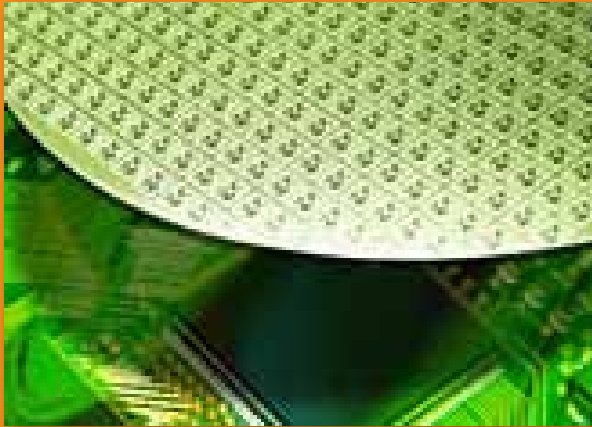


## CHAIRMAN'S STATEMENT



**On behalf of the Board of Directors of Frontken Corporation Berhad, I present to you the Annual Report and the Audited Financial Statements for the financial year ended 31 December 2014.**

### YEAR 2014 IN PERSPECTIVE

In my last statement, I stated that our Group would remain cautious on the economic outlook for year 2014 as the domestic and overseas markets continue to be challenging but encouraging. With each passing quarters, I am pleased to report that through perseverance and hard work, year 2014 has seen a significant improvement of our performance as compared to year 2013.

Generally, year 2014 was a good year for us. In it, there were mixed performances for our Group's businesses with some businesses soaring while others were slightly down. We will continue with our strategy to build a stable platform. We have responded to the lessons we learned from the market when our customers rescaled their businesses and are now in a better position in aligning our businesses in the respective markets.

Our revenue improved significantly to RM309.8 million (2013: RM190.6 million) which was largely contributed by the improved business performance of our Group's subsidiaries in Taiwan and Malaysia. The semi-conductor business in Taiwan was robust and we were fortunate to be able to capitalise on the same. For Malaysia, the ATB Project in Tanjung Bin and contributions from the oil and gas and semi-conductor divisions assisted in the better performance as well. Consequently, our Profit Before Tax also improved to RM28.1 million (2013 : RM5.9 million) as a result of the higher revenue and good control of operating costs. The profit from the sale of a loss making associate company also contributed to the better bottom line.

The Malaysian market improved to RM147.9 million (2013 : RM33.7 million). The operating Malaysian entities are Frontken Malaysia Sdn Bhd, Frontken (Johor) Sdn Bhd, Frontken (East Malaysia) Sdn Bhd and TTES Frontken Integrated Services Sdn Bhd (formerly known as TTES Team & Specialist Sdn Bhd) ("TTES").

The shareholders' funds increased by RM20.5 million from RM186.3 million in year 2013 to RM206.8 million in year 2014 mainly due to the improvement in the reserves. The Group's net asset per share increased from 21 sen (2013) to 24 sen (2014).

On the regional front, Taiwan continued to improve its revenue from RM65.7 million (2013) to RM92.3 million (2014), an improvement of 40% mainly due to the positive growth of the semi-conductor business. However, we encountered a continued drop in business in our operations in Singapore. The revenue from Singapore reduced to RM67.0 million from RM79.7 million partly due to lesser orders received from customers who have either delayed in the outages of their plants or reduced their maintenance activities. Our Philippines' operations also saw a dip in its revenue from RM13.9 million to RM11.5 million due to stiff competition in the maintenance contracts but its bottom line was better than that achieved in 2013 due to continual prudent cost management. It was comforting to note that Indonesia's performance has continued to improve to RM2.1 million (2013 : RM1.7 million). The Indonesian company has obtained the necessary licence from SKK Migas, Indonesia which will enable it to participate in repair and services works for the oil and gas industry.



## CHAIRMAN'S STATEMENT (cont'd)



During the year, our Group generated RM40.7 million cash flows from our operations and out of which we utilised RM8.5 million to acquire property, plant and equipment and RM7.4 million for investment in a subsidiary. The cash and cash equivalent amassed for the year was RM52.6 million.

Our Group's revenue for the 12 months ended 31 December 2014 increased by approximately RM119.2 million (62.6%) mainly due to the improved contribution from our operations in Malaysia and Taiwan.

### ANALYSING OUR BUSINESS

The significant improvement in our revenues from our operations in Malaysia and Taiwan had on an overall basis elevated our total revenue to increase about 62.6% as compared with year 2013. The semi-conductor market in Taiwan has been edging upwards from quarter to quarter and this has led to the increase in the demand of our services. On the home front, the growth was attributed to the progressive revenue from the project in Tanjung Bin as well as the higher revenue from both our oil and gas and semi-conductor division.

The markets in Singapore and Philippines continued to challenge us. We will continue to focus our strengths to overcome the challenges by enhancing our services, increasing our efficiencies and reducing costs. Just like the previous years, our business had been affected by the slowdown and deferment of projects by our customers due to scale back of new or proposed expansion. We will consolidate our business and prioritise our efforts to focus on revenue and bottom-line.

We entered year 2015 with the same priority to continue to focus our attention on the quality of our services and efficiencies so as to maintain our competitiveness. As always, we strive to deliver long-term value to our stakeholders. Over the years, we had taken serious steps to continue to look for business opportunities that bode well and synergise with our current activities.

Our acquisition of TTES has enabled us to tap onto our presence and infrastructure in the region with the view of growing its existing business. This synergistic relationship is expected to contribute positively to our earnings. TTES has a license with Petronas for it to supply and provide services to Petronas. It is principally engaged in the business of turbo machinery technical engineering services and rotating equipment engineering, maintenance and technical support services for various types of industrial gas turbines and the driven equipment such as general maintenance on gas turbines, pumps, compressors, high speed industrial gearboxes and turbo generators, field performance analysis of gas turbines and compressors, vibration diagnostics/analysis, surveillance, system integration and installation and gas compressor overhauls.

### KEEPING COST LOW AND GETTING LIQUIDITY FLOWING

Our past practices of keeping cost low will continue to be our main priority as we maintain our practice to keep tabs on our financials by conserving our resources and focusing on growth in the challenging business environment. Our management team possesses great professionalism and commitment to achieving this goal. With each passing year, we will innovate and fine tune our business strategies and model so that we may remain competitive.

We will abide by our strategy of operational efficiencies, organic growth and incremental in customers base to expand our business and keep the liquidity in.



### OUTLOOK FOR 2015

Let me now share with you the outlook for 2015. Our Group's improved performance of the domestic and regional markets is anticipated to spill over from year 2014 to year 2015. The improvement in business and operating performance augur well with us and this represents an encouraging sign that our Group is on the right track of recovery from the slowdown and deferment of projects by our customers back in year 2013.

## CHAIRMAN'S STATEMENT (cont'd)

In 2014, our efforts in focusing on the quality of our services and efficiencies so as to maintain our competitiveness for enhancing business performance has been rewarding and this was reflected in the significant improvement in our profits as compared to year 2013.

The domestic market is expected to grow at a better pace as management continues to introduce new initiatives. With the completion of our Group's acquisition of 45% stake in TTES, it has also started to show the desired synergised effects to our Group and contributed positively to our Group's result since its acquisition. Our Group is confident that TTES will continue to improve its overall performance in 2015. I would like to also mention that the partnership has yielded positive outcome to our performance and would continue to reinforce our resources to this partnership. Our overall focus continues to remain in our core activities to ensure sustainable growth.

The regional markets are expected to grow with the encouraging outlook in Taiwan's semi-conductor sector, our Group is also confident that our Taiwan subsidiary will continue to deliver positive result to our Group. Taiwan continues to be our prime engine of growth for the region. We will also continue to strategise and strengthen our presence in Singapore, Philippines and Indonesia by improving efficiency in all areas of operations.

Our Group envisages that the overall business conditions in year 2015 will still be challenging amidst global uncertain economic conditions and slower growth in the regional economies. Our Group's ATB project in Tanjung Bin is expected to be completed and delivered to our customer this year. Nevertheless, our Group believes that with the right marketing approach, our Group's business prospect in year 2015 remains positive and encouraging barring unforeseen circumstances. With the strong support of our Board and management, coupled with the right approaches, I believed our business prospect will remain positive and encouraging. Our Group takes cognisance that to remain competitive, we will continue with our series of improvement measures by improving our cost base, enhanced our cross selling for greater operational synergies and implementing best practice margin management and sourcing strategy to deliver better value propositions to our customers. We will continue to adopt these measures in 2015.

Our key priorities for the year 2014 will continue to be adopted for the growth of our business in 2015. Likewise, we will continue with our costing management to protect our earnings, exercise prudence in liquidity management, disciplined execution of strategy whilst continuing to focus on the fundamentals of our Group's business.



We will seek to maximise our profitability, to manage our revenue and costs with good care.

According to published reports, this year will be a challenging year for the Malaysian economy. The economy growth is projected to be moderate which is dependent on the magnitude of fluctuations in crude oil prices and also movements of the Ringgit exchange rate against currencies of our major trading partners. Other factors will be the shocks from the commodity terms of trade, Ringgit depreciation and anticipated higher interest rates environment which are expected to affect Malaysia's domestic macroeconomic fundamentals in the short term. It is hoped that these are merely short term and shall dissipate in the medium and long-term as part of the economic cycle.

Based on the uncertain challenges faced by our Group in year 2015, your Board would not be recommending any final dividend for the year ended 2014 as we still need to conserve our cash for future expansion and investing activities.

### APPRECIATION

As always, I would like to thank all my colleagues for their tremendous hard work which has been the driving force behind our better performance despite the challenging business environment.

I also wish to thank our shareholders for their continued patience, trust and loyalty. In addition, our thanks to our valued customers, bankers, suppliers and business associates for their continuing support and confidence.

Lastly, my heartfelt thanks go to my fellow Board members for their commitment and guidance to me and the Group.

Sincerely

**NG WAI PIN**  
Chairman