Chairman's Message

Dear valued shareholders,

In an operating landscape fraught with severe macro-economic headwinds, Frontken Corporation Berhad ("Frontken" or "the Group") achieved an earnings before interest, tax, depreciation and amortisation ("EBITDA") of RM51.7 million and profit after tax ("PAT") of RM27.3 million for the year ended 31 December 2016 ("FYE2016"). This performance not only marks a significant jump in profit year-on-year but also reflects the Group's highest EBITDA and PAT to date.

Clearly, Frontken's strategic focus on delivering quality engineering solutions to diverse industries, while at the same, expanding our presence in selected high-growth countries within the Asia Pacific region, has and will continue to bear fruits for our Group. Simultaneously, we have also been carefully cultivating and nurturing our human capital to ensure that our talent have the right skill-set and mindset to take our Group to greater heights of success.

On this positive note and on behalf of the Board of Directors of Frontken, I am pleased to present to you the Annual Report and Audited Financial Statements of the Group and its subsidiary companies for FYE2016.

As part of this Annual Report, the following Management Discussion and Analysis ("MD&A") provides our shareholders with details of the Group's performance and business operations. We trust that you will find our MD&A both informative and insightful.

MANAGEMENT DISCUSSION AND ANALYSIS

A Multinational Integrated Engineering Solutions Group

Frontken is a leading provider of surface treatments, chemical and mechanical engineering solutions in the region. Leveraging on more than 20 years of industry experience, Frontken has successfully expanded its presence throughout Asia Pacific, specifically in Malaysia, Taiwan, Indonesia, Singapore, Thailand and the Philippines.

The Group's operations across these countries offer technical expertise and solutions to a diverse range of industries including semiconductor, oil and gas, power generation, petrochemical and marine.

Frontken's competitive advantage is derived from its commitment towards delivery excellence as well as innovative research and development ("R&D"). Embracing state-of-the-art technologies and processes, the Group's highly skilled and motivated professionals of some 1,100 strong are fully capable of providing our broad spectrum of clients with quality one-stop solutions.

Operating Landscape

The global economy faced significant headwinds in 2016. Economic growth of advanced economies was in spurts-and-starts while China's economy grew at a slower pace. Further aggravating the situation were factors such as the continued slump in commodity and oil price, the Brexit referendum and the result of the Presidential Elections in the United States.

Against this backdrop, economies within the Asia Pacific region were impacted to varying degrees. Malaysia's economy remained resilient, with GDP growth at 4.2%, according to Bank Negara Malaysia. Taiwan, however, was more severely impacted with 2016 GDP growth estimated at only 1.5%, as stated by the Directorate General of Budget, Accounting and Statistics. Singapore also faired the same with a GDP growth of only 1.8% in 2016, as highlighted by its Ministry of Trade and Industry.

From an industry perspective, the persistent slump in oil and gas price naturally affected the oil and gas industry throughout the world. Investments in exploration, production and maintenance activities decreased significantly and as a consequence, oil and gas related companies throughout the value chain suffered declining performance. Frontken's oil and gas customers were not spared and this had led to a tough financial year for our operations that are focused in this sector.

The semiconductor industry, however, is growing from strength to strength. SEMI, a global industry association,

Chairman's Message (cont'd)

estimates spending of US$19 billion on semiconductor equipment and materials in the Southeast Asia region for 2015 and 2016. This uptrend, resulting from the growth in telecommunications and Internet-of-Things ("IoT") technologies, has enabled our Group's semiconductor operations to turn in strong results.

Review of Financial Performance

For FYE2016, Frontken reported a revenue of RM261.8 million as compared to RM280.6 million in the last financial year. The year-on-year decrease in revenue was the result of an exceptional revenue derived from the completion of a project ("ATB Project") that was recorded in FYE2015. If the revenue from the ATB Project was to be excluded, revenue for FYE2016 would have been 4.5% higher year-on-year.

The Group profit before tax ("PBT") during the year under review jumped by a significant 108.4% to RM33.3 million from RM16.0 million recorded a year ago. As a result, profit after tax grew to RM27.3 million from RM9.5 million last year. The markedly improved profit was due to stronger contribution from our semiconductor solutions business in Taiwan and Malaysia. The Group also recorded better performance in the Philippines and Indonesia attributable to our expanding business portfolio in these two countries.

From a segmental standpoint, Frontken's Taiwan operations continues to be the main profit generator as it contributed 72% to the Group's overall operating profit in FYE2016. This was followed by Malaysia (22%) and the Philippines (10%). Frontken's operations in Indonesia and Singapore recorded operating losses for the year under review.

Earnings per share attributable to equity holders of the company stood at 1.91 sen for FYE2016, up significantly from 0.39 sen a year ago. Net assets per share increased slightly to RM0.25 as at 31 December 2016 from RM0.23 as at the corresponding period last year.

In 2016, Frontken allocated a capital expenditure of RM9.7 million for FYE2017 in an effort to improve its overall operations.

Review of Business Operations

Frontken Malaysia

Frontken Malaysia turned in a strong performance during the year under review with an operating profit of RM7.2 million on the back of a revenue of RM68.5 million, as compared to an operating loss of RM3.5 million on a revenue of RM106.8 million recorded in the previous financial year.

The improved performance was the result of stronger contribution from Frontken Malaysia's semiconductor division, which has operations in Kulim, Kuching and Melaka.

In Kulim, Frontken has maintained its dominant position as the largest parts cleaning service provider among the Group's Malaysian subsidiaries. In addition to seeing increased sales from its semiconductor customers, Frontken's Kulim operations also saw a rebound in business activity from the solar or photovoltaic ("PV") industry throughout 2016.

In the oil and gas sector, the low price regime affected its related operations across the board. Frontken TTES Malaysia, the Group's engineering services provider that also holds a license to supply and provide services to Petroliam Nasional Bhd ("Petronas"), experienced acute competition and lower margins in 2016. The company intends to aggressively manage cost and venture into power generation and general industry services to generate revenue and sustain its current operations.

In Johor, Frontken's oil and gas business was able to secure a new customer that is a global leader in the detailed engineering, fabrication and construction of offshore floating production storage offloading vessels. In East Malaysia, Frontken fared better with increased revenue from new customers as well as from non-oil and gas related services.

Chairman's Message (cont'd)

Frontken Taiwan

Frontken's Taiwan operations, which are primarily focused on the semiconductor industry, remain the largest profit contributor to the Group. For FYE2016, Frontken Taiwan turned in a higher operating profit of RM23.9 million compared to RM20.6 million a year ago. Revenue was also higher at RM128.3 million compared to RM109.1 million last year.

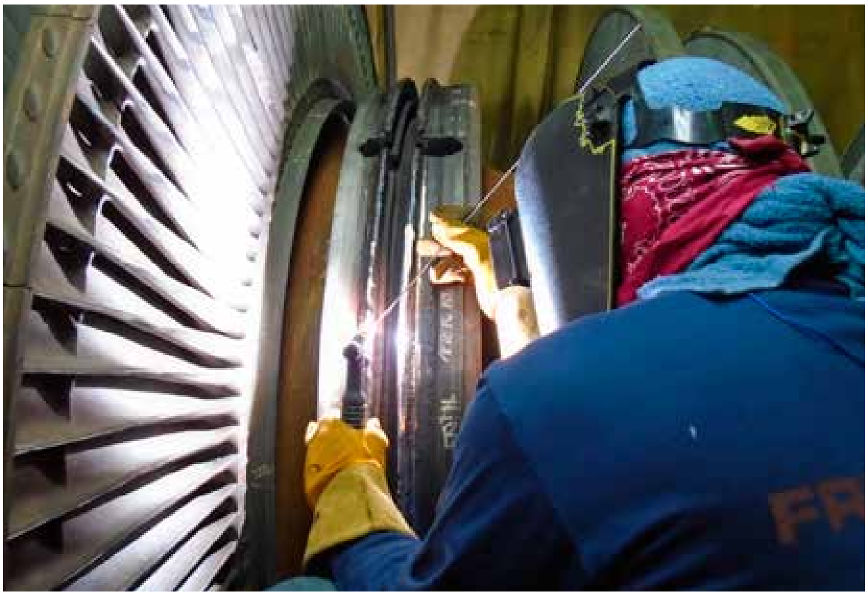
The improved performance was due to the continued strong demand of thin-film-transistor liquid-crystal display ("TFT-LCD"), which are used in televisions, computer monitors, mobile phones and projectors. During the year, Frontken Taiwan was able to retain its market share in some products while securing greater market share in others. At the same time, our Taiwan operations continued to look at ways to improve its production processes to maximise efficiencies and strengthen margins.

Frontken Philippines

For FYE2016, Frontken Philippines achieved an operating profit of RM3.2 million from a revenue of RM18.4 million. This was a marginal improvement compared with an operating profit of RM3.1 million from a revenue of RM15.8 million recorded a year ago.

In the solar panels sector, Frontken Philippines saw tangible growth throughout its precision cleaning business platforms. In addition, the commencement of operations of its customer's new solar panel fabrication plant (SunPower Fab 4) at the beginning of 2016 also contributed significantly towards revenue growth.

Apart from the photovoltaic industry, Frontken Philippines also saw growth in its energy business. This was due to an increase in on-site works for power plants' scheduled outages and the execution of plant efficiency improvement programmes.



The Group's oil and gas and utilities operations in the Philippines, however, were affected by deferred projects during the year.

Frontken Indonesia

Frontken Indonesia's operating loss narrowed significantly to RM0.1 million compared to RM0.8 million a year ago. The overall operations continued to be impacted by the oil and gas downturn.

Nevertheless, Frontken in Indonesia is only one out of four companies that possess an API certification. This would enable the company to carry out repairs and rectification works or tender for projects from large oil companies for blowout preventer repairs when the market recovers.

Frontken Singapore

Frontken's Singapore operations recorded an operating loss of RM1.1 million for FYE2016. This was higher compared to an operating loss of RM0.8 million for FYE2015.

While the Group's semiconductor related business in Singapore remained stable, with strong support from its customers, Frontken Singapore's marine and offshore as well as power generation businesses were severely impacted by the challenging operating conditions.

In order to strengthen its financial and operational position, Frontken in Singapore will continue to focus on improving cost effectiveness, undertake bigger projects, penetrate new markets and expand its capabilities and know-how.

Moving forward

The global economy is expected to fare better in 2017 compared to 2016. The International Monetary Fund expects the global economy to grow by 3.4% in 2017, which is slightly better than 3.1% in 2016. Nevertheless, uncertainties such as the future trade policy of the United States as well as the economic performances of Europe and China, continue to cause concerns.

Chairman's Message (cont'd)

The oil and gas industry is also expected to make a gradual recovery in 2017 as price strengthens and oversupply eases. The semiconductor sector is also predicted to sustain its uptrend, buoyed by demand from the telecommunications, automotive and IoT industries.

In view of this operating landscape, Frontken aims to sustain its strong performance in Malaysia, Taiwan and the Philippines, especially in relation to its semiconductor operations. In addition to maintaining its current client portfolio, the Group intends to win more clients by leveraging on its delivery track record and expertise.

In Singapore, Frontken expects operating conditions to remain challenging. Nevertheless, a recovery in the oil and gas industry may be able to affect a sustainable turnaround for our business operations in the Island-state. In Indonesia, we remain confident of a turnaround in the foreseeable future in view of the API certification obtained in December 2016.

From a 'Big Picture' perspective, the Asia Pacific region, especially ASEAN countries, are expected to maintain robust growth. The Group's foothold in key economies within ASEAN as well as in Taiwan puts us in a unique position to tap into a dynamic and vibrant marketplace. As the ASEAN Economic Community ("AEC") gains momentum, we also foresee the rapid growth of ASEAN to ASEAN business activities and this will augur well for the Group in the long term.

All in all, the Board of Directors of Frontken, its Senior Management Team as well as our multinational team of employees are committed towards working cohesively to ensure that the Group continues to deliver enhanced shareholders' value in a sustainable manner. As we march forward into 2017, Frontken remains cautiously optimistic that its performance for its 2017 financial year will be satisfactory.

Acknowledgement

As a Group, we would like to take this opportunity to thank our Board of Directors for their invaluable counsel and dedication in exercising their fiduciary duties. We would also like to thank our senior management team and all employees for staying committed to our Group and delivering a record breaking performance in FYE2016. Kudos and congratulations!

We would also like to thank our customers, suppliers, business associates, as well as policymakers, regulators, and relevant government authorities for their assistance and cooperation.

Last but not least, a big *'Terima Kasih'* to our loyal shareholders for your continued trust and confidence in Frontken Corporation Berhad.

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Chairman / Managing Director