CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS

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 2012.

Year 2012 in perspective

In my last statement, I mentioned that our focus for year 2012 and beyond would be on improving execution and preserving our financial strength. We understand that we would not be able to secure long-term success if we do not meet our financial targets and deliver acceptable levels of return to our stakeholders.

Global uncertainties continued to plague the markets. The Malaysian front surprisingly remained resilient. The growth was driven by strong domestic demand, with impressive albeit slightly slower year-on-year growth in private consumption and private and public investment outlays. The net exports had meanwhile contracted further due to the deterioration in external demand for manufactured goods and commodities.

For us, 2012 had been a challenging year for the Group. Group sales in 2012 were down 9% to RM181 million (2011: RM198 million) mainly due to lower revenue from its operations in Singapore, Malaysia and Taiwan but profit before tax was up 8% at RM3.2 million from RM2.9 million in 2011. This was due to a gain of RM5.5 million on disposal of Metall-Treat Industries Pte Ltd (MTI), our wholly owned subsidiary. The disposal of MTI was in line with the Group's ongoing strategy to rationalise its investments to allow the Group to consolidate and deploy its resources more efficiently, improve operational efficiencies and reduce operating costs. In addition, the proceeds from the disposal also strengthened the Group's liquidity and cash position allowing it financial flexibility to pursue its growth plans.

In line with market softening, the revenue from Malaysia was down 28.5% and the other markets cumulatively also reduced by 2.2%. However, reported basic earnings per share were up 34.2% to 0.38 sen.

The shareholders' funds increased by 3% to RM184.9 million as compared to RM179.3 million in the previous year mainly due to the increase in reserves. The Group's net asset per share remained the same at 21 sen.

On the regional front, Singapore continued to remain as our main market notwithstanding the fact that the revenue was marginally lower at RM87 million. Our Singapore's operations accounted for approximately 45.8% of our overall business, slightly higher from last year's 44.3%. Taiwan market accounted for 27.6% of our business which was also affected with a slight decline of revenue by 3.4% to RM50.0 million as compared to RM51.8 million in 2011. Although the major contributors recorded a down trend, it was comforting to note that the rest of our operations in countries like the Philippines, China and Indonesia recorded an improvement in revenue. The Philippines, China and Indonesia ended the year with revenue of RM10.8 million, RM2.3 million and RM1.5 million respectively.

CHAIRMAN'S STATEMENT (CONT'D)

Year 2012 in perspective (CONT'D)

During the year, the Group generated RM16 million cash flows from operations and it has utilised RM11.8 million to acquire property, plant and equipment. The cash and cash equivalents amassed for the year was RM41.5 million. The shareholders' equity increased to RM185 million. The healthy shareholders' equity was partly attributed to the proceeds from the disposal of MTI of RM22.1 million.

The Group's revenue for the current quarter and twelve (12) months ended 31 December 2012 ("FY2012") decreased by approximately RM5.1 million (9.9%) and RM17.1 million (8.6%) respectively mainly due to lower revenue from its operations in Singapore, Malaysia and Taiwan.

The higher revenue from Singapore for the preceding corresponding period was due to more service works from its power generation division from customers' planned outages which did not happen this year. The lower revenue from Malaysia and Taiwan were mainly due to slow down in the customers' production capacity coupled with competitive pricing in the respective local markets, leading to lower unit selling price.

Against the same period last year, the profit before tax ("PBT") for FY2012 increased from RM3.0 million to RM3.2 million. Excluding the gain on disposal of investments in MTI, a wholly owned subsidiary, of RM5.5 million, the Group's PBT would have decreased by 174.6%. This was mainly caused by lower margin from certain trading activities coupled with losses from a few of its new business units namely the ones in Melaka, Kuching and Indonesia that only commenced operations in the fourth quarter of 2011 and in the first quarter of 2012 and also the relocation of our plant in Johor.

The PBT for the current quarter as compared to the corresponding quarter in 2011 increased to RM3.8 million from a loss before tax of RM3.3 million in the corresponding quarter in 2011. Excluding the gain on disposal on investments in MTI of RM5.5 million, the loss before tax for the current quarter would have been RM1.7 million.

Analysing our business

The markets have been challenging over the years. The uncertain global economy coupled with the sluggish demands have impacted our revenues greatly. We will continue to look for opportunities to grow our business and explore new markets. Our growth strategy would be to enhance our service level, to create opportunities for growth, increase efficiencies with the view to keeping cost low and to focus on increasing our customers base.

In 2012, we saw a decline in our business especially from our major subsidiaries where the market conditions in each country has impacted the way we do our business. We will continue to review our business model to find opportunities to increase our revenues.

We will be consolidating our position and prioritising our efforts to focus on increasing revenue and bottom line from our main contributing countries. In looking back at 2012, we find ourselves trying to rise above the challenges of yet another difficult year of business uncertainties and slow consumer spending.

Against such backdrop, our focus in 2013 would be to deliver quality services and increase efficiencies which would in turn keep our growth and profits afloat. Times were hard in 2012. Rest assured that our efforts have not been affected by the slowdown. We will continue to keep track of our new business units in Melaka, Kuching and Indonesia.

We strive to deliver long-term value to our shareholders. For that, we have taken serious steps to keep looking out for business opportunities that bode well with our current activities. We accept changes in the way we do business in order to stay ahead of competition and to have a good grip of our long term sustainable growth without losing sight of our vision and mission.

Our ultimate objective is to enhance shareholders' value. We expect the uncertainties of 2012 to continue in 2013. We will continue to leverage on our regional spread and networking to steer our business forward.

In February 2013, it was most unfortunate that we had to announce the financial irregularities of one of our wholly owned subsidiaries and the appointment of Crowe Horwath to carry out a special investigative audit. Following the report, the Company had taken further measures to safeguard its assets and interest. The total potential impact will be about RM8.87 million, which have been provided for in the accounts for the past six financial years beginning from 2006. As the accounting irregularities happened in the past and full provision

CHAIRMAN'S STATEMENT (CONT'D)

Analysing our business (CONT'D)

had been made for the financial year ended 31 December 2012, there will not be any financial or operational impact on the Company. In the event that the same is recovered, the earnings would be adjusted accordingly by the amount received during that year.

We remain committed to overcome the obstacles by focusing on our key revenues and controlling costs.

Keeping cost low and getting liquidity flowing

The results of 2012 continued to remind us of the need to continue to conserve our resources and to focus on growth even during these trying times. We were fortunate to have a management team that was able to face the turbulence with great professionalism and commitment. We will continue to innovate and fine tune our business strategies and model so that we may remain competitive.

We would 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 2013

We are still cautious on the economic outlook as the domestic and overseas markets continue to be uncertain. However, under the guidance of the Board, and with a good strategy, I believe we are well positioned to capitalise on growth opportunities in the coming year to the benefit of our stakeholders.

For the year 2013, we will continue with our strategy to build on Frontken's stable platform by accelerating and intensifying the execution of our strategy. The market outlook remained to be challenging for this year and beyond. We are taking action to mitigate the macro headwinds to deliver cost reductions and Group synergies. We will continue to work on the growth of our current businesses and renew our focus on operational performance.

We will up the pace of our execution further in the year ahead. We hope that this should deliver short-term earnings growth with significant acceleration once economic conditions improve.

In my last statement, I have said that growth would be partly dependent upon market conditions and it is fair to say that the economic environment and the industry remain challenging. We will continue to seek to maximise our profitability, to manage the decline in lower revenue and to manage costs with care.

We approach 2013 carefully knowing what to expect in a turbulent economy. We remain positive of our core activities while keeping tabs on our new business units. We will continue to seek diligently opportunities that can add value to our businesses.

As we weather the storm that would come our way, the Board would not be recommending any final dividend for the year ended 2012 as we 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 the Group.

Sincerely,

NG WAI PIN
Chairman/Managing Director