.

We reiterate our commitment to make sustainability practices a part of our philosophy and a way of life as a responsible corporate citizen.

TAN SRI DATO' WIRA AZIAH ALI
Chairman, Board Sustainability Committee

AUDIT COMMITTEE REPORT

MEMBERS AND MEETINGS

A total of six meetings were held during the financial year. Details of the composition of the Audit Committee and the attendance by each member at the Committee meetings are set as follows:

Name of Director	Status of Directorship	Independent	Attendance of Meetings
(Dr.) Salihin Abang[1] *(Appointed on 10 July 2019)*	Independent Non-Executive Director (Chairman of the Committee)	Yes	4/4
Tan Sri Dato' Wira Aziah Ali *(Appointed on 10 July 2019)*	Independent Non-Executive Director	Yes	4/4
Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired) *(Appointed on 10 July 2019)*	Non-Independent Non-Executive Director	No	4/4
Dato' Maznah Abdul Jalil *(Appointed on 21 August 2019)*	Non-Independent Non-Executive Director	No	3/3
Hajah Saadatul Nafisah Bashir Ahmad *(Appointed on 21 August 2019)*	Independent Non-Executive Director	Yes	3/3
Abd Malik A Rahman *(Resigned on 01 May 2019)*	Independent Non-Executive Director	Yes	1/1
Dato' Ishak Osman *(Resigned on 10 July 2019)*	Independent Non-Executive Director	Yes	2/2
Datuk Azzat Kamaludin *(Resigned on 10 July 2019)*	Non-Independent Non-Executive Director	No	2/2

Note: [1]The Audit Committee Chairman's profile can be viewed on page 016 of this Annual Report.

The Audit Committee membership is in line with Paragraph 15.09 & 15.10 of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities and Malaysia Code of Corporate Governance (MCCG) Practice 8.1 and 8.2, in which;

i. All members are Non-Executive Directors and majority of the members are Independent Directors;

ii. No alternate director is appointed as a member;

iii. The Chairman is a member of the Malaysian Institute of Accountants;

iv. The Chairman of the Audit Committee is not the Chairman of the Board; and

v. None of the Committee members is a former key audit partner of the Company's external auditor.

The Audit Committee meetings were also attended by the Chief Executive Officer, Chief Financial Officer and Head of Internal Audit at the Audit Committee's invitation and as and when appropriate. The Audit Committee also met with the external auditors during the year on two separate sessions, without the presence of management. The meetings have been appropriately structured with Audit Committee members receiving notices, agendas and papers sufficiently in advance of the meetings.

AUDIT COMMITTEE REPORT

The Audit Committee Chairman reports to the Board on principal matters deliberated at Audit Committee meetings.

Minutes of each Audit Committee meeting are recorded and tabled for confirmation at the following meeting and subsequently presented to the Board for notation. The Audit Committee Chairman also conveys to the Board matters of significant concern as and when raised by the external auditors or internal auditors.

All members of the Audit Committee have and will continue to undertake professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules. Details of the Audit Committee members' trainings can be viewed in page 83 – 85 of this Annual Report.

The Audit Committee Terms of Reference (TOR) is accessible for viewing on the Company's official website at www.bhic.com.my

ACTIVITIES DURING THE FINANCIAL YEAR

During the year, the Audit Committee carried out its duties as set out in its Terms of Reference. The main activities undertaken were as follows:

Financial Reporting

i. Reviewed the quarterly unaudited financial results and audited annual financial statements of the Group to ensure compliance with the MMLR, applicable approved accounting standards and other statutory and regulatory requirements prior to recommending for approval by the Board of Directors.

ii. Reviewed the impact of any changes to the accounting policies and adoption of new accounting standards as well as accounting treatments used in the financial statements.

iii. Obtained assurance from the Chief Financial Officer that:

- appropriate accounting policies had been adopted and applied consistently;
- the going concern basis applied in the annual financial statements and quarterly financial statements was appropriate;
- prudent judgements and reasonable estimates had been made in accordance with Malaysian Financial Reporting Standards (MFRS);
- adequate processes and controls were in place for effective and efficient financial reporting and disclosures under the MFRSs and MMLR; and
- the annual financial statements and the quarterly financial statements did not contain material misstatements and gave a true and fair view of the financial position of the Group and the respective companies within the Group for 2019.

External Audit

During the year, the Audit Committee together with the external auditors:

i. Reviewed 2019 audit plan and scope of work for the Group.

ii. Reviewed the audit fees, the number and experience of audit staff assigned to the audit engagement, resources and effectiveness of the external auditors.

iii. Reviewed the performance of external auditors, their independence and objectivity.

iv. Discussed on audit reports and evaluation of the systems of the internal controls.

v. Reviewed major audit findings and reservations arising from the interim and final audits, significant accounting issues and any matter the external auditors may wish to discuss.

vi. Discussed the external auditors' review of the Statement on Risk Management and Internal Control for 2019.

vii. Reviewed the external auditors' management letter(s) and management response(s).

The Audit Committee met with the external auditors twice during the year in the absence of Management to discuss amongst others, audit issues and reservations arising from the interim and final audits.

The external auditors have assured the Audit Committee that in accordance with the terms of all relevant professional and regulatory requirements, they had been independent throughout the audit engagement for 2019.

The external auditor's non-audit service fees and the statutory audit fees are available on page 102 of this Annual Report.

Internal Audit

During the year, the Audit Committee:

i. Reviewed with the internal auditors their annual audit plan which is risk-based and focused on significant risk areas to ensure adequate scope and comprehensive coverage over the activities of the Group.

ii. Reviewed and deliberated internal audit reports and to monitor / follow up on remedial action.

iii. 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 a timely basis.

iv. Reviewed the adequacy of resource requirements and competencies of staff within Group Internal Audit to execute the annual audit plan and the results of the work.

v. Reviewed the effectiveness of internal audit processes and the resources allocated to Group Internal Audit.

vi. Reviewed the Audit Committee Report and Corporate Governance Overview Statement and recommended to the Board for approval prior to their inclusion in the Company's Annual Report.

Related Party Transactions

i. Reviewed the Circular to Shareholders relating to shareholders' mandate for recurrent related party transactions of revenue or trading nature prior to recommending it for Board's approval.

ii. Monitored the related party transactions entered by the Company and the Group pursuant to the shareholders' mandate obtained at the Annual General Meeting held on 23 April 2019.

iii. Reviewed the related party transactions entered by the Company and the Group as well as the disclosure and the procedures relating to related party transactions.

iv. Reviewed the Framework and Procedures on related party transactions in order for the said framework to be abreast of the provisions of the MMLR.

INTERNAL AUDIT FUNCTION

The Audit Committee is assisted by Group Internal Audit (GIA) of Boustead Holdings Berhad (the immediate holding company of BHIC) GIA's principal responsibility is to evaluate and improve the effectiveness of risk management, control and governance processes of BHIC and its Subsidiaries and recommend improvements to the processes where required. This is accomplished through a systematic and disciplined approach of regular reviews and appraisals of the management, control and governance processes based on the review plan that is approved by the Audit Committee annually.

GIA function adopts a risk-based methodology in planning and conducting audits by focusing on key risks areas and activities that are aligned with the Group's strategic plans. GIA has also adopted internal audit standards and best practices based on the International Professional Practices Framework (IPPF) promulgated by The Institute of Internal Auditors.

The terms of reference of GIA function are clearly spelt out in the Internal Audit Charter. GIA has operated and performed in accordance to the principles of the Charter that provides for its independence. GIA function reports directly to the Audit Committee, and is independent of the activities it audits. GIA 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 the Group.

Nine internal auditors from GIA have been assigned to perform the audit of shipbuilding, ship repairs, training and the support functions during the year. The audit teams have completed and issued internal audit reports for 19 assignments based on the approved annual audit plan. The audits conducted in 2019 covered a wide range of operational areas within the Company which include the

AUDIT COMMITTEE REPORT

review of shipbuilding and ship repairs processes, maintenance, repairs and operations of submarines and aircrafts, project management, procurement and contract management, accounting and financial controls, resource management and administration. The corresponding audit reports were presented to the Management Audit Committee and Audit Committee for attention, deliberation and corrective actions.

During the financial year, Group Internal Audit undertook the following activities:

i. Prepared the annual audit plan for approval by the Audit Committee.

ii. Performed risk-based audits based on the annual audit plan, including follow-up of matters from previous internal audit reports.

iii. 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.

iv. 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.

v. Reported on a quarterly basis to the Management Audit Committee and 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.

vi. Reported on a quarterly basis to the Audit Committee the achievement of the audit plan and status of resources of Group Internal Audit function.

vii. Conducted regular follow-up and monitoring on the implementation of recommendations made by Group Internal Audit to ensure that appropriate corrective actions are taken on a timely basis or within agreed timelines.

viii. Liaised with the external auditors to maximise the use of resources and for effective coverage of the audit risks.

ix. Reviewed the procedures relating to related party transactions entered into by the Group to ensure that the related party transactions have been conducted on the Group's normal commercial terms and are not to the detriment of the Group's minority shareholders.

x. Conducted workshops and communication sessions with the Management and operational staff on internal controls, internal audit observations and proposed action plans on the areas covered during the audit processes.

All audit works for the internal audit function during the year were conducted in-house. There were no areas of the internal audit programmes which were outsourced.

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement sets out the principal features of BHIC Group corporate governance approach, summary of corporate governance practices during the financial year as well as key focus areas and future priorities in relation to corporate governance. The Corporate Governance Statement is made pursuant to paragraph 15.25(1) of Main Market Listing Requirements of Bursa Malaysia Securities Berhad (MMLR) and guidance was drawn from Practice Note 9 of the MMLR and the Corporate Governance Guide (3rd edition) issued by Bursa Malaysia Securities Berhad (Bursa Malaysia).

The Corporate Governance Statement is augmented with a Corporate Governance Report, based on a prescribed format as enumerated in paragraph 15.25(2) of the MMLR. It provides a detailed articulation on the application of the Group's corporate governance practices vis-à-vis the Malaysian Code on Corporate Governance (MCCG). The Corporate Governance Report is available on the Company's website at www.bhic.com.my as well as via an announcement on the website of Bursa Malaysia.

This Corporate Governance Statement should also be read in tandem with the other statements in the Annual Report namely Statement on Risk Management and Internal Control, Committee Report and Sustainability Report.

CORPORATE GOVERNANCE APPROACH

The BHIC Board of Directors is committed to reinforcing the company market position in the heavy industries sector, whilst remaining true to the Group's well-established corporate governance philosophies which are ingrained in its core values, namely Belonging, Honour, Integrity and Commitment. The Board believes that a robust and dynamic corporate governance framework is essential to form the bedrock of responsible and responsive decision making in the Group.

The Group's overall approach to corporate governance is to:

i. promote heightened accountability at the leadership level, namely the Board and Management;

ii. adopt substance of corporate governance remunerations and not merely its form;

iii. conduct a thorough debate and rigorous enquiry process before establishing corporate governance systems, policies and procedures;

iv. identify opportunities to drive the synergistic implementation of corporate governance systems, policies and procedures to improve strategic and operational decision making; and

v. find a balance in meeting the expectations of different stakeholders of the Group.

The Board forms the pivot of good corporate governance in the Company. As such, it plays a leading role in steering efforts to promote meaningful and thoughtful application of good corporate governance practices. The Group regularly reviews its corporate governance and practices to ascertain that they reflect prevailing norms, market dynamics, emerging trends and developments in the regulatory framework and evolving stakeholder expectations.

SUMMARY OF CORPORATE GOVERNANCE PRACTICES

As a manifestation of our commitment towards corporate governance, we have benchmarked our practices against the relevant promulgations as well as the best practises in corporate governance.

BHIC applied all the Practices encapsulated in MCCG for the financial year ended 31 December 2019 except:

i. Practice 6.1 Remuneration Policy for Directors and Senior Management;

ii. Practice 7.2 Disclosure of the top five senior management personnel's remuneration on a named basis in bands of RM50,000;

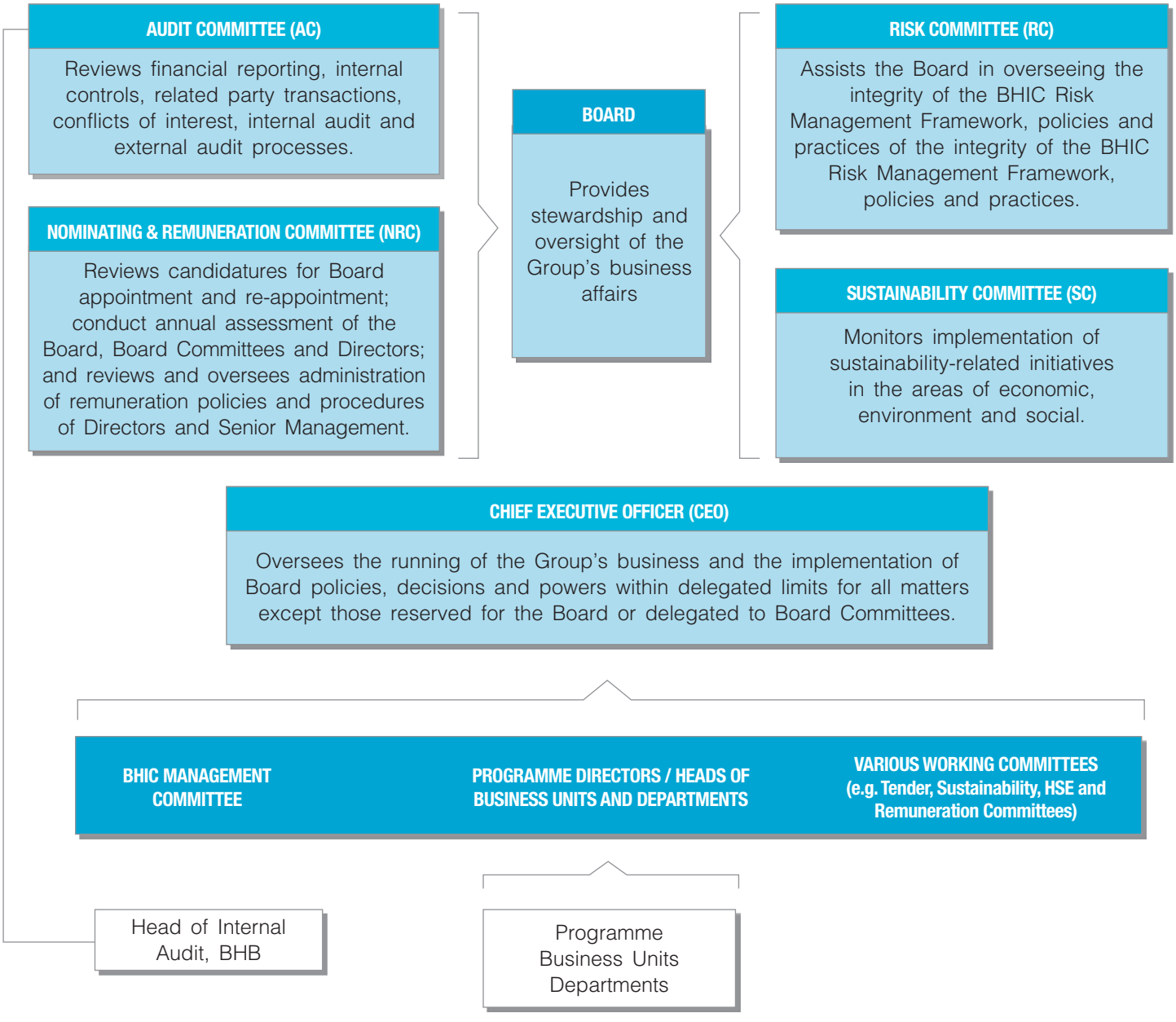
iii. Practice 11.2 Adoption of integrated reporting; and

iv. Practice 12.3 Remote shareholders' participation.

In line with the latitude accorded in the application mechanism of MCCG, the Company had provided forthcoming and appreciable explanation for the departure from the said practices supplemented with a description on the alternative measures that seek to achieve the Intended Outcome of the departed Practices, measures that the Company has taken or intends to adopt the departed Practices as well as the timeframe for adoption of the departed Practices. Further details on the application of each individual Practice of MCCG are available in the Corporate Governance Report in subsequent pages.

CORPORATE GOVERNANCE STATEMENT

A summary of the Group's corporate governance practices with reference to the MCCG



As shown in the previous diagram, Board Committees have been established to assist the Board overseeing its specific responsibility areas. However, it should be noted that the Board retains authority over the Board Committees at all times. These Board Committees have clear terms of reference and they are actively engaged to ensure that the Group adheres to good corporate governance.

The Board is guided by a Board Charter which sets out the ethos of the Board as well as its structure and authority. The Board Charter is a primary document which elucidates the governance of the Board, Board Committees and individual Directors. The Board Charter is available on the BHIC's website www.bhic.com.my and was last reviewed on 20 November 2019.

The Directors allocate sufficient time to discharge their responsibilities effectively and regularly attend Board and Board Committees meetings to deliberate on matters under their purview. Board meetings are held at quarterly intervals with additional meetings convened for particular matters, when necessary. During the year, the Board deliberated on business strategies and critical issues concerning the Group, including its business plan, annual budget, significant acquisitions and disposals, financial results as well as key performance indicators. The attendance of individual Directors at Board and Board Committees meetings during the financial year 2019 is shown below:

Director	Board	AC	NC	RC	SC
Executive Director					
Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor[1]	5/9				
Non-Independent Non-Executive Director					
Datuk Azzat Kamaludin[2]	4/4	2/2	3/3	1/1	
Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired)[3]	6/6	4/4	4/4		1/1
Dato' Maznah Abdul Jalil[4]	6/6	3/3		1/1	1/1
Fahmy Ismail[5]	6/6			1/1	
Izaddeen Daud[6]	0/0				
Independent Non-Executive Director					
Abd Malik A Rahman[7]	2/2	1/1	2/2		
Dato' Ishak Osman[8]	4/4	2/2	3/3	1/1	
Rozi Baharudin[9]	10/10		6/6		
Admiral Tan Sri Dato Seri Panglima (Dr.) Ahmad Kamarulzaman Ahmad Badaruddin (Retired)[10]	7/8			1/1	
Tan Sri Dato' Wira Aziah Ali[4]	6/6	4/4			1/1
Vice Admiral Dato' Syed Zahiruddin Putra Syed Osman (Retired)[11]	3/5		3/4		
(Dr.) Salihin Abang[4]	6/6	4/4		1/1	1/1
Hajah Saadatul Nafisah Bashir Ahmad[4]	6/6	3/3	4/4		1/1

Board/Board Committee Chairman Member

[1] *Re-designated from Managing Director to Non-Executive Chairman on 1 May 2019. Subsequently, resigned on 30 November 2019*
[2] *Resigned on 10 July 2019*
[3] *Appointed on 10 July 2019 as Non-Independent Non-Executive Director. Subsequently, re-designated as Non-Executive Chairman on 1 December 2019*
[4] *Appointed on 10 July 2019*
[5] *Appointed on 10 July 2019 and resigned on 11 June 2020*
[6] *Appointed on 11 June 2020*
[7] *Resigned on 1 May 2019*
[8] *Resigned on 10 July 2019*
[9] *Appointed on 2 January 2019*
[10] *Appointed on 1 May 2019*
[11] *Appointed on 21 August 2019*

CORPORATE GOVERNANCE STATEMENT

There is clear delineation of roles of the Board and Management. The CEO is the intermediary between the Board and the Management in driving the Group's governance and management. The CEO implements the Board's policies and decisions towards meeting the Company's business objectives.

In performing their duties, all Directors have access to advice and services of qualified Company Secretaries. The Company Secretaries act as corporate governance counsel and ensure smooth information flow within the Board, Board Committees and Senior Management. They attend all meetings of the Board and Board Committees and advise the Directors on the requirements encapsulated in the Company's Constitution and legislative promulgations such as the Companies Act 2016, Capital Markets and Services Act 2007 (Amendment 2012) and MMLR. The Management provides the Directors, through the Company Secretaries, with accurate and adequate and timely information prior to the Board and Board Committees meetings and on an ongoing basis to enable them to make informed decisions.

As integrity is a core value of the Group, the Board is cognisant of its responsibility to set the ethical tone for the Group. A Code of Ethics and Conduct and Whistleblowing Policy have been put in place to foster an ethical culture and allow legitimate ethical concerns to be escalated in confidence without any risk of reprisal. The Code and Policy are reviewed periodically by the Board and are published on the BHIC's website www.bhic.com.my.

Board Composition

During the year under review, the Board comprised nine members, six of whom were Independent Non-Executive Directors. The number of the Independent Directors on the Board is above the minimum requirement of the MMLR. The Board strives to ensure that it has an appropriate mix of skills, qualifications and experience to discharge their roles and responsibilities effectively.

Appointments of Board members are made via a formal, rigorous and transparent process premised on meritocracy. They take into account objective criteria such as qualifications, skills, experience, professionalism, integrity and diversity needed on the Board to help shape and steer the Group's strategic direction. In the case of the appointments of Independent Directors, the Board assesses the candidates' ability to bring the element of detached impartiality and objective judgment to boardroom deliberations.

With the assistance of the NRC, the Board regularly assesses their skills, experience, independence and diversity required collectively to effectively fulfil its roles. The Board is satisfied that there is mutual respect among Directors which contribute to a democratic environment so as to constructively deliberate and undertake a robust decision-making process during its meetings.

The Board reviews its performance, and that of Board Committees and individual Directors, annually based on a set of predetermined criteria in a process facilitated by the NRC. During the year under review, the NRC helped to assess the overall performance and effectiveness of the Board and Board Committees. The NRC is satisfied that the Board and Board Committees' composition has fulfilled the criteria required and features the right blend of knowledge, experience and skills. In addition, the NRC also recommended the Board to endorse the re-election of Directors at the Annual General Meeting (AGM).

In reviewing the independence of Independent Directors, the NRC adopted a qualitative approach. This entails an assessment on whether they possess the intellectual honesty and moral courage to advocate professional views without fear or favour. The Board is cognisant of the rebuttable presumption that extended tenure leads to entrenchment. As such, the Board remains watchful for such indicators of entrenchment amongst long serving Independent Directors.

Remuneration

BHIC aims to set remuneration at levels which are sufficient to attract and retain high calibre Directors and Senior Management needed to run the business successfully. All relevant factors including their functions, workload and responsibilities are taken into consideration.

The NRC which entirely consists of Non-Executive Directors is also responsible for remuneration matters. The NRC implements policies and procedures on remuneration including reviewing and recommending the remuneration of the Board and Senior Management.

A review on the quantum and composition of Non-Executive Directors' remuneration is undertaken once every four years. Based on its review, the Board recommended to the shareholders a revision of Directors' remuneration for FY 2020, taking into account the current economic climate and the company's financial capacity.

The details remuneration of Directors for the financial year ended 31 December 2019 for BHIC and its Group of Companies are as follows:

Directors RM'000	Company	Group					
	Fees	Fees	Salaries	EPF	BIK*	Allowance	Total
Executive Director							
Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor *(Resigned on 30 November 2019)*	–	–	89	5	–	8	102
Non-Executive Directors							
Datuk Azzat Kamaludin *(Resigned on 10 July 2019)*	–	–	–	–	–	12	12
Dato' Ishak Osman *(Resigned on 10 July 2019)*	–	–	–	–	–	13	13
Abd Malik A Rahman *(Resigned on 1 May 2019)*	–	–	–	–	–	8	8
Rozi Baharudin *(Appointed on 2 January 2019)*	–	–	–	–	–	19	19
Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Ahmad Badaruddin (Retired) *(Appointed on 1 May 2019)*	–	–	–	–	–	8	8
Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired) *(Appointed on 10 July 2019)*	–	–	–	–	–	15	15
Dato' Maznah Abdul Jalil *(Appointed on 10 July 2019)*	–	–	–	–	–	10	10
Fahmy Ismail *(Appointed on 10 July 2019 and resigned 11 June 2020)*	–	–	–	–	–	9	9
Tan Sri Dato' Wira Aziah Ali *(Appointed on 10 July 2019)*	–	–	–	–	–	11	11
(Dr.) Salihin Abang *(Appointed on 10 July 2019)*	–	–	–	–	–	11	11
Hajah Saadatul Nafisah Bashir Ahmad *(Appointed on 10 July 2019)*	–	–	–	–	–	13	13
Vice Admiral Dato' Syed Zahiruddin Putra Syed Osman (Retired) *(Appointed on 21 August 2019)*	–	–	–	–	–	7	7
Total	–	–	–	–	–	136	136
Provision for directors fees	660	795	–	–	–	–	795
Grand Total	**660**	**795**	**89**	**5**	**–**	**144**	**1,033**

**** Benefit in kind***

CORPORATE GOVERNANCE STATEMENT

AUDIT COMMITTEE

The Board relies upon the Audit Committee (AC) to, amongst others, provide advice in the areas of financial reporting, external audit, internal control environment and internal audit process, and review related party transactions as well as conflict of interest situations.

The AC is chaired by an Independent Director who is not the Chairman of the Board. The Chairman of the AC is a member of the Malaysian Institute of Accountants whilst all members of the AC are financially literate. The AC has full access to both the internal and external auditors who, in turn, have access at all times to the Chairman of the AC. The role of the AC, the number of meetings held during the financial year and the attendance record of each member are set out in the AC Report in this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROLS FRAMEWORK

The Board is cognisant that a robust risk management and internal controls framework helps the Group to achieve its corporate objective. This is done by providing risk-related information which facilitate the formulation of the Group's strategies and its decision making. The Group has established policies and framework related to management of its business risks by adopting a Risk Management Policy. The Group Risk Management Department, reviews and maintains detailed risk registers which are updated quarterly. Key focus areas of risks are reported and deliberated at the RC meetings.

The Board has established a Risk Committee to assist it in overseeing integrity matters of the BHIC Risk Management Framework, Policies and practices.

The internal audit function is carried out by the Group Internal Audit (GIA) of Boustead Holdings Berhad. The GIA reports directly to the AC and is independent of the activities which it audits. GIA's authority, scope of works and responsibilities are governed by an Internal Audit Charter which is approved by the AC.

Further information on the Group's risk management and internal framework is made available on the Statement of Risk Management and Internal Controls of this Annual Report.

Communication with Stakeholders

The Group is fully committed to maintain high standard for the dissemination of relevant and material information on the development related to the Group. The Group also places strong emphasis on timely and equitable dissemination of information to its shareholders and others stakeholders. The main modes of communication include Annual Report, quarterly results, announcements to Bursa Malaysia Security, Sustainability Report and corporate website.

The email address for investor relations related matters of the Group is: **investor_inquiry@bhic.com.my**

Conduct of General Meetings

The Group is of the view that General Meetings are important platforms to engage with its shareholders as well as to address their concerns. During the immediate preceding general meeting, all Directors were present at the AGM held conducted in recent years to answer questions raised by shareholders. The Non-Executive Chairman, Chairmen of Board Committees and Managing Director (MD) will provide written answers to question posed by shareholders prior to the AGM. The Group encourages shareholders to attend and participate in the AGM by providing adequate advance notice and holding the AGM at an accessible location. The location of the AGM is normally held in the Klang Valley, which taken into account the shareholders' geographical dispersion.

In light of the current Covid-19 pandemic, BHIC has accelerated its initiative to implement remote shareholders' participation and online remote voting at the 48th AGM by leveraging on technology in accordance with Section 327(1) and (2) of the Companies Act 2016. Shareholders who attend the 48th AGM via remote participation will also be able to submit any questions during the AGM for the Company to respond. Shareholders are encouraged to take advantage of the said technology to participate in the AGM.

Focus Areas on Corporate Governance

The Board is committed to towards continuous enhancement of governance practices throughout the Group. In 2019, the Group undertook the following activities:

i. Establishment of Compliance Function

The Group took the initiative to promote a strong compliance culture to reflect high ethical standards and integrity within the organisation. The Group Risk Management Department (GRMD) oversees the Group's compliance functions by reviewing and proposing policies promoting good governance and compliance with rules and regulations.

One of the areas to be addressed is the establishment of "adequate procedures" to prevent the occurrence of corrupt practices pursuant to the Malaysian Anti-Corruption Commission (Amendment) Act 2018. The Group aims to adopt, the ISO 37001 Anti-Bribery Management System.

ii. Professional Development of Directors

During the year under review, BHIC Directors were provided with the opportunity to develop and enhance their skills and knowledge. They attended various training programmes to keep themselves abreast with changes in legislative promulgations and in the areas of leadership, governance, finance and management, among others. The Board, through the NRC was satisfied with the type of programmes attended by each Director during the year to enhance his/her knowledge and performance.

The list of training programmes that were attended by the Board members are outlined below:

No.	Director	Training Attended	Date
1.	Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor *(Resigned on 30 November 2019)*	Topic: Cryptocurrency & Blockchain Organizer: Affin Bank Berhad	13 March 2019
2.	Abd Malik A Rahman *(Resigned on 1 May 2019)*	–	–
3.	Dato' Ishak Osman *(Resigned on 10 July 2019)*	–	–
4.	Datuk Azzat Kamaludin *(Resigned on 10 July 2019)*	–	–
5.	Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired) *(Appointed on 10 July 2019)*	Mandatory Accreditation Programme Organizer: The Iclif Leadership and Governance Centre	23 – 24 September 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019
6.	Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Hj Ahmad Badaruddin (Retired) *(Appointed on 1 May 2019)*	Mandatory Accreditation Programme Organizer The Iclif Leadership and Governance Centre	26 – 27 June 2019
		The National Anti-Corruption Plan Organizer The Iclif Leadership and Governance Centre	17 October 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019

CORPORATE GOVERNANCE STATEMENT

No.	Director	Training Attended	Date
7.	Tan Sri Dato' Wira Aziah Ali *(Appointed on 10 July 2019)*	Sustainability by Design: Practical Steps for Malaysian Businesses Organizer: Digi	17 September 2019
		Mandatory Accreditation Programme Organizer The Iclif Leadership and Governance Centre	23 – 24 September 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019
		Corporate Governance & Anti-Corruption Organizer : Bursa Malaysia	31 October 2019
8.	Vice Admiral Dato' Syed Zahiruddin Putra Syed Osman (Retired) *(Appointed on 21 August 2019)*	Bursa Malaysia Thought Leadership Series Sustainability Inspired Innovations: Enablers of the 21st Century	23 September 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019
		Mandatory Accreditation Programme Organizer: The Iclif Leadership and Governance Centre	30 – 31 October 2019
9.	Dato' Maznah Abdul Jalil *(Appointed on 10 July 2019)*	Bursa Malaysia Thought Leadership Series Sustainability Inspired Innovations: Enablers of the 21st Century	23 September 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019
10.	(Dr.) Salihin Abang *(Appointed on 10 July 2019)*	MIA Thought Leadership Lecture – Leading with Ethics Organizer: Malaysia Institute of Accountants	25 July 2019
		International Conference on Accounting & Business Management 2019 Organizer: UITM and Universitas Padjadjaran	31 July – 1 August 2019
		National Tax Conference 2019 Organizer: Charted Tax Institute of Malaysia and LHDN	5 – 6 August 2019
		Bursa Malaysia Thought Leadership Series Sustainability Inspired Innovations: Enablers of the 21st Century	23 September 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019

No.	Director	Training Attended	Date
11.	Hajah Saadatul Nafisah Bashir Ahmad *(Appointed on 10 July 2019)*	Sustainability by Design: Practical Steps for Malaysian Businesses Organizer: Digi	17 September 2019
		Mandatory Accreditation Programme Organizer: The Iclif Leadership and Governance Centre	23 – 24 September 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019
12.	Rozi Baharudin *(Appointed on 2 January 2019)*	Topic: Leadership Greatness in Turbulent Times: Building Corporate Longevity. Organizer: Bursa Malaysia	26 June 2019
		Sustainability by Design: Practical Steps for Malaysian Businesses conference Organizer: Digi	17 September 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019
		Corporate Governance & Anti-Corruption Organizer: Bursa Malaysia	31 October 2019
13.	Fahmy Ismail *(Appointed on 10 July 2019 and Resigned on 11 June 2020)*	Mandatory Accreditation Programme Organizer: The Iclif Leadership and Governance Centre	28 February & 1 March 2019
		Integrated Reporting: Communicating Value Creation Organizer: Bursa Malaysia & MIA	16 October 2019
		Group-Wide Training Programme Organizer: BHB & LTAT	29 October 2019
14.	Izaddeen Daud *(Appointed on 11 June 2020)*	–	–

CORPORATE GOVERNANCE PRIORITIES (2020 AND BEYOND)

The Board recognises that there is always room for improvement in the area of corporate governance to enhance the trust and confidence of our stakeholders towards the Group.

Sustainability reporting

BHIC aims to leverage on its existing qualitative sustainability indices and to adopt a more mature form of sustainability reporting. The Board, through the Board Sustainability Committee will set the direction for the Management to improve the quality of its non-financial data collection towards better sustainability reporting. We will also actively engage our stakeholders to help them develop greater awareness and better understanding of what is expected of our sustainability reporting.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROLS

The Board of Directors would like to hereby present the following Statement on Risk Management and Internal Controls which outlines the nature and scope of internal controls in BHIC Group and its associates during the year under review, in accordance to Paragraph 15.26(b) of the Bursa Malaysia Berhad Main Market Listing Requirements.

ACCOUNTABILITY OF THE BOARD

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

The Board has set the tone and direction for effective risk management and internal controls by regularly reviewing their adequacy and integrity. The review covers financial, operational and compliance controls of the Group. In view of the limitations that are inherent in any internal control system, our own system is designed to manage rather than eliminate the risk of failure to achieve our corporate objectives. Accordingly, it can only provide a reasonable degree of control and not an absolute assurance against any misstatement or loss.

The internal controls of our joint venture companies are not regularly reviewed as the Board does not have direct control over their operations. However, the Group's interests are served through representation at the Boards of the respective companies and through the receipt and review of the management accounts and the enquiries thereafter. Such representation also provided the Board with information for timely and effective decision making. The representatives of those companies reported to the Board on the significant risks of the joint venture companies.

RISK MANAGEMENT

Risk Management is an integral part of the Group's activities. Ongoing improvements to strengthen the monitoring of principal risks remain a key focus of the Board towards building a successful and sustainable business for the Group. Risks across the Group are being managed on an integrated basis by Group Risk Management Department (GRMD) and the evaluation of those risks is incorporated into the decision-making process.

There are also dedicated risk management functions within the Group's Business Units to assess and evaluate the risk management processes. These assessment and evaluation are then reported to their respective Management and Boards.

The Group has in place continuous processes to manage the risks affecting the achievement of its business objectives. These include identifying, evaluating, managing and monitoring these risks. These processes continue to be in place during the year under review and up to the date of the approval of this statement.

INTERNAL CONTROLS

Risk Management Framework

The Group's objectives, its organisational structure and the environment in which it operates are continuously evolving. As a result, the risks we face are subject to constant changes. 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.

The Group adopts ISO 31000:2009 Risk Management – Principles and Guidelines as a primary foundation and reference for the BHIC Enterprise Risk Management (ERM) framework. The Group aims to attain a common understanding of effective ERM implementation and practices across the Group. Simultaneously, the ERM framework helps the Group to make sound business decisions. The guiding principles, key structural elements of risk management practices and activities of the Group include the following:

i. demonstrating how risk management is embedded in the Group's organisational systems to ensure it is integrated at all levels. This includes describing 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;

ii. having in place comprehensive, structured, systematic and proactive processes which identify, assess, manage and report on the significant business and functional risks related to achieving the Group's objectives inherent in the business strategy and operations at any point in time;

iii. optimising risk management by balancing the cost of risks with the cost of controls for all aspects of the Group's potential risk areas to ensure that organisational objectives are met; and

iv. improving the Group's governance through resilient leadership, responsible and ethical decision making, transparent management and accountability and performance improvement

KEY RISKS AND MITIGATION MEASURES

The primary risks which the Group faces in its business include among others increased competition, changes in the industry landscape and operational and financial risks. Below are some of the risk areas faced and mitigation actions taken in 2019:

i. The Group is currently exposed to financial risks due to the delay of the ongoing projects and inability to secure new projects. Financial planning strategies such as loan restructuring and revising the payment milestones have been formulated to ensure that the Group's achieve its goals and objectives and able to manage its overall financial position effectively.

ii. The Group's businesses are too reliant on the defence and security and heavy industries which were impacted by the reduction in Malaysia's defence budget, slowdown in the world economy and the sharp fall of oil prices. The Group Strategic Planning & Transformation Department (SPT) has identified medium and long-term plans to diversify our revenue base which will be implemented gradually.

iii. Being a company which is highly reliant on shipbuilding, ship repair and MRO activities it is imperative for our personnel to be competent in project management. The Group has developed a programme, namely the Project Management Professional Certification, to enhance their competency in this area.

iv. Businesses today are highly dependent on information and communications technology (ICT) and systems. Against this backdrop, there has been an increasing number of cyberattacks which pose a threat to businesses globally. The failure to have in place a robust ICT system will expose businesses to cyber threats. To mitigate such risks, the Group has developed an IT Disaster Recovery Plan (IT-DR) for all its critical systems and servers.

v. The Group places strong emphasis on human capital development. In line with this, we have designed and developed a talent management programme and succession planning for critical positions throughout the Group.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROLS

ENTERPRISE RISK MANAGEMENT

As part of risk management best practices to instil a proactive risk management culture, GRMD has engaged with the Business Units and Departments in conducting risk register validation exercises throughout the financial year. The objective of these exercises is to evaluate and validate the adequacy of risk assessment, to highlight potential or emerging risks and to review status of action plans undertaken by the Business Units and Departments.

Project Risk Management

Project Risk Management is one of the key elements of project success. Successful projects are measured based on timely delivery, meeting the customers expectation and keeping within the budgeted cost. GRMD has put in place guidelines to assist Business Units in initiating and implementing project risk assessment when undertaking new projects.

To strengthen this practice, GRMD conducted a series of Project Risk Management Workshops with the Littoral Mission Ship Team on Project Cost Rationalisation and Project Risk Review. These workshops were intended to provide the team with the knowledge to find ways to reduce costs and deliberate risk issues related to the ships' construction.

GRMD continued to perform an advisory role and carried out periodical review on project-related risks. In addition, it also participated in the development of proposals for new business.

Insurance Management

In 2019, GRMD initiated a review with SPT of the Insurance Management Process to identify and provide recommendations for best practises in insurance management. The Group will continue to enhance and improve its practises in this area in line with good corporate governance.

Risk Awareness Training Programme

In 2019, GRMD in collaboration with Group Human Capital Management conducted risk management training to BHIC employees. The training was aimed at providing and sharing risk management knowledge and applying risk management tools in managing day to day operations. The training covered the areas of Enterprise Risk Management and Risk Assessment Procedure, and was attended by Risk Managers and representatives from Business Units and Department.

BUSINESS CONTINUITY MANAGEMENT

The Group is mindful of the need to be well prepared for any eventualities. We took a step forward by establishing a Business Continuity Management (BCM) Programme by adopting ISO 22301:2012 – Societal Security – Business Continuity Management Systems – Requirements.

Following the successful implementation of a BCM pilot programme at BNS in 2017, similar programmes were also held at BHICAS and BDNC in 2019. The programmes managed to enhance awareness of the importance of BCM among key personnel of those companies.

Emergency Response Plan

An Emergency Response Plan sets out the procedure for dealing with unexpected situations. Its objectives are to prevent injuries and deaths, minimise damage to assets and interruptions to business operations. GRMD conducted two emergency response planning workshops at BHICAS and BDNC in 2019.

The workshops addressed the adequacy of the Standard Operating Procedures on Emergency Response Management. Among the areas covered were emergency response governance structure, safety risk assessment, standard response method and improvement on emergency asset utilisation.

Business Continuity Plan

Business Continuity Plan (BCP) is a process which helps companies prevent and recover from threats major incidents such as fire, natural disasters or cyber attacks. Such incidents may have an impact on facilities, operational capabilities and overall operations.

BNS took a step forward in the area of risk management by conducting BCP Desktop Simulation Exercise for its Finance and Accounts Department in August 2019. The objective of this exercise was to evaluate its readiness in the event of any disruption and to measure the effectiveness of the BCP. The simulation exercise covered ERP crisis management plan and the BCP. Gap and issues identified throughout the simulation exercise have been used to improve its BCP Plan.

ICT Disaster Recovery Plan

For most organisations throughout every business sector, ICT is now deemed as being a critical component and a vital part of the business activities. Hence it is important to ensure that ICT assets are well protected. The Group has embarked on the development of ICT Disaster Recovery ICT-DR Plan for its critical systems and servers. The ICT-DR Plan covers systems/servers located in Kuala Lumpur, BNS, BPS (Penang, Jerejak), Langkawi and Kota Kinabalu.

In 2019, ICT simulation exercises were conducted at Menara Boustead and BNS. The simulation exercise measured the readiness of stakeholders when activating and executing the ICT-DR Plan. It also assessed the level of coordination with ICT support vendors. Moving forward a full-scale ICT-DR Plan on critical systems and servers will be conducted as part of our continuous improvement plan.

HEALTH, SAFETY & ENVIRONMENT (HSE)

HSE Commitment and Implementation

In line with Group Health, Safety and Environment (HSE) Policy, we are committed to uphold the highest standards of HSE of in compliance with Occupational Safety and Health Act 1994, Factories and Machinery Act 1967 and Environmental Quality Act 1974.

In 2019, GRMD assessed the requirements for and adequacy of competent HSE personnel at all levels of Business Units in order to achieve the highest standards in HSE supervision, implementation and safety culture. In addition, GRMD monitored the HSE performance of all Business Units in areas such as safe man-hours, the number of incidents / accidents recorded, HSE inspection, ERP and HSE training and awareness.

RISK GOVERNANCE AND REPORTING

As part of our effort to enhance risk and corporate governance within the Group, Business Units deliberated their risk areas and status of audit findings during their respective Board meetings. The objective is to enhance their Board's oversight on risk profiles and the directions on the key risks and audit areas.

In line with the best practice in corporate governance, the Group has established two Committees namely Audit Committee (AC) and Risk Committee (RC) to deliberate audit matters and risks matters respectively.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROLS

For the first eight months of 2019, all risks matters were deliberated by the AC until the formation of RC. In our efforts to strengthen the risk governance, we established the following committees:

i. Risk Management and Audit Working Group (RMAWG) is responsible to ensure that risk management and internal control practices are effectively implemented within the Group. In addition, it is also tasked to ensure that the practices remain relevant for the Management to monitor the effectiveness of risk treatment / mitigation plans and to control key risks.

   RMAWG accountable and responsible to advise the BHIC Risk Committee and BHIC Audit Committee on the adequacy and effectiveness of risk management and internal control practices;

ii. RC is responsible to assist the Board in overseeing the integrity of risk management policies and practices within the Group.

The Group also puts strong emphasis on audit matters and compliance as part of comprehensive risk management. Audit follow-up and resolution exercises were consistently conducted throughout 2019.

Several audit follow-up meetings were held with Business Units based on the severity of audit findings. The meetings were intended to manage and coordinate common elements of compliance for greater efficiency, consistency, and reliability. Audit issues were reported and presented to the BHIC Management and the AC.

Control Structure

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

Whilst the Board maintains control and direction over certain strategic, financial, organisational and compliance matters, it has delegated the implementation of internal controls system to the Management led by the Chief Executive Officer (CEO) of BHIC.

As the person empowered to lead the organisation, the CEO is responsible to oversee the Group's internal control systems. In addition, the Board established an Executive Committee (ExCo) to assist the Management in the periods during the vacancy of the positions of CEO, COO and CFO. The ExCo met regularly to review internal controls and make recommendations on the strategic and business directions of the Group.

There are several management committees to assess and strengthen controls within the Group. These committees help the CEO and the senior management of the companies to periodically review the performance of Business Units and to identify and manage their risks effectively. In addition, they also help the Management review the adequacy and integrity of internal controls and Management Information Systems. The committees also help the Management to develop and review regularly review business strategies and operating procedures and policies.

The Management team is responsible for:

i. the conduct and performance of Business Units;

ii. the identification and evaluation of significant risks applicable to the respective areas of Business Units together with the design and operation of suitable internal controls;

iii. ensuring that an effective system of internal controls is in place;

iv. reviewing internal audit reports and following up on their findings;

v. meeting all internal and external reporting deadlines and ensuring compliance with policies, procedures and regulatory requirements;

vi. submission of management reports, on a monthly basis, to the CEO;

vii. submission of annual operating plans, and review of half-year financial forecasts to be approved at the operating and Board level; and

viii. the evaluation of major procurement contracts at the Management Tender Committee in a transparent manner.

The monitoring and reviewing structure currently in place ensure timely and relevant communication between the Management and the Board. These promote a dynamic and effective controls structure within the Group. The company also conducted annual townhall meetings and regular site visit to communicate with employees at all levels. This helps the Management to obtain first-hand information on significant operational issues and to manage the associated risks, in addition to observing the effectiveness of current controls.

The Group has taken a group-wide initiative to update and streamline the SOP for all its companies. This effort, driven by BHIC Strategic Planning and Transformation Department, aims to ensure that clear and uniform policies and procedures are adopted throughout the Group.

BHIC Group is committed to create corruption-free working environment. In this regard, we have signed the Corporate Integrity Pledge of MACC and set up an Integrity Department to oversee integrity related matters and promote awareness on the subject among our employees. Moving forward the Group will be implementing the Corporate Liability Provisions outlines in Section 17A of the Malaysian Anti-Corruption Commission (Amendment) Act 2018.

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

Learning and development programmes are regularly conducted 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 company adopts an organisational structure with clearly defined lines of responsibility and authority limits at various management levels. The structure also facilitates a documented and auditable trail of accountability, supported by several departments namely, Company Secretarial, Administration, Legal, Human Capital Management, Supply Chain and Vendor Development Management, Commercial, Finance, Risk Managements, Corporate Communications, Information System and Strategic Planning and Transformation. They are put in place to help the group to achieve its strategic and operational objectives and manage risks effectively.

Whistleblowing

The Group has in place a whistleblowing policy which provides employees with well-defined channels through which they may raise concerns about possible improprieties within the Group in confidence. We adopt Boustead Group's Whistleblowing Policy which allows for internal investigation to be carried out on such cases to enable objective resolutions.

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

The processes adopted in monitoring and reviewing of the system are based on the following framework:

- **Division, Business Units and Departments:** Each Business Unit and Departments is responsible for managing risks associated with its respective business and functions. All risks identified are assessed, analysed, treated and monitored according to the Group's risk appetite.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROLS

- **Group Risk Management Department:** Provides risk methodologies, framework, tools and consultancy to the Business Units and Departments areas pertaining to risk controls and its monitoring and controls. It reports the Group's risk profile to BHIC Management Committee and the Board of Audit Committee.
- **Internal Audit:** Conducts an independent quality assurance of risk management and internal controls activities. Its also submits quarterly reports on internal control reviews to the Audit Committee. The Chairman of the Audit Committee provides the Board with the reports of all of its meeting.

INTERNAL AUDIT FUNCTION

The Internal Audit function is carried out by Group Internal Audit (GIA) from Boustead Holdings Berhad. GIA supports the BHIC Audit Committee and the Board in evaluating and improving the Group's risk management, internal control and governance processes. The Group spent approximately RM264,795 (inclusive of Services Tax) on the internal audit services rendered by GIA.

CONCLUSION

The Board is of the view that the current system of Risk Management and 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 had been or are being addressed. There were no major internal controls weaknesses that require disclosure in this Annual Report.

The effectiveness of the Group's system of Risk Management and Internal Controls will continue to be reviewed and updated by the Board through the Audit Committee to keep abreast with changes in the operating environment.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors performed limited assurance procedures on this Statement on Risk Management and Internal Controls pursuant to the scope set out in the Audit and Assurance Practice Guide 3 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Controls included in the Annual Report issued by the Malaysian Institute of Accountants for inclusion in the Annual Report of the Group for the year ended in 31 December 2019.

They also reported to the Board that nothing came to their attention that caused them to believe the statement intended to be included in the Annual Report was not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Guidelines, nor was the Statement factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Controls covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's Risk Management and Internal Controls system including the assessment and opinion by the Directors and management thereon. The report from the external auditors was made solely for and directed solely to the BHIC Board of Directors in compliance with the Listing Requirements of Bursa Malaysia Securities and not for other purposes or parties. The external auditors do not assume responsibility to any person other than the BHIC Board of Directors in respect of any aspect of this report.

This statement is made in respect of the financial year ended 31 December 2019 and in accordance with a resolution of the BHIC Board of Directors dated 13 June 2020.

DIRECTOR'S RESPONSIBILITY STATEMENT

The Directors affirm that they are collectively responsible for ensuring that the annual financial statements of the Group and the Company are drawn up in accordance with the applicable approved accounting standards in Malaysia, the provisions of the Companies Act 2016 and the Listing Requirements of Bursa Securities. We affirmed that these financial statements give a true and fair view of the financial position, financial performance and cash flows of the Group for the financial year ended 31 December 2019.

To ensure that financial statements are properly drawn up, the Directors have taken the following measures:

i. adopted applicable accounting policies and applying them consistently;

ii. made judgements and estimates that are prudent and reasonable;

iii. ensured applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

iv. prepared the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act 2016. 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.

RECURRENT RELATED PARTY TRANSACTIONS

At the Annual General Meeting held on 23 April 2019, the Company obtained 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 2019 pursuant to the Shareholders' Mandate are disclosed as follows:

Related Party	Interested Director/ Interested Major Shareholder	Nature of Transaction	Value of Transaction RM'000
Boustead Naval Shipyard Sdn Bhd	Vice Admiral Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor (Retired)* Datuk Azzat Kamaludin** Fahmy bin Ismail**** Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired)*** Dato' Maznah Abdul Jalil***** Izaddeen Daud# Boustead Holdings Berhad Lembaga Tabung Angkatan Tentera	Provision of shipbuilding, ship repair works and provision of related services by Boustead Penang Shipyard Sdn Bhd	94,828
		Provision of ship repair works and related services by BHIC Defence Techservices Sdn Bhd	4,116
		Provision of ship repair works and related services by BHIC Allied Defence Technology Sdn Bhd	1,435
		Sale of equipment and machinery for ship related activities by Dominion Defence and Industries Sdn Bhd	88
		Provision of ship repair works and related services by BHIC Navaltech Sdn Bhd	5,833
		Purchase of materials/consumables in relation to ship repair works and related services by BHIC Defence Techservices Sdn Bhd	(39)
		Rental of premises by Boustead Penang Shipyard Sdn Bhd	(1,240)
		Provision of training services by BHIC Marine Technology Academy Sdn Bhd	107
		Rental of premises by BHIC Defence Techservices Sdn Bhd	(240)
		Rental of premises by BHIC Marine Technology Academy Sdn Bhd	(108)
		Rental of premises by BHIC Allied Defence Technology Sdn Bhd	(50)

* *Director until 30 November 2019*
** *Director until 10 July 2019*
*** *Directors were appointed on 15 January 2020*
**** *Director were appointed on 26 February 2019 and resigned on 15 January 2020*
***** *Director were appointed on 28 February 2020*
\# *Director were appointed on 11 June 2020*

Related Party	Interested Director/ Interested Major Shareholder	Nature of Transaction	Value of Transaction RM'000
Boustead Holdings Berhad	Izaddeen Daud#	Provision of training, management and related services to Boustead Heavy Industries Corporation Bhd	(666)
	Lembaga Tabung Angkatan Tentera		
Boustead Travel Services Sdn Bhd	Boustead Holdings Berhad	Provision of transport and travel related services to Boustead Penang Shipyard Sdn Bhd	(78)
	Lembaga Tabung Angkatan Tentera	Provision of transport and travel related services to BHIC Defence Techservices Sdn Bhd	(101)
		Provision of transport and travel related services to BHIC Navaltech Sdn Bhd	(22)
		Provision of transport and travel related services to BHIC Submarine Engineering Services Sdn Bhd	(282)
Boustead Realty Sdn Bhd	Boustead Holdings Berhad	Rental of premises by Boustead Penang Shipyard Sdn Bhd	(115)
	Lembaga Tabung Angkatan Tentera	Rental of premises by BHIC Submarine Engineering Services Sdn Bhd	(129)

 # Director were appointed on 11 June 2020



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DIRECTORS' REPORT

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

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 16 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Loss net of tax	(116,636)	(14,184)

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

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

DIVIDENDS

No dividend has been paid or declared by the Company in the current financial year.

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

DIRECTORS

The names of the directors of the Company in office since the beginning of the financial year to the date of this report are:

Admiral Tan Sri Dato' Seri Ramlan Bin Mohamed Ali (Retired) (Appointed on 10 July 2019)*
Tan Sri Dato' Wira Aziah Binti Ali (Appointed on 10 July 2019)*
Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Bin Badaruddin (Retired) (Appointed on 1 May 2019)
Dato' Maznah Binti Abdul Jalil (Appointed on 10 July 2019)*
Vice Admiral Dato' Syed Zahiruddin Putra Bin Syed Osman (Retired) (Appointed on 21 August 2019)
(Dr.) Salihin Bin Abang (Appointed on 10 July 2019)*
Rozi Binti Baharudin*
Hajah Saadatul Nafisah Binti Bashir Ahmad (Appointed on 10 July 2019)*
Fahmy Bin Ismail (Appointed on 10 July 2019)*
Vice Admiral Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (Retired) (Resigned on 30 November 2019)#
Datuk Azzat Bin Kamaludin (Resigned on 10 July 2019)#
Dato' Ishak Bin Osman (Resigned on 10 July 2019)#
Abd Malik Bin A Rahman (Resigned on 1 May 2019)#

* These directors are also directors of the Company's subsidiaries
\# These directors were also directors of the Company's subsidiaries

DIRECTORS' REPORT

DIRECTORS (CONT'D.)

The names of the directors of the Company's subsidiaries in office since the beginning of the financial year to the date of this report (not including those directors listed above) are:

Vice Admiral Dato' Seri Panglima Mohammed Noordin Bin Ali (Retired)
Major General Dato' Che Yahaya Bin Idris (Retired)
Major General Dato' Ahmad Rodi Bin Zakaria (Retired)
Dato' Mohammad Bin Nik
Commander Dato' Abdul Rahman Bin Husain (Retired)
Zainal Abidin Bin Ahmad
Azhar Bin Abdullah
Arifin Bin Rahmat
Syahida Binti Abdul Kadir
Annuar Faisal Bin Yusuf
Mohd Fakhrul Arifin Bin Adinan
Ir. Mahamud Sayuti Bin Abd Halim (Appointed on 2 December 2019)
Puti Mazura Binti Mashudi (Appointed on 2 December 2019)
Rozman Bin Shariff (Appointed on 10 January 2020)
Amli Bin Saprin (Appointed on 13 January 2020)
Mohamad Bin Mustafa (Appointed on 31 January 2020)
Mohd Sidek Bin Zambri (Appointed on 31 January 2020)
Sarimah Binti Mat Isa (Appointed on 31 January 2020)
Ir. Hairutdin Bin Ayob (Appointed on 31 January 2020)
Dato' Tuan Mustapha Bin Hj Tuan Hussin (Appointed on 12 February 2020)
Lilyrohayu Binti Ab. Hamid @ Kassim (Appointed on 12 February 2020)
Jeffry Bin Faisal (Appointed on 14 February 2020)
Deva Dass A/L Baboo (Appointed on 28 February 2020)
A. Halim Bin Hairiji (Appointed on 23 March 2020)
Rear Admiral Dato' Musa Bin Omar (Retired) (Resigned on 14 March 2019)
Datuk Engku Zainal Abidin Bin Engku Ngah (Resigned on 28 June 2019)
Ahmad Nordin Bin Mohammad (Resigned on 31 October 2019)
Azlin Azura Binti Maarof (Resigned on 17 December 2019)
Siti Na'im Binti Jamaluddin (Resigned on 31 December 2019)
Commander Jal Shazidi Bin Bassari (Retired) (Resigned on 14 January 2020)
Ir. Ee Teck Chee (Resigned on 31 January 2020)
Major General Dato' Mohd Bin Sulong (Retired) (Resigned on 13 February 2020)
Ir. Azhar Bin Jumaat (Resigned on 28 February 2020)
Mohamed Bin Ithnin (Resigned on 28 February 2020)
Fakril Zamani Bin Mahmud (Resigned on 28 February 2020)
Ir. Sukhdev Singh A/L Khazan Singh (Resigned on 23 March 2020)
Ir. Azman Bin Ahmad (Resigned on 31 March 2020)

DIRECTORS' REPORT

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 9 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 37 to the financial statements.

The directors' benefits are as follow:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Executive directors' remuneration:				
Fee	**118**	246	**85**	165
Salary	**89**	247	**89**	247
Allowances	**8**	19	**6**	13
Bonus	**–**	79	**–**	79
Defined contribution plan	**5**	20	**5**	20
Benefit in kind	**–**	8	**–**	8
	220	619	**185**	532
Non-executive directors' remuneration:				
Fees	**677**	418	**575**	310
Allowances	**136**	55	**131**	46
	813	473	**706**	356
Total directors' remuneration	**1,033**	1,092	**891**	888

INDEMNITY AND INSURANCE FOR DIRECTORS AND OFFICERS

The Company maintains on a Group basis, a Directors' and Officers' Liability Insurance for any legal liability incurred by the directors and officers in the discharge of their duties while holding office for the Group and the Company. In respect of the above, the total amount of insurance premium paid for the financial year ended 31 December 2019 was RM55,000. The directors and officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

DIRECTORS' REPORT

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			
The Company	**At 1.1.2019**	**Bought**	**Sold**	**At 31.12.2019**
Direct interest:				
Admiral Tan Sri Dato' Seri Ramlan Bin Mohamed Ali (Retired)	2,000	–	–	2,000
Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Bin Badaruddin (Retired)	5,000	50,000	–	55,000
Rozi Binti Baharudin	–	5,000	–	5,000
Immediate holding company				
Boustead Holdings Berhad ("BHB")				
Direct interest:				
Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Bin Badaruddin (Retired)	15,000	–	–	15,000
Related corporations				
Boustead Langkawi Shipyard Sendirian Berhad				
Admiral Tan Sri Dato' Seri Ramlan Bin Mohamed Ali (Retired)	1	–	–	1
Pharmaniaga Berhad				
Direct interest:				
Fahmy Bin Ismail	100	–	–	100
Boustead Plantations Berhad				
Direct interest:				
Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Bin Badaruddin (Retired)	28,000	–	–	28,000
Fahmy Bin Ismail	1,000	–	–	1,000
Affin Bank Berhad				
Direct interest:				
Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Bin Badaruddin (Retired)	2,000	–	–	2,000

HOLDING COMPANIES

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.

DIRECTORS' REPORT

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 all known bad debts had been written off 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) the amount written off for 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.

(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 liabilities of the Group or of the Company which has arisen since the end of the financial year, other than as disclosed in Note 35 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 2019 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.

DIRECTORS' REPORT

SIGNIFICANT EVENT SUBSEQUENT TO YEAR END

Details of the significant event is disclosed in Note 36 to the financial statements.

AUDITORS

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

Auditors' remuneration is as below:

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Auditors' remuneration paid to Ernst & Young PLT				
– Statutory audit	**417**	414	**149**	147
– Others	**90**	16	**48**	16
	507	430	**197**	163
Auditor's remuneration paid to other firm				
– Others	**–**	40	**–**	–
	507	470	**197**	163

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young PLT, as part of the terms of its audit engagement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young PLT during or since the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 4 June 2020.

ADMIRAL TAN SRI DATO' SERI RAMLAN BIN MOHAMED ALI (RETIRED)

(DR.) SALIHIN BIN ABANG

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Admiral Tan Sri Dato' Seri Ramlan Bin Mohamed Ali (Retired) and (Dr.) Salihin Bin Abang, 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 110 to 212 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of their financial performance and cash flows of the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 4 June 2020.

ADMIRAL TAN SRI DATO' SERI RAMLAN BIN MOHAMED ALI (RETIRED)

(DR.) SALIHIN BIN ABANG

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT 2016

I, Mohd Fakhrul Arifin Bin Adinan, 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 110 to 212 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 Mohd Fakhrul Arifin Bin Adinan
at Kuala Lumpur in the Federal Territory on 4 June 2020

MOHD FAKHRUL ARIFIN BIN ADINAN
(MIA 31477)

Before me,

HAJJAH JAMILAH ISMAIL
(No W626)
1-7-2018 to 31-12-2020
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 2019 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 110 to 212.

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 2019, 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 2016 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 Code of Ethics for Professional Accountants (including International Independence Standards) ("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 for the current financial year. These matters were addressed in the context of our audit of the financial statements 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 Auditors' 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 of our audit opinion on the accompanying financial statements.

Impairment assessment of investment in subsidiaries, investment in an associate and amount due from an associate

(a) Impairment assessment of investment in subsidiaries and investment in an associate

MFRS 136: Impairment of Assets ("MFRS 136") requires an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

MFRS 136 defines recoverable amount as the higher of an asset's or a cash-generating unit's ("CGU") fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). VIU is the present value of future cash flows expected to be derived from an asset or a CGU. The discount factor to be applied to the future cash flows should reflect current market assessments of the time value of money and the risks specific to the asset.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D.)

Key audit matters (cont'd.)

Impairment assessment of investment in subsidiaries, investment in an associate and amount due from an associate (cont'd.)

(a) Impairment assessment of investment in subsidiaries and investment in an associate (cont'd.)

(i) Impairment assessment of investment in subsidiaries

As at 31 December 2019, the Company's carrying amount of the investment in subsidiaries is RM280 million as disclosed in Note 16 to the financial statements. The carrying amount of the investment in subsidiaries is higher than the share of net assets of the said subsidiaries and the continuing losses reported by the subsidiaries are indications that the investment in the subsidiary may be impaired.

(ii) Impairment assessment of investment in an associate

As at 31 December 2019, the Group's carrying amount of the investment in an associate was RM Nil after recognising an impairment loss of RM32.8 million in the current year, as disclosed in Note 17 to the financial statements.

The associate has reported losses and depleting shareholders' funds indicating that the investment in an associate may be impaired.

Accordingly, the Company and Group have performed impairment assessment by comparing the respective carrying amount of the investments to their recoverable amounts.

There is no further impairment loss for investment in subsidiaries of the Company from the aforementioned impairment assessment. The Group recognise an impairment loss of RM32.8 million arising from the aforementioned impairment assessment on the investment in an associate.

Given the significant judgement and estimates involved in the assessment of the VIU, we have identified the above impairment assessment as important to our audit.

Our procedures in reviewing management's impairment assessment based on value in use are, inter alia, the following:

- We have assessed the key assumptions on which the cash flow projections are based, amongst others and where relevant, by comparing them against historical trends, existing contracts, order book, useful lives of the assets and contract sum value. We also evaluated the probability of securing significant future contracts by making enquiries with the project teams and reviewing project proposals to obtain an understanding of the status of negotiations and the likelihood of securing the contracts;
- We also assessed the discount rate used to determine the present value of the cash flows and whether the rate used reflects the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset; and
- We evaluated the adequacy of the disclosures on the impairment of investment in subsidiaries and impairment of investment in an associate as disclosed in Notes 3(v), 16 and 17 to the financial statements.

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D.)

Key audit matters (cont'd.)

Impairment assessment of investment in subsidiaries, investment in an associate and amount due from an associate (cont'd.)

(b) Measurement of Expected Credit Loss ("ECL") for amount due from an associate

As at 31 December 2019, the amount due from an associate of the Group amounted to RM224.9 million, representing 48% of total assets.

MFRS 9: Financial Instruments ("MFRS 9") requires entity to measure the ECL for amount due from an associate to assess at the end of each reporting period, which allows for the recognition of loss allowance equal to the lifetime expected credit losses. The Group has performed ECL assessment by assessing the loss given default and the probability of default assigned to the associate.

The aforementioned ECL review gave rise to an expected credit loss on the amount due from an associate of RM11.4 million for the Group as disclosed in Notes 20 to the financial statements.

Given the significance of the amount due from the associate to the Group, the significant judgement and estimates involved in the assessment of the expected credit loss, we have identified the above ECL assessment as important to our audit.

Our procedures in reviewing the expected credit loss are, inter alia, the following:

- We have assessed the key assumptions on which the cash flow projections of the associate are based on, amongst others and where relevant, by comparing them against historical trends, existing contracts, order book, useful lives of the assets and contract sum value. We also evaluated the probability of the associate of securing significant future contracts by making enquiries with the project teams and reviewing project proposals to obtain an understanding of the status of negotiations and the likelihood of securing contracts;
- We also assessed the timing of the repayment made by the associate by comparing the timing of the repayment to the cash flows availability of the associate; and
- We evaluated the adequacy of the disclosures on the expected credit losses on amount due from an associate as disclosed in Notes 3(iv) and 20 to the financial statements.

Revenue recognition from contract with customers

The Group is involved in a number of significant long term contracts which span across multiple accounting periods as disclosed in Note 21 to the financial statements.

We have focused on this area due to the materiality to the overall results of the Group and also due to the nature of long term contracts with customers entered into by the Group which involves significant management judgement and estimation uncertainty.

The Group determines that its performance obligations are satisfied over time and thus recognises revenue from long term contracts with customers over time. The Group applies the input method by reference to the proportion of costs incurred for work performed to date to the estimated total costs to measure progress towards the satisfaction of performance obligation.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D.)

Key audit matters (cont'd.)

Revenue recognition from contract with customers (cont'd.)

In relation to the budgeted revenue, we have, amongst others and where applicable, agreed this to the signed contracts, letter of awards, and approved variation orders. In relation to variation orders, which the customer has approved a change in the scope of work in the contract, but have yet to determine the change in contract price, we have evaluated the change in transaction price arising from the modification by reviewing supporting evidence included but not limited to correspondence with customers. We also had discussions with the Group's customer to corroborate management's estimated variation order. We assessed the estimated deduction on the budgeted revenue due to delays in delivery or other contractual penalties, by reviewing the contractual delivery dates and other terms of the respective contracts against management's estimated delivery dates, progress reports, interviews with the project team and correspondences with customers.

In assessing management's assumptions in estimating the budgeted costs, we evaluated the budgeted costs to corresponding supporting evidence including but not limited to suppliers' and subcontractors' contracts as well as budgeted direct labour costs. We have assessed the actual costs incurred by examining evidences such as subcontractors' claims and suppliers' invoices. We recomputed progress towards the satisfaction of performance obligation using the input method by comparing actual costs incurred against total budgeted cost. We also recomputed the revenue recognised for the year.

Recognition of deferred tax assets

As at 31 December 2019, the carrying amount of deferred tax assets of the Group is RM15.4 million, while the unrecognised deferred tax assets of the Group is RM157.4 million as disclosed in Note 27 to the financial statements.

The recognition of deferred tax assets relies on the application of significant judgement and estimates by the management in assessing the likely timing and the level of future taxable profits, together with future tax planning strategies. Due to the significant judgement and estimates involved in determining the amount of deferred tax assets that can be recognised, this is considered a key audit matter.

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

We evaluated the disclosures on the recognition of the deferred tax assets as disclosed in Note 3(iii) to the financial statements.

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 the information included in the annual report 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.

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D.)

Information other than the financial statements and auditors' report thereon (cont'd.)

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 statement

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 2016 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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.

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.

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D.)

Auditors' 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 (cont'd.):

(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.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

ERNST & YOUNG PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

AHMAD ZAHIRUDIN BIN ABDUL RAHIM
No. 02607/12/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
4 June 2020

STATEMENTS OF PROFIT OR LOSS

for the year ended 31 December 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue	4	**168,920**	169,113	**2,455**	775
Operating costs	5	**(159,286)**	(164,668)	**(3,195)**	(3,098)
Impairment	6	**(32,828)**	–	**–**	(500)
Allowance for expected credit losses	7	**(25,116)**	(34,652)	**(6)**	(228)
Results from operations		**(48,310)**	(30,207)	**(746)**	(3,051)
Interest income		**263**	164	**–**	–
Finance costs	10	**(16,947)**	(14,039)	**(13,438)**	(11,002)
Share of results of associates	17	**(57,697)**	(53,079)	**–**	–
Share of results of joint ventures	18	**9,177**	(7,454)	**–**	–
Loss before tax		**(113,514)**	(104,615)	**(14,184)**	(14,053)
Income tax expense	11	**(3,122)**	(3,711)	**–**	–
Loss net of tax		**(116,636)**	(108,326)	**(14,184)**	(14,053)
Basic/diluted loss per share attributable to shareholders for the Company (sen)	12	**(46.94)**	(43.60)		

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

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Loss for the year, representing total comprehensive loss for the year, net of tax	**(116,636)**	(108,326)	**(14,184)**	(14,053)

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

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Assets					
Non-current assets					
Property, plant and equipment	13	**16,246**	50,326	**293**	7,936
Investment property	14	**12,355**	12,853	**–**	–
Intangible asset	15	**–**	–	**–**	–
Right-of-use assets	29	**36,207**	–	**7,315**	–
Investments in subsidiaries	16	**–**	–	**280,000**	280,000
Investments in associates	17	**–**	90,525	**–**	–
Investments in joint ventures	18	**99,931**	93,380	**–**	–
Deferred tax assets	27	**15,388**	21,285	**–**	–
		180,127	268,369	**287,608**	287,936
Current assets					
Inventories	19	**6,209**	4,035	**–**	–
Trade and other receivables	20	**249,661**	278,031	**97,801**	75,146
Contract assets	21	**1,725**	2,341	**–**	–
Tax recoverable		**2,941**	10,588	**–**	–
Cash and bank balances	22	**28,307**	17,890	**1,003**	390
		288,843	312,885	**98,804**	75,536
Total assets		**468,970**	581,254	**386,412**	363,472

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

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Equity and liabilities					
Equity attributable to shareholders of the Company					
Share capital	23	**248,458**	248,458	**248,458**	248,458
Accumulated losses		**(132,479)**	(15,843)	**(116,934)**	(102,750)
Total shareholders' funds		**115,979**	232,615	**131,524**	145,708
Non-controlling interests		**–**	–	**–**	–
Total equity		**115,979**	232,615	**131,524**	145,708
Non-current liabilities					
Loans and borrowings	25	**71,566**	5,137	**68,000**	–
Deferred tax liabilities	27	**140**	324	**–**	–
Lease liabilities	29	**7,783**	–	**–**	–
		79,489	5,461	**68,000**	–
Current liabilities					
Contract liabilities	21	**1,514**	22,572	**–**	–
Provisions	24	**843**	712	**660**	475
Loans and borrowings	25	**229,620**	268,454	**177,000**	213,500
Trade and other payables	28	**40,503**	51,331	**9,228**	3,789
Tax payable		**213**	109	**–**	–
Lease liabilities	29	**809**	–	**–**	–
		273,502	343,178	**186,888**	217,764
Total liabilities		**352,991**	348,639	**254,888**	217,764
Total equity and liabilities		**468,970**	581,254	**386,412**	363,472

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 2019

	Attributable to shareholders of the Company		
Group	**Share capital RM'000**	**Distributable retained earnings/ (accumulated losses) RM'000**	**Total equity RM'000**
At 1 January 2018	248,458	96,210	344,668
Total comprehensive loss for the year	–	(108,326)	(108,326)
Transactions with owners			
Dividend (Note 30)	–	(3,727)	(3,727)
At 31 December 2018	248,458	(15,843)	232,615
At 1 January 2019	**248,458**	**(15,843)**	**232,615**
Total comprehensive loss for the year	**–**	**(116,636)**	**(116,636)**
At 31 December 2019	**248,458**	**(132,479)**	**115,979**

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 2019

	Attributable to shareholders of the Company		
Company	**Share capital RM'000**	**Accumulated losses RM'000**	**Total equity RM'000**
At 1 January 2018	248,458	(84,970)	163,488
Total comprehensive loss for the year	–	(14,053)	(14,053)
Transactions with owners			
Dividend (Note 30)	–	(3,727)	(3,727)
At 31 December 2018	**248,458**	**(102,750)**	**145,708**
At 1 January 2019	**248,458**	**(102,750)**	**145,708**
Total comprehensive loss for the year	**–**	**(14,184)**	**(14,184)**
At 31 December 2019	**248,458**	**(116,934)**	**131,524**

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 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from operating activities					
Cash receipts from customers		**148,686**	131,740	**–**	–
Cash paid to suppliers and employees		**(163,273)**	(166,723)	**450**	(3,162)
Receipts/(payments) with related companies		**650**	(1,065)	**(18,547)**	(25,972)
Net cash used in operations		**(13,937)**	(36,048)	**(18,097)**	(29,134)
Interest paid		**(16,133)**	(13,858)	**(12,810)**	(10,520)
Net income taxes refunds/(paid)		**10,342**	(2,771)	**–**	–
Net cash used in operating activities		**(19,728)**	(52,677)	**(30,907)**	(39,654)
Cash flows from investing activities					
Interest received		**213**	164	**31**	11
Proceeds from disposal of property, plant and equipment		**111**	10	**–**	–
Purchase of property, plant and equipment	(a)	**(345)**	(516)	**(11)**	(36)
Investment in a joint venture company		**–**	(11,116)	**–**	–
Dividend received from joint ventures	18	**2,626**	1,620	**–**	–
Net cash generated from/(used in) investing activities		**2,605**	(9,838)	**20**	(25)
Cash flows from financing activities					
Dividends paid		**–**	(8,696)	**–**	(8,696)
Lease payment		**(791)**	–	**–**	–
Repayment of borrowings		**(3,120)**	(1,444)	**–**	–
Proceeds from drawdown of revolving credits		**31,500**	47,000	**31,500**	43,500
Net cash generated from financing activities		**27,589**	36,860	**31,500**	34,804

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 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Net increase/(decrease) in cash and cash equivalents		**10,466**	(25,655)	**613**	(4,875)
Effect of foreign exchange rate changes		**(49)**	(2,375)	**–**	–
Cash and cash equivalents at beginning of year		**17,890**	45,920	**390**	5,265
Cash and cash equivalents at end of year		**28,307**	17,890	**1,003**	390
Cash and cash equivalents at end of year comprise:					
Deposits with licensed banks	22	**12,932**	1,500	**834**	–
Cash and bank balances	22	**15,375**	16,390	**169**	390
Total cash and bank balance		**28,307**	17,890	**1,003**	390

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

		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash	(a)	**345**	516	**11**	36
Hire purchases		**–**	218	**–**	–
Total additions	13	**345**	734	**11**	36

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 16.

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 2016 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 2019, the Group and the Company adopted the following new and amended MFRSs and Interpretation mandatory for annual financial periods beginning on or after 1 January 2019.

- Amendments to MFRS 3 (Business Combinations) (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 9 (Financial Instruments) (Prepayment Features with Negative Compensation)
- Amendments to MFRS 11 (Joint Arrangements) (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- MFRS 16 (Leases)
- Amendments to MFRS 112 (Income Taxes) (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 119 (Employee Benefits) (Plan Amendment, Curtailment or Settlement)
- Amendments to MFRS 123 (Borrowing Costs) (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 128 (Investments in Associates and Joint Ventures) (Long-term interests in Associates and Joint Ventures)
- IC Interpretation 23 (Uncertainty over Income Tax Treatments)

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, except the following changes:

MFRS 16: Leases

MFRS 16 supersedes MFRS 117: Leases, IC Interpretation 4: Determining whether an Arrangement contains a Lease, IC Interpretation 115: Operating Leases-Incentives and IC Interpretation 127: Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 did not have an impact for leases where the Group is the lessor.

The Group and the Company adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of the initial application. Accordingly, comparatives are not restated.

NOTES TO THE FINANCIAL STATEMENTS

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

2.2 Changes in accounting policies (cont'd.)

MFRS 16: Leases (cont'd.)

The effect of adopting MFRS 16 to the statements of financial position of the Group and of the Company as at 1 January 2019 are as follows:

Group

Statement of financial position – 1 January 2019

		Impact of change in accounting policies		
	Note	As previously reported RM'000	MFRS 16 adjustments RM'000	After adjustments RM'000
Non-current assets				
Property, plant and equipment	(a)	50,326	(29,347)	20,979
Right-of-use assets	(a),(b)	–	37,541	37,541
Non-current liabilities				
Loans and borrowings	(a)	(5,137)	451	(4,686)
Lease liabilities	(a),(b)	–	(8,542)	(8,542)
Current liabilities				
Loans and borrowings	(a)	(268,454)	334	(268,120)
Trade and other payables	(b)	(51,331)	329	(51,002)
Lease liabilities	(a),(b)	–	(766)	(766)

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

2.2 Changes in accounting policies (cont'd.)

MFRS 16: Leases (cont'd.)

Company

Statement of financial position – 1 January 2019

	Note	Impact of change in accounting policies		
		As previously reported RM'000	MFRS 16 adjustments RM'000	After adjustments RM'000
Non-current assets				
Property, plant and equipment	(a)	7,936	(7,393)	543
Right-of-use assets	(a)	–	7,393	7,393

Upon adoption of MFRS 16, the Group and the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Please refer to Note 2.23 for the accounting policy on leases beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group and the Company.

(a) Leases previously accounted for as finance leases

The Group and the Company did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use ("ROU") assets and lease liabilities equal the lease assets and liabilities recognised under MFRS 117) and these finance leases which were previously presented as part of property, plant and equipment are now presented within ROU assets. Accordingly, the finance lease liabilities have also been reclassified to lease liabilities. The requirements of MFRS 16 were applied to these leases from 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

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

2.2 Changes in accounting policies (cont'd.)

MFRS 16: Leases (cont'd.)

(b) Leases previously accounted for as operating leases

The Group and the Company recognised ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application and the Group and the Company have opted for the ROU assets to be carried at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments. Subsequently accrued operating lease liabilities have also been reclassified to lease liabilities.

The Group and the Company applied the following practical expedients permitted under the initial application of MFRS 16:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics (i.e. leases with a similar remaining lease term for a similar class of underlying assets);
- relied on its assessment of whether leases are onerous before the date of initial application as an alternative to performing an impairment review;
- excluded the initial direct costs from the measurement of the ROU assets at the date of initial application; and
- used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right-of-use assets of RM37,541,000 and RM7,393,000 for the Group and the Company respectively were recognised and presented separately in the statements of financial position. These include the leased assets recognised previously under finance leases of RM29,347,000 and RM7,393,000 for the Group and for the Company which were reclassified from Property, plant and equipment.
- These also include the leased assets recognised previously under operating leases of RM8,194,000 for the Group and the related accruals of RM329,000.
- Lease liabilities of RM9,308,000 were recognised as disclosed below.

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

2.2 Changes in accounting policies (cont'd.)

MFRS 16: Leases (cont'd.)

Based on the above, as at 1 January 2019: (cont'd.)

– The operating lease commitments as at 31 December 2018 is reconciled to arrive at the lease liabilities as at 1 January 2019 as follows:

	Group RM'000
Operating lease commitments disclosed as at 31 December 2018	15,500
(Less): short-term leases and low-value leases recognised on a straight-line basis as expense	(2,873)
	12,627
Weighted average incremental borrowing rate as at 1 January 2019	5.75%
Discounted using the lessee's incremental borrowing rate at the date of initial application	8,471
Add: lease payment relating to renewal periods not included in operating lease commitment as at 31 December 2018	52
Add: finance lease liabilities previously recognised under MFRS 117 as at 31 December 2018	785
Lease liabilities recognised as at 1 January 2019	9,308

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 2020

– Amendments to MFRS 3 (Business Combinations): Definition of a Business

– Amendments to MFRS 101 (Presentation of Financial Statements) and MFRS 108 (Accounting Policies, Changes in Accounting Estimates and Errors): (Definition of Material)

– Amendments to MFRS 9 (Financial Instruments), MFRS 139 (Financial Instruments: Recognition and Measurement) and MFRS 7 (Financial Instruments: Disclosures) (Interest Rate Benchmark Reform)

– Conceptual Framework: Amendments to References to the Conceptual Framework in MFRS Standards

Effective for annual period beginning on or after 1 January 2021

– MFRS 17 (Insurance Contracts)

Deferred

– Amendments to MFRS 10 (Consolidated Financial Statements) and MFRS 128 (Investments in Associates and Joint Ventures) (Sales or Contribution of Asset between Investor and its Associates or Joint Venture)

The directors expect that the adoption of the above standards and interpretation will not have a material impact on the financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

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

2.4 Basis of consolidation

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

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.

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.

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

2.4 Basis of consolidation (cont'd.)

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.

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 profit or loss in accordance with MFRS 9. 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 9, it is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

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.

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

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.

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 determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss in the statement of 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.

NOTES TO THE FINANCIAL STATEMENTS

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

2.8 Fair value measurement

The fair value disclosures for financial instruments at amortised cost and non-financial assets are disclosed in Note 14 and Note 31.

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.

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

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 at the following annual rates:

Buildings, jetties, slipways and roads	3% – 10%
Yard development	3% – 20%
Plant and machinery	5% – 20%
Equipment, fittings, renovation, motor vehicles and others	3% – 50%

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.

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

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

2.11 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 investment property 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.

NOTES TO THE FINANCIAL STATEMENTS

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

2.12 Intangible assets (cont'd.)

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 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.

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

2.14 Financial assets

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient, the Group and the Company initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place ("regular way trades") are recognised on the trade date, i.e., the date that the Group and the Company commit to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost ("debt instruments");
- Financial assets at fair value through OCI with recycling of cumulative gains and losses ("debt instruments");
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition ("equity instruments"); or
- Financial assets at fair value through profit or loss.

The Group and the Company do not have any financial assets carried at fair value through OCI or profit or loss, for both debt and equity instruments.

NOTES TO THE FINANCIAL STATEMENTS

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

2.14 Financial assets (cont'd.)

Subsequent measurement (cont'd.)

Financial assets at amortised cost ("debt instruments")

The Group and the Company measure financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the Effective Interest Rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's and the Company's financial assets at amortised cost includes trade receivables and other receivables included under other non-current financial assets.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; and
- The Group and the Company have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group and the Company have transferred substantially all the risks and rewards of the asset, or (b) the Group and the Company have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group and the Company have transferred its rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Company continue to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group and the Company also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Company have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

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

2.15 Impairment of financial assets

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost.

The Group and the Company measure loss allowances on debt securities at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, other debt securities for which credit risk has not increased significantly since initial recognition, which are measured as 12 month expected credit loss.

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group and the Company's historical experience and informed credit assessment and including forward-looking information.

The Group and the Company assume that the credit risk on a financial asset has increased significantly if it is past due.

The Group and the Company consider a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, while 12 month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

2.16 Contract balances

Contract assets

Contract asset is the right to consideration for goods or services transferred to the customers. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Where revenue is recognised over time, contract asset is the excess of cumulative revenue earned over the billings to date.

When there is objective evidence of impairment, the amount of impairment losses is determined by comparing the contract asset's carrying amount and the present value of estimated future cash flows to be generated by the contract asset.

NOTES TO THE FINANCIAL STATEMENTS

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

2.16 Contract balances (cont'd.)

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

Contract liability is the obligation to transfer goods or services to customer for which the consideration has been received or has been billed to the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Where revenue is recognised over time, contract liability is the excess of the billings to date over the cumulative revenue earned. Contract liabilities include the downpayments received from customers and other deferred income where the entity has billed or has collected the payment before the goods are delivered or services are provided to the customers.

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.

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

2.20 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's and the Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, if any.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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

Current financial year

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

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

2.23 Leases (cont'd.)

(a) Right-of-use assets ("ROU assets")

The Group recognises ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The Group elected to apply the practical expedient not to separate out non-lease components from lease components and instead account for the lease and non-lease component as a single component.

ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets at the following annual rates:

Land and buildings	1% – 5%
Plant and machinery	5%
Motor vehicles	20%

The ROU assets are also subject to impairment. Refer to Note 2.13 for accounting policy on impairment of non-financial assets.

(b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate and are dependent on a future activity are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification or a change in the lease term.

NOTES TO THE FINANCIAL STATEMENTS

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

2.23 Leases (cont'd.)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of premises, machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Previous financial year

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

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 period in which they are incurred. All other leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases.

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

Operating lease payments, net of any incentives received from the lessor, are recognised as an expense in profit and loss on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

2.24 Revenue

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects that consideration to which the Group and the Company expect to be entitled in exchange for those goods or services. The Group and the Company have generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, non-cash consideration and consideration payable to the customer, if any). Depending on the terms of the contract, revenue is recognised when the performance obligation is satisfied, which may be at the point in time or over time.

If the consideration in a contract includes a variable amount, the Group and the Company estimate the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Generally, the Group and the Company receive short-term advances from its customers. Using the practical expedient in MFRS 15, the Group and the Company do not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group also provides warranties for defects that existed at the time of sale. Provisions related to these assurance-type warranties are recognised when the product is sold or the service is provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

NOTES TO THE FINANCIAL STATEMENTS

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

2.24 Revenue (cont'd.)

The Group's revenue from contracts with customers are further described below:

(a) Heavy engineering

Heavy engineering construction contracts comprise multiple deliverables that include a significant integration service or is a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. It is therefore recognised as a single performance obligation.

The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, as such, the Group recognises revenue over time using an input method, which is based on cost incurred to-date relative to the total expected cost to the satisfaction of that performance obligation.

(b) Repair and maintenance and rendering of services

Revenue from repair and maintenance and rendering of services comprise multiple deliverables which represent a combined output for which the customer has contracted for or is a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer and are therefore recognised as a single performance obligation.

The Group recognises revenue from repair and maintenance and the rendering of services over time, using an input method, which is based on cost incurred to-date relative to the total expected cost to the satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. For certain arrangements, revenue is recognised at a point in time when the customer obtains control of the asset or services.

(c) Sale of goods

Revenue from sale of goods and services is recognised at a point in time when control of the assets is transferred to the customer, generally on the delivery of the goods. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated such as warranties. In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

(d) Management fees

Management fee is recognised over time when the services are rendered.

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

2.24 Revenue (cont'd.)

Revenue from other sources

Specific revenue recognition criteria for other revenue and income earned by the Group are as follows:

(a) Dividend income – recognised when the right to receive payment is established.

(b) Rental income – recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

Interest income

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

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.

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 Chief Executive Officer ("CEO") 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 33.

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 cost of an equity transaction are accounted for as a deduction from equity, net of tax.

2.28 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

Where the performance obligations are satisfied over time, the Group recognises contract revenue and costs in the income statement by using the input method by reference to the proportion of cost incurred for work performed to date to the estimated total costs to measure progress towards the satisfaction of performance obligation.

Significant judgement is required in determining the extent of the contract costs incurred, the estimated total contract revenue and costs, the recoverability of the contract costs as well as assessing potential deductions to revenue due to delays in delivery or other contractual penalties. Further, significant judgement is also required in determining contract modification with approved change in the scope of work, but with contract price that has yet to be fixed. In making these judgements, the Group evaluates by relying on past experience, correspondence with customer and the work of internal specialists. Information on the Group's long term and construction contracts assets and liabilities is presented in Note 21.

(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.

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

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

Assumptions about generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future revenue generated from contract with customer, operating costs, capital expenditure and dividends. 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 other temporary differences.

The total carrying value of the Group's recognised tax losses, capital allowances and tax credits and unused tax losses, as disclosed in Note 27.

(iv) Provision for expected credit losses of trade receivables, other receivables and contract assets

The Group assesses the credit risk at each reporting date, whether there have been significant increases in credit risk since initial recognition on an individual basis. To determine whether there is a significant increase in credit risks, the Group considers factors such as the individual historical credit loss experience with forward-looking information. If forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Where there is a significant increase in credit risk, the Group determines the lifetime expected credit losses ("ECL") by considering the loss given default and the probability of default assigned to each counterparty customer. The financial assets are written off either partially or in full when there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount subject to the write-offs.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. In assessing the ECLs of the receivables, especially on the amount due from associates (trade), the Group also considers the ECLs arising from timing of payments from expected future cash flows as a credit loss arises even if the Group expects to be paid in full but later than when contractually due.

In the current financial year, the Group and the Company has recognised ECL of RM25,116,000 and RM6,000 (2018: RM34,652,000 and RM228,000 respectively) respectively. The carrying amounts of the receivables and contract assets is disclosed in Note 20 and Note 21 respectively.

NOTES TO THE FINANCIAL STATEMENTS

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

(v) Impairment of non-financial assets

The Group and the Company review the carrying amounts of the above non-financial assets at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, the Group and the Company shall estimate the recoverable amount of the cash generating unit ("CGU") or groups of CGU. The recoverable amount is measured at the higher of fair value less costs of disposal (FVLCD) or value in use ("VIU").

Investment in subsidiaries and investment in an associate

The carrying amount of the Company's investments in subsidiaries and the Group's investment in an associate as at 31 December 2019 is RM280,000,000 and RM Nil respectively (2018: RM280,000,000 and RM90,525,000).

For investment in an associate, the recoverable amount is measured at VIU which is higher than its FVLCD. Whereas, for investment in subsidiaries, it will not be possible to measure FVLCD because there is no basis for making a reliable estimate of the price at which an asset can be sold in an orderly transaction between market participants under current market conditions at the measurement date. Hence, the Company use the subsidiaries' VIU as its recoverable amount.

Determining the VIU of CGU or groups of CGU require the estimation of future cash flows expected to be derived from continuing use of the assets and from the ultimate disposal of such assets. In estimating the VIU, the estimated future cash flows 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. The future cash flows do not include restructuring activities that the Group or Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested.

Significant increases/(decreases) in discount rate in isolation would result in a significantly lower/(higher) VIU.

In the current financial year, the Group and the Company has recognised impairment losses of RM32,828,000 and RM Nil (2018: RM Nil and RM500,000) on investments in an associate and investment in subsidiaries respectively.

Other non-financial assets

Where assessment of the recoverable amount of CGU or groups of CGU is determined on the basis of FVLCD, the Group and the Company had amongst others, based the FVLCD on valuations by independent professional valuers which were derived from comparisons with recent transactions involving other similar assets and where applicable, the age, size and title tenure. There is no impairment required base on the FVLCD.

The estimation of the recoverable amounts involves significant judgement and estimations. While the Group and the Company believe that the assumptions are appropriate and reasonable, changes in the assumptions stated above may materially affect the assessment of recoverable amounts.

The accumulated impairment losses for property, plant and equipment, investment in subsidiaries, investment in an associate and right-of-use assets are disclosed in Notes 13, 16, 17 and 29 respectively.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Repair and maintenance	**50,869**	45,125	**–**	–
Rendering of services	**113,939**	119,487	**–**	–
Heavy engineering	**–**	468	**–**	–
Sale of goods	**231**	355	**–**	–
Management fee	**534**	331	**–**	–
Rental income	**3,347**	3,347	**–**	–
Interest income	**–**	–	**2,455**	775
	168,920	169,113	**2,455**	775

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Group 2019				
Segments Types of goods or service	**Commercial RM'000**	**Defence and Security RM'000**	**Energy RM'000**	**Others RM'000**	**Total RM'000**
Repair and maintenance	**650**	**50,219**	**–**	**–**	**50,869**
Rendering of services	**–**	**113,939**	**–**	**–**	**113,939**
Sales of goods	**231**	**–**	**–**	**–**	**231**
Management fees	**–**	**–**	**–**	**534**	**534**
Rental income	**–**	**3,347**	**–**	**–**	**3,347**
Total revenue from contracts with customers	**881**	**167,505**	**–**	**534**	**168,920**
Timing of revenue recognition					
Goods transferred at a point in time	**231**	**99,689**	**–**	**534**	**100,454**
Services transferred over time	**650**	**67,816**	**–**	**–**	**68,466**
Total revenue from contracts with customers	**881**	**167,505**	**–**	**534**	**168,920**

NOTES TO THE FINANCIAL STATEMENTS

4. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D.)

Set out below is the disaggregation of the Group's revenue from contracts with customers (cont'd.):

	Group				
	2018				
Segments **Types of goods or service**	**Commercial** **RM'000**	**Defence and Security** **RM'000**	**Energy** **RM'000**	**Others** **RM'000**	**Total** **RM'000**
Repair and maintenance	1,009	44,116	–	–	45,125
Rendering of services	–	119,487	–	–	119,487
Heavy engineering	–	–	468	–	468
Sales of goods	355	–	–	–	355
Management fees	–	–	–	331	331
Rental income	–	3,347	–	–	3,347
Total revenue from contracts with customers	1,364	166,950	468	331	169,113
Timing of revenue recognition					
Goods transferred at a point in time	355	103,079	–	331	103,765
Services transferred over time	1,009	63,871	468	–	65,348
Total revenue from contracts with customers	1,364	166,950	468	331	169,113

4. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D.)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information (Note 33):

	2019				
	Commercial RM'000	Defence and Security RM'000	Energy RM'000	Others RM'000	Total RM'000
Revenue					
External customer	**881**	**167,505**	**–**	**534**	**168,920**
Inter-segment	**18**	**1,129**	**–**	**5,542**	**6,689**
	899	**168,634**	**–**	**6,076**	**175,609**
Inter-segment adjustments and eliminations	**(18)**	**(1,129)**	**–**	**(5,542)**	**(6,689)**
Total revenue from contracts with customers	**881**	**167,505**	**–**	**534**	**168,920**

	2018				
	Commercial RM'000	Defence and Security RM'000	Energy RM'000	Others RM'000	Total RM'000
Revenue					
External customer	1,364	166,950	468	331	169,113
Inter-segment	–	1,092	–	3,127	4,219
	1,364	168,042	468	3,458	173,332
Inter-segment adjustments and eliminations	–	(1,092)	–	(3,127)	(4,219)
Total revenue from contracts with customers	1,364	166,950	468	331	169,113

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING COSTS

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Raw materials and consumables	**17,035**	28,814	**–**	–
Shipbuilding and shiprepair contract cost	**39,192**	20,101	**–**	–
Employee benefits expense (Note 8)	**87,923**	88,876	**1,010**	833
Non-executive directors' remuneration (Note 9)	**813**	473	**706**	356
Depreciation of property, plant and equipment (Note 13)	**4,961**	5,897	**261**	482
Depreciation of investment property (Note 14)	**498**	509	**–**	–
Depreciation of right-of-use assets (Note 29)	**1,409**	–	**78**	–
Property, plant and equipment written off	**17**	–	**–**	–
Gain on disposal of property, plant and equipment	**(41)**	–	**–**	–
Other operating costs	**7,479**	19,998	**1,140**	1,427
	159,286	164,668	**3,195**	3,098
Other operating costs include:				
Auditors' remuneration:				
– Statutory audit				
– Current year audit fee	**417**	395	**149**	142
– Under provision of prior year audit fee	**19**	–	**5**	–
– Others	**90**	16	**48**	8
Inventories (written back)/written down	**(2,167)**	8,381	**–**	–
Net loss/(gain) on foreign exchange:				
– realised	**405**	(2,553)	**–**	–
– unrealised	**(387)**	2,352	**–**	–
Operating leases:				
– minimum lease payments for land and buildings	**–**	2,949	**–**	–
– minimum lease payments for plant and equipment	**–**	205	**–**	–
Rental for office building on short term lease	**2,018**	–	**–**	–
Rental for low value plant and equipment	**236**	–	**–**	–

6. IMPAIRMENT

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Impairment loss on invesment in subsidiaries (Note 16 (a))	**–**	–	**–**	500
Impairment loss on invesment in associate (Note 17)	**32,828**	–	**–**	–
	32,828	–	**–**	500

7. ALLOWANCE FOR EXPECTED CREDIT LOSSES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Allowance for expected credit losses of:				
– trade receivables (Note 20 (a))	**11,350**	21,097	**–**	–
– other receivables (Note 20 (e))	**15,589**	1,249	**6**	228
– contract assets (Note 21 (a))	**–**	12,311	**–**	–
Reversal for impairment of:				
– trade receivables (Note 20 (a))	**(390)**	(5)	**–**	–
– other receivables (Note 20 (e))	**(208)**	–	**–**	–
– contract assets (Note 21 (a))	**(1,225)**	–	**–**	–
	25,116	34,652	**6**	228

NOTES TO THE FINANCIAL STATEMENTS

8. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Wages and salaries	**75,591**	77,796	**201**	406
Social security contribution	**988**	1,019	**–**	–
Defined contribution plan	**9,930**	10,224	**–**	–
Termination benefit	**253**	–	**–**	–
Others	**12,286**	12,339	**809**	427
	99,048	101,378	**1,010**	833
Less: Employee benefit expense capitalised in long term and construction contract costs	**(11,125)**	(12,502)	**–**	–
	87,923	88,876	**1,010**	833

Included in employee benefits expense of the Group and of the Company is executive directors' remuneration amounting to RM220,000 (2018: RM611,000) and RM185,000 (2018: RM524,000), respectively as further disclosed in Note 9, excluding benefit in kind.

9. DIRECTORS' REMUNERATION

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

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Executive directors' remuneration:				
Fees	**118**	246	**85**	165
Salary	**89**	247	**89**	247
Allowances	**8**	19	**6**	13
Bonus	**–**	79	**–**	79
Defined contribution plan	**5**	20	**5**	20
Benefit in kind	**–**	8	**–**	8
Total executive directors' remuneration (Note 37 (b))	**220**	619	**185**	532
Non-executive directors' remuneration:				
Fees	**677**	418	**575**	310
Allowances	**136**	55	**131**	46
Total non-executive directors' remuneration (Note 5)	**813**	473	**706**	356
Total directors' remuneration	**1,033**	1,092	**891**	888

The current year directors' remuneration is inclusive of RM843,000 and RM660,000 (2018: RM712,000 and RM475,000) for the Group and for the Company respectively as disclosed in Note 24.

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

	2019	**2018**
Executive directors:		
RM100,001 – RM150,000	**–**	1
RM200,001 – RM250,000	**1**	–
RM450,001 – RM500,000	**–**	1
Non-executive directors:		
RM10,001 – RM50,000	**1**	–
RM50,001 – RM100,000	**11**	–
RM100,001 – RM150,000	**–**	1
RM150,001 – RM200,000	**–**	2

Included in the above directors' remuneration bands are directors who had resigned during year.

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCE COSTS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Interest expense on:				
Term loans	**1,059**	355	**765**	–
Hire purchase and finance lease liabilities	**–**	52	**–**	–
Revolving credits	**15,325**	13,624	**12,462**	10,743
Lease liability	**516**	–	**–**	–
Others	**47**	8	**211**	259
Finance costs recognised in profit or loss	**16,947**	14,039	**13,438**	11,002

11. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Statement of comprehensive income:				
Malaysian income tax:				
Current income tax	**1,030**	6,018	**–**	–
Overprovision in prior years	**(3,621)**	(464)	**–**	–
Total income tax	**(2,591)**	5,554	**–**	–
Deferred tax (Note 27):				
Relating to origination and reversal of temporary differences	**2,270**	(2,412)		–
Underprovision in prior years	**3,443**	569	**–**	–
Total deferred tax	**5,713**	(1,843)	**–**	–
Income tax recognised in profit or loss	**3,122**	3,711	**–**	–

11. INCOME TAX EXPENSE (CONT'D.)

Reconciliation between tax expense and accounting loss

The reconciliation between tax expense and the product of accounting loss multiplied by the applicable corporate tax rate for the years ended 31 December 2019 and 2018 are as follows:

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Loss before taxation	**(113,514)**	(104,615)	**(14,184)**	(14,053)
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	**(27,243)**	(25,108)	**(3,404)**	(3,373)
Expenses not deductible for tax purposes	**8,225**	9,954	**3,404**	3,373
Utilisation of previously unrecognised tax losses and capital allowances	**(400)**	(220)	**–**	–
Impairment loss on associates	**7,879**	–	**–**	–
Share of results of associates	**13,847**	12,739	**–**	–
Share of results of joint ventures	**(2,202)**	1,789	**–**	–
Deferred tax assets not recognised in respect of tax losses, unabsorbed capital allowances and others	**3,194**	4,452	**–**	–
Overprovision of income tax expense in prior years	**(3,621)**	(464)	**–**	–
Underprovision of deferred tax expense in prior years	**3,443**	569	**–**	–
Income tax expense recognised in profit or loss	**3,122**	3,711	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

12. LOSS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing 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.

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

	Group	
	2019 RM'000	**2018 RM'000**
Loss for the year attributable to shareholders of the Company	**(116,636)**	(108,326)
	'000	**'000**
Weighted average number of ordinary shares in issue	**248,458**	248,458
	sen	**sen**
Basic and diluted loss per share for:		
Loss for the year attributable to shareholders of the Company	**(46.94)**	(43.60)

13. PROPERTY, PLANT AND EQUIPMENT

Group	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
Cost					
1 January 2018	93,254	20,928	34,844	280	149,306
Additions	63	97	555	19	734
Written off	–	–	(53)	–	(53)
Disposals	–	–	(10)	–	(10)
At 31 December 2018/ 1 January 2019	93,317	21,025	35,336	299	149,977
Adjustments upon adoption of MFRS 16 (Note 2.2)	(34,257)	(1,085)	(868)	–	(36,210)
At 1 January 2019 (restated)	**59,060**	**19,940**	**34,468**	**299**	**113,767**
Additions	**–**	**68**	**277**	**–**	**345**
Written off	**(11)**	**(157)**	**(1,474)**	**–**	**(1,642)**
Disposals	**(260)**	**(649)**	**(471)**	**–**	**(1,380)**
Reclassification	**–**	**–**	**299**	**(299)**	**–**
At 31 December 2019	**58,789**	**19,202**	**33,099**	**–**	**111,090**

NOTES TO THE FINANCIAL STATEMENTS

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

Group (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
Accumulated depreciation and impairment					
1 January 2018	51,262	13,603	28,913	–	93,778
Depreciation charge for the year:	2,060	1,333	2,533	–	5,926
– Recognised in profit or loss (Note 5)	2,060	1,333	2,504	–	5,897
– Capitalised in long term and construction contract costs	–	–	29	–	29
Written off	–	–	(53)	–	(53)
At 31 December 2018/ 1 January 2019	**53,322**	**14,936**	**31,393**	**–**	**99,651**
Adjustments upon adoption of MFRS 16 (Note 2.2)	**(6,268)**	**(163)**	**(432)**	**–**	**(6,863)**
At 1 January 2019 (restated)	**47,054**	**14,773**	**30,961**	**–**	**92,788**
Depreciation charge for the year:	**2,290**	**1,182**	**1,519**	**–**	**4,991**
– Recognised in profit or loss (Note 5)	**2,290**	**1,182**	**1,489**	**–**	**4,961**
– Capitalised in long term and construction contract costs	**–**	**–**	**30**	**–**	**30**
Written off	**(4)**	**(152)**	**(1,469)**	**–**	**(1,625)**
Disposals	**(260)**	**(649)**	**(401)**	**–**	**(1,310)**
At 31 December 2019	**49,080**	**15,154**	**30,610**	**–**	**94,844**

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

Group (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
Representing:					
Accumulated depreciation	**34,532**	**15,154**	**30,610**	**–**	**80,296**
Accumulated impairment	**14,548**	**–**	**–**	**–**	**14,548**
At 31 December 2019	**49,080**	**15,154**	**30,610**	**–**	**94,844**
Net carrying amount					
At 31 December 2019	**9,709**	**4,048**	**2,489**	**–**	**16,246**
At 31 December 2018	39,995	6,089	3,943	299	50,326

*Land and buildings of the Group comprise:

Group	Long term leasehold and reclaimed lands RM'000	Yard development RM'000	Buildings, jetties, slipways and roads RM'000	Total RM'000
Cost				
At 1 January 2018	34,257	22,966	36,031	93,254
Additions	–	–	63	63
At 31 December 2018/1 January 2019	34,257	22,966	36,094	93,317
Adjustments upon adoption of MFRS 16 (Note 2.2)	(34,257)	–	–	(34,257)
At 1 January 2019 (restated)	**–**	**22,966**	**36,094**	**59,060**
Written off	**–**	**(11)**	**–**	**(11)**
Disposals	**–**	**–**	**(260)**	**(260)**
At 31 December 2019	**–**	**22,955**	**35,834**	**58,789**

NOTES TO THE FINANCIAL STATEMENTS

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

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

Group (cont'd.)	Long term leasehold and reclaimed lands RM'000	Yard development RM'000	Buildings, jetties, slipways and roads RM'000	Total RM'000
Accumulated depreciation and impairment				
At 1 January 2018	5,877	15,283	30,102	51,262
Depreciation charge for the year	391	634	1,035	2,060
At 31 December 2018/ 1 January 2019	6,268	15,917	31,137	53,322
Adjustments upon adoption of MFRS 16 (Note 2.2)	(6,268)	–	–	(6,268)
At 1 January 2019 (restated)	**–**	**15,917**	**31,137**	**47,054**
Depreciation charge for the year	**–**	**634**	**1,656**	**2,290**
Written off	**–**	**(4)**	**–**	**(4)**
Disposals	**–**	**–**	**(260)**	**(260)**
At 31 December 2019	**–**	**16,547**	**32,533**	**49,080**
Representing:				
Accumulated depreciation	**–**	**9,597**	**24,935**	**34,532**
Accumulated impairment	**–**	**6,950**	**7,598**	**14,548**
At 31 December 2019	**–**	**16,547**	**32,533**	**49,080**
Net carrying amount				
At 31 December 2019	**–**	**6,408**	**3,301**	**9,709**
At 31 December 2018	27,989	7,049	4,957	39,995

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

Company	Long term leasehold land RM'000	Equipment RM'000	Total RM'000
Cost			
1 January 2018	7,786	2,220	10,006
Additions	–	36	36
At 31 December 2018/1 January 2019	7,786	2,256	10,042
Adjustments upon adoption of MFRS 16 (Note 2.2)	(7,786)	–	(7,786)
At 1 January 2019 (restated)	**–**	**2,256**	**2,256**
Additions	**–**	**11**	**11**
At 31 December 2019	**–**	**2,267**	**2,267**
Accumulated depreciation			
1 January 2018	315	1,309	1,624
Depreciation charge for the year (Note 5)	78	404	482
At 31 December 2018/1 January 2019	**393**	**1,713**	**2,106**
Adjustments upon adoption of MFRS 16 (Note 2.2)	**(393)**	**–**	**(393)**
At 1 January 2019 (restated)	**–**	**1,713**	**1,713**
Depreciation charge for the year (Note 5)	**–**	**261**	**261**
At 31 December 2019	**–**	**1,974**	**1,974**
Net carrying amount			
At 31 December 2019	**–**	**293**	**293**
At 31 December 2018	7,393	543	7,936

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENT PROPERTY

Group	Hangar RM'000
Cost	
At 1 January 2018/31 December 2018/ at 31 December 2019	**14,898**
Accumulated depreciation	
At 1 January 2018	1,536
Depreciation charge for the year (Note 5)	509
At 31 December 2018/1 January 2019	**2,045**
Depreciation charge for the year (Note 5)	**498**
At 31 December 2019	**2,543**
Net carrying amount	
At 31 December 2019	**12,355**
At 31 December 2018	12,853

14. INVESTMENT PROPERTY (CONT'D.)

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 2019			
Hangar	Comparison method	31 December 2019	**14,700,000**
As at 31 December 2018			
Hangar	Comparison method	31 December 2018	14,700,000

The fair value of the investment property was based on independent valuation using the open market value approach. Valuation is performed by accredited independent valuer with recent experience in the location and category of properties being valued.

The property is valued by reference to recent transactions of similar properties in the surrounding area as a measurement tool. Necessary adjustments were made to arrive at the appropriate value of the property.

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

The Group's investment property is secured against the term loan as disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSET

	Group RM'000
Ship design right, at cost	
At 1 January 2018, 31 December 2018/1 January 2019 and 31 December 2019	**2,631**
Accumulated impairment	
At 1 January 2018, 31 December 2018/1 January 2019 and 31 December 2019	(2,631)
Net carrying amount	
At 31 December 2018 and 31 December 2019	–

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 years.

16. INVESTMENT IN SUBSIDIARIES

	Company	
	2019 RM'000	2018 RM'000
Unquoted shares, at cost	**701,801**	701,801
Less: Accumulated impairment loss	**(421,801)**	(421,801)
	280,000	280,000

The shares in a subsidiary with a carrying value of RM2,636,000 (2018: RM2,636,000) is pledged to financial institutions for banking facilities granted to a former corporate shareholder.

16. 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 2019 %	2018 %
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**	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

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Name of subsidiaries	Principal activities	Paid-up capital	Percentage of ownership interest held by the group 2019 %	2018 %
Held by BP Shipyard: (cont'd.)				
Perstim Industries Sdn. Bhd.	Investment holding	RM51,155,724	**100**	100
BHIC Defence Technologies Sdn. Bhd. ("BHIC Defence")	Investment holding	RM36,579,282	**100**	100
Malaysian Heavy Industry Group Sdn. Bhd.	Dormant	RM25,000	**60**	60
BHIC Navaltech Sdn. Bhd.	In-service support for the maintenance, services and supply of spare parts for vessels	RM1,000,000	**100**	100
BHIC Marine & Shipping Sdn. Bhd ("BHIC Shipping") (In Member's Voluntary Liquidation)	Dormant	RM3,000,003	**100**	100
BHIC Shipbuilding & Engineering Sdn. Bhd.	Ship repair, shipbuilding and fabrication of steel structures	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

16. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Name of subsidiaries	Principal activities	Paid-up capital	Percentage of ownership interest held by the group 2019 %	2018 %
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. (In Member's Voluntary Liquidation)	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) Impairment loss on investment in subsidiaries

Investment in subsidiaries with carrying amounts higher than its share of net assets and the loss reported by the subsidiaries indicates that the carrying amount of the investment in the subsidiary may be impaired.

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. The value in use derived is based on the cash flow projections reflecting management expectation of revenue growth, operating cost, margins, future contracts based on their recent experience and order book, discounted using a pre-tax discount rate of 12%. As a result, an impairment loss of RM Nil (2018: RM500,000) was recognised in the current financial year.

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Unquoted shares, at cost	**54,840**	54,840	**1,250**	1,250
Cumulative share of post acquisition profits	**35,685**	88,764	**–**	–
Share of current's year post acquisition loss	**(57,697)**	(53,079)	**–**	–
	(22,012)	35,685	**–**	–
Less: Accumulated impairment losses	**(32,828)**	–	**(1,250)**	(1,250)
	–	90,525	**–**	–

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

			Percentage of ownership interest held by the group	
Name of associates	**Principal activities**	**Paid-up capital**	**2019 %**	**2018 %**
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. ("BNS")	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

17. 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 (cont'd.):

Name of associates	Principal activities	Paid-up capital	Percentage of ownership interest held by the group 2019 %	2018 %
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 BNS:				
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.

The summarised financial information of the associate, Boustead Naval Shipyard Sdn. Bhd. are as follows:

	2019 RM'000	2018 RM'000
Assets and liabilities		
Current assets	**1,131,544**	1,239,938
Non-current assets	**359,408**	371,392
Total assets	**1,490,952**	1,611,330
Current liabilities	**1,684,739**	1,267,041
Non-current liabilities	**431,617**	691,899
Total liabilities	**2,116,356**	1,958,940

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN ASSOCIATES (CONT'D.)

The summarised financial information of the associate, Boustead Naval Shipyard Sdn. Bhd. are as follows: (cont'd.)

	2019 RM'000	2018 RM'000
Net liabilities	**(625,404)**	(347,610)
Results		
Revenue	**998,423**	1,073,175
Loss for the year	**(277,794)**	(255,555)

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

	Note	2019 RM'000	2018 RM'000
Net liabilities at 1 January		**(347,610)**	(92,055)
Loss for the year		**(277,794)**	(255,555)
Net liabilities at 31 December		**(625,404)**	(347,610)
Interest in associate		**20.77%**	20.77%
Group's share of net liabilities	(i)	**(129,896)**	(72,199)
Goodwill		**162,724**	162,724
		32,828	90,525
Impairment of goodwill	(ii)	**(32,828)**	–
Carrying value of Group's investment in associates	(i)	**–**	90,525

(i) The Group has recognised its shares of losses of interest in BNS when applying the equity method up to its interest in the associates.

(ii) Impairment loss recognised in profit and loss for the year of RM32.8 million relates to investment in BNS. An impairment review of the carrying amount of the investment in associate at the reporting date was undertaken based on value in use after taking into consideration that the associate has reported losses and depleting shareholders' funds indicating that the carrying amount of investment in associate may be impaired. The value in use derived is based on the cash flow projections reflecting management expectation of revenue growth, operating cost, margins, future contracts based on their recent experience and order book, discounted using a pre-tax discount rate of 12%. As a result, an impairment loss of RM32.8 million is recognised during the year.

18. INVESTMENTS IN JOINT VENTURES

	Group	
	2019 RM'000	**2018 RM'000**
Unquoted shares, at cost	**45,591**	45,591
Cumulative share of post acquisition profits	**47,789**	56,863
Share of current year's post acquisition loss	**9,177**	(7,454)
Less: Dividend paid (Note 37 (a))	**(2,626)**	(1,620)
	54,340	47,789
	99,931	93,380

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 certain 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:

			Percentage of ownership interest held by the group	
Name of joint ventures	**Principal activities**	**Paid-up capital**	**2019 %**	**2018 %**
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

NOTES TO THE FINANCIAL STATEMENTS

18. 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 2019 %	2018 %
Held by BHIC Defence (cont'd):				
Contraves Advanced Devices Sdn. Bhd. ("CAD")*	Manufacturing of electronic products	RM5,000,000	**51**	51
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	RM50,002	**49**	49
BHIC Systems Integration Sdn. Bhd.	To set-up, establish and run the activities relating to business of project management, contract administration, and related services for defence industry in Malaysia, especially but not limited to the Littoral Combat Ship ("LCS") for the Royal Malaysian Navy, Combat System Equipment and Combat Management System Procurement, Combat System Engineering and Combat System Integration activities	RM1,000,000	**51**	51

18. 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 2019 %	2018 %
Held by BHIC Defence (cont'd):				
Airbus Helicopters Simulation Center Sdn. Bhd.*	Providing, organising, conducting, operating, maintaining, establishing, promoting a flight training centre with simulator and conducting classes, seminars, demonstrations and training programmes in the field of aviation training.	RM37,525,000	**30**	30
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

NOTES TO THE FINANCIAL STATEMENTS

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

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

(a) Acquisition of Airbus Helicopters Simulation Centre Sdn. Bhd. ("AHSC")

On 18 March 2015, the Group's wholly owned subsidiary, BHIC Defence signed a Share Purchase Agreement ("SPA") and Joint Venture Agreement ("JVA") with Airbus Helicopters Malaysia Sdn. Bhd. ("AHM") for the purpose of providing Full Flight Simulator training services to pilots of H225/H225M helicopters in Malaysia.

The conditions precedent as set out in the SPA and JVA, including the transfer of 11,257,500 units of ordinary shares in AHM, which is equivalent to 30% of the share capital of AHM to BHIC Defence at a total consideration of EUR2,300,000 (equivalent to RM11,115,900) has been fulfilled and completed on 30 March 2018.

(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

	2019			2018		
	BDNC RM'000	**CAD RM'000**	**BHICAS RM'000**	**BDNC RM'000**	**CAD RM'000**	**BHICAS RM'000**
Group						
Non-current assets	**4,398**	**104,156**	**17,438**	8,345	168,947	4,745
Cash and cash equivalent	**239,322**	**107,877**	**18,530**	308,176	142,268	12,376
Other current assets	**272,532**	**436,642**	**25,630**	206,170	340,698	21,211
Total current assets	**511,854**	**544,519**	**44,160**	514,346	482,966	33,587
Total assets	**516,252**	**648,675**	**61,598**	522,691	651,913	38,332
Current financial liabilities (excluding trade and other payables and provisions)	**–**	**–**	**2,041**	2	110	42
Trade and other payables and provisions	**632,297**	**517,774**	**17,164**	670,278	529,615	16,569
Total current liabilities	**632,297**	**517,774**	**19,205**	670,280	529,725	16,611
Non-current liabilities	**–**	**9,303**	**12,222**	–	6,365	404
Total liabilities	**632,297**	**527,077**	**31,427**	670,280	536,090	17,015
Net (liabilities)/assets	**(116,045)**	**121,598**	**30,171**	(147,589)	115,823	21,317

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

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

(ii) Summarised statements of comprehensive income

	2019			2018		
	BDNC RM'000	**CAD RM'000**	**BHICAS RM'000**	**BDNC RM'000**	**CAD RM'000**	**BHICAS RM'000**
Group						
Revenue	**318,203**	**182,531**	**86,460**	363,382	326,854	82,965
Depreciation	**(641)**	**(73,106)**	**(4,059)**	(514)	(74,605)	(1,335)
Interest income	**4,781**	**4,069**	**52**	2,483	5,382	14
Finance costs	**(19)**	**(260)**	**(981)**	(1)	(354)	(242)
Profit/(Loss) before tax from continuing operations	**56,407**	**8,924**	**7,663**	(159,175)	11,070	12,617
Income tax (expense)/benefit	**(24,862)**	**(3,149)**	**5,741**	(14,878)	(3,394)	(3,178)
Profit/(Loss) for the year representing total comprehensive income/(loss) for the year, net of tax	**31,545**	**5,775**	**13,404**	(174,053)	7,676	9,439
Dividend received from joint ventures during the year	**–**	**–**	**2,321**	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

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

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

		2019			2018		
	Note	BDNC RM'000	CAD RM'000	BHICAS RM'000	BDNC RM'000	CAD RM'000	BHICAS RM'000
Group							
Net (liabilities)/assets at 1 January		**(147,590)**	**115,823**	**21,317**	26,463	108,147	11,878
Profit/(Loss) for the year		**31,545**	**5,775**	**13,404**	(174,053)	7,676	9,439
Dividend		**–**	**–**	**(4,550)**	–	–	–
Net (liabilities)/assets at 31 December		**(116,045)**	**121,598**	**30,171**	(147,590)	115,823	21,317
Interest in joint ventures (%)		**60**	**51**	**51**	60	51	51
Goodwill		**–**	**3,849**	**–**	–	3,849	–
Carrying value of Group's interest in joint ventures	(i)	**–**	**65,864**	**15,387**	–	62,919	10,872

(i) The Group has recognised its shares of losses of interest in BDNC when applying the equity method up to its interest in the joint venture.

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

	Group	
	2019 RM'000	2018 RM'000
The Group's share of profit before tax	**541**	553
The Group's share of profit after tax, representing total comprehensive income	**409**	382
Carrying value of Group's interest in joint ventures	**18,680**	19,589

19. INVENTORIES

	Group	
	2019 RM'000	2018 RM'000
Consumables		
At cost	**3,239**	3,475
At net realisable value	**2,970**	560
	6,209	4,035

Inventories carried at net realisable value are included as part of raw material and consumables expensed during the financial year, as disclosed in Note 5 to the financial statement.

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade receivables				
Third parties	**22,602**	22,646	**–**	–
Due from related parties:			**–**	
– Associates	**221,944**	160,299	**–**	–
– Joint ventures	**21,602**	55,810	**–**	–
	266,148	238,755	**–**	–
Unbilled receivables due from:				
– Third parties	**302**	–	**–**	–
– Associates	**965**	32,022	**–**	–
Less: Allowance for expected credit losses:				
– Third parties	**(3,288)**	(3,340)	**–**	–
– Associates	**(11,350)**	(754)	**–**	–
– Joint ventures	**(20,322)**	(20,322)	**–**	–
Trade receivables, net	**232,455**	246,361	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

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

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Other receivables				
Due from related parties:				
– Subsidiaries	**–**	–	**52,277**	29,616
– Joint ventures	**29,217**	28,860	**–**	2
– Associates	**2,039**	1,870	**256**	256
– Related companies	**47**	51	**–**	–
Dividend receivable	**–**	–	**45,500**	45,500
	31,303	30,781	**98,033**	75,374
Deposits	**938**	979	**–**	–
Prepayments	**303**	170	**–**	–
Sundry receivables	**5,189**	6,829	**2**	–
Advances to suppliers	**8,300**	18,236	**–**	–
	46,033	56,995	**98,035**	75,374
Less: Allowance for expected credit losses:				
– Subsidiaries	**–**	–	**(234)**	(228)
– Joint ventures	**(27,346)**	(11,804)	**–**	–
– Associates	**(28)**	(28)	**–**	–
– Sundry receivables	**(385)**	(338)	**–**	–
– Advance to supplier	**(1,068)**	(13,155)	**–**	–
	(28,827)	(25,325)	**(234)**	(228)
Other receivables, net	**17,206**	31,670	**97,801**	75,146
Total trade and other receivables	**249,661**	278,031	**97,801**	75,146
Total trade and other receivables	**249,661**	278,031	**97,801**	75,146
Add: Cash and bank balances (Note 22)	**28,307**	17,890	**1,003**	390
Less: Prepayments	**(303)**	(170)	**–**	–
Less: Advances to suppliers	**(7,232)**	(5,081)	**–**	–
Less: GST recoverable	**(3,389)**	(1,340)	**–**	–
Total debt instruments at amortised cost	**267,044**	289,330	**98,804**	75,536

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

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

	Group	
	2019 RM'000	**2018 RM'000**
Neither past due nor impaired	**54,797**	1,674
1 to 30 days past due not impaired	**864**	2,190
31 to 60 days past due not impaired	**8,233**	67,418
61 to 90 days past due not impaired	**8,166**	18,114
91 to 120 days past due not impaired	**25,331**	9,188
More than 121 days past due not impaired	**133,797**	115,755
	176,391	212,665
Impaired	**34,960**	24,416
	266,148	238,755

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 RM176,391,000 (2018: RM212,665,000) 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, RM1,280,000 (2018: RM35,483,000) is due from a joint venture and RM156,926,000 (2018: RM158,071,000) is due from an associate which the Group expects to recover in full.

Allowance for expected credit losses

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	
	2019 RM'000	**2018 RM'000**
Trade receivables-nominal value	**246,521**	24,416
Less: Allowance for expected credit losses	**(34,960)**	(24,416)
	211,561	–

NOTES TO THE FINANCIAL STATEMENTS

20. 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	
	2019 RM'000	**2018 RM'000**
At 1 January	**24,416**	3,384
Charge for the year (Note 7)	**11,350**	21,097
Reversal of impairment loss (Note 7)	**(390)**	(5)
Written off	**(416)**	(60)
At 31 December	**34,960**	24,416

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that 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 (2018: 30 days), extending up to 90 days (2018: 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. The details are disclosed in Note 31.

(c) Trade receivables

Trade receivables due from Government of Malaysia and related entities amounted to RM242,479,000 (2018: RM181,502,000) at the reporting date.

Trade receivables are non-interest bearing.

(d) Amounts due from related parties

All receivables from related parties are unsecured, repayable upon demand, settled in cash and non-interest bearing except for an amount due from a related party which bear weighted average effective interest at rate of 5.77% (2018: 5.73%) per annum.

20. 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	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Other receivables – nominal value	**28,827**	39,004	**234**	228
Less: Allowance for expected credit losses	**(28,827)**	(25,325)	**(234)**	(228)
	–	13,679	**–**	–

Movement in allowance account:

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
At 1 January	**25,325**	24,076	**228**	–
Charge for the year (Note 7)	**15,589**	1,249	**6**	228
Reversal of impairment loss (Note 7)	**(208)**	–	**–**	–
Written off	**(11,879)**	–	**–**	–
At 31 December	**28,827**	25,325	**234**	228

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

21. CONTRACT BALANCES

(a) Contract assets/(liabilities)

	Group	
	2019 RM'000	2018 RM'000
Current assets		
Contract assets	**1,725**	2,341
Current liabilities		
Contract liabilities	**(1,514)**	(22,572)

During the previous financial year, provision for expected credit losses of RM12,311,000 is recognised against the contract assets.

Information on trade receivables balances from contracts with customers is disclosed in Note 20.

Set out below is the amount of revenue recognised from:

	Group	
	2019 RM'000	2018 RM'000
Amounts included in contract liabilities at the beginning of the year	**19,557**	18,582
Performance obligations satisfied in previous years	**1,225**	7,263
	20,782	25,845

As at 31 December 2019, the transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) of RM32,773,000 (2018: RM74,667,000) relates to the contracts with customers for repair and maintenance and rendering of services.

Set out below is the movement in the allowance for expected credit losses of contract assets:

	Group	
	2019 RM'000	2018 RM'000
At 1 January	**12,311**	–
Provision for expected credit losses (Note 7)	**–**	12,311
Reversal of expected credit losses (Note 7)	**(1,225)**	–
At 31 December	**11,086**	12,311

22. CASH AND BANK BALANCES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deposits with licensed banks	**12,932**	1,500	**834**	–
Cash on hand and at banks	**15,375**	16,390	**169**	390
Total cash and bank balances	**28,307**	17,890	**1,003**	390

The maturity periods of the Group's and the Company's deposits with licensed banks as at the reporting date ranged between 1 day to 60 days (2018: 1 day to 33 days).

The amount of deposits placed with the financial institutions which are Government-related entities amount to RM28,151,000 (2018: RM17,858,000).

Other information on financial risks of cash and bank balances are disclosed in Note 31.

23. SHARE CAPITAL

	Group and Company			
	Number of shares		Amount	
	2019 '000	2018 '000	2019 RM'000	2018 RM'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 declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets. The ordinary shares issued rank pari passu in all respects with the existing shares of the Company.

24. PROVISIONS

	Group RM'000	Company RM'000
Directors' fee		
At 1 January 2018	728	488
Arising during the year	712	475
Utilised during the year	(728)	(488)
At 31 December 2018/1 January 2019	**712**	**475**
Arising during the year	**843**	**660**
Utilised during the year	**(712)**	**(475)**
At 31 December 2019	**843**	**660**

NOTES TO THE FINANCIAL STATEMENTS

25. LOANS AND BORROWINGS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Short term borrowings				
Secured:				
Hire purchase and finance lease liabilities (Note 26)	**–**	334	**–**	–
Term loan	**1,120**	1,120	**–**	–
	1,120	1,454	**–**	–
Unsecured:				
Term loan	**17,000**	–	**17,000**	–
Revolving credits	**211,500**	267,000	**160,000**	213,500
	228,500	267,000	**177,000**	213,500
Total short term borrowings:				
Term loan	**18,120**	1,120	**17,000**	–
Hire purchase and finance lease liabilities (Note 26)	**–**	334	**–**	–
Revolving credits	**211,500**	267,000	**160,000**	213,500
	229,620	268,454	**177,000**	213,500
Long term borrowings				
Secured:				
Hire purchase and finance lease liabilities (Note 26)	**–**	451	**–**	–
Term loan	**3,566**	4,686	**–**	–
	3,566	5,137	**–**	–
Unsecured:				
Term loan	**68,000**	–	**68,000**	–

25. LOANS AND BORROWINGS (CONT'D.)

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Total long term borrowings:				
Term loans	**71,566**	4,686	**68,000**	–
Hire purchase and finance lease liabilities (Note 26)	**–**	451	**–**	–
	71,566	5,137	**68,000**	–
Total borrowings:				
Term loans	**89,686**	5,806	**85,000**	–
Hire purchase and finance lease liabilities (Note 26)	**–**	785	**–**	–
Revolving credits	**211,500**	267,000	**160,000**	213,500
	301,186	273,591	**245,000**	213,500

Reconciliation of liabilities arising from financing activities

Group	Term loan RM'000	Hire purchase and finance lease liabilities (Note 26) RM'000	Revolving credits RM'000	Lease liabilities (Note 29) RM'000	Total RM'000
At 1 January 2018	6,926	891	220,000	–	227,817
Addition/Drawdown	–	218	47,000	–	47,218
Repayment	(1,120)	(324)	–	–	(1,444)
At 31 December 2018/ 1 January 2019	5,806	785	267,000	–	273,591
Adjustments upon adoption of MFRS 16 (Note 2.2)	–	(785)	–	9,308	8,523
1 January 2019 (restated)	**5,806**	**–**	**267,000**	**9,308**	**282,114**
Drawdown	**–**	**–**	**31,500**	**–**	**31,500**
Addition	**–**	**–**	**–**	**75**	**75**
Repayment	**(1,120)**	**–**	**(2,000)**	**(791)**	**(3,911)**
Conversion (Note a)	**85,000**	**–**	**(85,000)**	**–**	**–**
At 31 December 2019	**89,686**	**–**	**211,500**	**8,592**	**309,778**

NOTES TO THE FINANCIAL STATEMENTS

25. LOANS AND BORROWINGS (CONT'D.)

Reconciliation of liabilities arising from financing activities (cont'd.)

Company	Term loan RM'000	Hire purchase and finance lease liabilities (Note 26) RM'000	Revolving credits RM'000	Lease liabilities (Note 29) RM'000	Total RM'000
At 1 January 2018	–	–	170,000	–	170,000
Addition/Drawdown	–	–	43,500	–	43,500
At 31 December 2018/ 1 January 2019	–	–	213,500	–	213,500
Addition/Drawdown	–	–	31,500	–	31,500
Conversion (Note a)	85,000	–	(85,000)	–	–
At 31 December 2019	**85,000**	**–**	**160,000**	**–**	**245,000**

(a) The Group had refinanced part of its revolving credits (RM85,000,000) as term loan, which is repayable within 3 years commencing from 14 November 2019. The facility will not increase the Group's gearing as it will be wholly utilised to refinance the existing borrowings.

The Group and the Company classifies interest paid as cash flows from operating activites.

The maturity profile of hire purchase and finance lease liabilities in the previous year is as disclosed in Note 26.

The secured term loan of the Group is secured against an investment property as disclosed in Note 14.

Other information on financial risks of loans and borrowings are disclosed in Note 31.

The outstanding amount of borrowings obtained from the financial institutions which are Government-related entities amounted to RM258,137,000 (2018: RM230,091,000).

26. HIRE PURCHASE AND FINANCE LEASE LIABILITIES

	Group	
	2019 RM'000	2018 RM'000
Future minimum lease payments:		
Not later than 1 year	–	370
Later than 1 year but not later than 2 years	–	316
Later than 2 years but not later than 5 years	–	143
Later than 5 years	–	16
	–	845
Less: Future finance charges	–	(60)
	–	785
Analysis of present value of finance lease liabilities:		
Not later than 1 year	–	334
Later than 1 year but not later than 2 years	–	300
Later than 2 years but not later than 5 years	–	135
Later than 5 years	–	16
	–	785
Amount due within 12 months (Note 25)	–	(334)
Amount due after 12 months (Note 25)	–	451

The hire purchase liabilities are secured by a charge over the leased assets (Note 29). In prior year, the average discount rate implicit in the leases is 5.61% per annum.

27. DEFERRED TAXATION

	Group	
	2019 RM'000	2018 RM'000
At 1 January	**(20,961)**	(19,118)
Recognised in profit or loss (Note 11)	**5,713**	(1,843)
At 31 December	**(15,248)**	(20,961)
Presented after appropriate offsetting as follows:		
Deferred tax assets	**(15,388)**	(21,285)
Deferred tax liabilities	**140**	324
	(15,248)	(20,961)

NOTES TO THE FINANCIAL STATEMENTS

27. DEFERRED TAXATION (CONT'D.)

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

	Lease liabilities RM'000	Unused tax losses and unabsorbed capital allowances RM'000	Others RM'000	Total RM'000
Deferred tax assets				
At 1 January 2018	–	(17,461)	(2,605)	(20,066)
Recognised in profit or loss	–	3,838	(5,141)	(1,303)
At 31 December 2018/1 January 2019	**–**	**(13,623)**	**(7,746)**	**(21,369)**
Recognised in profit or loss	**(1,839)**	**(1,363)**	**7,683**	**4,481**
At 31 December 2019	**(1,839)**	**(14,986)**	**(63)**	**(16,888)**

	Right-of-use asset RM'000	Property, plant and equipment RM'000	Others RM'000	Total RM'000
Deferred tax liabilities				
At 1 January 2018	–	788	160	948
Recognised in profit or loss	–	(380)	(160)	(540)
At 31 December 2018/1 January 2019	**–**	**408**	**–**	**408**
Recognised in profit or loss	**1,626**	**(394)**	**–**	**1,232**
At 31 December 2019	**1,626**	**14**	**–**	**1,640**

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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Temporary differences arising from:				
– unused tax losses	**(112,830)**	(97,435)	**(47)**	(47)
– unabsorbed capital allowances	**(44,024)**	(43,933)	**–**	–
– other	**(586)**	(4,432)	**(489)**	(489)
	(157,440)	(145,800)	**(536)**	(536)

The unused tax losses, unabsorbed capital allowances and other temporary differences 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.

28. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade payables				
Third parties	**19,646**	24,321	**–**	–
Due to related parties:				
– Associates	**242**	658	**–**	–
– Joint ventures	**1,924**	1,641	**–**	–
	21,812	26,620	**–**	–
Other payables				
Due to related parties:				
– Subsidiaries	**–**	–	**6,678**	2,018
– Holding company	**869**	218	**617**	107
– Joint ventures	**2,731**	2,902	**55**	–
– Associates	**5,200**	6,639	**151**	146
– Related companies	**954**	2,259	**–**	–
	9,754	12,018	**7,501**	2,271
Accruals	**3,808**	8,179	**1,723**	1,112
Sundry payables	**5,129**	4,514	**4**	406
	18,691	24,711	**9,228**	3,789
Total trade and other payables	**40,503**	51,331	**9,228**	3,789
Total trade and other payables	**40,503**	51,331	**9,228**	3,789
Add: Loans and borrowings (Note 25)	**301,186**	273,591	**245,000**	213,500
Add: Lease liabilities (Note 29)	**8,592**	–	–	–
Total financial liabilities carried at amortised costs	**350,281**	324,922	**254,228**	217,289

(a) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2018: 30 to 90 days).

(b) Non trade balances due to related parties.

All payables to related parties are unsecured, payable upon demand, settled in cash and non-interest bearing except for an amount due to a related party which bear weighted average interest at rate of 3.25% (2018: 3.20%) per annum.

Further details on related party transactions are disclosed in Note 37.

Other information on financial risks of trade and other payables are disclosed in Note 31.

NOTES TO THE FINANCIAL STATEMENTS

29. LEASES

(a) Right-of-use assets

The carrying amount of the right-of-use assets for the Group and for the Company are as follows:

Group as a lessee

	Land and Buildings RM'000	Plant and Machinery RM'000	Motor Vehicles RM'000	Total RM'000
Carrying amount				
At 1 January 2019	36,183	922	436	37,541
Additions	75	–	–	75
Depreciation expenses for the financial year (Note 5)	(1,181)	(54)	(174)	(1,409)
At 31 December 2019	35,077	868	262	36,207

Company as a lessee

	Land and Buildings RM'000	Plant and Machinery RM'000	Motor Vehicles RM'000	Total RM'000
Carrying amount				
At 1 January 2019	7,393	–	–	7,393
Depreciation expenses for the financial year (Note 5)	(78)	–	–	(78)
At 31 December 2019	7,315	–	–	7,315

The Group and the Company have lease contracts for various items of leasehold land, buildings and jetty used in their operations. Leases of land generally have lease terms between 20 to 99 years while buildings and jetty generally have lease terms between 2 and 5 years. The lease arrangements generally do not allow for subleasing of the leased asset, unless there is a contractual right for the Group and the Company to sublet the lease asset to another party.

Included in land are two pieces of land in Kota Kinabalu, Sabah and in Bentong, Pahang with carrying amounts of RM11.1 million and RM7.3 million (2018: RM11.2 million and RM7.4 million) respectively whose land titles are still in the process of being transferred to the Group.

The Group and the Company also have certain leases with lease terms of 12 months or less and leases that have been determined to be low value. The Group and the Company apply the 'short-term lease' and 'lease of low-value assets' recognition exemption for these leases.

29. LEASES (CONT'D.)

(b) Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the financial year:

	Note	2019 RM'000
As at 1 January		**9,308**
Additions		**75**
Accretion of interest	10	**516**
Payments		**(1,307)**
At 31 December		**8,592**
Analysed as:		
Current		**809**
Non-current		**7,783**
		8,592

Included in lease liabilities are leases previously classified as operations leases under MFRS 117 that are recognised on statement of financial position under MFRS 16 was effective on 1 January 2019.

The maturity analysis of lease liabilities are disclosed in Note 31.

The following are the amount recognised in profit or loss:

	2019 RM'000	2018 RM'000
Depreciation expense of right-of-use assets	**1,409**	–
Interest expense on lease liabilities	**516**	–
Expense relating to short-term leases	**2,018**	–
Expense relating to leases of low-value assets	**236**	–
Total amount recognised in profit or loss	**4,179**	–

The Group has total cash outflow for leases amouting to RM1,307,000. Futher details are disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS

29. LEASES (CONT'D.)

(c) Group as a 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.

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.

As such, future minimum rentals receivable under non-cancellable operating leases as at 31 December 2019 are as follows:

	2019 RM'000	2018 RM'000
Operating lease		
Within 1 year	**2,667**	2,667
Later than 1 year but not later than 5 years	**8,001**	8,001
Later than 5 years	**1,889**	4,556
	12,557	15,224

30. DIVIDEND

	Group and Company			
	2019 Sen	2018 Sen	2019 RM'000	2018 RM'000
Recognised in the financial year:				
Dividends on ordinary shares:				
– First single tier interim dividend	–	1.5	–	3,727

	Sen	2019 RM'000	2018 RM'000
Paid:			
Dividends on ordinary shares:			
– Second single tier interim dividend for 2017	2.0	–	4,969
– First single tier interim dividend for 2018	1.5	–	3,727
		–	8,696

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

31. 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 CEO 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 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

31. 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:

Group	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
At 31 December 2019							
Fixed rate							
Deposits with licensed banks	22	2.97%	12,932	–	–	–	12,932
Floating rate							
Term loans	25	6.70%	(18,120)	(35,120)	(36,446)	–	(89,686)
Revolving credits	25	5.61%	(211,500)	–	–	–	(211,500)
Lease liabilities	29	5.75%	(809)	(971)	(1,316)	(5,496)	(8,592)
At 31 December 2018							
Fixed rate							
Hire purchase and finance lease liabilities	26	5.61%	(334)	(300)	(135)	(16)	(785)
Deposits with licensed banks	22	3.15%	1,500	–	–	–	1,500
Floating rate							
Term loan	25	5.75%	(1,120)	(1,120)	(3,360)	(206)	(5,806)
Revolving credits	25	5.78%	(267,000)	–	–	–	(267,000)

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

(a) Interest rate risk (cont'd.)

Company	Note	WAEIR %	Within 1 Year RM'000	1 – 2 Years RM'000	2 – 5 Years RM'000	Total RM'000
At 31 December 2019						
Fixed rate						
Deposits with licensed banks	22	**2.98%**	**834**	**–**	**–**	**834**
Floating rate						
Term loan	25	6.75%	(17,000)	(34,000)	(34,000)	(85,000)
Revolving credits	25	5.65%	(160,000)	–	–	(160,000)
At 31 December 2018						
Floating rate						
Revolving credits	25	5.84%	(213,500)	–	–	(213,500)

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 loss net of tax would have been RM1,177,000 (2018: RM1,037,000) and RM931,000 (2018: RM811,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

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

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

Analysis of financial instruments by remaining contractual maturities

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

	2019			
	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 (Note 28)	**40,503**	**–**	**–**	**40,503**
Loans and borrowings	**236,733**	**79,561**	**–**	**316,294**
Lease liabilities	**1,281**	**4,192**	**6,798**	**12,271**
Total undiscounted financial liabilities	**278,517**	**83,753**	**6,798**	**369,068**
Company				
Financial liabilities				
Trade and other payables (Note 28)	**9,228**	**–**	**–**	**9,228**
Loans and borrowings	**183,526**	**75,515**	**–**	**259,041**
Total undiscounted financial liabilities	**192,754**	**75,515**	**–**	**268,269**

	2018			
	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 (Note 28)	51,331	–	–	51,331
Loans and borrowings	269,671	5,917	289	275,877
Total undiscounted financial liabilities	321,002	5,917	289	327,208
Company				
Financial liabilities				
Trade and other payables (Note 28)	3,789	–	–	3,789
Loans and borrowings	214,420	–	–	214,420
Total undiscounted financial liabilities	218,209	–	–	218,209

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

(c) Credit risk

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. The Group's and the Company's exposures to credit risk arise principally from its deposits with licensed banks and other financial institutions, receivables from customers and amounts due from related parties. Credit risks are controlled by individual subsidiaries in line with the Group policies and guidelines.

Deposits with licensed banks and other financial institutions

Deposits with licensed banks and other financial institutions are places with or entered into with reputable financial institutions with high credit ratings and no history of default.

Amounts due from related parties

The Company provides advances to its related parties. The Company monitors the results of the related parties regularly. As at the end of the reporting period, the maximum exposure to credit risk arising from the related parties is represented by their carrying amounts in the statements of financial position.

Receivables

The Group minimises credit risk by ensuring that all potential third party counterparties are subject to credit assessment and approval prior to any transaction being concluded. Existing third party counterparties are also subject to regular reviews, including re-appraisal. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information.

Depending on the types of transactions and counterparty creditworthiness, the Group further mitigates and limits risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit or bank guarantees.

Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions.

NOTES TO THE FINANCIAL STATEMENTS

31. 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			
	2019		2018	
	RM'000	% of total	RM'000	% of total
By country:				
Malaysia	**214,811**	**92.4%**	228,861	92.9%
Others	**17,644**	**7.6%**	17,500	7.1%
	232,455	**100%**	246,361	100.0%
By industry sector:				
Defence and Security	**232,348**	**99.9%**	245,871	99.8%
Commercial	**107**	**0.1%**	490	0.2%
	232,455	**100%**	246,361	100.0%

The Company uses ageing analysis to monitor the credit quality of trade receivables.

The Company performs credit rating assessment of all its counterparties in order to measure ECLs of trade receivables. This credit rating assessment considers quantitative assessment using the counterparties' customer's financial statements or a qualitative assessment of the counterparties customer, which includes but is not limited to their customer's reputation, competitive position, industry and geopolitical outlook.

In determining the ECL, the Company considers the loss given default and the probability of default assigned to each counterparty customer. The probability of default is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information.

Loss given default is the assumption of the proportion of financial asset that cannot be recovered by conversion of collateral to cash or by legal process, and is assessed based on the Company's historical experience.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

(c) Credit risk (cont'd.)

Evidence that a financial asset is credit-impaired includes the following observable data:

(i) significant financial difficulty of the customer;
(ii) a breach of contract such as a default; and
(iii) it is probable that the customer will enter bankruptcy or other financial reorganisation.

In managing credit risk of trade receivables, the Company manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

The ageing of trade receivables is disclosed in Note 20(a).

(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	20
Amounts due from subsidiaries, joint ventures, associate and related companies	20
Loans and borrowings	25
Trade and other payables	28
Amounts due to subsidiaries, joint ventures, associate and holding company	28

NOTES TO THE FINANCIAL STATEMENTS

31. 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 that are approximations of fair values:

	Group			
	Carrying amount		Fair value	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Financial liabilities				
Interest bearing loans and borrowings, representing hire purchase and finance lease liabilities	–	(451)	–	(443)

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"), Euro ("EUR") and Singapore Dollar ("SGD"). Foreign exchange exposures are kept to an acceptable level.

31. 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 the functional currencies of the respective group companies are as follows:

	Deposits, cash and bank balances RM'000	Receivables RM'000	Payables RM'000	Total RM'000
At 31 December 2019				
USD	**20**	**8**	**(532)**	**(504)**
EUR	**113**	**457**	**(9,384)**	**(8,814)**
SGD	**–**	**–**	**(871)**	**(871)**
	133	**465**	**(10,787)**	**(10,189)**
At 31 December 2018				
USD	21	8	(36)	(7)
EUR	312	4,390	(4,993)	(291)
SGD	–	–	(30)	(30)
	333	4,398	(5,059)	(328)

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

	Group Profit/(loss) net of tax	
	2019 RM'000	2018 RM'000
USD/RM – strengthened 5%	**(25)**	–
– weakened 5%	**25**	–
EUR/RM – strengthened 5%	**(441)**	(15)
– weakened 5%	**441**	15
SGD/RM – strengthened 5%	**(44)**	(1)
– weakened 5%	**44**	1

NOTES TO THE FINANCIAL STATEMENTS

32. 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 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is derived by dividing the amount of borrowings (Note 25) over total equity. At the reporting date, the Group's gearing ratio calculated by dividing the amount of borrowings (Note 25) over the aggregate of the equity held by shareholders and non-controlling interests is 2.60 times (2018: 1.18 times).

33. SEGMENTAL INFORMATION

The Group's business is 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 CEO reviews the internal management reports at least on a quarterly basis. The following summary describes the operations of each of the Group's segments:

Defence and Security – The business units under this segment are principally engaged in shipbuilding and maintenance, repair and overhaul ("MRO") of the Royal Malaysian Navy's patrol vessels. In addition, this segment is also involved in manufacturing, supply and maintenance of defence related electronic products;

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

Commercial – The business units under this segment is principally engaged in the heavy engineering, shipbuilding, MRO of non-defence related vessels, providing trainings, trading of goods and MRO of aircraft wheels and brakes.

Included in the Defence and Security segment, the revenue of approximately RM167,505,000 (2018: RM166,950,000) is primarily 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.

33. 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:

	Defence and Security RM'000	Energy RM'000	Commercial RM'000	Others RM'000	Elimination RM'000	Total RM'000
As at 31 December 2019						
Group Total Sales	**168,634**	**–**	**899**	**6,076**	**(6,689)**	**168,920**
Inter-Segment Sales	**(1,129)**	**–**	**(18)**	**(5,542)**	**6,689**	**–**
External Revenue	167,505	–	881	534	–	168,920
Operating costs	(133,957)	(3,259)	(4,421)	(14,764)	(2,885)	(159,286)
Impairment of receivables	(32,828)	–	–	–	–	(32,828)
Allowance for expected credit loss	(25,388)	–	272	–	–	(25,116)
Results from operations	**(24,668)**	**(3,259)**	**(3,268)**	**(14,230)**	**(2,885)**	**(48,310)**
Interest income	1,372	–	–	2,763	(3,872)	263
Finance costs	(1,243)	–	(1,641)	(20,359)	6,296	(16,947)
Share of result in joint ventures	9,177	–	–	–	–	9,177
Share of result in associates	(57,697)	–	–	–-	–	(57,697)
Loss before tax	**(73,059)**	**(3,259)**	**(4,909)**	**(31,826)**	**(461)**	**(113,514)**
Income tax expense						(3,122)
Loss net of tax						**(116,636)**

NOTES TO THE FINANCIAL STATEMENTS

33. SEGMENTAL INFORMATION (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 2018						
Group Total Sales	168,042	468	1,364	3,458	(4,219)	169,113
Inter-Segment Sales	(1,092)	–	–	(3,127)	4,219	–
External Revenue	166,950	468	1,364	331	–	169,113
Operating costs	(120,997)	(3,497)	(9,726)	(41,974)	11,526	(164,668)
Impairment of receivables	–	–	–	(500)	500	–
Allowance for expected credit loss	(33,898)	–	(754)	–	–	(34,652)
Results from operations	**12,055**	**(3,029)**	**(9,116)**	**(42,143)**	**12,026**	**(30,207)**
Interest income	825	–	14	2,410	(3,085)	164
Finance costs	(807)	–	(1,443)	(15,662)	3,873	(14,039)
Share of result in joint ventures	(7,454)	–	–	–	–	(7,454)
Share of result in associates	(53,079)	–	–	–	–	(53,079)
Loss before tax	**(48,460)**	**(3,029)**	**(10,545)**	**(55,395)**	**12,814**	**(104,615)**
Income tax expense						(3,711)
Loss net of tax						**(108,326)**

34. CAPITAL COMMITMENTS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Approved but not contracted for:				
- Property, plant and equipment	**68,791**	21,252	**–**	–
Approved and contracted for:				
- Property, plant and equipment	**42**	21	**–**	–

35. CONTINGENT LIABILITIES

(a) Ingat Kawan (M) Sdn Bhd's litigation case

On 4 September 2012, the Group's associate was served with a Writ of Summons by Ingat Kawan (M) Sdn. Bhd. ("the Plaintiff"). The Plaintiff was claiming against the Group's associate for unspecified general damages, special damages of RM50.0 million, interest at 10% per annum on the said amount of RM50.0 million calculated from 7 September 2011 until full settlement, interest at 8% per annum on the said amount of RM50.0 million calculated from the date of filing the Writ of Summons until full settlement, costs and other reliefs that the Court deems fit, arising from an alleged breach of contract by the Group's associate. On 11 September 2012, the Group's associate filed its defence and counterclaims and sought to add 5 parties as co-defendants in its counterclaims. On 30 November 2012, the Court dismissed the Plaintiff's objections to the Group's associate addition of the 5 co-defendants.

On 14 March 2013, the High Court had allowed the application by the Group's associate to strike out the Plaintiff s claim with costs of RM5,000.00 to be paid by the Plaintiff to the Group's associate. The Group's associate, as instructed by the High Court, had on 1 April 2013 withdrawn its counterclaim with liberty to file afresh with no order as to costs.

The Plaintiff had, on 22 March 2013, filed a Notice of Appeal to the Court of Appeal against the decision of the High Court. The Court of Appeal heard the appeal on 11 November 2013 and allowed the Plaintiffs appeal and ordered the matter to be tried at the High Court.

The Group's associate filed an appeal to the Federal Court and on 22 August 2017 the Federal Court set aside both the decisions of the Court of Appeal and the High Court and ordered the matter to be reverted to the Ipoh High Court for full trial. The trial at the High Court commenced on 16 and 17 April 2018 and is continuing. The next trial was supposed to be held on 1 and 2 April 2020, however, it has been postponed until further notice pursuant to the extended Movement Control Order by the Government over Covid-19 concerns.

The Group's associate, upon consultation with the solicitors, is of the view that the Group's associate has a fair chance of success in this case.

NOTES TO THE FINANCIAL STATEMENTS

35. CONTINGENT LIABILITIES (CONT'D.)

(b) Liquidated Ascertained Damages

On 10 July 2017, the joint venture company, Boustead DCNS Naval Corporation Sdn Bhd ("BDNC") received a letter from the Ministry of Defence Malaysia ("MINDEF") claiming for Liquidated Damages ("LD") amounting to RM53.2 million and EUR19.3 million for the ISS for the Royal Malaysian Navy SCORPENE Submarine contract.

On 28 June 2019, BDNC received a letter from MINDEF claiming for LD amounting to RM22.4 million and EUR8.8 million for the refit works on KD TUNKU ABDUL RAHMAN.

On 29 May 2020, BDNC received a letter from MINDEF claiming for LD amounting to RM11.6 million and EUR6.5 million for the breach of obligations under the first supplemental contract of the In-Service Support for two (2) units of Prime Minister-Class for the Royal Malaysian Navy Submarines Contract (Extended ISS Contract).

BDNC is of the opinion that the provisions for the LD are sufficient and no further losses expected to be incurred after taking into consideration appropriate justifications and supporting documents.

To date, BDNC is still in the midst of negotiating and finalising the LD claims.

The Group has recognised its shares of losses of interest in BDNC when applying the equity method up to its interest in the joint venture since the previous financial year.

36. SIGNIFICANT EVENT SUBSEQUENT TO YEAR END

The COVID-19 pandemic has severely impacted many local economies around the globe. Measures taken by the Government of Malaysia to contain the spread of the virus includes Movement Control Order ("MCO"), travel bans, quarantines, social distancing, and closures of non-essential services.

The occurrence of the COVID-19 outbreak is not an adjusting post balance sheet event, hence the Group's financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect the impact. Should the pandemic continue for an extended period of time, possible financial impacts may include: impairment concerns, supply chain and logistics interruptions, changes in customer service requirement and cash flow disruption faced by the customer, which may affect the timing and collectability of the Group's receivables. As none of these items are known with any certainty at the date of this report, no financial effect of these items or other potential items are contained in this financial report.

Response measures by the Group

As the Group is going through an unprecedented challenging period, the focus of response measures will be improving the performance of the Group's operations, mitigating the impact of COVID-19 and cash management:

1. Temporary cost-reduction exercises;
2. Cost-avoidance initiatives;
3. Deferment and suspension of non-essential spending and capital expenditure;
4. Reduction of critical expenditure;
5. Recovery plan by each of business unit;
6. Initiate split office operations to ensure business continuity; and
7. Business diversification.

The Group will continue to monitor and assess the ongoing development and respond accordingly.

37. RELATED PARTY DISCLOSURES

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

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Interest income				
Subsidiaries	**–**	–	**2,424**	764
Government-related financial institutions	**213**	101	**31**	11
Joint ventures	**47**	60	**–**	–
Associates	**3**	1	**–**	–
Dividend income				
Joint ventures (Note 18)	**2,626**	1,620	**–**	–
Sales of goods/Rendering of services				
Associates	**106,409**	124,956	**–**	–
Joint ventures	**42,918**	25,269	**–**	–
Purchases of goods/Rendering of services				
Immediate holding company	**(1,087)**	(989)	**(666)**	(585)
Related companies	**(872)**	(1,107)	**(81)**	(92)
Joint ventures	**(351)**	(742)	**–**	–
Associates	**(2,151)**	(1,950)	**–**	–
Management fees				
Joint venture	**301**	331	**–**	–
Associates	**273**	–	**–**	–
Rental income				
Joint venture	**3,347**	3,347	**–**	–
Interest expense paid to:				
Subsidiaries	**–**	–	**(165)**	(251)
Joint ventures	**(46)**	(8)	**(46)**	(8)
Government-related financial institutions	**(14,093)**	(11,742)	**(13,227)**	(10,743)

NOTES TO THE FINANCIAL STATEMENTS

37. RELATED PARTY DISCLOSURES (CONT'D.)

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

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 2019 are disclosed in Notes 20 and 28.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Wages and salaries	**6,120**	6,472	**431**	820
Defined contribution plan	**704**	742	**33**	63
Others	**1,158**	1,147	**920**	758
	7,982	8,361	**1,384**	1,641
Included in the total key management personnel are:				
Directors' remuneration (Note 9)	**220**	619	**185**	532

37. RELATED PARTY DISCLOSURES (CONT'D.)

(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

- On 16 December 2011, Boustead Naval Shipyard Sdn. Bhd. ("BNS"), an associate of the Group, received a letter of award from MINDEF to design, construct, equip, install, commission, integrate, test and trials and deliver 6 units of "Second Generation Patrol Vessels Littoral Combat Ships (Frigate Class)" ("LCS") at a contract value of RM9.0 billion. The contract was finalised on 17 July 2015.

- On 26 June 2013, BHICAS, a joint venture of the Group, received a letter of award 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 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. Kementerian Dalam Negeri has agreed to extend the contract for another year from 1 July 2019 to 30 June 2020.

- On 20 March 2014, BHICAS, a joint venture of the Group, received a letter of award 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 20 July 2017, BHICAS received an LOA for the extension of this contract until 31 March 2020 with an additional contract value of RM220.0 million.

- On 23 March 2017, BNS, an associate of the Group, signed an agreement with GOM for the supply of 4 units of Littoral Mission Ship in collaboration with a Partner Shipyard in China at a contract value of RM1.17 billion (inclusive of Goods and Services Tax).

NOTES TO THE FINANCIAL STATEMENTS

37. RELATED PARTY DISCLOSURES (CONT'D.)

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

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

- On 10 April 2018, BNS, an associate of the Group, executed a Letter of Work dated 14 March 2018 from the Ministry of Defence Malaysia for the maintenance and upgrading of Combat Management System for the Royal Malaysian Navy's vessel at a contract value of RM44.8 million.

- On 20 June 2019, BNS, an associate of the Group, accepted a Letter dated 14 June 2019 from the Ministry of Defence Malaysia for the Refit works on KD TERENGGANU at a contract value of RM96.0 million.

- On 19 April 2016, BDNC, a joint venture of the Group, signed an agreement with the Government of Malaysia ("GOM") for the provision of REFIT services for 2 units of Prime Minister's Class Submarines for the Royal Malaysian Navy at a total dual currency contract price of EUR169.9 million and RM432.4 million (inclusive of Goods and Services Tax), effective from 1 November 2015.

- On 12 November 2018, BDNC, a joint venture of the Group, received a consent letter from GOM dated 9th November 2018 amounting to RM90.0 million for the provision of Out of Scope Works for the ISS Contract from 1st June 2017 to 31st March 2018.

- On 28 March 2019, BDNC, a joint venture of the Group, received a letter of award from the Ministry of Defence ("MINDEF") to undertake In Service Support ("ISS") for Royal Malaysian Navy's Prime Minister Class Submarine amounting to RM150.0 million for a contract period of 13 months from 1 December 2018.

38. AUTHORISATION OF FINANCIAL STATEMENT FOR ISSUE

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 4 June 2020.

SHAREHOLDING STATISTICS

AS AT 27 MAY 2020

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	1,021	27.46	16,414	0.01
100 – 1,000	1,120	30.12	559,262	0.23
1,001 – 10,000	1,136	30.55	5,022,423	2.02
10,001 – 100,000	365	9.81	11,691,300	4.71
100,001 – 12,422,879 (*)	75	2.02	49,403,967	19.88
12,422,880 and above (**)	2	0.05	181,764,248	73.16
Total	**3,719**	**100.00**	**248,457,614**	**100.00**

Remark : * – less than 5% of issued shares
** – 5% and above of issued shares

INFORMATION ON SUBSTANTIAL SHAREHOLDERS

Size of Shareholdings	No. of share direct	%
Boustead Holdings Berhad Account Non-Trading	161,497,448	65.00
Lembaga Tabung Angkatan Tentera	20,266,800	8.16

DIRECTORS SHAREHOLDING

Name of Directors	Direct	No. of share %
Admiral Tan Sri Dato' Seri Panglima (Dr.) Ahmad Kamarulzaman Ahmad Badaruddin (Retired)	55,000	0.02
Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired)	2,000	0.00
Rozi Baharudin	5,000	0.00

LIST OF TOP 30 SHAREHOLDERS

AS AT 27 MAY 2020

	Name of shareholders	No. of shares	%
1	BOUSTEAD HOLDINGS BERHAD *ACCOUNT NON-TRADING*	161,497,448	65.00
2	LEMBAGA TABUNG ANGKATAN TENTERA	20,266,800	8.16
3	CITIGROUP NOMINEES (TEMPATAN) SDN BHD *URUSHARTA JAMAAH SDN. BHD. (MAYBANK 1)*	6,102,634	2.46
4	CITIGROUP NOMINEES (TEMPATAN) SDN BHD *URUSHARTA JAMAAH SDN. BHD. (NOMURA 1)*	4,976,000	2.00
5	CITIGROUP NOMINEES (TEMPATAN) SDN BHD *URUSHARTA JAMAAH SDN. BHD. (ABERDEEN 1)*	4,766,633	1.92
6	TAN HAN CHONG	3,072,000	1.24
7	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR LEAN MENG SEONG (8029269)*	2,000,300	0.81
8	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR AHMAD RAMLI BIN MOHD NOR (8029256)*	2,000,000	0.80
9	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR PERAMJEET SINGH A/L GIAN SINGH (8029243)*	2,000,000	0.80
10	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR OH KIM SUN (CEB)*	1,991,000	0.80
11	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR NORAZLAN BIN MOHAMAD NORDIN (CEB)*	1,175,000	0.47
12	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR CHE LODIN BIN WOK KAMARUDDIN (8029271)*	1,166,000	0.47
13	LIEW CHEE CHEONG	1,000,000	0.40
14	WONG AH TIM @ ONG AH TIN	1,000,000	0.40
15	LIEW SIEW LAN	975,900	0.39

	Name of shareholders	No. of shares	%
16	B & A FAMILY HOLDINGS SDN BHD	900,000	0.36
17	CHOW KWAI KENG	857,900	0.35
18	HSBC NOMINEES (TEMPATAN) SDN BHD *EXEMPT AN FOR BANK JULIUS BAER & CO. LTD. (SINGAPORE BCH)*	810,000	0.33
19	TAN CHING LING	572,400	0.23
20	KASINATHAN A/L T.KASIPILLAI	469,400	0.19
21	AMANDA LEE LENG HUI	450,000	0.18
22	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR MONINDAR KAUR A/P HARCHARAN SINGH (8037133)*	424,000	0.17
23	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LAI MOO CHAN	420,800	0.17
24	TAN LEE HWA	390,000	0.16
25	PUBLIC NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR SIM LEONG THUN (E-SS2)*	388,600	0.16
26	MAVIS TAN KENG MUN	383,000	0.15
27	LOOI TEIK AUN	380,200	0.15
28	ONG TONG PHENG @ ENG AH TOON	376,000	0.15
29	HLB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR AGROMEGAH CORPORATION SDN BHD*	366,800	0.15
30	AZZAT BIN KAMALUDIN	350,000	0.14
	Total	**221,528,815**	**89.16**

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	48 Years	17,562
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	48 Years	1,405
HS(D) 16204, PT8711 Mukim Lumut Daerah Manjung, Perak	Marine industry land	76.0 acres	Leasehold expiring on 18/10/2099	19 Years	–
HSM 3558 Lot No. 20238 Mukim 13 Daerah Timur Laut Pulau Pinang	Building	0.8 acre	Leasehold expiring on 15/11/2073	6 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	7 years	12,355

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.

NOTICE OF 48TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 48th Annual General Meeting of the Company will be conducted entirely through live streaming from the broadcast venue at Mutiara 5, Ground Floor, Royale Chulan Damansara, 2 Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor on Tuesday, 21 July 2020 at 9.30 a.m. for the purpose of transacting the following businesses:

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2019 together with the Reports of the Directors and Auditors. ***(Note 1)***
2. To re-elect Rozi Baharudin who retires by rotation in accordance with Article 107(b) of the Company's Constitution, and being eligible, offer herself for re-election. ***Ordinary Resolution 1***
3. To re-elect the following directors who retire in accordance with Article 100 of the Company's Constitution:
   - i. Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired) ***Ordinary Resolution 2***
   - ii. Tan Sri Dato' Wira Aziah Ali ***Ordinary Resolution 3***
   - iii. Vice Admiral Dato' Syed Zahiruddin Putra Syed Osman (Retired) ***Ordinary Resolution 4***
   - iv. Dato' Maznah Abdul Jalil ***Ordinary Resolution 5***
   - v. (Dr.) Salihin Abang ***Ordinary Resolution 6***
   - vi. Hajah Saadatul Nafisah Bashir Ahmad ***Ordinary Resolution 7***
   - vii. Izaddeen Daud ***Ordinary Resolution 8***
4. To approve payment of Directors' fees of RM666,513.00 for the financial year ended 31 December 2019. ***Ordinary Resolution 9***
5. To approve payment of Directors' fees, Directors' benefits and meeting allowances with effect from 1 January 2020 until the next Annual General Meeting of the Company. ***Ordinary Resolution 10***
6. To re-appoint Messrs. Ernst & Young PLT as Auditors of the Company and to hold office until the conclusion of the next Annual General Meeting, at a remuneration to be determined by the Directors. ***Ordinary Resolution 11***

NOTICE OF 48TH ANNUAL GENERAL MEETING

SPECIAL BUSINESS

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

(A) AUTHORITY TO ALLOT SHARES

"**THAT** subject always to the Companies Act 2016 and the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered to allot shares in the capital of the Company from time to time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are hereby also empowered to obtain approval from Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

Ordinary Resolution 12

(B) PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS

"**THAT** subject always to the Companies Act 2016 ("Act"), the Constitution of the Company and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and his hereby given for the renewal of the mandate granted by the shareholders of the Company on 23 April 2019, authorising the Company and/or its subsidiaries to enter into recurrent transactions of a revenue or trading nature with the Related Parties as specified in Section 2.4.1 of the Circular to Shareholders dated 22 June 2020, provided that the transactions are:

Ordinary Resolution 13

i. necessary for the day to day operations;

ii. carried out in the ordinary course of business and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and

iii. are not to the detriment of the minority shareholders.

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

i. the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the said AGM, such authority is renewed;

ii. 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

iii. 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 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 this Shareholders' Mandate."

8. To transact any other business of the Company of which due notice shall have been received.

By order of the Board

LILYROHAYU AB HAMID @ KASSIM
SUZANA SANUDIN
Company Secretaries
Kuala Lumpur
22 June 2020

NOTICE OF 48TH ANNUAL GENERAL MEETING

Notes

1. AUDITED FINANCIAL STATEMENTS

The Audited Financial Statements laid at this meeting pursuant to Section 340(1)(a) of the Companies Act 2016 ("Act") are meant for discussion only. It does not require shareholders' approval, and therefore, shall not be put forward for voting.

2. ORDINARY RESOLUTION 1 TO 8 – PROPOSED RE-ELECTION OF DIRECTORS IN ACCORDANCE WITH ARTICLE 107(b) AND ARTICLE 100 OF THE COMPANY'S CONSTITUTION

Article 107(b) of the Company's Constitution provides amongst others that at least one-third of the Directors who are subject to retirement by rotation or, if their number is not three (3) or multiple of three (3), the number nearest to one-third shall retire from office provided always that all Directors shall retire from office once at least in every three (3) years and shall be eligible for re-election.

Rozi Baharudin is standing for re-election pursuant to Article 107(b) of the Company's Constitution.

The Nominating and Remuneration Committee ("NRC") of the Company has assessed the criteria and contribution of Rozi Baharudin and recommended for her re-election. The Board endorsed the NRC's recommendation that Rozi Baharudin be re-elected as Director of the Company.

Article 100 of the Company's Constitution provides amongst others that the Directors shall have power at any time, to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the Board of Directors but so that the total number of Directors shall not at any time exceed the number fixed in accordance with this Articles. Any Director so appointed shall hold office until the next following Annual General Meeting ("AGM") and shall then be eligible for re-election.

The following directors are standing for re-election pursuant to Article 100 of the Company's Constitution.

i. Admiral Tan Sri Dato' Seri Ramlan Mohamed Ali (Retired)
ii. Tan Sri Dato' Wira Aziah Ali
iii. Vice Admiral Dato' Syed Zahiruddin Putra Syed Osman (Retired)
iv. Dato' Maznah Abdul Jalil
v. (Dr.) Salihin Abang
vi. Hajah Saadatul Nafisah Bashir Ahmad
vii. Izaddeen Daud

3. ORDINARY RESOLUTIONS 9 TO 10 – DIRECTORS' REMUNERATION

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

The proposed Directors' fees of the Company for the financial year ended 31 December 2019 is RM666,513.00 and approval will be sought at the 48th Annual General Meeting for this payment under agenda item No. 4, Ordinary Resolution 9.

Going forward, the Company intends to pay the Directors' fees and benefits to the Non-Executive Directors on a quarterly basis and/or as and when incurred for services rendered by the Non-Executive Directors. As such, the Company will be seeking shareholder's approval at the 48th Annual General Meeting for this payment under agenda item No. 5, Ordinary Resolution 10.

As regards the Directors' fee for its subsidiaries, approval will be sought at the respective companies' members' meeting and will not be consolidated at the Company's level.

For information, the current structure of Directors' fees and benefits of the Company and its subsidiaries are as follows:

(a) Boustead Heavy Industries Corporation Berhad

		Directors' Fees (Annual) (RM)	Meeting Allowances (per meeting) (RM)	Benefits in kind
Board of Directors	Chairman	90,000	2,000	• Company car (including petrol and toll charges) and a driver. • Group Hospitalisation – Plan 1 with premium cost RM1,372.92 per year. • Outpatient limits and Dental be capped at RM6,500 per year. Entitlement for self only
	Member	75,000	1,000	Nil
Audit Committee	Chairman	35,000	1,500	Nil
	Member	25,000	1,000	Nil
Other Board Committees	Chairman	5,000	1,500	Nil
	Member	3,000	1,000	Nil

(b) Subsidiaries of Boustead Heavy Industries Corporation Berhad

		Directors' Fees (Annual) (RM)	Meeting Allowances (per meeting) (RM)
Board of Directors	Chairman	48,000	1,500
	Member	36,000	1,000

4. ORDINARY RESOLUTION 11 – RE-APPOINTMENT OF AUDITORS

The Board and Audit Committee of the Company are satisfied with the quality of service, adequacy of resources provided, communication, interaction skills and independence, objectivity and professionalism demonstrated by the External Auditors, Messrs. Ernst & Young PLT ("EY") in carrying out their functions. Being satisfied with EY's performance, the Board recommends their re-appointment for shareholders' approval at the 48th AGM.

5. ORDINARY RESOLUTION 12 – AUTHORITY FOR DIRECTORS TO ALLOT SHARES

Ordinary Resolution 12, if passed, will give powers to the Directors to allot up to a maximum of 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company.

This authority will, unless revoked or varied by the Company at a general meeting, expire at the conclusion of the next AGM.

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

As at the date of this Notice, no new shares were issued pursuant to the authority granted to the Directors at the 47th AGM held on 23 April 2019, the mandate of which will lapse at the conclusion of the 48th AGM to be held on 21 July 2020.

6. ORDINARY RESOLUTIONS 13 – RECURRENT RELATED PARTY TRANSACTIONS

Ordinary Resolutions 13, 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.

NOTES:

1. As part of the initiatives to curb the spread of Coronavirus Disease 2019 (COVID-19), the AGM will be conducted on a virtual basis through live streaming whilst the online remote voting will be via Remote Participation and Voting ("RPV"). Both facilities are available on Tricor Investor & Issuing House Services Sdn Bhd's TIIH Online website at https://tiih.online. Please follow the procedures provided in the Administrative Notes for the AGM in order to register, participate and vote remotely via the RPV facilities.

   Shareholders are to participate (including posing questions to the Board via real time submission of typed texts) and vote remotely at the AGM via the RPV provided by Tricor via its TIIH Online website at https://tiih.online.

2. The venue of the AGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairman of the Meeting to be at the main venue. No Shareholders/proxies from the public will be physically present at the meeting venue on the day of the meeting.

3. For the purpose of determining who shall be entitled to participate in the AGM via RPV, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company, the Record of Depositors as at 15 July 2020. Only members registered in the Record of Depositors shall be entitled to participate in the AGM via RPV.

4. A member of the Company entitled to participate in the AGM via RPV is entitled to appoint a proxy or attorney or in the case of a corporation, to appoint a duly authorised representative to participate in his/her place. A proxy may but need not be a member of the Company.

5. A member of the Company entitled to attend and vote at a general meeting of the Company may appoint not more than two (2) proxies to participate at the AGM via RPV. Where a member appoints more than one (1) proxy, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

6. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 (Central Depositories Act), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.

7. 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 (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. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of Section 25A(1) of the Central Depositories Act.

8. A member who has appointed a proxy or attorney or authorised representative to participate, speak and vote at the AGM via RPV must request his/her proxy to register himself/herself for RPV at TIIH Online website at https://tiih.online. Please follow the procedures provided in the Administrative Notes for the AGM in order to register, participate and vote remotely via the RPV facilities.

9. The appointment of proxy may be made in a hardcopy form or by electronic means as follows:

   i. In hard copy form

      In the case of an appointment made in hard copy form, the proxy form must be deposited with the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, no later than 19 July 2020 at 9.30 a.m.

   ii. By electronic form

      The proxy form can be electronically lodged with the Share Registrar of the Company via TIIH Online at https://tiih.online (applicable to individual shareholders only). Kindly refer to the Administrative Notes on the procedures for electronic lodgement of proxy form via TIIH Online.

10. Any authority pursuant to which such an appointment is made by a power of attorney must be deposited with the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time appointed for holding the AGM or adjourned general meeting at which the person named in the appointment proposes to vote. A copy of the power of attorney may be accepted provided that it is certified notarially and/or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.

11. For a corporate member who has appointed a representative, please deposit the original certificate of appointment with the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia. The certificate of appointment should be executed in the following manner:

    i. If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.

    ii. If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:

        (a) at least two (2) authorised officers, of whom one shall be a director; or

        (b) any director and/or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

12. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the AGM of the Company shall be put to vote by way of a poll.

ADMINISTRATIVE NOTES

FOR THE 48TH ANNUAL GENERAL MEETING OF
BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD

Date : 21 July 2020 (Tuesday)

Time : 9.30 a.m.

Venue : Mutiara 5, Ground Floor
Royale Chulan Damansara
2 Jalan PJU 7/3, Mutiara Damansara
47810 Petaling Jaya, Selangor

MODE OF MEETING

In view of the Covid-19 pandemic outbreak and as part of the safety measures, the 48th Annual General Meeting of Boustead Heavy Industries Corporation Berhad (AGM) will be conducted on a virtual basis through live streaming whilst the online remote voting will be via Remote Participation and Voting (RPV). Both facilities are available on Tricor Investor & Issuing House Services Sdn Bhd's (Tricor) TIIH Online website at https://tiih.online. This is in line with the Guidance Note on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia on 18 April 2020.

The venue of the AGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairman of the meeting to be at the main venue. No shareholders/proxy(ies) from the public will be physically present at the meeting venue.

Remote Participation and Voting

Shareholders are to participate (including posing questions to the Board via real time submission of typed texts) and vote remotely at the AGM using RPV provided by Tricor via its TIIH Online website at https://tiih.online.

Shareholders who appoint proxies to participate via RPV in the AGM must ensure that the duly executed proxy forms are deposited in a hard copy form or by electronic means to Tricor no later than Sunday, 19 July 2020 at 9.30 a.m.

Corporate representatives of corporate members must deposit their original certificate of appointment of corporate representatives to Tricor no later than Sunday, 19 July 2020 at 9.30 a.m. to participate via RPV in the AGM. Attorneys appointed by power of attorney are to deposit their power of attorney with Tricor no later than Sunday, 19 July 2020 at 9.30 a.m to participate via RPV in the AGM.

A shareholder who has appointed a proxy or attorney or authorised representative to participate at the AGM via RPV must request his/her proxy or attorney or authorised representative to register himself/herself for RPV at TIIH Online website at https://tiih.online.

As the AGM is a virtual meeting, members who are unable to participate in the meeting may appoint the Chairman of the meeting as his/her proxy and indicate the voting instructions in the proxy form.

Procedures to Remote Participation and Voting via RPV Facilities

Please read and follow the procedures below to engage in remote participation through live streaming and online remote voting at the AGM using the RPV facilities:

	Procedure	Action
BEFORE THE AGM DAY		
(a)	Register as a user with TIIH Online	• Using your computer, access the website at https://tiih.online. Register as a user under the "e-Services". Refer to the tutorial guide posted on the homepage for assistance. • If you are already a user with TIIH Online, you are not required to register again. You will receive an e-mail to notify you that the remote participation is available for registration at TIIH Online.
(b)	Submit your request to attend AGM remotely	• Registration is open from 9.30 a.m. Monday, 22 June 2020 up to 9.30 a.m. Sunday, 19 July 2020. • Login with your user ID and password and select the corporate event: (Registration) Boustead Heavy Industries Corporation Berhad 48th AGM. • Read and agree to the Terms & Conditions and confirm the Declaration. • Select "Register for Remote Participation and Voting". • Review your registration and proceed to register. • System will send an e-mail to notify that your registration for remote participation is received and will be verified. • After verification of your registration against the Record of Depositors as at 15 July 2020, the system will send you an e-mail to approve or reject your registration for remote participation.
ON THE DAY OF THE AGM		
(c)	Login to TIIH Online	• Login with your user ID and password for remote participation at the Boustead Heavy Industries Corporation Berhad 48th AGM at any time from 9.10 a.m. i.e. 20 minutes before the commencement of meeting at 9.30 a.m. on Tuesday, 21 July 2020.
(d)	Participate through Live Streaming	• Select the corporate event: (Live Streaming Meeting) Boustead Heavy Industries Corporation Berhad 48th AGM to engage in the proceedings of the AGM remotely. • If you wish to pose any question to the Chairman/Board, you may use the query box to transmit your question. The Chairman/Board will try to respond to questions submitted by remote participants during the AGM. If there is time constraint, the responses will be e-mailed to you at the earliest possible, after the meeting.
(e)	Online Remote Voting	• Voting session commences from 9.30 a.m., Tuesday, 21 July 2020 until a time when the Chairman announces the completion of the voting session at the Boustead Heavy Industries Corporation Berhad 48th AGM. • Select the corporate event: (Remote Voting) Boustead Heavy Industries Corporation Berhad 48th AGM. • Read and agree to the Terms & Conditions and confirm the Declaration. • Select the CDS account that represents your shareholdings. • Indicate your votes for the resolutions that are tabled for voting. • Confirm and submit your votes.

ADMINISTRATIVE NOTES
FOR THE 48TH ANNUAL GENERAL MEETING OF
BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD

(f)	End of remote participation	• Upon the announcement by the Chairman on the conclusion of the AGM, the Live Streaming will end.

Note to users of the RPV facilities:

1. We will make available to you the rights to join the live streamed meeting and to vote remotely once your application to join the meeting is approved. Your login to TIIH Online on the day of meeting will indicate your presence at the virtual meeting.

2. The quality of your connection to the live broadcast is dependent on the bandwidth and stability of the internet at your location and the device you use.

3. In the event you encounter any issues with logging in, connection to the live streamed meeting or online voting, kindly call Tricor Help Line at 011-40805616 / 011-40803168 / 011-40803169 / 011-40803170 for assistance or e-mail to tiih.online@my.tricorglobal.com for assistance.

ELECTRONIC LODGEMENT OF PROXY FORM

The procedures to lodge your proxy form electronically via Tricor's TIIH Online website are summarised below:

	Procedure	Action
(a)	Register as a User with TIIH Online	• Using your computer, please access the website at https://tiih.online. Register as a user under the "e-Services". Please refer to the tutorial guide posted on the homepage for assistance. • If you are already a user with TIIH Online, you are not required to register again.
(b)	Proceed with submission of Proxy Form	• After the release of the Notice of Meeting by the Company, login with your user name (i.e. email address) and password. • Select the corporate event: "Submission of Proxy Form". • Read and agree to the Terms & Conditions and confirm the Declaration. • Insert your CDS account number and indicate the number of shares for your proxy(ies) to vote on your behalf. • Appoint your proxy(ies) and insert the required details of your proxy(ies) or appoint Chairman as your proxy. • Indicate your voting instructions – FOR or AGAINST, otherwise your proxy(ies) will decide your vote. • Review and confirm your proxy(ies) appointment. • Print the proxy form for your record.

Pre-Meeting Submission of Questions to the Board of Directors

- In order to enhance the efficiency of the proceedings of the AGM, shareholders may in advance, before the AGM, submit questions to the Board of Directors via Tricor's TIIH Online website at https://tiih.online by selecting "e-Services" to login, posting your questions and submitting them electronically no later than Sunday, 19 July 2020. The Board of Directors will endeavour to address the questions received at the AGM.

No Breakfast/Lunch Pack, Door Gift or Food Voucher

- There will be no distribution of breakfast/lunch packs, door gifts or food vouchers during the AGM since the meeting is being conducted on a virtual basis.

Annual Report

- The Annual Report is available on the Company's website at www.bhic.com.my and Bursa Malaysia's website at www.bursamalaysia.com under Company Announcements.

- You may request for a printed copy of the Annual Report at https://tiih.online by selecting "Request for Annual Report" under the "Investor Services".

- In light of the Government's announcements on 16 March 2020, 25 March 2020, 10 April 2020, 23 April 2020 and 10 May 2020 in relation to the MCO effective 18 March 2020 to 9 June 2020 (and any extension thereof), please be informed that there may be some delay in the delivery of the printed copy of the Annual Report. The Annual Report will be delivered as soon as reasonably practicable.

- Nevertheless, it is hoped that you would consider the environment before you decide to request for the printed copy of the Annual Report.

Boustead Heavy Industries Corporation Berhad would like to thank all its shareholders for their kind co-operation and understanding in these challenging times.

Enquiry

If you have any enquiries on the above, please contact the following persons during office hours on Mondays to Fridays from 9.00 a.m. to 5.30 p.m. (except on public holidays):

Tricor Investor & Issuing House Services Sdn Bhd

General Line	:	+603-2783 9299
Fax Number	:	+603-2783 9222
Email	:	is.enquiry@my.tricorglobal.com
Contact persons	:	Mohd Kamal bin Mohd Din +603-2783 9237 (email: Kamal.Mohd@my.tricorglobal.com) Esther Loo Mun Har +603-2783 9293 (email: Esther.Loo@my.tricorglobal.com)

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PROXY FORM

BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD
197101000758 (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 48th Annual General Meeting of the Company to be conducted entirely through live streaming from the broadcast venue at Mutiara 5, Ground Floor, Royale Chulan Damansara, 2 Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor on Tuesday, 21 July 2020 at 9.30 a.m. and at any adjournment thereof and to vote as indicated below:-

	RESOLUTIONS	**FOR**	**AGAINST**
1	ORDINARY RESOLUTION 1		
2	ORDINARY RESOLUTION 2		
3	ORDINARY RESOLUTION 3		
4	ORDINARY RESOLUTION 4		
5	ORDINARY RESOLUTION 5		
6	ORDINARY RESOLUTION 6		
7	ORDINARY RESOLUTION 7		
8	ORDINARY RESOLUTION 8		
9	ORDINARY RESOLUTION 9		
10	ORDINARY RESOLUTION 10		
11	ORDINARY RESOLUTION 11		
12	ORDINARY RESOLUTION 12		
13	ORDINARY RESOLUTION 13		

Dated this _____ day of _____ 2020

_____
Signature of Member or Common Seal

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

Notes:

1. As part of the initiatives to curb the spread of Coronavirus Disease 2019 (COVID-19), the AGM will be conducted on a virtual basis through live streaming whilst the online remote voting will be via Remote Participation and Voting (RPV). Both facilities are available on Tricor Investor & Issuing House Services Sdn Bhd's TIIH Online website at https://tiih.online. Please follow the procedures provided in the Administrative Notes for the AGM in order to register, participate and vote remotely via the RPV facilities.

   Shareholders are to participate (including posing questions to the Board via real time submission of typed texts) and vote remotely at the AGM via the RPV provided by Tricor via its TIIH Online website at https://tiih.online.

2. The venue of the AGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairman of the Meeting to be at the main venue. No Shareholders/ proxy(ies) from the public will be physically present at the meeting venue on the day of the meeting.

3. For the purpose of determining who shall be entitled to participate in the AGM via RPV, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company, the Record of Depositors as at 15 July 2020. Only members registered in the Record of Depositors shall be entitled to participate in the AGM via RPV.

4. A member of the Company entitled to participate in the AGM via RPV is entitled to appoint a proxy or attorney or in the case of a corporation, to appoint a duly authorised representative to participate in his/her place. A proxy may but need not be a member of the Company.

5. A member of the Company entitled to attend and vote at a general meeting of the Company may appoint not more than two (2) proxies to participate at the AGM via RPV. Where a member appoints more than one (1) proxy, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

6. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 (Central Depositories Act), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.

7. 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 (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. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of Section 25A(1) of the Central Depositories Act.

8. The appointment of proxy may be made in a hardcopy form or by electronic means as follows:

   (i) In hard copy form

   In the case of an appointment made in hard copy form, the proxy form must be deposited with the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, no later than 19 July 2020 at 9.30 a.m.

   (ii) By electronic form

   The proxy form can be electronically lodged with the Share Registrar of the Company via TIIH Online at https://tiih.online (applicable to individual shareholders only). Kindly refer to the Administrative Notes on the procedures for electronic lodgement of proxy form via TIIH Online.

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Share Registar of Boustead Heavy Industries Corporation Berhad

Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3,
Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia

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www.bhic.com.my

BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD 197101000758 (11106-V)

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