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 2013.

YEAR 2013 IN PERSPECTIVE

I have mentioned in my last statement that for year 2013, we would approach it carefully knowing what to expect in an uncertain economy. We continued our strategy to build a stable platform by accelerating and intensifying the execution of our strategy.

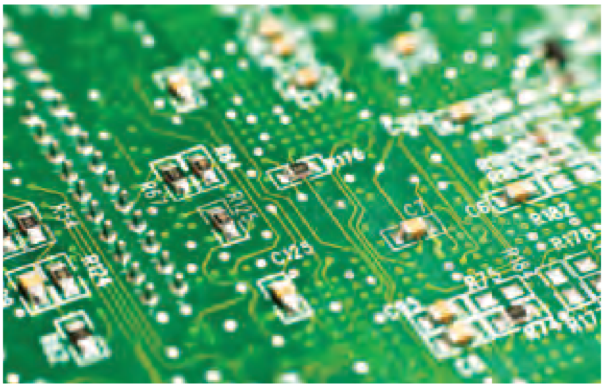
In year 2013, we continued to respond diligently to the challenging domestic and foreign markets conditions, by addressing our resources and rescaling some loss making activities while we continue to improve on the profitable businesses. This has helped us to align our businesses in the respective markets and continued to develop and strengthen our positions for growth opportunities.

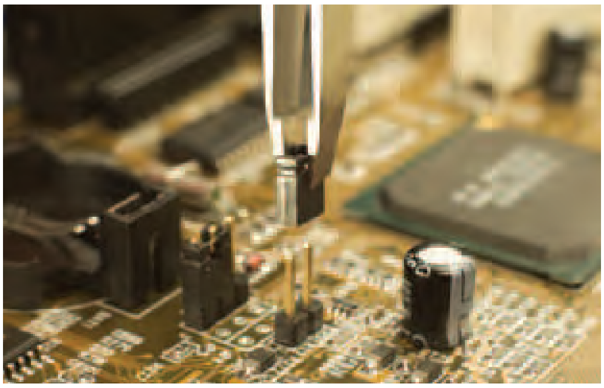
The turbulence in the markets both domestic and foreign have continued to affect our business in year 2013. However, we managed to stay on track and improved our revenue to RM190.6 million (2012 : 181.0 million). The increase in our revenue was mainly driven by our subsidiary in Taiwan in line with the robust semiconductor business there. Consequently, our Profit Before Tax also improved by RM2.7 million to RM5.9 million (2012 : RM3.2 million) partly due to lower operating expenses as a result of management's efforts in cost control combined with improving results from our relatively new business units located in Kuching and Melaka.

The Malaysian market continued to be challenging as can be seen from the marginal improvement in revenue to RM33.6 million (2012 : RM33.5 million) due to lower sales in the semiconductor industry which experienced a slowdown. The operating Malaysian entities are Frontken Malaysia Sdn Bhd, Frontken (Johor) Sdn Bhd and Frontken (East Malaysia) Sdn Bhd.

The shareholders' funds increased by RM1.4 million from RM184.9 million in year 2012 to RM186.3 million in year 2013 mainly due to the improvement in the reserves. The Group's net asset per share remained the same at 21 sen.

On the regional front, we encountered a marginal drop in business in our operations in Singapore. The revenue from Singapore reduced to RM74.1 million from RM83.0 million partly due to the disposal of Metall-Treat Industries Pte Ltd ("MTI"), a wholly owned subsidiary, on 6 December 2012, coupled with deferment of outages by its power generation customers and a one off trading sales in the preceding corresponding period. If we were to exclude the revenue from MTI and the one off





trading sales in 2012 then the revenue in 2013 would have improved by RM4 million. However, the revenue from Taiwan increased from RM50.0 million to RM65.3 million, an improvement of 30% from year 2012 mainly due to the positive growth of the semiconductor business. Our Philippines' operations also saw an improvement to its revenue from RM10.8 million to RM13.3 million following the growth in its cleaning business for the solar industry. It was comforting to note that there was continued improvement, albeit marginally, from our operation in Indonesia of RM1.7 million (2012 : RM1.5 million). We anticipate further growth from this unit now that it has obtained the necessary licence from SKK Migas, Indonesia enabling us to participate in repair and services works for the oil and gas industry.

During the year, our Group generated RM36.7 million cash flows from our operations and out of which we utilised RM5.3 million to acquire property, plant and equipment and RM3.7 million for additional investment in a subsidiary. The cash and cash equivalent amassed for the year was RM37.1 million.

Our Group's revenue for the 12 months ended 31 December 2013 increased by approximately RM9.6 million (5.3%) mainly due to the improved contribution from our operations in the Philippines and Taiwan.

ANALYSING OUR BUSINESS

The markets continued to challenge us for year 2013 just like the past years. In spite of difficult market and the uncertainties of recovery in the region, we were able to improve on our revenue marginally. We will continue to strategise and focus on our strengths to overcome the challenges by enhancing our services, increasing our efficiencies and reducing costs.

Our business had been affected by the slowdown and deferment of projects by our customers due to scale back of new or proposed expansion in light of the uncertainties of the economy. As such, we will continue to consolidate our business and prioritise our efforts to focus on revenue and bottom-line.

Chairman's Statement (cont'd)

In the year 2014, our priority will be 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 looking for business opportunities that bode well and synergise with our current activities. The recent acquisition of a strategic 45% stake in TTES Team & Specialist Sdn. Bhd. ("TTES") is the result of that.

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.

With the encouraging outlook for the oil and gas industry in Malaysia following the implementation of the Economic Transformation Programme ("ETP"), which aims to make Malaysia the number one Asian Hub for oil field services, the above acquisition provides an attractive opportunity for us to mark our involvement in the promising oil and gas industry in Malaysia. This acquisition will enable us to tap further into the existing client base of TTES in the oil and gas industry.

By being part of our Group, TTES will also be able 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 future earnings.

KEEPING COST LOW AND GETTING LIQUIDITY FLOWING

We continue 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 keeping cost low. We will continue to 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.

Chairman's Statement (cont'd)

OUTLOOK FOR 2014

Our Group remain cautious on the economic outlook as the domestic and overseas markets continue to be challenging. With the continual support and guidance of the Board and management, matched with a good business strategy, we would be in a better position to seize the growth opportunities for the overall benefits of everyone.

The Group anticipates that the overall business conditions in 2014 will continue to be challenging but encouraging amidst subdued global economic conditions and slower growth in the regional economies. This has also resulted in an increase in pressure from customers for price reduction. Nevertheless, the Group believes with the right marketing approach, our business prospect will remain positive and encouraging barring unforeseen circumstances. In order to remain competitive, we embarked on a series of improvement measures including 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 2014.

Key priorities for the year would be to grow our business and at the same time improve on our costing to protect our earnings, exercise prudence in liquidity management, disciplined execution of strategy whilst continuing to focus on the fundamentals of our business.

We will continue to speed up our execution plan in facing potential adversities in the years ahead. We certainly hope that this situation would only be temporary until the economy improves in the near future. We remain positive of our core activities while keeping a watchful eye on our new business units. We strive to achieve value added projects that will drive our businesses to new heights.

Based on the continuous challenges faced by our Group, your Board would not be recommending any final dividend for the year ended 2013 as we still need to conserve our cash for future expansion and investing activities.

APPRECIATION

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

I also wish to thank our shareholders for their continued patience, trust and loyalty during this difficult phase. 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