



DELEUM

**Exploring Opportunities
for Synergistic Growth**

**2018
ANNUAL
REPORT**



EXPLORING OPPORTUNITIES FOR SYNERGISTIC GROWTH

The starburst design on this cover with its multiple facets serves to reflect the energy of Deleum's thrust towards growing its value deriving from the synergy of our three core business segments.



OUR MISSION

To Provide Sustainable Growth
and Enhance Stakeholders' Value



OUR VISION

To be the Market Leader in our
Operating Segments Domestically
and a Regional Presence by 2020



OUR SHARED VALUES

- Integrity
- Professionalism
- Health, Safety & Environment
- Excellence

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OUR PEOPLE OUR SUCCESS

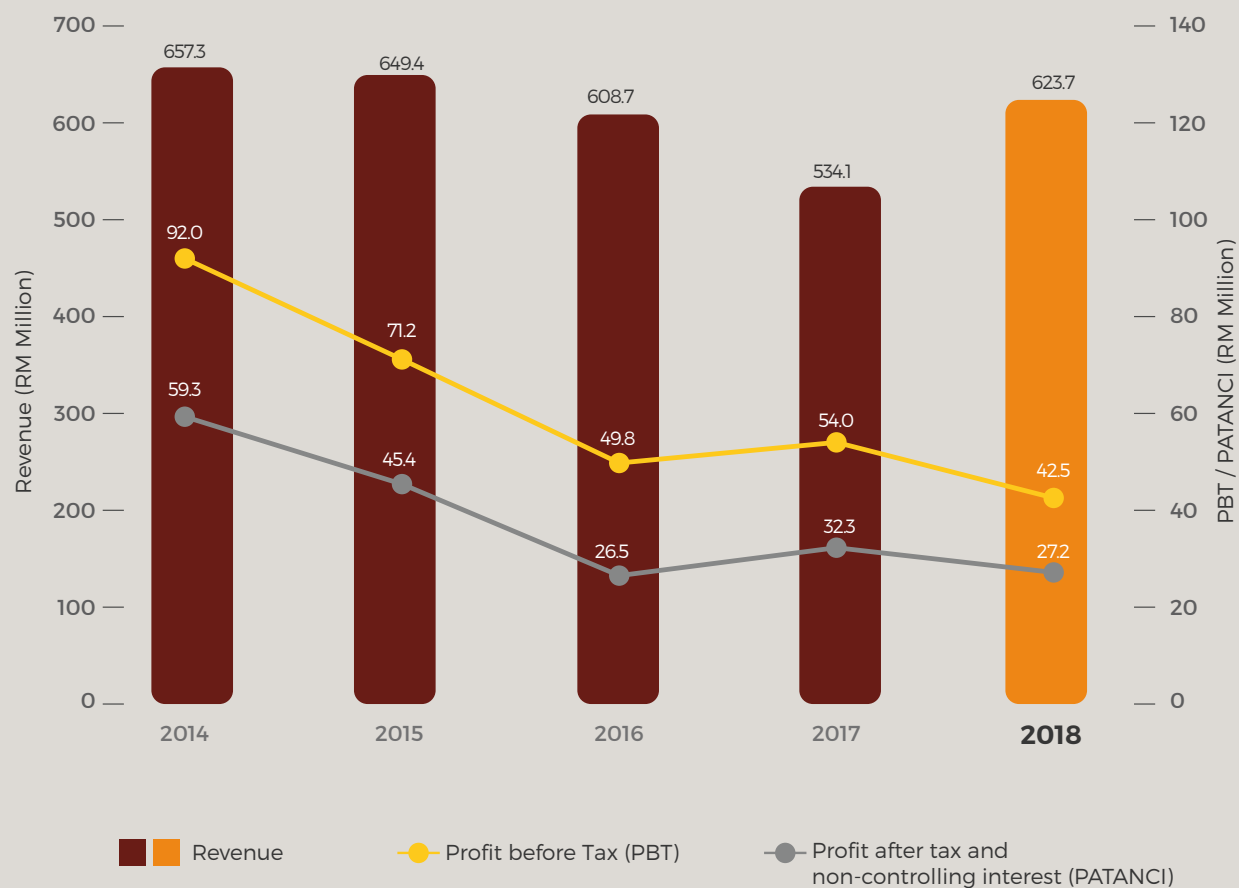




FINANCIAL HIGHLIGHTS

FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014 - 2018

| | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | 2018 RM'000 |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue | 657,273 | 649,398 | 608,652 | 534,058 | 623,685 |
| Gross profit | 157,969 | 149,176 | 128,521 | 139,868 | 124,451 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 116,861 | 108,275 | 87,502 | 87,119 | 73,889 |
| Share of associates' results | 13,727 | 5,642 | 223 | (385) | 2,275 |
| Share of joint venture's results | - | 775 | 684 | 857 | 1,139 |
| Profit before tax | 91,994 | 71,152 | 49,767 | 54,025 | 42,548 |
| Profit after tax | 70,651 | 55,539 | 32,821 | 39,261 | 29,829 |
| Non-controlling interest | (11,327) | (10,131) | (6,308) | (6,983) | (2,660) |
| PATANCI | 59,324 | 45,408 | 26,513 | 32,277 | 27,169 |
| Number of shares ('000) | 400,000 | 400,000 | 400,000 | 400,195 | 401,126 |



FINANCIAL RATIOS

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------|------|------|------|------|------|
| Return on equity (%) | 21.6 | 15.5 | 8.8 | 10.0 | 8.2 |
| Return on total assets (%) | 8.9 | 6.7 | 4.0 | 5.3 | 4.1 |
| Gearing ratio (%) | 56.5 | 46.9 | 36.4 | 23.6 | 19.1 |
| Net asset per share (RM) | 0.69 | 0.73 | 0.75 | 0.80 | 0.83 |
| Dividend per share (Sen) | 7.5 | 5.5 | 3.5 | 4.3 | 3.5 |
| Dividend yield (%) | 4.7 | 5.0 | 3.5 | 4.5 | 3.6 |

EBITDA

RM73.9

MILLION

2017:

RM87.1 MILLION

RETURN ON EQUITY

8.2%

2017:

RM10.0%

SHAREHOLDERS' EQUITY

RM331.6

MILLION

2017:

RM322.0 MILLION

PATANCI

RM27.2

MILLION

2017:

RM32.3 MILLION

TOTAL FIXED ASSETS

RM152.1

MILLION

2017:

RM164.3 MILLION

DIVIDEND PER SHARE

3.5

SEN

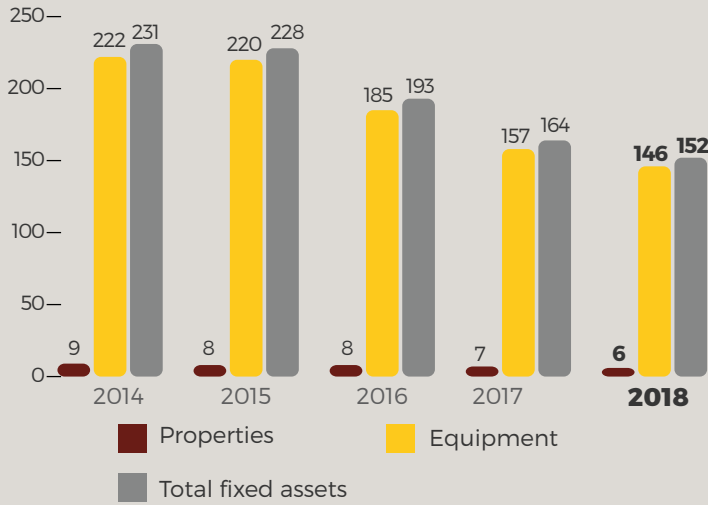
2017:

RM4.3 SEN

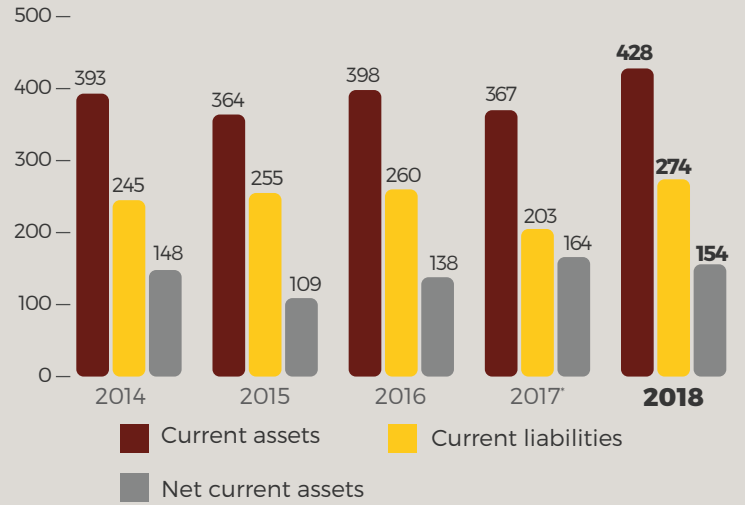
FINANCIAL HIGHLIGHTS (CONTINUED)

FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014 - 2018

PROPERTY, PLANT AND EQUIPMENT (RM MILLION)

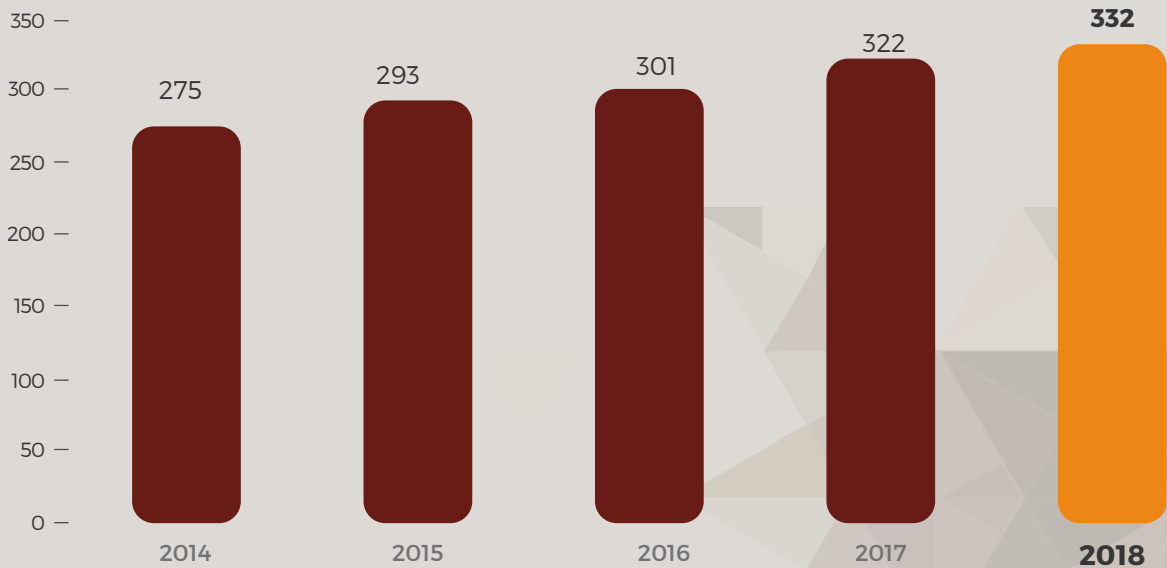


NET CURRENT ASSETS (RM MILLION)

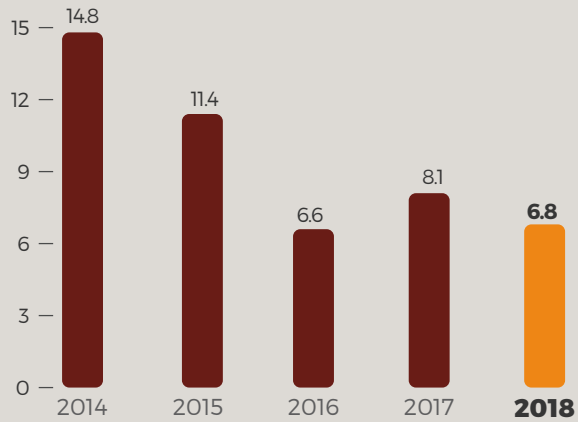


* 2017 current assets and current liabilities have been restated prospectively to reflect the effects of changes in accounting policies and to conform with current year presentation. No restatement is done for financial years prior to 2017

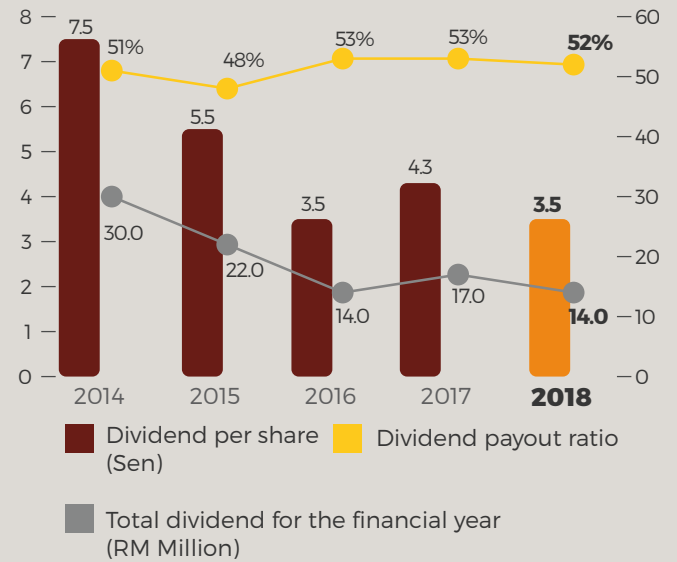
SHAREHOLDERS' EQUITY (RM MILLION)



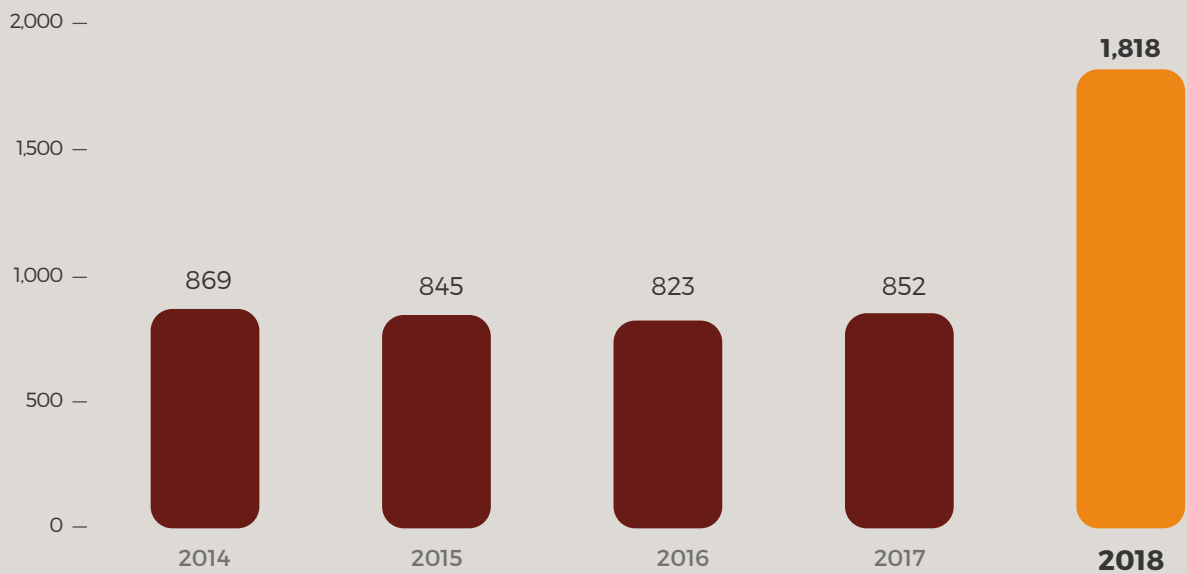
EARNINGS PER SHARE
(SEN)



DIVIDENDS



EMPLOYEES



CORPORATE INFORMATION

BOARD OF DIRECTORS

DATO' IZHAM BIN MAHMUD

Non-Independent
Non-Executive Chairman

DATUK VIVEKANANTHAN A/L M.V. NATHAN

Non-Independent
Non-Executive Deputy Chairman

NAN YUSRI BIN NAN RAHIMY

Group Managing Director

DATUK ISHAK BIN IMAM ABAS

Independent Non-Executive
Director

DATUK IR (DR) ABDUL RAHIM BIN HASHIM

Senior Independent
Non-Executive Director

DATUK NOOR AZIAN BINTI SHAARI

Independent Non-Executive
Director

LEE YOKE KHAI

Independent Non-Executive
Director

AUDIT COMMITTEE

DATUK ISHAK BIN IMAM ABAS

(Chairman)

DATUK IR (DR) ABDUL RAHIM BIN HASHIM

LEE YOKE KHAI

JOINT REMUNERATION AND NOMINATION COMMITTEE

DATUK IR (DR) ABDUL RAHIM BIN HASHIM

(Chairman)

DATO' IZHAM BIN MAHMUD

DATUK VIVEKANANTHAN A/L M.V. NATHAN

DATUK ISHAK BIN IMAM ABAS

DATUK NOOR AZIAN BINTI SHAARI

LEE YOKE KHAI

BOARD RISK COMMITTEE

LEE YOKE KHAI

(Chairman)

DATUK VIVEKANANTHAN A/L M.V. NATHAN

DATUK NOOR AZIAN BINTI SHAARI

COMPANY SECRETARIES

LEE SEW BEE

MAICSA NO. 0791319

LIM HOOI MOOI

MAICSA NO. 0799764

REGISTERED OFFICE/ HEAD OFFICE

NO. 2, JALAN BANGSAR UTAMA 9
BANGSAR UTAMA
59000 KUALA LUMPUR, MALAYSIA
TEL : 603-2295 7788
FAX : 603-2295 7777
EMAIL : INFO@DELEUM.COM
WEBSITE : WWW.DELEUM.COM

SHARE REGISTRARS

BOARDROOM SHARE REGISTRARS SDN. BHD.

(formerly known as Symphony
Share Registrars Sdn. Bhd.)
LEVEL 6, SYMPHONY HOUSE
PUSAT DAGANGAN DANA 1
JALAN PJU 1A/46
47301 PETALING JAYA
SELANGOR DARUL EHSAN
MALAYSIA
TEL : 603-7849 0777
FAX : 603-7841 8151/52

STOCK EXCHANGE LISTING

BURSA MALAYSIA SECURITIES
BERHAD
MAIN MARKET
STOCK CODE: 5132

AUDITORS

PRICEWATERHOUSECOOPERS PLT

LEVEL 10, 1 SENTRAL
JALAN RAKYAT
KUALA LUMPUR SENTRAL
P.O. BOX 10192
50706 KUALA LUMPUR, MALAYSIA
TEL : 603-2173 1188
FAX : 603-2173 1288

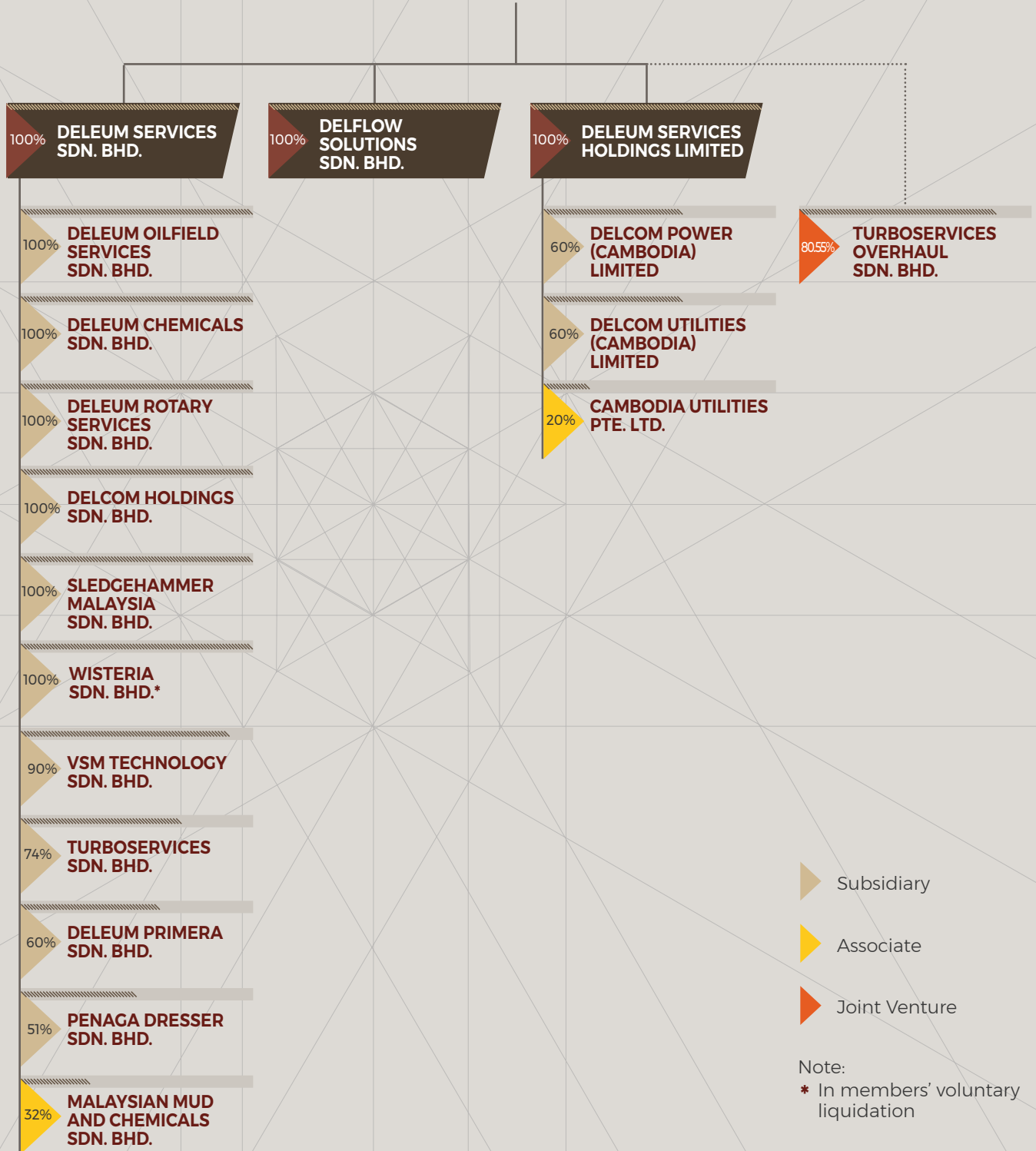
PRINCIPAL BANKERS

HSBC BANK MALAYSIA BERHAD
STANDARD CHARTERED BANK
MALAYSIA BERHAD
MALAYAN BANKING BERHAD
AMBANK (M) BERHAD

GROUP CORPORATE STRUCTURE

AS AT 31 MARCH 2019

DELEUM BERHAD



PROFILES OF DIRECTORS



DATO' IZHAM BIN MAHMUD

Non-Independent Non-Executive Chairman

BOARD COMMITTEE



Dato' Izhah bin Mahmud (Malaysian, aged 78, Male) was appointed to the Board on 21 December 2005.

He holds a Bachelor of Science Degree (Honours) in Economics from Queen's University Belfast, UK and a Master of Arts (Economics Development) from Vanderbilt University, USA. He is one of the co-founders of Deleum Services Sdn. Bhd. (Deleum Services) (formerly known as Delcom Services Sdn. Bhd.), a wholly-owned subsidiary of Deleum Berhad via his family holding company, IM Holdings Sdn. Bhd.

Dato' Izhah joined the Federal Treasury in 1965 and attained the level of Principal Assistant Secretary and was subsequently seconded to the Malacca State Development Corporation as General Manager in 1972. In 1974, he embarked on his banking career and joined Aseambankers Malaysia Berhad as General Manager and was later promoted to Managing Director in 1979, a position he held until his retirement in 1996. During this period, he served as a Director of various subsidiaries of the Maybank Group and Cagamas Berhad.

He joined Deleum Services as its Chairman upon retirement and was subsequently appointed Executive Chairman in 2000. He was the Executive Chairman of Deleum Berhad until his retirement on 31 May 2010 and subsequently became the Non-Executive Chairman. He previously also served on the Boards of RHB Capital Berhad, RHB Bank Berhad, Renong Berhad, Opus Berhad, AMMB Holdings Berhad and AmlInvestment Bank Berhad.



DATUK VIVEKANANTHAN A/L M.V. NATHAN

Non-Independent Non-Executive Deputy Chairman

BOARD COMMITTEES



Datuk Vivekananthan a/l M.V. Nathan (Malaysian, aged 78, Male) was appointed to the Board on 21 December 2005. He is one of the co-founders of Deleum Services.

He joined ESSO Malaysia in the Instrumentation and Electrical Engineering Services Department in 1962 and undertook assignments at ESSO refineries in Malaysia and Thailand. He then worked for Mobil Refinery, Singapore and subsequently was the Project Engineer with Avery Laurence (S) Pte. Ltd. on various first ever offshore projects in Brunei, Thailand and Indonesia. He had also attended training with Yokogawa Electric Works in Japan. He later joined Teledyne Inc. and was based in USA for training in management before being promoted as Marketing Director of its Far East Operations.

In 1982, together with his founding partners, Datuk Vivekananthan successfully spearheaded Deleum Services' venture into the oil and gas industry. He was appointed as the Managing Director and later re-designated as President of Deleum Services. He was the Deputy Executive Chairman of Deleum Berhad until his retirement on 31 May 2010 and subsequently became the Non-Executive Deputy Chairman.

He sits on the Board of International Conference and Exhibition Professionals (ICEP), the organiser of conferences and exhibitions hosted by PETRONAS. He is an Honorary Member of the Malaysian Gas Association since May 2016 after having served as its Council Member from 2004 and Treasurer from 2008 until May 2016. Datuk Vivekananthan is a Director of Malaysian Philharmonic Orchestra and a member of the Board of Trustees of Dewan Filharmonik PETRONAS since November 2014.



Audit Committee

Joint Remuneration &
Nomination Committee

Board Risk Committee



NAN YUSRI BIN NAN RAHIMY

Group Managing Director

Nan Yusri bin Nan Rahimy (Malaysian, aged 47, Male) was appointed to the Board on 1 March 2011.

He graduated from the Royal Melbourne Institute of Technology (now RMIT University), Australia with a Bachelor of Engineering Degree (Honours) in Mechanical Engineering in 1996. He has been a member of the Society of Petroleum Engineers since 2004 and a member of the American Society of Mechanical Engineers since 2014 and also an alumni of the INSEAD Business School.

Nan Yusri has been involved in the Oil & Gas, and the Energy Industry for more than 20 years. He joined Deleum Services as a Marketing Executive supporting the turbomachinery business in April 1996 and was later re-designated to Application Engineer in November 1996. He subsequently held several senior positions within the Group including Senior Marketing Manager, Assistant Vice President - Business Development, Vice President (VP) - Exploration and Production, Chief Operating Officer - Oilfield Services and Chief Executive Officer (CEO) of Deleum Oilfield Services Sdn. Bhd. (DOSSB). In September 2010, he was promoted to CEO of Deleum Services, the holding company of DOSSB, before being appointed to his current position.

He was appointed a Council Member of the Malaysian Gas Association in May 2016. He sits on the Board of International Conference and Exhibition Professionals (iCEP) as Alternate Director to Datuk Vivekananthan a/l M.V. Nathan. He is also a member of the Student Development Advisory Council of Universiti Teknologi PETRONAS since December 2014.



DATUK ISHAK BIN IMAM ABAS

Independent Non-Executive Director

BOARD COMMITTEES



Datuk Ishak bin Imam Abas (Malaysian, aged 73, Male) was appointed to the Board on 21 March 2007. He is a Fellow of the Chartered Institute of Management Accountants and a member of the Malaysian Institute of Accountants.

He was the Finance Director of Pfizer (M) Sdn. Bhd., Bursar of Universiti Kebangsaan Malaysia, Finance Director of Western Digital (M) Sdn. Bhd. and Accountant in Pernas International Holdings Berhad prior to joining PETRONAS in 1981.

During his tenure at PETRONAS, he held various senior positions including Deputy GM Commercial of PETRONAS Dagangan Berhad, Senior GM Finance of PETRONAS, Senior VP Finance of PETRONAS, CEO of KLCC (Holdings) Sdn. Bhd. and KLCC Property Holdings Berhad. He was also a member of the Board of Directors of PETRONAS and several of its subsidiaries. In April 2006, he retired from PETRONAS as Senior VP. He continued to be CEO of KLCC (Holdings) Sdn. Bhd. and KLCC Property Holdings Berhad until his retirement in April 2007.

Datuk Ishak is currently the Non-Executive Chairman of Putrajaya Holdings Sdn. Bhd. He is also the Non-Executive Director of KLCC Property Holdings Berhad, a public company listed on the Main Market of Bursa Malaysia Securities Berhad, Kuala Lumpur City Park Berhad and KLCC REIT Management Sdn. Bhd., all of which are subsidiaries of PETRONAS.

He is a Non-Executive Director of Integrated Petroleum Services Sdn. Bhd.

PROFILES OF DIRECTORS (CONTINUED)



DATUK IR (DR) ABDUL RAHIM BIN HASHIM

Senior Independent Non-Executive Director

BOARD COMMITTEES



Datuk Ir (Dr) Abdul Rahim bin Hashim (Malaysian, aged 65, Male) was appointed to the Board on 15 November 2013.

He graduated with a B.Sc. (Electronics & Electrical) Engineering from the University of Birmingham, UK in 1976 and has also completed the Advanced Management Programme at Harvard Business School in 1997.

He started his career in PETRONAS as an Electrical Engineer soon after graduation. He held various senior positions including Managing Director and CEO of PETRONAS Penapisan (Melaka) Sdn. Bhd. and Malaysian Refining Company Sdn. Bhd., VP of Human Resource Management Division and VP for Gas Business of PETRONAS. He was the VP of Research and Technology Division of PETRONAS from April 2006 until his retirement in December 2008. He also held directorships in several PETRONAS subsidiaries including PETRONAS Gas Berhad, PETRONAS Dagangan Berhad, PETRONAS Carigali Sdn. Bhd. and Malaysia LNG Sdn. Bhd., all of which he relinquished upon retirement.

Datuk Ir (Dr) Abdul Rahim is the Past President of the International Gas Union (2009- 2012), the host of the 25th World Gas Conference held in Kuala Lumpur in 2012. He helmed the presidency of Asia Pacific Natural Gas Vehicle Association from 2003 to 2007 and the presidency of the Malaysian Gas Association from 2003 to 2013. He has served as a Board Member of the Board of Engineers Malaysia. He was a member of the National Science and Research Council of Malaysia and served as a commissioner at the Energy Commission of Malaysia from 2009 to 2016.

He is the Vice Chancellor of University of Malaya since 1 November 2017. Prior to the appointment, he was the Vice Chancellor/CEO of Universiti Teknologi PETRONAS for 5 years from 1 November 2012 to 31 October 2017. He was a director of Institute of Technology PETRONAS Sdn. Bhd. from 2010 to 2017. He was appointed a member of the Board of Advisor of the Higher Education Leadership Academy under the Minister of Higher Education in November 2015 for a period of three (3) years. He was appointed a member of the Academy of Sciences Malaysia (ASM) Council on 22 April 2017.

Datuk Ir (Dr) Abdul Rahim is a director of ICE Petroleum Engineering Sdn. Bhd. since November 2017 and a Board Member of Malaysia Convention & Exhibition Bureau (MyCEB) since October 2018.



DATUK NOOR AZIAN BINTI SHAARI

Independent Non-Executive Director

BOARD COMMITTEES



Datuk Noor Azian binti Shaari (Malaysian, aged 70, Female) was appointed to the Board on 1 January 2015. She is a Barrister-At-Law of Lincoln's Inn London having been called to the English Bar in May 1971.

Upon graduating, she joined the Malaysian Judicial and Legal Service and served for over 30 years until her retirement in July 2004. During her tenure with the said service, she held various positions, amongst them being Deputy Parliamentary Draftsman, Official Assignee Malaysia, Treasury Solicitor, Sessions Court Judge, Deputy Head of Civil Division, Chairman of the Special Commissioners for Income Tax and Chairman of Tribunal for Consumer Claims.

After her retirement from the Malaysian Judicial and Legal Service, she was appointed as a Judge of the High Court of Malaya and she presided over cases in the Commercial, Civil and Criminal Divisions. She retired from her position as High Court Judge of Malaya in July 2014.

Datuk Noor Azian is a Registered Arbitrator with the Asian International Arbitration Centre (AIAC). She also sits on the Board of Affin Hwang Investment Bank Berhad where she is the Chairman of the Board Risk Management Committee and a member of Nomination and Remuneration Committee.



Audit Committee

Joint Remuneration &
Nomination Committee

Board Risk Committee



LEE YOKE KHAI

Independent Non-Executive Director

BOARD COMMITTEES



Lee Yoke Khai (Malaysian, aged 61, Male) was appointed to the Board on 15 March 2019. He is a Fellow of the Institute of Chartered Accountants Australia and a member of the Malaysian Institute of Accountants and Malaysian Association of Certified Public Accountants. He holds a Bachelor of Economics (Accounting) from Monash University, Australia.

Mr Lee started his career with Price Waterhouse Melbourne, Australia as an Audit Assistant in 1978 and joined Price Waterhouse Malaysia (currently known as PricewaterhouseCoopers PLT) ("PwC") in 1981. He was an Audit Partner of PwC from 1991 until his retirement in 2018.

During his tenure with PwC, he was the partner responsible for the East Malaysian practice, and involved in the listing of various companies on Bursa Malaysia Securities Berhad. He was the Risk Management Partner in 2006 until 2012, responsible for the overall risk management strategy for the firm. In 2012, he was elected to the Oversight Board with oversight over the management of the firm and served until 2016.

Mr Lee was also the Leader of Technology group and Emerging Markets group during his career with PwC. In 1999, he was appointed Leader of the Global Risk Management unit for Malaysia and lead a number of significant assignments in risk management and internal audit for large corporations.

Mr Lee has extensive experience within the audit profession covering a wide range of industrial and commercial operations in Malaysia and Australia. He was Engagement Leader on large multinational corporations in various sectors including plantations, upstream and downstream oil and gas, information technology, construction and property development, manufacturing and services industries. In addition, he has experience in investigations, share valuations and due diligence.

Notes:

1. Directors' attendance at Board and Board Committee meetings during the financial year ended 31 December 2018 are set out in the Corporate Governance Overview Statement and Audit Committee Report.
2. The above Directors have no family relationship with any Director and/or major shareholder of Deleum Berhad, have no conflict of interest with Deleum Berhad, have not been convicted of any offence within the past five (5) years, and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.

PROFILES OF KEY SENIOR MANAGEMENT



**JAYANTHI A/P
GUNARATNAM**

TITLE

Group Chief Financial Officer

NATIONALITY / AGE / GENDER

Malaysian / 46 / Female

DATE OF APPOINTMENT

1 January 2015

**ACADEMIC / PROFESSIONAL
QUALIFICATIONS**

- Bachelor of Accountancy (Honours), Universiti Utara Malaysia
- Member of Malaysian Institute of Accountants (MIA)

WORKING EXPERIENCE

Joined Deleum in 2001, and has held various positions, the last being General Manager of Finance, Administration and Procurement

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



LEE SEW BEE

TITLE

Senior General Manager
- Group Corporate Services/
Company Secretary

NATIONALITY / AGE / GENDER

Malaysian / 57 / Female

DATE OF APPOINTMENT

1 May 2013

**ACADEMIC / PROFESSIONAL
QUALIFICATIONS**

- Associate Member of The Institute of Chartered Secretaries and Administrators, UK (ICSA)
- Associate Member of The Malaysian Chartered Secretaries and Administrators (MAICSA)

WORKING EXPERIENCE

Joined Deleum in 1989 as Company Secretary and the last position held was the Vice President of Corporate Services

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



HENG PHOK WEE

TITLE

Chief Executive Officer
Deleum Services Sdn. Bhd.

NATIONALITY / AGE / GENDER

Malaysian / 47 / Male

DATE OF APPOINTMENT

1 April 2018

**ACADEMIC / PROFESSIONAL
QUALIFICATIONS**

- Bachelor of Chemical Engineering (Honours), Universiti Teknologi Malaysia
- Master of Business Administration (MBA), Universiti Malaya

WORKING EXPERIENCE

Joined Turboservices Sdn. Bhd. in 2008 as General Manager and the last position held was the Chief Operating Officer of Deleum Services Sdn. Bhd.

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



AHMAD UZHIR BIN KHALID

TITLE

Chief Executive Officer
Deleum Oilfield Services Sdn. Bhd.

NATIONALITY / AGE / GENDER

Malaysian / 53 / Male

DATE OF APPOINTMENT

1 April 2018

ACADEMIC / PROFESSIONAL QUALIFICATIONS

- Bachelor of Electrical Engineering
University of Idaho, USA

WORKING EXPERIENCE

Joined Deleum Oilfield Services Sdn. Bhd. in 2010 as Chief Operating Officer

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



MAZRIN BIN RAMLI

TITLE

Chief Executive Officer
Deleum Primera Sdn. Bhd.

NATIONALITY / AGE / GENDER

Malaysian / 39 / Male

DATE OF APPOINTMENT

1 April 2018

ACADEMIC / PROFESSIONAL QUALIFICATIONS

- Bachelor of Material (Honours)
Universiti Kebangsaan Malaysia

WORKING EXPERIENCE

Joined Deleum Primera Sdn. Bhd. in 2011 as Chief Operating Officer

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



AZMAN BIN JEMAAT

TITLE

Chief Executive Officer
Penaga Dresser Sdn. Bhd.

NATIONALITY / AGE / GENDER

Malaysian / 51 / Male

DATE OF APPOINTMENT

1 March 2018

ACADEMIC / PROFESSIONAL QUALIFICATIONS

- Bachelor of Mechanical Engineering,
University of Wollongong,
Australia

WORKING EXPERIENCE

Joined Penaga Dresser Sdn. Bhd. in 2013 as General Manager and the last position held was the Chief Operating Officer of Penaga Dresser Sdn. Bhd.

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil

The above Key Senior Management members have no family relationship with any Director and/or major shareholder of Deleum Berhad, have no conflict of interest with Deleum Berhad, have not been convicted of any offence within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.

MESSAGE FROM THE CHAIRMAN



DEAR SHAREHOLDERS,

ON BEHALF OF THE BOARD OF DIRECTORS, I AM PLEASED TO PRESENT THE ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF DELEUM BERHAD (DELEUM OR THE GROUP) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (FY2018).

The year 2018 marked the fourth consecutive year in which the oil and gas industry continued to experience challenging business conditions amidst market volatility. The start of 2018 brought the industry hope when the price of Brent crude recovered from between USD45-55 per barrel previously to touch approximately USD70 per barrel in January 2018 and then went on to hit the year's high of USD86 per barrel in early October.

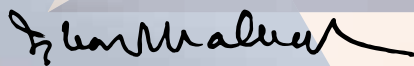
The industry's excitement, however, was short-lived as the price of Brent lost more than a third of its value from its October high amidst faltering global economic growth and surplus crude production, and dropped to USD53 per barrel by the end of 2018.

When the oil prices began their upward trend in the third quarter of the year, there was an increase in activity levels and planned programmes as well as a surge in the issuance of invitations to bid from customers. This resulted in the award of contracts to our Oilfield Services and Integrated Corrosion Solution segments. The contributions from the contracts that we secured

are expected to be realised from FY2019 onwards.

Despite this volatile operating environment, I am pleased to report that Deleum continued to prove its resilience and remain profitable in FY2018. The year saw us strengthening the topline of our Oilfield Services and Integrated Corrosion Solution segments as well as the core competencies across these segments. These segments also went on to explore new areas of opportunities on the downstream front. We also worked to optimise our cost efficiencies and working capital besides conserving our free cash.

At the same time, we focused our efforts on selectively expanding the Group's international footprint as well as leveraged on the Six Key Focus Areas of our Strategic Plan that called for our businesses to be streamlined, strengthened and made more sustainable. These efforts have helped the Group to grow, maintain its position and explore future opportunities.



DATO' IZHAM BIN MAHMUD
Chairman

MESSAGE FROM THE CHAIRMAN (CONTINUED)

FINANCIAL PERFORMANCE

For FY2018, Deleum generated profit after tax and non-controlling interest (PATANCI) of RM27.2 million and revenue of RM623.7 million. The Group's PATANCI dropped 15.8% from RM32.3 million in the preceding year despite a 16.8% rise in revenue from RM534.1 million previously. This was caused by margin compressions experienced by all segments across the Group. Similar to the preceding year's results, both the Power and Machinery and the Oilfield Services segments delivered positive segment results, albeit lower. The segment results for the Integrated Corrosion Solution however, dropped significantly despite being supported by higher revenue. This was mainly due to mobilisation costs incurred in the rolling out of the MCM contract and preparatory costs to service the new contracts. The Power and Machinery segment maintained its position as the biggest revenue generator for the Group contributing 57.8% of the year's revenue. The Oilfield Services and Integrated Corrosion Solution segments followed contributing 20.0% and 22.2% of the Group's revenue respectively. The Group will focus on strengthening its operations in the Power and Machinery segment whilst we work to further develop our other two core segments to attain optimal performance.

The Group maintained a healthy financial position as at end FY2018 with our total assets increasing by 8.7% to RM660.4 million in comparison to RM607.4 million in the preceding year,

whilst shareholders' funds grew 3.0% to RM331.6 million from RM322.0 million previously. Our borrowings reduced by 16.8% to RM63.2 million from RM76.0 million previously as a result of scheduled repayments made during the financial year. Meanwhile, our cash and bank balances decreased by 4.6% to RM134.9 million from RM141.4 million previously due to net repayment on borrowings, dividends paid, as well as plant and equipment acquisitions.

A detailed analysis of the operational and financial performances of our three core business segments can be referenced in the Management Discussion and Analysis section of this Annual Report.

SAFEGUARDING SHAREHOLDERS' INTERESTS

The Board of Directors of Deleum is grateful to our shareholders for your steadfast trust and support in us especially during these challenging times. We remain committed to safeguarding your interests and creating value for you. To this end, we are upholding our dividend policy of distributing a gross dividend of 50% of the Group's annual profit attributable to the equity holders of the Company. This is subject to the availability of adequate distributable reserves, operating cash flows requirements, financial commitments, expansion plans and other relevant factors to sustain our existing operations and support future business growth.

In respect of FY2018, the Company paid a first interim single tier dividend

of 1.25 sen per ordinary share on 25 September 2018, followed by a second interim single tier dividend of 2.25 sen per ordinary share on 22 March 2019. This brought the total dividend payout in respect of FY2018 to 3.50 sen per ordinary share totalling RM14.0 million (FY2017: RM17.0 million). This represents a dividend payout ratio of 51.5% of attributable earnings for the financial year which slightly exceeds the Group's dividend policy.

We take pride in that Deleum remains one of the few oil and gas service providers that continues to give out dividends to its shareholders despite the volatile industry climate. Following Deleum's listing in 2007, we have cumulatively paid dividends amounting to RM205.5 million since the financial year ended 31 December 2007. Our share price remains stable at approximately RM1.10 whilst the Group's market capitalisation has stood between RM400.0 million to





2018 PERFORMANCE



PATANCI

RM27.2million

FY2017 RM32.3million



SHAREHOLDERS' EQUITY

RM331.6million

FY2017 RM 322.0million

RM500.0 million these past three years. Our share capital has increased from 80.0 million ordinary shares in FY2007 to 401.1 million ordinary shares in FY2018 resulting from the following corporate exercises:

FY2008

- Bonus issue of 20.0 million new ordinary shares on the basis of one new ordinary share for every four existing ordinary shares.

FY2012

- Bonus issue of 50.0 million new ordinary shares on the basis of one new ordinary share for every two existing ordinary shares.



MESSAGE FROM THE CHAIRMAN (CONTINUED)



“ AS WE MOVE INTO 2019, YOUR BOARD REMAINS CAUTIOUSLY OPTIMISTIC ABOUT OUR PROSPECTS. WHILST THE GLOBAL ECONOMIC SLOWDOWN IS OF A CONCERN, THE IMPACT OF GEOPOLITICAL TURMOIL AND TRADE DISPUTES ARE ALL CONTRIBUTING TO UNCERTAINTY FOR THIS YEAR. ”

FY2014

- Bonus issue of 50.0 million new ordinary shares on the basis of one new ordinary share for every three existing ordinary shares.
- Sub-division of every one ordinary share of RM1.00 each into two new ordinary shares of RM0.50 each. Pursuant to this sub-division, 200 million ordinary shares of RM1.00 each were subdivided into 400 million ordinary shares of RM0.50 each.

FY2017

- Issuance of 0.2 million ordinary shares pursuant to the Long-Term Incentive Plan (LTIP).

FY2018

- Issuance of 0.9 million ordinary shares pursuant to the LTIP.

CORPORATE GOVERNANCE

Your Board recognises that transparency and good business practices are fundamental to running a sustainable and reliable organisation as good governance equates to good business. As such, we remain dedicated to upholding ethical conduct and implementing stringent internal controls across our operations in compliance with the appropriate governance structure and policies.

In FY2018, we continued to develop and enhance our risk framework and also undertook risk assessment and engagement activities. All these initiatives were executed as part of our efforts to ensure the sustainable, long-term growth of our businesses, to strengthen shareholder value and investor confidence.

For the year in review, our subsidiaries garnered several accolades for exhibiting operational excellence. On the Quality Health, Safety, and Environment (QHSE) front, Deleum Oilfield Services Sdn. Bhd. was acknowledged for its outstanding QHSE performance in 2018 by Enquest. Meanwhile, Deleum Primera Sdn. Bhd. was recognised for its Health, Safety, Security and Environmental (HSSE) performance by MISC Berhad in conjunction with the MISC Group Contractors HSSE Forum 2018.

The Sustainability Statement in this Annual Report underscores our ongoing efforts in this area.

OUTLOOK AND PROSPECTS

As we move into 2019, your Board is cautiously optimistic about the Group's prospects. The global economic slowdown remains a concern whilst the impact of ongoing geopolitical turmoil and trade disputes are all contributing to the year's uncertain outlook.

On the domestic front, the Malaysian oil and gas sector remains hopeful about a turnaround and is on course for a cyclical recovery in 2019. Whilst the price of Brent crude is expected to average around USD65 per barrel in 2019, oil price volatility, will most likely persist.

I am pleased to report that as of 31 March 2019, Deleum had a healthy order book of approximately RM2.3 billion and a tender book of

approximately RM140.4 million. We are actively pursuing and participating in tenders and projects in tandem with the activities planned for 2019.

As Deleum explores opportunities for synergistic growth in the near future, we will carry on reinforcing integration efforts across our core segments by tapping our financial strengths and resources. We will also continue our close collaboration with key stakeholders to provide customer-centric solutions. At the same time, we will focus on managing costs and working capital, whilst conserving free cash to retain our competitiveness. We will also look to explore new business opportunities which are synergistic with our core businesses.

As we expand into international markets such as Brunei, Indonesia and the Middle-East for the provision of specialised products and services, we aim to strengthen our foothold in these geographies. In line with our Vision Statement, we are working towards establishing Deleum as a market leader in our respective operating segments domestically and to establish a regional presence by 2020.

ACKNOWLEDGEMENTS

Our stakeholders have faithfully stood with us in these challenging times and we would like to recognise them for their worthy support. On behalf of the Board of Directors, I would like to express my sincere appreciation to

our shareholders, customers, suppliers, business partners and financiers for their unwavering support and confidence in Deleum.

I wish to extend my deep gratitude to my fellow Board members for their valuable insights, perceptive guidance and stewardship that has helped to steer us through difficult times. On behalf of the Board, I wish to record our appreciation to Datuk Chin Kwai Yoong, who resigned from the Board on 19 February 2019. We thank him for his invaluable contribution to Deleum these past 12 years and wish him every success in his endeavours. I also wish to extend a warm welcome to Mr Lee Yoke Khai who joined the Board on 15 March 2019. His profile can be found on page 13 of this Annual Report.

Last but not least, I also extend the Board's appreciation to our Group Managing Director, Senior Management and all Deleum's personnel for their diligence and untiring dedication in carrying out their duties.

We look forward to your continuing support.

Yours sincerely



DATO' IZHAM BIN MAHMUD
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

THE YEAR IN REVIEW BROUGHT WITH IT MUCH PROMISE FOR THE OIL AND GAS INDUSTRY AS THE PRICE OF BRENT CRUDE ROSE FROM USD70 PER BARREL IN JANUARY 2018 TO TOUCH USD86 PER BARREL IN EARLY OCTOBER 2018, ITS HIGHEST PRICE POINT IN FOUR YEARS. HOWEVER, THE INDUSTRY'S EXCITEMENT SOON WANED AS THE PRICE OF OIL BEGAN TO DECLINE, PLUNGING TO USD53 PER BARREL BY THE END OF 2018, ON THE BACK OF A SURPLUS SUPPLY OF CRUDE OIL, SLOWING MARKET DEMAND AND FLAGGING GLOBAL ECONOMIC GROWTH. AMIDST THE YEAR'S FLUCTUATING OPERATING ENVIRONMENT, BUSINESS SUSTAINABILITY CONTINUED TO BE THE CENTRAL THEME AT DELEUM.

Whilst the year in review saw activity levels within Deleum's operations beginning to pick up, particularly within the upstream sector, the ongoing downward pressure on margins continued to pose a challenge for the Group. To bolster our operations, we continued to focus our efforts on enhancing cost efficiencies, managing our working capital and preserving our free cash. At the same time, we carried on exploring downstream opportunities through our three core business segments whilst selectively expanding our international market base. As a result of us strengthening our business fundamentals, core competencies, organisational and operational structures as well as leveraging on our revitalised strategies, Deleum remained profitable for the financial year ended 31 December 2018 (FY2018).

As we continue to put in place the building blocks that are spurring us to integrate, innovate and add diversity across our businesses, we remain confident of Deleum's ability to deliver long-term, sustainable growth.

OUR BUSINESS AND STRATEGY

Business Overview

Deleum Berhad is an investment holding company with a focus on business activities within the upstream oil and gas sector, particularly the exploration and production fronts. With 37 years of operational experience to its name, Deleum has emerged as a key integrated service provider, which through its subsidiaries, provides a variety of specialised products and support services to oil and gas players.

Deleum remains committed to its goal of providing sustainable growth and enhancing stakeholders' value. To enhance business sustainability, we continue to strengthen our capabilities across our three core business segments comprising the Power and Machinery, Oilfield Services and Integrated Corrosion Solution segments. With these segments remaining resilient, we continue to turn in a steadfast performance and create value for our stakeholders despite the difficult oil and gas operating environment.

To grow our business in a sustainable manner, we continue to emphasise our pursuit of downstream business activities. A dedicated team has been assigned to this area to reach potential downstream targets. Our downstream activities to date include integrated tank maintenance as well



as pipeline and heat exchanger activities where we are leveraging on niche technologies such as rust and paint removal technology and specialty cleaning chemicals. At the same time, we are targeting potential energy-related business opportunities within the non-oil and gas industries.

Our entry into the downstream sector is congruent with our efforts to position ourselves as an integrated service provider for both upstream and downstream activities. We have currently identified and are working in different focus areas which will further contribute to our revenue growth in 2019 and beyond. We will continue to establish strategic and synergistic alliances, primarily in the oil and gas industry, which will help us to explore new avenues for

revenue. With this goal in mind, we will also continue to ramp up our activities surrounding new markets and growth areas on both a local and regional scale.

The last few years have seen our Power and Machinery segment providing project management and installation services for gas turbines retrofits and refurbishments regionally (in India, Myanmar, and the Philippines). Our field service representatives have been offering maintenance and troubleshooting services to gas turbine installations within the region. We intend to continue exploring and leveraging on opportunities within these areas.

“ AS WE CONTINUE TO PUT IN PLACE THE BUILDING BLOCKS THAT ARE SPURRING US TO INTEGRATE, INNOVATE AND ADD DIVERSITY ACROSS OUR BUSINESSES, WE REMAIN CONFIDENT OF DELEUM’S ABILITY TO DELIVER LONG-TERM, SUSTAINABLE GROWTH. ”

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



Meanwhile, our self-operated businesses in the Oilfield Services and Integrated Corrosion Solution segments continue to focus their efforts on expanding their footprints into neighbouring countries, namely Indonesia, Singapore, Brunei and the Middle East by tapping strategic partnerships and sound strategies.

Where we had previously cut back on exploring international markets due to the uncertainties in the oil and gas industry, we are today once again ramping up our efforts but in a more calculated manner. We will leverage on solid market insights as well as strong relationships with our business partners and customers to ensure a good measure of success in our endeavours.

Strategic Overview

In line with our goal of ensuring the sustainable growth of our business, especially in light of the new market realities, Deleum continues to be guided by a one plus three-year Strategic Plan that emphasises Six Key Focus Areas (KFAs). Designed to streamline, strengthen and enhance our business sustainability, these internal and external KFAs are spelt out as follows:

Internal KFAs

Cost Management & Cash Management

This calls for us to closely monitor and review operational expenses with the purpose of maximising productivity and improving efficiency. The efficient supervision of working

capital and cash flows to meet scheduled commitments is also a key aspect here. Cost Management and Cash Management will continue to be a priority for the Group even as we continue to emphasise business sustainability. The measures we have implemented to date has helped us to manage our cost more efficiently and we will continue to explore more cost effective practices.

Human Capital Development

As a Group, we believe that our success is directly related to the success of our employees as individuals. To this end, we will continue to focus on inculcating our employees in the areas of multitasking and creativity, our culture and our organisational behaviour. We also work on strengthening our people's skill sets and competencies through effective

**EXTERNAL
KEY FOCUS AREA**

DOWNSTREAM BUSINESS

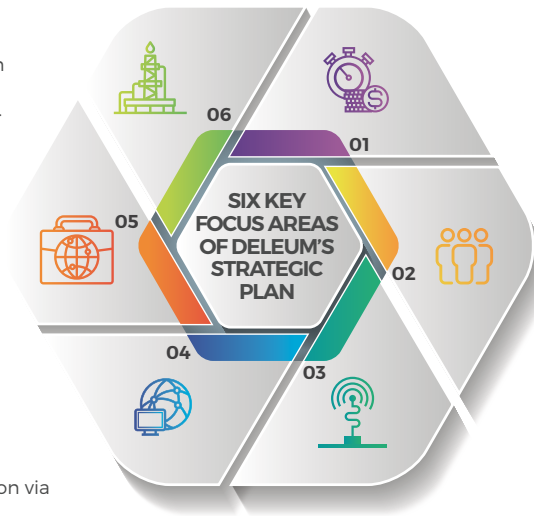
- Leverage on integration between the three core business segments and undertake continuous engagement activities targeting customers within the oil and gas industry.
- Penetration into potential downstream businesses which include petrochemical, refining and gas plants.

INTERNATIONAL BUSINESS

- Expand market base internationally via potential projects.
- Leverage on contracts secured overseas.
- Expand regional markets.

TECHNOLOGY

- Explore technology-based diversification via principals, partnerships, technical collaborations, or mergers and acquisitions.
- Identify technologies that will strengthen our value proposition as an integrated solutions provider and ability to embark on larger scale projects.



**INTERNAL
KEY FOCUS AREA**

COST MANAGEMENT AND CASH MANAGEMENT

- Close monitoring and reviewing of operational expenses.
- Maximise productivity and improve efficiency.
- Close monitoring of working capital and cash flows to meet scheduled commitments.

HUMAN CAPITAL DEVELOPMENT

- Focus on human capital development in terms of leadership competencies and succession planning.
- Focus on people management in the areas of multitasking, creativity, evolving mindsets, culture and behaviour within the organisation.

INTERNAL AND EXTERNAL COMMUNICATION

- Close monitoring and reviewing of operational expenses.
- Maximise productivity and improve efficiency.
- Close monitoring of working capital and cash flows to meet scheduled commitments.

training and development activities to ensure our workforce remains relevant to the market. At the same time, we will continue to emphasise development in terms of leadership competencies and succession planning. Plans are underway to strengthen our talent management framework.

Internal and External Engagement

Recognising that clear communication across the board are essential for smooth operations, the Group will ensure seamless alignment between our business units through cultivating an effective working culture and strengthening inter-business unit engagements. We will also continue to build up customer and business partner relationships, whilst ensuring successful delivery, development and support of day-to-

day business activities. In line with our efforts to be a one-stop integrated service provider, we will continue to undertake measures to centralise our expertise and resources.

External KFAs

Downstream

On the Downstream business front, we will continue to leverage on integration between the three core business segments and undertake engagement activities targeting oil and gas customers. Our ventures into potential downstream businesses include the petrochemical, refining and gas plant segments. Where in FY2018 we held back on our pursuit of downstream businesses in view of the challenging operating environment, moving into 2019, we will adopt a more assertive approach

when promoting our businesses and exploring opportunities, predominantly related to integrated corrosion solutions, specialty chemicals, as well as maintenance, repair and overhaul (MRO) services.

International Business

The Group's vision is to become "the market leader in our operating segments domestically and to establish a regional presence by 2020." Our efforts to expand our market base internationally involves exploring potential new projects and leveraging on existing contracts. Where 2018 saw us establishing valuable connections and laying down the foundations for future regional expansion, 2019 will see us setting up an office in Indonesia under the Integrated Corrosion Solution segment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



We will also increase our focus and activity levels internationally in the Oilfield Services segment, mainly in the well completion and specialty chemicals activities. Today we are actively pursuing various opportunities in Southeast Asia and the Middle East. In the Middle East, we are identifying and working with potential partners in the United Arab Emirates, Qatar and Oman whilst we are conducting a pilot test in Saudi Arabia.

Technology

We will continue to explore technology-based diversifications through principals, partnerships, technical collaborations or mergers and acquisitions. Through these efforts, we aim to identify technologies that will strengthen our value proposition as a comprehensive solutions provider.

FINANCIAL PERFORMANCE IN FY2018

For FY2018, Deleum generated revenue of RM623.7 million and profit after tax and non-controlling interest (PATANCI) of RM27.2 million. PATANCI dropped 15.8% from RM32.3 million in the preceding year despite a 16.8% rise in revenue from RM534.1 million previously.

The year saw the Power and Machinery segment registering lower segment results of RM36.0 million (FY2017: RM39.1 million) and revenue of RM360.2 million (FY2017: RM364.4 million). The Oilfield Services segment delivered slightly lower segment results of RM14.4 million (FY2017: RM14.5 million) on the back of higher revenue of RM124.8 million (FY2017: 119.4 million). The segment results for the Integrated Corrosion Solution

segment dropped significantly in FY2018 by 258.5% or RM10.6 million to a loss of RM6.5 million (FY2017: profit of RM4.1 million) despite higher revenue of RM138.2 million (FY2017: RM49.7 million).

The Power and Machinery segment continued to be the biggest revenue contributor in FY2018. The Group will continue to undertake concerted efforts to strengthen the revenue contributions from the Oilfield Services and Integrated Corrosion Solution businesses.

Liquidity and Capital Resources

The Group's cash and bank balances decreased to RM134.9 million as at 31 December 2018 from RM141.4 million of the preceding year. The decrease of RM6.5 million was mainly attributed to net repayment on borrowings and dividend payouts during the year offset by net cash generated from operating activities.

Gearing Ratio

The gearing ratio of the Group as at 31 December 2018 improved to 0.19 times as compared to 0.24 times as at 31 December 2017. The gearing ratio is calculated as total debt (RM63.2 million) divided by total shareholders' equity (RM331.6 million). The drop in gearing ratio was attributed to the scheduled repayment of borrowings made during the financial year.



Contingent Liabilities

The Group has provided guarantees amounting to RM38.1 million to third parties in respect of operating requirements, utilities and maintenance contracts.

Capital Management

The Group’s capital management activities revolve around being able to achieve a capital structure that offers high shareholder value whilst also ensuring the sustainability of the Group. To this end, the issue of new shares or debts, quantum of dividends, as well as the return of capital to shareholders may be adjusted to maintain an optimal capital structure.

Capital Commitments and Funding Sources

The Group’s total capital commitments authorised for investment, property, plant and equipment amounted to RM72.5 million as at 31 December 2018, of which RM19.1 million of capital expenditure has been contracted for but not incurred. The remaining capital commitment of RM53.4 million relates to capital expenditure that has been authorised but not contracted for of RM52.6 million, and share of capital commitment of a joint venture of RM0.8 million. The capital commitment that has been authorised and contracted for relates to that for general contract requirements, enhancement to our workshop facilities, and a long-term investment, in addition to the purchase of other equipment to prepare the Group for its current operations and future expansions. Details of the borrowings and maturity profile of such borrowings are disclosed accordingly in Note 26 to the Financial Statements for FY2018.

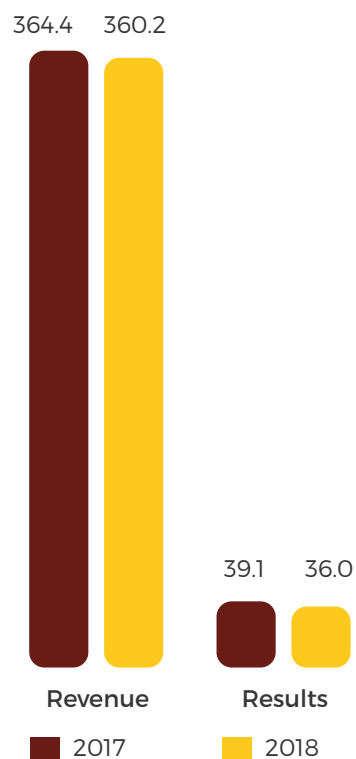
PERFORMANCE BY BUSINESS SEGMENTS

Power and Machinery

Segment Offering

- Provision of gas turbine packages, aftersales support and services
- Supply, installation, repair and maintenance of valves and flow regulators
- Maintenance services for motors, generators and transformers

Performance Highlights (RM Million)

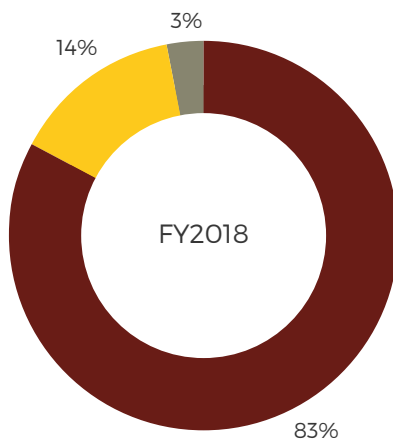


In FY2018, the segment results for the Power and Machinery segment fell by 7.9% or RM3.1 million to RM36.0 million from RM39.1 million previously as a result of unfavourable sales composition. Lower segment results were mitigated by a foreign exchange loss of RM0.4 million in FY2018 as compared to a loss of RM5.5 million recorded in the previous year.

The segment’s revenue fell due to a lower number of work orders for turbine parts, repairs and maintenance services and valve and flow regulator activities. This was offset by strong orders for exchange engines and retrofit projects as well as commission income earned on oil and gas projects.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Operational Highlights



- Provision of gas turbines packages, aftersales support and services
- Supply, installation, repair and maintenance of valves and flow regulators
- Motors, generators and transformers maintenance services

The Power and Machinery segment worked to expand its product and service offering through collaborations with its existing and new principals. The team also continued to work closely with the Group's existing customers to provide innovative solutions to optimise the efficiency of their equipment. These measures helped the segment offset the loss of revenue due to customers cutting back on their spending on new projects and aftermarket activities. All in all, the decrease in market demand continued to have a dampening effect on the sales of new gas turbines as well as potential earnings from scheduled maintenance, retrofit projects and other after-sales activities.

In FY2018, Deleum Rotary Services Sdn. Bhd. (DRSSB), which is an Original Equipment Manufacturer (OEM) Authorised Service Workshop for several renowned motors and generators, maintained its spread of offerings. DRSSB continues to provide inter-functional support especially in the area of MRO for motors and generators sets. The company has since expanded its services to include pumps and impeller services and will be exploring further opportunities in the non-oil and gas, power and water sectors.

The segment's control and safety valves business under Penaga Dresser Sdn. Bhd. (PDSB), bolstered its businesses in both East and Peninsular Malaysia over the course of the year. The company's service facility located in Miri - the Sabah-Sarawak Engineering Centre - supported PDSB's activities and enhanced operational efficiencies and after-sales services in East Malaysia. The centre will continue to execute valve repairs, overhauls and service turnaround activities for customers located in Sarawak, Labuan and Sabah. In Peninsular Malaysia, PDSB set up a new workshop at Pengerang, Johor to effectively and efficiently serve PETRONAS' Refinery and Petrochemical Integrated Development (RAPID) customers. This workshop, named as the Johor Engineering Centre (JEC), is expected to be fully operational by the second quarter of 2019.



Looking Ahead

With good insights into how to navigate the turbulent markets it plays in, the Power and Machinery segment will continue to reinforce its positioning as a regional service provider. Plans for geographic expansion are underway which will see the segment exploring opportunities to provide services across the region especially by way of retrofit work, project management and field services. On the technical front, the Power and Machinery segment will continue to enhance its capabilities via consolidation and cross-training exercises. This will enable the segment to cater to a broader range of technical requirements as well as support its principals' local and regional expansion plans.



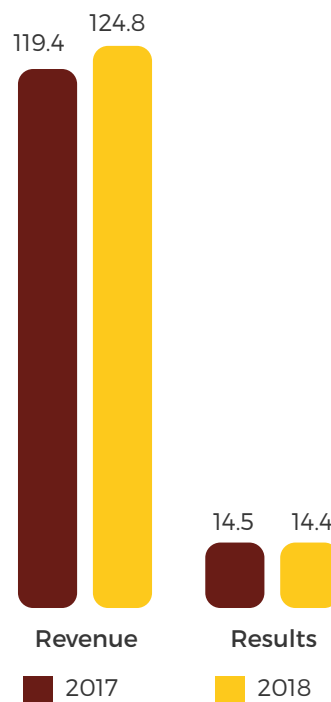
Additionally, the segment is looking to expand its scope and offerings by way of overhaul, maintenance and technical services as well as its valve business through technical collaboration with existing and new principals and partners. The respective businesses within the segment too will set their sights on exploring new markets and opportunities in a more aggressive manner.

Oilfield Services

Segment Offering

- Slickline equipment and services (Slickline)
- Asset Integrated Solutions (A.I.S.)
- Specialty Chemical and Well Stimulation (SCWS)

Performance Highlights
(RM Million)



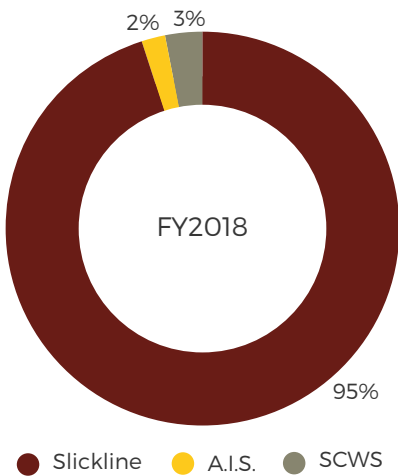
The Oilfield Services segment saw its FY2018 segment results marginally fall by 0.7% or RM0.1 million to RM14.4 million from RM14.5 million previously. This was attributable to softer pricing power, mitigated by a reduction in finance costs due to the paring down of borrowings.

The segment's revenue increased from RM119.4 million to RM124.8 million mainly as a result of stronger revenue contribution from slickline activities.

This, however, was offset by lower work orders for well intervention and enhancement services as well as oilfield chemicals.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Operational Highlights



The Oilfield Services segment which is helmed by Deleum Oilfield Services Sdn. Bhd. (DOSSB) focuses primarily on upstream activities in the sub-surface sector. The segment comprises three main business units, namely the Slickline Services, Asset Integrated Solutions (A.I.S.), and Specialty Chemical and Well Stimulation (SCWS) units.

The Slickline Services Unit, the segment’s core business continues to play its role as the largest operator of slickline packages in Malaysia. Supplying more than 49% of Malaysia’s total requirements in FY2018, the unit provides slickline equipment and services for production and drilling operations of Production Sharing Contractors (PSCs) in Peninsular and East Malaysia. In the first half of 2018, the overall utilisation rate for maintenance callout packages in Peninsular Malaysia was 32% higher than the rate for the second half of

the year. This was in tandem with fluctuating oil prices throughout 2018.

The Oilfield Services segment remains committed to procuring new business and to scoping out new opportunities for FY2018, DOSSB retained 80% of its existing contracts and went on to add several new slickline contracts to its pool. These included existing slickline contracts for PETRONAS Carigali Sdn. Bhd., Exxonmobil Exploration Production Inc (EMEPMI) and Sapura Exploration & Production. Amongst the new contracts was one secured from Sarawak Shell Berhad (SSB)/ Sabah Shell Petroleum Company Limited (SSPC) in August 2018 for

the Provision of Slickline Equipment and Services for three years with an optional two-year extension. In the offing are plans to establish a strategic partnership with a gas lift valve manufacturer to provide self-operated supply and service offerings.

The A.I.S. unit is an integrated services solutions provider that undertakes cased hole logging, well intervention services and sub-surface engineering activities. It offers a varied range of products, services and customised solutions through the innovative and viable integration of resources and capabilities within and beyond the Oilfield Services segment. The





unit aims to be a provider of niche solutions in the asset lifecycle by consolidating and integrating the products and services via slickline conveyance.

For the year in review, the A.I.S. unit continued to accord customers comprehensive, high quality and cost-effective solutions. As a forward-thinking solutions provider, the unit recognises that its tools and expertise are integral to its success and as such continues to develop its in-house expertise whilst strategically collaborating with selected service providers to ensure it is able to provide leading edge solutions to its customers. On the technology front, the A.I.S. unit has been working towards strengthening its logging interpretation and data processing offering by adding new software and log interpretation tools. Targeted for completion by 2019, these enhancements will enable the team to cater to in-house interpretation requirements.

The A.I.S. unit has helped to bolster the strength of the Oilfield Services by addressing specific customer needs ranging from simple maintenance services to more complex design and management projects. The unit continues to explore opportunities for strategic partnerships with technology entities that will help enhance its competencies as well as service and product offerings. In FY2018, the A.I.S. unit's well intervention and sub-surface engineering business continued to upgrade its services by embedding relevant new technologies. Despite the reduction in customer budgets, the unit was successful in marketing new customised technology products and services.

The SCWS unit which is responsible for the provision of specialty chemical and well stimulation services, offers integrated chemical solutions, flow assurance, integrated pipeline cleaning, tank cleaning and pumping services. In 2018, the unit not only maintained its ISO 9001 and ISO 14001 certification, it also re-designed

its existing products and services to optimise their cost and improve their effectiveness. The changes, which included improvising the local content in terms of manpower and local blending, made the unit's spread of offerings more cost efficient and helped strengthen its market position. To expand its business tool portfolio, SCWS introduced more conveyance systems such as pumping units, mini-coils and nitrogen packages. The SCWS unit also fine-tuned its international marketing strategy and collaborated with local partners and agents to provide customers a better range of offerings. This business will build upon these to boost revenue from 2019 onwards.

Looking Ahead

Moving forward, Deleum's Oilfield Services segment will be looking to explore more opportunities in the upstream sectors, drive research activities and forge new partnerships with multinational companies as it

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

explores international markets. The segment will continue to leverage on its solid services and delivery track record, good health and safety practices, competent crew members, and the availability of a large number of slickline packages for deployment.

The segment will also continue to reinforce its position as the market leader for slickline services in Malaysia. Currently, the segment maintains 43% of its domestic market contracts for slickline services in comparison to 49% in FY2018. The lower number can be attributed to the tenure of several contracts having ended in 2018, of which some are still pending awards.

The A.I.S. and SCWS units are set for expansion in the year 2019. The A.I.S team is looking to increase its upstream oil and gas services with new product and service lines under the umbrella of its cased hole logging services business. Amongst the products and services scheduled in the pipeline are downhole camera services, the MIT 40, leak detection tools and various new logging and intervention tools. The unit is also actively pursuing and forging technical partnerships with multinational technology establishments. The SCWS unit will also continue to pursue business opportunities abroad in Indonesia, Brunei, Thailand and the Middle East.

During the year, the segment has received an order to carry out a field trial for slickline services in Saudi Arabia to be carried out in 2019. This trial is crucial for the segment's penetration into the market going forward. In addition, the segment has

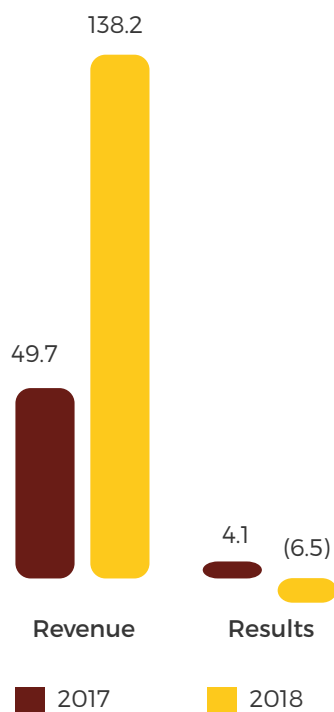
also engaged with a well established oil and gas partner in Abu Dhabi and the collaboration will support the segment entering the market in the region of the United Arab Emirates.

Integrated Corrosion Solutions

Segment Offering

- Provision of low dust, environmentally friendly blasting technology for surface preparation
- Coating removal by controlled induction heating
- Passive fire protection services
- Integrated maintenance, construction and modification services
- Slickbar products and combat services for oil spills

Performance Highlights (RM Million)



The Integrated Corrosion Solution segment recorded higher revenue of RM138.2 million in FY2018, a 178.1% or RM88.5 million increase in comparison to the preceding year. This was due to the secured maintenance, construction and modification (MCM) services contract but was offset by the reduced contribution from the Pan Malaysia blasting contract which expired in November 2017. Despite the higher revenue, the segment incurred a pre-tax loss of RM6.5 million in comparison to the corresponding year due to the costs involved in maintaining the Sponge-Jet blasting business in anticipation of securing fresh contracts from bids. Two new contracts for Alternative Blasting and Painting and Riser Corrosion Prevention System and Maintenance were awarded in the second half of FY2018 by PETRONAS Carigali Sdn. Bhd.

Operational Highlights

The Group's Integrated Corrosion Solution segment comes under the ambit of Deleum Primera Sdn Bhd (DPSB) which continues to penetrate new markets, retain existing customers, deliver satisfactory customer experiences and reinforce its competitive edge within the industry. DPSB also continues to strengthen its foothold by cross-selling the segment's technology-based products and ensuring the delivery of timely and quality services.

In FY2018, DPSB made significant progress by way of the MCM contract for PETRONAS Carigali Sdn Bhd. The MCM contract involves top side

maintenance, facility improvement programme, and the supply of marine spread.

DPSB is committed to providing a suite of cost-efficient and environmentally-friendly solutions that promote the operational safety of its customers. The company is the sole-distributor for Sponge-jet technology in Malaysia, Indonesia, Singapore, Brunei, Turkmenistan and Iraq. The contract for the provision of alternative blasting and painting by PETRONAS Carigali Sdn. Bhd. will see the company servicing the Peninsular Malaysia Assets, Sabah Assets, and Sarawak Assets (Sarawak Oil and Sarawak Gas) regions. It is valid for three years with an option to extend for one year.

In Indonesia, DPSB successfully completed two projects for Sponge-Jet blasting and painting activities.

Another one of the segment's green offerings is its rust and paint removal (RPR) technology maintenance services. DPSB is the sole distributor for the cost-effective and environmentally friendly green technology in Malaysia, Indonesia, Singapore and Brunei. In 2018, the RPR service was utilised for blasting and painting activities on helidecks and platforms in both Malaysia and Indonesia by customers looking to tap into green technology.

To further expand its servicing capabilities, DPSB has entered into a collaboration with Pinovo, an international world class supplier of

Health, Safety and Environmental leading, innovative and patented technology for the treatment, maintenance and inspection of industrial surfaces. DPSB plans to utilise Pinovo's vacuum blasting technology for surface preparation, depending on customers' preference. Today, DPSB is also playing the role of a distributor and promoter of Slickbar products and oil spill combat services.

In the year 2018, DPSB also received a Certificate Of Appreciation from PETRONAS in recognition of its participation in PETRONAS CONTRACTOR HSSE Mentorship program.

Looking Ahead

As Deleum moves into the new year, the Integrated Corrosion Solution segment will continue to strengthen its brand identity as an environmentally and economically friendly as well as sustainable solutions provider for the oil and gas industry. The segment is also looking forward to participating in more plant rejuvenation and revamp projects.

To increase productivity and improve efficiency which will lead to further cost savings for 2019, the segment will work on restructuring and re-engineering its processes. The segment remains committed to executing and completing work orders and projects without compromising on HSE measures whilst maintaining its profitability.

On the international front, the segment plans to pursue its expansion plans more aggressively. DPSB is currently in the process of laying down foundations to roll out its operations overseas. For the downstream ventures, DPSB managed to secure a project for the provision of blasting and painting services for a reel refurbishment project.

Joint Venture

Turboservices Overhaul Sdn. Bhd., Deleum's joint venture with Solar Turbines International Company (80.55%:19.45%), continues to enhance its ability to repair and overhaul a wide range of Solar Turbines' equipment in Malaysia.

Associate Companies



The Group has two associate companies, namely Malaysian Mud and Chemicals Sdn. Bhd. (2MC) and Cambodia Utilities Pte. Ltd. (CUPL). For FY2018, share of results of associates were higher by RM2.7 million contributed by 2MC. CUPL, on the other hand, remains dormant since the expiry of its build, operate and transfer agreement with Electricite Du Cambodge, Cambodia on 8 May 2015. The Group will continue to equity account for the results of CUPL until it ceases to be an associate.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)


BUSINESS RISKS

As per Bursa Malaysia Securities Berhad’s disclosure requirements, we are highlighting the key anticipated or known risks that we are exposed to that may have a material effect on Deleum’s operations, performance, financial condition and liquidity. We also outline the plans or strategies to mitigate these risks.

| KEY RISK | DESCRIPTION | MITIGATION MEASURES |
|--|--|--|
|  <p>Operational</p> | <p>Operational risk relates to the risk of loss as a consequence of inadequate or ineffective processes, people and systems impacting the Group’s ability to meet its business objectives.</p> <p>This risk has heightened following the ongoing fluctuations in oil prices. To date, all Deleum’s key customers have embarked on operational efficiency programmes and reigned in their capital expenditure..</p> | <ul style="list-style-type: none"> • The Group has widened integration across its business segments to offer customers holistic solutions as well as new technological products and services in collaboration with and support from partners and suppliers. • We have implemented strict cost discipline measures including cost-effective processes to manage operational risk and prevent financial losses or damages to the Group’s reputation. • We have also increased measures to improve operational efficiency and productivity. |
|  <p>Financial</p> | <p>Financial risk involves the risk of market volatilities affecting exchange rates and interest rates which may in turn affect the value of our financial assets and liabilities. Among the key financial risks is currency volatility as a major portion of the Group’s revenue and costs are conducted in foreign currencies, primarily the US Dollar (USD).</p> | <ul style="list-style-type: none"> • Our management of currency fluctuations and monitoring of foreign currency-denominated business transactions are in line with the Board-authorized hedging policy and procedures. • We undertake close monitoring of the FOREX market through several activities including vetting through economic data and engaging with our panel bankers for views and opinions on the outlook for FOREX. • We ensure increased use of the available hedging tools to manage currency volatility. • The Group has obtained Ringgit Malaysia credit facilities (e.g. term loans, import credits and revolving credit) from reputable financial institutions rates which include agreed upon margins. |

| KEY RISK | DESCRIPTION | MITIGATION MEASURES |
|--|--|--|
|  <p data-bbox="265 874 332 900">Legal</p> | <p data-bbox="437 602 959 715">Legal risk is the risk of financial loss and reputation arising from a failure to comply with contractual terms or instances where the Group's interests are not properly protected.</p> | <ul data-bbox="981 602 1495 1066" style="list-style-type: none"> <li data-bbox="981 602 1495 774">• The Group Legal Department and the business units maintain a close partnership in mitigating potential legal risks. The department reviews contractual terms to identify and highlight potential legal issues that may arise. <li data-bbox="981 778 1495 921">• Management consults a Board member with legal expertise and experience on a needs basis; and where appropriate, external legal advice is sought, especially in specialised areas. <li data-bbox="981 925 1495 1066">• In terms of contractual compliance, the respective business units develop the contractual compliance framework for ongoing review and management of contracts. |
|  <p data-bbox="265 1364 332 1389">Safety</p> | <p data-bbox="437 1140 959 1283">The safety of people and assets is of utmost priority in the oil and gas industry and any adverse incident could result in significant financial loss and damage to the Group's reputation.</p> | <ul data-bbox="981 1140 1495 1432" style="list-style-type: none"> <li data-bbox="981 1140 1495 1283">• We have established comprehensive safety policies and processes that clearly set out the safety measures which must be strictly adhered to by our employees and contractors. <li data-bbox="981 1287 1495 1432">• We conduct periodic audits of our health and safety procedures and practices; implement drills; as well as roll out continuous health and safety awareness initiatives, meetings, reviews and programmes. |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

| KEY RISK | DESCRIPTION | MITIGATION MEASURES |
|--|---|--|
|  <p>Human Capital</p> | <p>Human Capital risk commonly stems from dealing with challenges in attracting talent, managing turnover and competency gaps. Human capital risk is the risk of execution failure caused by not having the right personnel. The oil and gas industry demands that the Group uses highly skilled and technically competent personnel.</p> | <ul style="list-style-type: none"> • The Group has in place comprehensive learning and development programmes to equip our people with the relevant knowledge and skills demanded by the industry. • Leaders assess the performance of their subordinates through an annual performance review exercise whilst addressing learning gaps through the establishment of our in-house Talent Management Framework. • Leadership capabilities are looked into, particularly in the area of bridging competency gaps between leadership tiers, as well as to equip leaders with the proper managerial skills so as to mitigate employee turnover. Leadership gaps are also continuously assessed to ensure we keep up with the ever-evolving people management landscape. • In 2018, Deleum’s Senior Management Team attended a customised valued-based Leadership Development Programme which emphasised the key values of leadership encompassing courage, compassion, integrity, responsibility, humility, honesty, loyalty and fairness. • The Group is consistently reviewing its position in terms of remuneration and benefits to ensure its efforts are compatible with the rest of the industry. |

MOVING FORWARD

According to the International Monetary Fund's World Economic Outlook Update, January 2019, the economic global expansion is expected to grow at only 3.5% in 2019 (2018e: 3.7%). The slower growth is expected to come on the back of the effects of tariff increases in the United States and China last year, as well as the softer global growth momentum registered in second half FY2018 due to factors such as weakening financial market sentiment and escalating trade tensions.

Having a highly open economy, Malaysia is expected to be affected by these developments. Nevertheless, Malaysia will face these challenges with its diversified economy, a resilient external position and a strong financial system. According to Bank Negara Malaysia, the Malaysian economy is expected to have a steady growth between 4.3% to 4.8% in 2019 (2018: 4.7%).

As Deleum embraces a new financial year, we do so with a cautious optimism given the challenging global and domestic outlooks. The volatility of the past few years has made us accustomed to operating in difficult environment and have

served to strengthen our positioning as a long-term industry player. We are fully committed to remaining resilient and profitable even as we focus on our existing core businesses whilst intensifying our focus on other growth opportunities.

Deleum will continue to adopt a strategic positioning in its approach to both its sustainability and expansion initiatives. As such, we will continue to be guided by our Six Key Focus Areas as we focus on business sustainability, maximise productivity and assess potential opportunities for growth. The Group will continue to emphasise the themes of Consolidation, Innovation and Diversification even as we broaden our outlook to include growth and expansion in every aspect of our operations.

Having laid the groundwork for diversification in 2018, we will continue to seek out new opportunities and partnerships which will help to reinforce our positioning as a one-stop integrated service provider in both the upstream and downstream segments.

In terms of international opportunities, we will continue to establish ties with other service providers as part of our efforts to add value and

expand our footprint into selective international markets. Furthermore, we will continue to explore the latest technology and best practices to ensure that all our segments are operating efficiently and sustainably.

Our stable and resilient performance over the past few years have proven that our strategic framework is a solid base for the Group to build upon. As we move forward, we will continue to build on our successes to date through a commitment to upholding good governance and business ethics across our core businesses. As always, we remain committed to our goal of delivering sustainable and successful results for long-term.

SUSTAINABILITY STATEMENT

MESSAGE FROM THE GROUP MANAGING DIRECTOR

ON BEHALF OF THE MANAGEMENT OF DELEUM BERHAD, I AM PLEASED TO PRESENT OUR 2018 SUSTAINABILITY STATEMENT WHICH HIGHLIGHTS WHAT BUSINESS SUSTAINABILITY MEANS TO DELEUM AND DEMONSTRATES HOW WE REMAIN COMMITTED TO BALANCING OUT OUR ECONOMIC AMBITIONS WITH ENVIRONMENTAL AND SOCIAL CONSIDERATIONS. IT ALSO PORTRAYS THE GROUP'S COMMITMENT TO ELEVATING COMMUNITIES AND TO PROTECTING OUR ENVIRONMENT WHILST CARRYING OUT BUSINESS IN A TRANSPARENT, EFFICIENT AND RESPONSIBLE MANNER.



“

**WE INTEND TO
CONTINUE
DEVELOPING AND IMPROVING
OUR DISCLOSURE BY PROVIDING
COMPREHENSIVE INFORMATION ON THE
SCOPE OF OUR REPORTING.** ”

Investing in our people is important to us as they are Deleum's greatest asset and integral to our sustainable growth. The Group cultivates a working environment that elevates leadership capabilities as well as which encourages employees to be creative and innovative. We will continue to exemplify our shared values in every aspect of our working culture by upholding integrity, ensuring compliance, and providing opportunities for our employees' career progression.

Challenging times impacting the oil and gas industry has resulted in a competitive environment for all players across the oil and gas supply chain. In line with the Group's mission to provide sustainable growth and enhance stakeholders' value, business sustainability remains one of the key drivers for Deleum as we tackle the challenges within our industry and adapt to the new market realities.

We are committed to continuously strengthening our sustainability efforts by embedding positive economic, environmental and social elements throughout our operations and amongst our stakeholders. Moving forward, Deleum will work hard to leverage on the Group's synergies, strengths and resources to integrate sustainability into our everyday operations.

This Statement serves as a living document for us as we provide updates on our sustainability journey over the long-term. We call upon all our stakeholders to lend us their unwavering support as we work to take our sustainability endeavours up several notches.



NAN YUSRI BIN NAN RAHIMY
Group Managing Director

ABOUT THIS STATEMENT

This Sustainability Statement aims to communicate the steady progress that Deleum Berhad (Deleum or the Group) has been making in relation to our business sustainability endeavours. Developed in accordance with Bursa Malaysia Securities Berhad's (Bursa Securities) Main Market Listing Requirements, our 2018 Sustainability Statement highlight our efforts to balance out our steadfast economic progress with conscientious environmental and social considerations. We intend to continue developing and improving our disclosure by providing comprehensive information on the scope of our reporting. This Statement has been reviewed and approved by our Board of Directors.

REPORTING SCOPE AND BOUNDARY

We report on the Group's sustainability-related activities and performance between 1 January 2018 and 31 December 2018 (FY2018) which are limited to our operations in Malaysia over which Deleum has controlling interests as well as a joint venture entity.

SUSTAINABILITY STATEMENT (CONTINUED)

SUSTAINABILITY GOVERNANCE AND MANAGEMENT

We recognise how integral sustainability is to the continuity of our business, complementing our agenda for expansion and growth whilst delivering long-term value to our stakeholders. To this end, this year, we have formalised our sustainability governance structure to serve as the central channel through which we integrate sustainability strategies into our business.

As reflected in our sustainability governance structure, our sustainability agenda is spearheaded by the highest level of management to ensure the achievement of

our sustainability goals through actions taken at both management and operational levels. In general, our Board Risk Committee (BRC) evaluates both risks and opportunities in relation to our material sustainability matters, whilst our Management Risk Committee (MRC) provides leadership oversight over the implementation of sustainability strategies, taking into consideration input from the BRC. To ensure the quality and accuracy of our reporting, our Heads of Business Units and Corporate Resources monitor processes and reports on sustainability performance, where relevant. The roles and responsibilities of our sustainability governing bodies are illustrated below:

DELEUM'S SUSTAINABILITY GOVERNANCE STRUCTURE



STAKEHOLDER ENGAGEMENT

Our stakeholders are parties affecting, or who are affected by our actions, objectives or policies. We are continually gathering feedback on our stakeholders' interests and concerns about matters which may affect our ability to create and sustain value. This process allows us to better understand stakeholders' interests and concerns, and gives us a basis as to how to align our actions with their changing needs and expectations.

We communicate the Group's response to our stakeholders' concerns by addressing material sustainability matters of significant priority, as follows:

| Stakeholder Groups | Engagement Platforms | Frequency | Topics Discussed | Material Sustainability Matters |
|----------------------------|--|------------|---|--|
| Customer | Meetings and engagement sessions | Ad hoc | Products and services information, performance, feedback and complaints | <ul style="list-style-type: none"> Customer engagement |
| | Industry conferences and networking events | Ad hoc | | |
| | Corporate website | Ad hoc | | |
| | Exhibitions | Ad hoc | | |
| Employees | GMD briefings | Quarterly | Company performance | <ul style="list-style-type: none"> Sustainable business performance and business opportunities |
| | QHSE updates | Monthly | QHSE matters | <ul style="list-style-type: none"> Environmental management Human capital management Safety |
| | Meetings and engagement sessions | Ad hoc | Staff performance reviews | <ul style="list-style-type: none"> Human capital management |
| | Staff activities | | Team building | <ul style="list-style-type: none"> Workforce wellbeing |
| | Intranet | | Company policies and procedures | <ul style="list-style-type: none"> Good governance and best practices |
| Suppliers and Contractors | Meeting and engagement sessions | Frequently | Products and services information and performance | <ul style="list-style-type: none"> Procurement practices |
| | Joint workshops and training sessions | Frequently | | |
| | Corporate website | Ad hoc | | |
| Shareholders and Investors | Group analyst briefings | Quarterly | Company performance, financials and dividend payments | <ul style="list-style-type: none"> Sustainable business performance and business opportunities |
| | Annual Report/Annual General Meeting | Annually | | |
| | Media interviews and press releases | Ad hoc | | |
| | Corporate website | | | |

SUSTAINABILITY STATEMENT (CONTINUED)

| Stakeholder Groups | Engagement Platforms | Frequency | Topics Discussed | Material Sustainability Matters |
|---------------------------|--|-----------|---|--|
| Financial institutions | Meetings and engagement sessions | Ad hoc | Company performance, financials | <ul style="list-style-type: none"> Sustainable business performance and business opportunities |
| | Corporate website | | | |
| Local Communities | Community engagement sessions | Quarterly | Community initiatives | <ul style="list-style-type: none"> Community outreach |
| | Corporate social responsibility events | | | |
| | Corporate website | | | |
| Government and Regulators | Meetings and engagement sessions | Ad hoc | Corporate governance, compliance and regulations | <ul style="list-style-type: none"> Good governance and best practices |
| | Corporate website | | | |
| Partners and Principals | Meetings and engagement sessions | Ad hoc | Business performance, planning and other commercial matters | <ul style="list-style-type: none"> Sustainable business performance and business opportunities Customer engagement |
| | Joint workshops and training sessions | | | |
| | Site visits | | | |
| | Exhibitions and social activities | | | |
| | Corporate website | | | |



**Highlight Story:
Offshore Technology Conference (OTC) Asia**

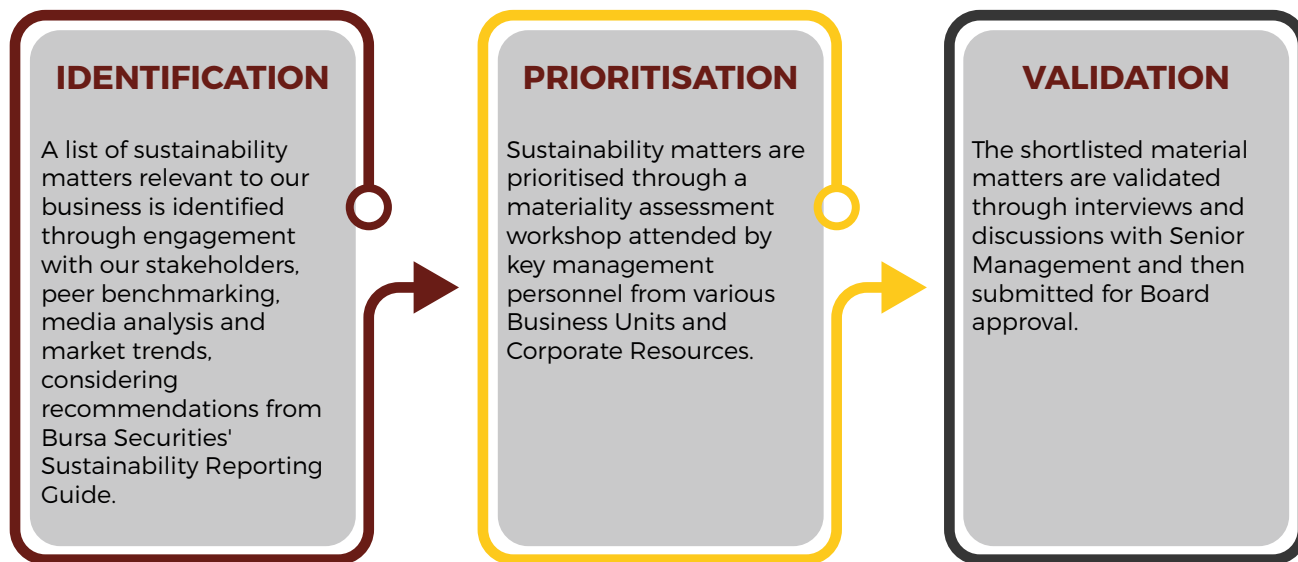
Deleum participated in the OTC Asia on 20-23 March 2018 at the Kuala Lumpur Convention Centre.

MATERIAL SUSTAINABILITY MATTERS

Material sustainability matters are matters that could substantively affect our ability to create value for our key stakeholders over the short, medium and long-terms. The identification of material sustainability matters enables us to focus our efforts and allocate resources to address high priority matters.

Our material sustainability matters are identified through a materiality assessment process, reviewed annually and updated as and when there are significant changes in our business operations or the external market environment.

Materiality Assessment Process:



In FY2017, we carried out a comprehensive materiality assessment process, including a materiality assessment workshop, as per the process highlighted above. For FY2018, the material sustainability matters were reviewed with the Senior Management, and were concluded to be still relevant to our business and stakeholders.

For FY2018, we have expanded our disclosure to include an additional material sustainability matter i.e. Customer Engagement. Our disclosure on material sustainability matters is structured according to the three Pillars of Sustainability i.e. the Economic, Environmental, and Social (EES) Pillars.

SUSTAINABILITY STATEMENT (CONTINUED)

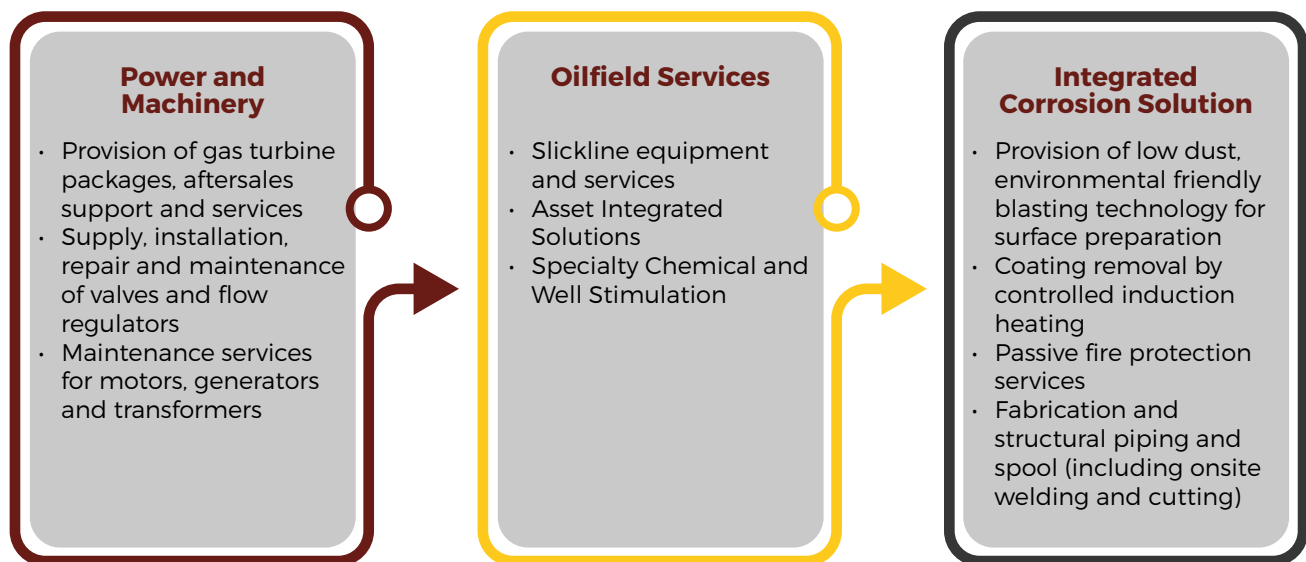
| PILLARS | KEY THEMES | MATERIAL MATTERS |
|---|---|---|
| <p>Economic</p>  <p>Refers to the impact that our business has on the economic conditions in relation to our stakeholders</p> | <p>Economic Performance and Impact Features how economic performance is balanced out against environmental and social considerations</p> <p>Corporate Governance Defines how we manage our business in an ethical and responsible manner to maintain good governance and best practices</p> | <ul style="list-style-type: none"> · Sustainable business performance and business opportunities · Procurement practices · Customer engagement · Good governance and best practices |
| <p>Environmental</p>  <p>Refers to the impact of our business on living and non-living natural systems, including land, air, water and environmental ecosystems</p> | <p>Environment Demonstrates our commitment towards managing our environmental impact</p> | <ul style="list-style-type: none"> · Environmental management |
| <p>Social</p>  <p>Refers to the impact our business has on the social system within our community</p> | <p>Managing Our People Defines how we manage our people and build a sustainable workforce</p> <p>Safety Demonstrates our commitment towards maintaining a safe working environment</p> <p>Corporate Social Responsibility Highlights our community outreach and development programmes</p> | <ul style="list-style-type: none"> · Human capital management · Workforce wellbeing · Safety · Community outreach |

ECONOMIC

Key Theme: Economic Performance and Impact

The Group’s economic performance is derived from our three business segments, namely Power and Machinery, Oilfield Services, and Integrated Corrosion Solution. We offer a wide range of specialised products and services to the oil and gas industry particularly in the upstream sector. A brief explanation on our key business segments is as follows:

Deleum’s Business Segments



Sustainable Business Performance and Business Opportunities

Sustainable Business Performance

Sustainable business growth is essential to create sustainable value for our stakeholders. It enables us to care for our employees, allowing them to perpetuate our shared values and deliver on our corporate mission and vision, as well as enables us to play a role as a responsible corporate citizen.

Our one plus three-year Strategic Plan with its Six Key Focus Areas (as disclosed in the Management Discussion and Analysis (MD&A) section of this Annual Report), streamlines our efforts to both strengthen and sustain the growth of our business.

In FY2018, Deleum registered revenue of RM623.7 million and profit after tax and non-controlling interest (PATANCI) of RM27.2 million, attesting to the resilience of our business despite the challenges in the oil and gas industry.

As a key integrated service provider, we provide a variety of specialised products and services to oil and gas players in the upstream segment, and more recently, the downstream segment. Today, we remain well-positioned on the domestic front by offering a broader spectrum of integrated products and services to cater for diverse industry and market needs. To thrive in this challenging operating environment, we are constantly exploring new avenues to expand in the domestic market and the

SUSTAINABILITY STATEMENT (CONTINUED)

downstream oil and gas sector. The development in our international business footprint is evident through our ongoing effort to expand to Indonesia, Brunei and the Middle East, consistent with our aspiration to establish a regional presence by 2020.

We remain committed to our dividend policy of distributing a gross dividend of 50% of the Group's annual profit attributable to equity holders of the Company. This is subject to the availability of adequate distributable reserves, operational cash flows requirements, financial commitments, expansion plans and other relevant factors to sustain our existing operations and to support future business growth. For FY2018, we declared a total dividend of 3.50 sen per ordinary share representing 51.6% of our attributable earnings for the financial year.

A detailed analysis of our business performance as driven by our Strategic Plan is explained in the MD&A section of this Annual Report.

Leveraging on Digitalisation for Operational Resilience

Our business sustainability to a large extent has been due to our vigilance and adaptability to market trends. We have also embarked on digitalisation initiatives, for more efficient processes and greater environmental responsibility.

In FY2018, we digitalised our internal processes by leveraging on electronic forms (eForms) for greater operational efficiency and at the same time reduced our environmental footprint by using less paper. As at 31 December 2018, we had digitalised a total of 84 forms and we are in the midst of developing online test forms, designed by our in-house expertise.

As we wholeheartedly embrace digitalisation, we are also fortifying our cybersecurity measures by strengthening our internal processes and educating our employees. We understand the importance of implementing effective cybersecurity measures to protect our systems, networks and programmes from cyber attacks that could compromise our data integrity and privacy. To this end, our Group Information, Communication and Technology (ICT) Department uses effective and up-to-date firewall systems as well as maintains a filter report to identify cyber attacks at the first instance. We also regularly circulate awareness emails to our employees to educate them on how to take precautions against potential threats. In addition to that, we conduct town hall meetings, during which, we discuss matters such as effective cybersecurity measures. For the year in review, no cyber-breach incidents were identified.

Quality Products and Services

Our resilience amidst the year's challenging operating environment is testament to our consistent provision of quality products and services to our customers. We uphold internationally-recognised best practices and standards, such as the ISO 9001:2015 Quality Management System, to meet both our customers' and regulatory requirements, as well as to continually improve our operational efficiency. For our workshop service facilities in Kajang and Bintulu for maintenance, repair and overhaul activities, we comply with the International Electrotechnical Commission System for Certification to Standards Relating to Equipment for Use in Explosive Atmospheres (IECEx) to ensure that our processes and products conform to international standards.

| Certification | Companies with Accreditation |
|---|---|
| ISO 9001: 2015 Quality Management Systems Certification ¹ | <p>Deleum Services Sdn. Bhd. for the provision of the following products and services related to oil and gas exploration and production activities:</p> <ul style="list-style-type: none"> a) primarily wireline, wellhead and oilfield services (Deleum Oilfield Services Sdn. Bhd.) (DOSSB); b) assembly and supply of centralisers (DOSSB); c) chemicals supply and services (Deleum Chemicals Sdn. Bhd.); d) repair and overhaul of electrical and mechanical equipment including site work (Deleum Rotary Services Sdn. Bhd.) (DRSSB); and e) integrated corrosion, inspection and mitigation for surface preparation industry (Deleum Primera Sdn. Bhd.). <p>Turboservices Sdn. Bhd. for the provision of turbomachinery sales and services.</p> |
| International Electrotechnical Commission System for Certification to Standards Relating to Equipment for Use in Explosive Atmospheres (IECEx) ² | DRSSB |

¹ ISO certifications by Det Norske Veritas – Germanischer Lloyd (DNV-GL) for Quality Management System

² Awarded by Safety in Mines Testing and Research Station (SIMTARS) Australia

Group Procurement Practices

We are committed to upholding transparency throughout our supply chain and to continually supporting local suppliers. This is evident in our commitment towards contributing to national economic development in an ethical and responsible manner.

Responsible Procurement Practices

Our procurement function is guided by our Group Procurement Policy and Vendor Code of Conduct. These policies dictate our dealings with local and foreign vendors, contractors and sub-contractors with the ultimate objective of obtaining the best products and services in the most effective, ethical, and sustainable manner.

Our Vendor Code of Conduct stipulates that new suppliers would be assessed from the Environmental, Social and Governance (ESG) perspectives with assessment for renewal every three years.

The Group Procurement department and Group Quality, Health, Safety and Environment (QHSE) department jointly conduct vendor audits in the interest of upholding compliance, integrity and security. Our selection process for vendor audits is based on the Kraljic matrix, whereby selected active vendors are reviewed to ensure their compliance with contractual specifications and deliverance capability. As and when the need arises, we may seek third party validation of our vendors.

SUSTAINABILITY STATEMENT (CONTINUED)

Local Sourcing towards Empowering the Local Community

We view working with local vendors as a means to encourage local socio-economic development. At the same time, it allows us to operate within reasonable and better-controlled costs. Reflecting this, 85.8% of the Group's vendors were local vendors in FY2018.

We have been selected as one of the Anchor companies by PETRONAS to support its Vendor Development Programme (VDP^x) in the nurturing and development of existing and new vendors capable of supporting the oil and gas and related services market.

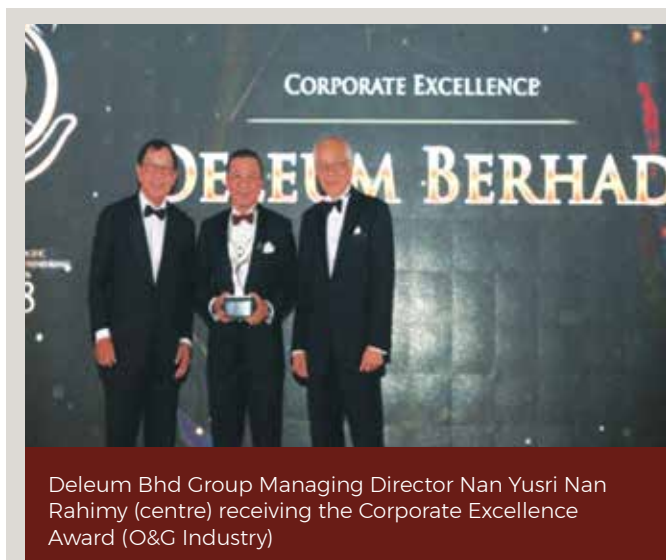
Through the principals that we represent or partner with, we are able to procure directly from Original Equipment Manufacturers (OEMs) to ensure that the products for our customers are of the highest quality. These procurement activities also facilitate the transfer of technology through the provision of training and services, thereby allowing us to contribute towards developing the local ecosystem.

Customer Engagement

Whilst we possess a diverse range of customers across our Power and Machinery, Oilfield Services and Integrated Corrosion Solution segments, we ensure our customer engagement activities are consistent across our portfolios. We are mindful of our customers' priorities and strive to remain responsive to their changing needs and interests. As such, we are committed to delivering quality products and services as well as ensuring customer satisfaction.

We maintain a seamless alignment between business units by cultivating an effective working culture and strengthening inter-business unit engagements. This is reflected in our focus on Internal and External Engagement as one of the Six Key Focus Areas in our Strategic Plan.

We are continuously refining our platforms for customer engagement: the two channels through which we accomplish this are our customer satisfaction survey and our customer grievance mechanism. In FY2018, Deleum Primera Sdn. Bhd. (DPSB) conducted customer satisfaction surveys to gain insights into our customers' business needs.



Deleum Bhd Group Managing Director Nan Yusri Nan Rahimy (centre) receiving the Corporate Excellence Award (O&G Industry)

In September 2018, the Group was conferred the Corporate Excellence Award for the Oil and Gas industry by Enterprise Asia at the Asia Pacific Entrepreneurship (APEA) 2018 event. This speaks volumes of Deleum's commitment towards business growth, corporate leadership and operational excellence. The APEA is a regional awards recognition programme which honours business leaders and organisations that achieve both outstanding performance in developing successful business, and continual commitment in valuing and practising social responsibility.

KEY THEME: CORPORATE GOVERNANCE

Good Governance and Best Practices

At Deleum, we are committed to maintaining the highest standards of business ethics and upholding the principles of good governance through our mission, vision and shared values. Our business conduct and ethics are guided by key policies, systems, processes, standard operating procedures and best practices, and are supported by our governance structure consisting of the following:

- Board of Directors
- Audit Committee
- Joint Remuneration and Nomination Committee
- Board Risk Committee
- Management Risk Committee
- Group Managing Director
- Business Units and Corporate Resources.

Details of our corporate governance practices are disclosed in the Corporate Governance Overview Statement of this Annual Report, whilst the details of our risk management and control structure and processes are disclosed in the Statement on Risk Management and Internal Control.

We strongly believe in the shared values of integrity, professionalism, health, safety and environment mindfulness as well as service excellence. Our shared values aim to promote transparency, accountability, and openness in communications.

Key guidelines to our corporate governance include the Code of Business Conduct (COBC) and Whistleblowing Policy.

Code of Business Conduct (COBC)

Our COBC provides guidelines that the Board and all employees are required to follow and adhere to. Available in both English and Bahasa Malaysia, it sets out the standards of integrity and ethical behaviour expected of our employees, directors, contractors, vendors, and any party conducting work for or on behalf of the Group. Its foundation is based on different areas covering, amongst others, the following:

- Anti-bribery and anti-corruption matters;
- Anti-money laundering and anti-terrorism matters;
- Compliance with laws and policies;
- Gifts, hospitality and entertainment;
- Conflicts of interest; and
- Equal opportunity matters.

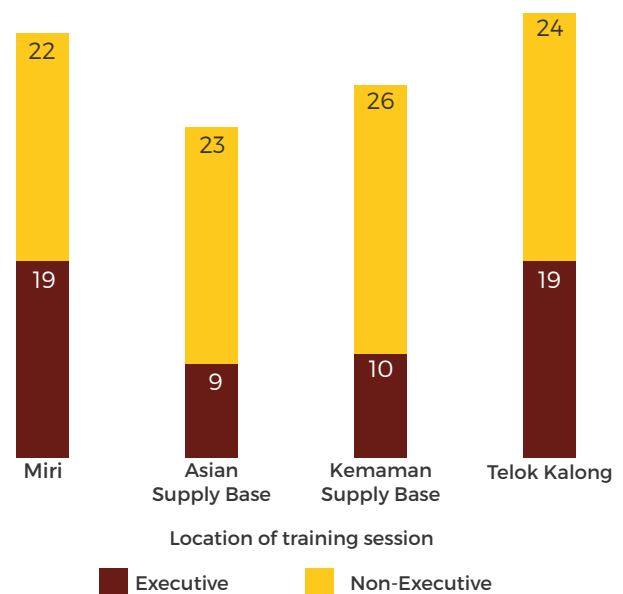
We take any violation of the COBC very seriously. Violation of any part of the COBC will result in strict disciplinary action under the relevant policies as may be deemed appropriate.

We embrace a culture of upholding the highest standard of integrity in our everyday dealings, and as such, our employees' understanding and practice of the principles outlined in the COBC takes precedence.

During the year, we conducted separate training sessions on Deleum's COBC policy for executive and non-

executive employees, reflecting their different focus areas performed. We conducted 152 formal training sessions in four locations throughout the year – 57 of these were for executives and 95 for non-executives. Employees who inevitably had to miss the training session were given separate informal training by their respective Base Managers.

The number of formal COBC training sessions held during the year is as follows:

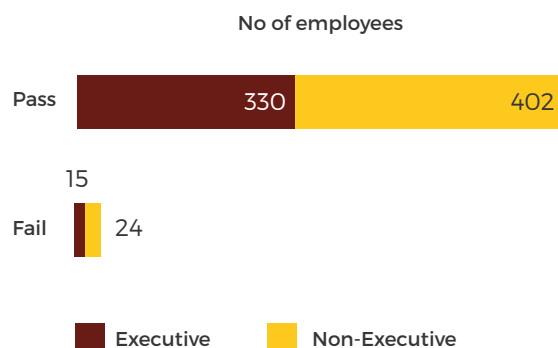


To assess our employees' understanding of the COBC policy, Group Human Resource (HR) Department conducted an assessment comprising 20 questions.

Our employees achieved an overall passing mark of 80% in relation to the assessments conducted during the year. Re-sits were offered to those who failed, with the aim of ensuring all employees eventually pass their assessment and have a sound understanding of our COBC policy. A detailed breakdown of the assessment results is as follows:

SUSTAINABILITY STATEMENT (CONTINUED)

COBC Assessment Results



Whistleblowing Policy

In line with our commitment towards promoting transparency, accountability and ethical behaviour throughout our businesses, we encourage our employees and external parties to report any suspected wrongdoing through our Whistleblowing Policy. Our Whistleblowing Policy provides an avenue for both internal and external parties to report any improper conduct or wrongdoing within the Group in a confidential and secure manner via dedicated channels.

Under our Whistleblowing Policy, a whistleblower's identity will be protected and kept confidential, thereby enabling all parties to report without any fear of repercussion. All cases reported will be addressed and investigated in accordance with the policy. In FY2018, no cases of whistleblowing were reported.

The details of Deleum's Whistleblowing Policy, including the information pertaining to reporting procedures, can be accessed via our corporate website.

Adherence to the PDPA

We are committed in protecting and keeping the personal data of the data subject processed by Deleum and its subsidiaries in accordance with the Personal Data Protection Act 2010 (PDPA).

Our PDPA policy and procedures are readily available for our employees' easy access through the intranet. The PDPA governance is spearheaded by the Group Managing Director, PDPA Committee and supported by the compliance officer and the designated compliance officer of the respective Business Units and Corporate Resources.

In FY2018, our compliance officer conducted four trainings, refresher and awareness sessions including two assessments.

PDPA compliance reporting and updates to the PDPA Committee are undertaken on a quarterly basis. In FY2018, there was neither any identified leak, theft, loss of personal data nor substantiated complaint received.

ENVIRONMENTAL

Key Theme: Environment

Environmental Management

Environmental Regulations and Compliance

Our Environmental Policy affirms our commitment to minimise the potential impact of our operations on the environment in locations where we operate. Through timely, adequate, corrective and protective measures, we strive to achieve a sustainable trade-off between our operational viability and any negative impact from our operations on the environment.

We ensure completeness in all our operations' compliance with environmental standards through the conduct of a self-assessment test based on the Department of Environment's (DOE) Guided Self-Regulation (GSR). In FY2018, we completed the Environmental Mainstreaming Tools (EMT) Checklist relating to the GSR.

For the year under review, we registered zero fines or sanctions in relation to environmental regulation breaches. We also maintained a zero Total Recordable Environmental Incident Frequency (TREIF) count.

Underscoring our commitment to upholding the highest environmental standards, Deleum Chemicals Sdn. Bhd. successfully obtained the latest ISO 14001:2015 Environmental Management Systems certification for specialty chemical supply and services. This certification covers the company's research and development laboratory as well as its blending, storage, transfer, chemicals handling, and scheduled waste management activities.

Waste Management

We promote the efficient use of resources in all our facilities by reducing the use of hazardous materials and products whilst practising effective waste management and recycling initiatives.

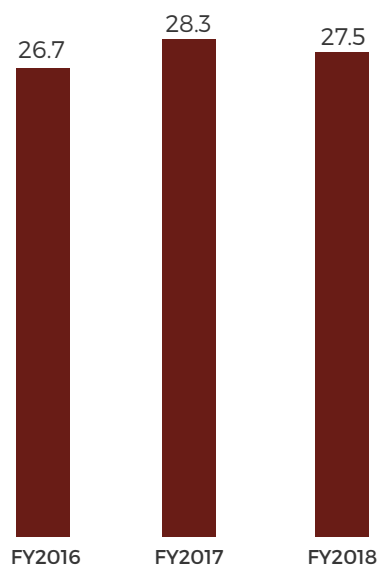
Our scheduled waste is managed by personnel who are deemed Certified Environmental Professionals in Scheduled Waste Management (CePSWaM), as required by the Environment Quality Act 1974 (EQA). During

the year, seven personnel from our various business units received CePSWaM training conducted by the Environment Institute of Malaysia (EiMAS). Of these, three personnel obtained competency certification in relation to the CePSWaM.

In FY2018, we received zero reports of scheduled waste incidents or fines from the local authorities.

The total scheduled wastes generated by Deleum for the last three consecutive years is as follows:

Total Scheduled Waste Generated (tonnes)



Water Management

Another key resource that we continuously strive to manage effectively is our water supply. One of the water conservation efforts undertaken by our operations is the rainwater harvesting initiative at our Teluk Kalong facility. In FY2018, our total water consumption was 2622 m³, of which 50 m³ was collected from rainwater harvesting.

Energy Efficiency

Responding to the need to achieve improved energy efficiency in our operations, we are gradually phasing out the use of conventional lightbulbs at all our facilities and replacing them with light emitting diodes (LEDs). This initiative commenced in the fourth quarter of 2018. As LED installation is costly on a big scale, our plan is to make changes in phases over the next few years.

Utilising Cleaner Technologies

In line with our commitment towards minimising environmental impact and protecting the community's well-being, Deleum has embarked on offering services which utilise cleaner technologies.

Our Integrated Corrosion Solution segment represented by DPSB is primarily involved in abrasive blasting, removal of hazardous contaminants and painting. The Group has partnered with Sponge-Jet since 2012 to provide low dust abrasive blasting using sponge media abrasive technology for our customers. This technology provides a safe and clean method for blasting suppressing up to 99.9% of what would normally become airborne dust without disrupting customers' ongoing operations.

Another technology – rust paint removal (RPR) – allows coating to be removed entirely without disintegrating and is completely free from contaminating agents. This makes disposal and recycling of waste easier and cheaper whilst limiting its impact on the environment.

SOCIAL

Key Theme: Managing Our People

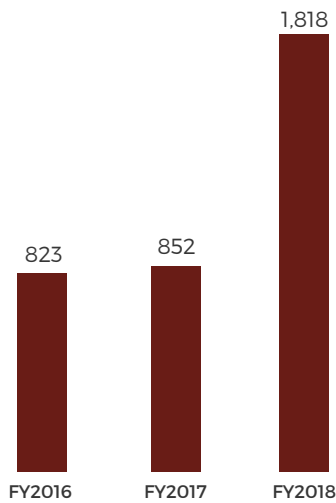
Human Capital Management

Underpinning our business growth is a high performing work culture that stems from our efforts on the Human Capital Development front, one of our Six Key Focus Areas. Human capital management plays a pivotal role in shaping the culture and dynamism of our people to ensure the success of our business. Our human capital management initiatives entail the championing of diversity practices in the workplace, the offer of various development programmes to upskill both our leaders' and our employees' competencies, the refinement of our engagement with our employees, as well as the attraction and retention of employees to sustain our talent pool.

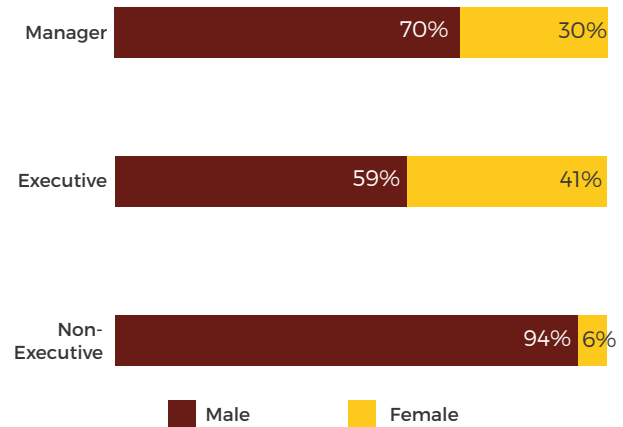
As of FY2018, the total number of Deleum's workforce was 1,818, a surge from FY2017's headcount of 852, following our mass hiring of casual workers for the new Maintenance, Construction and Modification Services contract. Casual workers are being hired on an ad hoc basis to service this contract as it provides us with the flexibility to respond to operational needs and manage our costs more effectively. Our turnover rate for FY2018 was 6.8%.

SUSTAINABILITY STATEMENT (CONTINUED)

Total Number of Employees



Employee Gender by Level



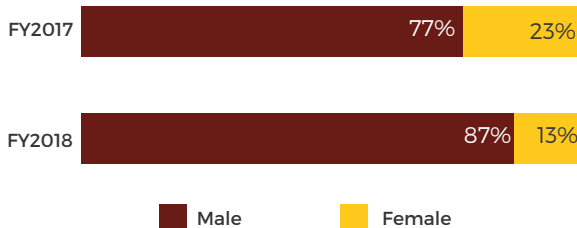
Diversity within the Workforce

At the heart of our human capital management agenda is a focus on embracing diversity. We recognise that diversity within the workforce will contribute to a wider range of viewpoints and skill sets. To this end, our Equal Opportunity Policy ensures that all our employees are provided with equal opportunities, with no age, gender, ethnicity or disability-based discrimination, as reflective of our support and practice of the Universal Declaration of Human Rights by the United Nations.

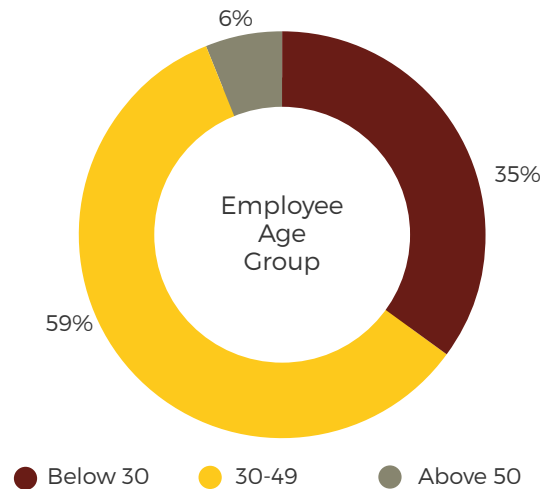
We continuously attract, develop and retain the best technical and non-technical talent, leveraging on the diverse functional capabilities of our people.

Our employees' breakdown and analysis are as follows:

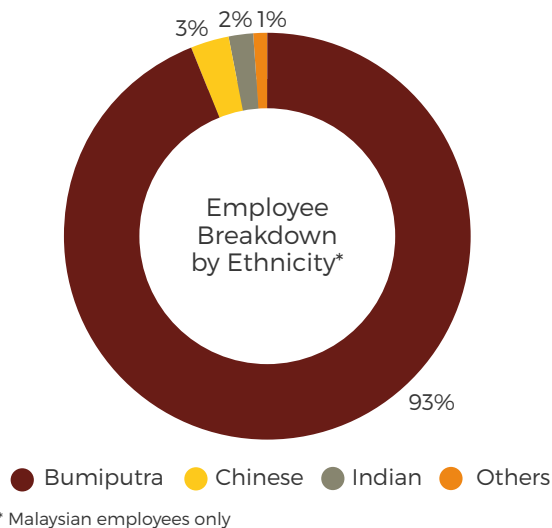
Employee By Gender (%)



Employee Age Group



Employee Breakdown by Ethnicity*



Our gender demography is skewed towards male employees, reflecting the industrial nature of our offshore-centric operations. We practise local hiring where possible to provide job opportunities within the oil and gas sector for Malaysians. In FY2018, approximately 99% of our employees were Malaysians.

Employee Training and Development

In FY2017, we established the Talent Management Framework, consisting of a succession planning structure emphasising leadership competencies. Last year, we continued to enhance the aforesaid framework through our Senior Management Development Programme, internal workshops and soft skill training sessions.

Our Senior Management Development Programme, entitled “Keepers of the Flame” was conducted in partnership with an external learning partner. Aiming to inspire the concept of “value-based leadership”, the programme was guided by the “8 flames of leadership”, namely, compassion, courage, honesty, integrity, humility, responsibility, loyalty and fairness. Through experiential learning, our leaders evaluated their leadership styles and how this impacted their peers and subordinates. Our leaders were encouraged to strengthen their leadership mind-sets by cultivating trust, respect, good problem

solving and communication skills, as well as by inculcating a sense of camaraderie across all levels of their dealings through a shared experience of overcoming challenges.

Our internal workshops include training sessions on Behavioural Event Interviewing (BEI) skills for our HR employees. The BEI training aims to provide an accurate representation of the behaviour of candidates applying for jobs. Through these sessions, our HR employees are enlightened about the methodologies and processes involved in conducting focused and probing BEI interviews for the purpose of accurately validating potential candidates’ credentials using various competency models. These training sessions are relevant to our succession planning activities.

Employee Engagement

We value employee engagement as one of the means to unite Deleum’s employees across the Group, bridging the gaps across all levels within the Group. We conduct performance review with our employees, at least once a year, to provide feedback on their performance and advice on their career development. Through these performance reviews, we are better able to understand our employees’ interests and concerns at the workplace and leverage on these findings to help improve our human capital management initiatives.

Employee Benefits

We extend ample consideration towards our employees’ welfare and familial commitments, reflecting the value that we accord our employees and their personal well-being. To continuously attract and retain our employees, we have in place several benefits including extension of our maternity leave from 60 days to 90 days and paternity leave from two to five days, and Time-Off Policy for our employees’ convenience. The Management periodically review our employees’ remuneration packages to ensure these remain competitive.

Workforce Well-being Practices

As a responsible employer, we care for our employees’ well-being. We recognise that the well-being of our employees affects their productivity levels and impacts our retention of talent.

SUSTAINABILITY STATEMENT (CONTINUED)

Corporate Wellness Activities

We continue to enhance our Corporate Wellness Programme introduced in FY2017 at head office to encourage our employees to practise healthy lifestyles. In FY2018, we conducted a wide range of existing and new activities linked to both mental and physical wellness to improve our employees' overall fitness and health which were well-received by our employees with 60% participating in at least one and some 40% participating in at least 9 out of 16 activities.

We aim to continue with this programme with the long-term goal of fostering a holistic culture of caring for our employees' well-being.

The following corporate wellness activities were conducted during the year:

Corporate Wellness activities for FY2018

Health Screening & Stress Management Talk

Date: 25 May 2018

Release & Relax

Date: 8 June 2018

Nutrition, Training & Lifestyle



Date: 29 June 2018

Corporate Wellness activities for FY2018

Build Your Own Breakfast



Date: 6 July 2018

Cookout Session @ The Cooking House



Date: 13 July 2018

Prehab Spine Care

Date: 20 July 2018

Corporate Wellness activities for FY2018

Lil Eden Terrarium



Date: 3 August 2018

Sports Injury & Rehab

Date: 17 August 2018

Nutrition Talk

Date: 3 September 2018

Skin Care Talk

Date: 7 September 2018

Mesti Fit Challenge

The Mesti Fit Challenge (MFC) is one of our main Corporate Wellness activities. Similar to the Dump Your Plump (DYP) challenge held in 2017, participants formed groups to participate in various physical activities on a weekly basis.

MFC is an 8-week challenge consisting of 16 classes, 4 video challenges and 2 talks. Key highlights from activities conducted include the GFX Sweat, GFX Body Combat, GFX Met Con, GFX Strength, Hiking Session, Pit Stop @ Fittie Sense, Grand Finale: Obstacle Challenge.

Throughout FY2018, MFC garnered 45 participants to form 15 groups, a surge in participation from the FY2017 DYP challenge which attracted 21 participants who formed 7 groups.

Generally, participants saw improvements in their overall health and fitness levels based on the evaluations of their body-fat and waist-to-hip ratios.

The majority of participants were satisfied with the activities conducted and are keen for this programme to continue.

Women's Week

Deleum's Women's Week is the Group's centrepiece for celebrating and empowering women in commemoration of women's strengths, potential and achievements. Held on 24-31 October 2018, Deleum's Women's Week featured various activities which were well-received by our employees as reflected in their encouraging participation rate of between 50% to 80%.



"Mesti Fit" Team Challenge Group Photo



Hiking Challenge



Grand Finale: Obstacle Challenge

SUSTAINABILITY STATEMENT (CONTINUED)

The activities from Deleum's Women's Week were as follows:

| Activities | Highlights |
|----------------------------------|--|
| Movie Day - Inspiring Women | We screened the movie <i>Hidden Figures</i> to elucidate women's potential to rise to the top of an organisation from the very bottom. |
| Grooming for Confidence | We conducted a half-day talk titled "The Power of Image Management" to educate participants on the tools and soft skills that could benefit their personal and professional lives. Participants were enlightened about the importance of non-verbal communication to increase their personal confidence and enhance interpersonal relationships as well as how these directly affected their job performance and productivity. |
| Female Safety and Protection | We conducted two programmes: (i) Road Survival and (ii) Violence Protection using Survival Art to educate women on how to prevent and defend themselves against violence on the road and other public areas. |
| Colour Day | By encouraging our employees to dress in the colour pink, we provided an avenue for both men and women to express their support towards the Women's Week's celebrations. |
| Women's Health Awareness Session | We conducted an informative health talk on female cancer awareness, in conjunction with and in support of Breast Cancer Awareness Month. |

KEY THEME: SAFETY

Safety Practices

At Deleum, we recognise the importance of our employees working in a healthy and safe environment, and our provisions for our employees fully capture this responsibility.

Safety Procedures and Processes

The Group continues to be guided by our Health, Safety and Environment (HSE) slogan, "Collective Responsibility Towards HSE Excellence". Introduced in 2009, it serves to inculcate a sense of ownership and a collective responsibility in every employee to continuously improve Deleum's HSE performance.

Our Group HSE Management System (HSEMS) outlines our management approach towards all HSE-related aspects. Periodic audits of the HSEMS are undertaken at our operational facilities, whilst the system itself is reviewed annually by our HSE Committee.

We introduced the “10 Life Saving Rules of Deleum” which are to be strictly adhered to by our employees and contractors, reflecting our uncompromising commitment towards upholding our stakeholders’ safety and meeting their expectations.

10 LIFE SAVING RULES

1. Valid Safe Work Permit

Perform with valid safe work permit when required.

2. Energy Isolation

Verify that there is no live energy before work begins.

3. Systems Override

Obtain authorisation before overriding or disabling safety critical equipment.

4. Confined space entry

Obtain authorisation before entering a confined space.

5. The Line of Fire

Stay vigilant and keep a safe distance from area that has potential safety hazards.



6. Personal Protective Equipment

Always use correct and approved PPE in accordance with safe work plan, permit or site requirements.

7. Perform Risk Assessment

Identify all hazards associated with tasks and assess potential risks prior to commencing and during work.

8. Follow Prescribed Journey Management Plan

Plan and execute necessary road transport journeys.

9. Mobile/Portable devices

Do not handle your phone or any other mobile/portable communication when walking or driving.

10. Smoking and Ignition Sources

Do not smoke outside designated area or bring potential ignition sources into process areas without authorisation.

In FY2018, our safety procedures related to working in confined spaces was revised to address the changing safety needs of our people and our facilities. This is reflective of our responsibility to ensure the rightful provision of up-to-date standards of safety at our workplaces.

We continuously strive to embed a safety culture within our daily operations. As reflected in our commitment towards upholding compliance, responsibility and care, we conduct the Chemical Hazards Risk Assessment (CHRA) at all operation sites that are potentially exposed to chemicals. This is done to ensure that the health and safety of our employees is not compromised. The CHRA forms part of the safety requirements of the Occupational Safety and Health (Use and Standard of Exposure of Chemicals Hazardous to Health) Regulations 2000, which we are in full compliance with.

SUSTAINABILITY STATEMENT (CONTINUED)

Group QHSE Governance

Our HSE Committee consists of ten members and is chaired by our Group Managing Director. The main functions of our HSE Committee are to:

- Review and develop HSE practices, policies and procedures;
- Develop annual HSE plans to meet our HSE objectives;
- Review 'leading safety indicators' and organise HSE programmes, review their effectiveness and make recommendations to the Management; and
- Conduct investigations into incidents and accidents occurring at the workplace and recommend remedial measures.

The HSE Committee meets every quarter to discuss HSE-related matters such as safety performance, plans and policies. The QHSE personnel conducts safety meetings, briefings and inspections on a regular basis across our business units, in addition to attending meetings with customers on HSE-related matters. Aside from ensuring that all parties aligned themselves with the up-to-date HSE requirements, these sessions did much to help build good rapport.

HSE Assurance and Management Review Process

We continue to monitor our HSE action plans and activities as part of our HSE Assurance and Management Review process. External reviews are conducted to assess our compliance with regulatory and contractual requirements in areas of HSEMS, HSE performance, risk assessment, permits, training and competency, drug and alcohol usage, as well as personal protective equipment (PPE) usage. Findings arising from external reviews are highlighted as part of the audit and inspection process and corrective measures are implemented accordingly.

In recent years, our audit process has been modified to take the form of a sharing session, to ensure buy-in from our contractors, insofar as they fully understand and adhere to HSE-related standards.

In FY2018, we conducted five audits on selected vendors or subcontractors.

Occupational Safety and Health (OSH) Safety Training Sessions

We conduct safety training for our employees based on requirements from our risk assessment, past incidents, customer contracts, regulatory authorities' directives and safety standards. Specific safety trainings are provided to enhance our employees' safety knowledge, operational techniques and competencies whilst meeting contractual and regulatory requirements. Most of our training sessions involve personnel working at sites, whom have been nominated by their operation managers to attend the aforesaid training.

The following key training sessions were held over the course of FY2018:

- 1) Control of Work (CoW);
- 2) Noise Hazard Awareness;
- 3) Assistant Medical Review Officer (AMRO) – Competence Person;
- 4) Life Saving Rules Awareness;
- 5) Hand & Finger Injury Awareness;
- 6) Drop Object Awareness;
- 7) Emergency Response Team (ERT); and
- 8) Waste Manager – Competence Person.

A few of our training sessions are recurring sessions that aim at ensuring our employees are continuously maintaining the highest level of awareness about safety measures. Deleum's 10 Life Saving Rules, Hand & Fingers Injury Awareness training, and Dropped Object Awareness training are some of our recurring training sessions.

OSH-Related Initiatives

Throughout the year, we conducted various OSH-related initiatives at both our head office and facilities towards meeting our stakeholders' safety requirements and their expectations. We disseminate safety awareness information such as the latest HSE-related updates to our employees via monthly bulletins.

The key highlights of our FY2018 OSH-related initiatives are as follows:

| Initiative/Activity | Description |
|-------------------------------|--|
| STOP Card | We uphold the highest standards of safety by conducting toolbox safety meetings on a daily basis. We reward the best STOP card issuer on a quarterly basis. |
| Risk Assessments | We conduct risk assessments before our employees begin working or during the Permit To Work (PTW) approval request to customers. We recently introduced an additional element in our review to include the element of Situational Awareness in the Job Hazard Analysis Form. |
| Permit To Work (PTW) system | Our in-house PTW system requires our employees to fill up the form for routine tasks. When working for our customers, our employees are required to request for a PTW and complete all necessary forms. |
| HSE Inspections | We conducted a total of five inspections, in addition to the regular QHSE inspections done by our QHSE coordinators on a monthly or quarterly basis. |
| First Aid & CPR Training | We engaged external trainers to conduct first aid training sessions and assessments for our employees. |
| Emergency Preparedness Drills | We conducted emergency drills for chemicals spillage at our Telok Kalong and Labuan facilities. |
| Evacuation and Desktop Drills | We conducted a total of five evacuation drills at various locations across our business operations. |

Safety Performance

We have recorded 12.7 million free Lost Time Injury (LTI) man-hours with 2,378 days as of 28 February 2019 without an LTI since 25 August 2012. Our Total Recordable Case Frequency was at zero as of February 2019, outperforming the target of 1.20 set by PETRONAS.

SUSTAINABILITY STATEMENT (CONTINUED)

Awards and Recognitions

In FY2018, we received the following awards in recognition of our excellent HSE performance:

| Award | Awarded to | Date of Award |
|--|------------|---------------|
| Graded an "A" Rated Contractor by Petrofac for the Slickline Contract | DOSSB | 2 April 2018 |
| Focused Recognition for ensuring a safe and conducive worksite and enhancing HSE values at the D35 sites | DOSSB | 3 May 2018 |
| Focused Recognition for ensuring a safe and conducive worksite and enhancing HSE values at the Tembungo site | DOSSB | 6 May 2018 |
| Focused Recognition for demonstrating a high commitment to HSE | DOSSB | 24 June 2018 |
| Certificate of Appreciation in recognition of participation in the PETRONAS Contractor HSE Membership Programme as a "MENTEE" | DPSB | 19 Oct 2018 |
| HSSE Performance Recognition 2018 for outstanding performance and exceptional commitment to upholding HSE standards (from MISC Berhad) | DPSB | 15 Nov 2018 |
| Certificate of Appreciation in recognition of outstanding and excellent HSE performance in contributing to safe results (from Enquest) | DOSSB | 1 Nov 2018 |
| Certificate of Appreciation in recognition of valuable contribution towards Enquest Malaysia Wells ZERO LTI (2014-2018) | DOSSB | 11 Dec 2018 |
| Focused Recognition for successfully completing the ERB West A106 bridge plug and additional perforation (from PCSB SBO) | DOSSB | 19 Dec 2018 |

KEY THEME: CORPORATE SOCIAL RESPONSIBILITY

Community Outreach Practices

Being a responsible corporate citizen and as part of our endeavours to create long-term stakeholder value, we continue to support impactful Corporate Social Responsibility (CSR) initiatives. We strongly believe in giving back to the community and managing our environment footprint in the areas we operate in based on three focal areas: Community, Environment and Workplace.

In conducting our CSR activities, our employees have consistently demonstrated their passion and a keen interest in reaching out and serving communities.

School Adoption Programme

Our participation in the "Promoting Intelligence, Nurturing Talent and Advocating Responsibility" (PINTAR) school adoption programme has enabled us to make a positive imprint on Sekolah Kebangsaan Kampung Bakam (SKKB), Miri Sarawak. Our adoption of SKKB demonstrates our continuous support towards promoting academic and non-academic growth of the school and its students, particularly through the following initiatives:

1. Motivational Programme for Year 6 Students;
2. Understanding Questions and Answers for Year 6 Students;
3. Ujian Pencapaian Sekolah Rendah (UPSR) Workshop;
4. Sports Carnival; and
5. Award of Excellence.

Community-Focused CSR Activities

We remain committed towards contributing to sustainable development by helping elevate the well-being of the community around us. Despite the economic downturn, we continue to engage the wider community through our various CSR activities. We believe that by extending care to the local community, we are helping to strengthen our employees' morale which in turn is cementing employee loyalty and motivating our people to carry out their duties more diligently.

Our main annual CSR activity is the Blood Donation Drive, conducted mostly at our head office. In FY2018, we expanded this drive to our operations in Kemaman and Miri, attracting a total of 257 blood donors.

| Location | Date (2018) | Total Number of Participants | Total Pints of Blood Collected |
|--------------|-------------|------------------------------|--------------------------------|
| Miri | 28 April | 82 | 62 |
| Bangsar | 2 May | 82 | 62 |
| Kemaman | 3 May | 93 | 71 |
| Total | | 257 | 195 |



Kemaman



Miri



Bangsar

SUSTAINABILITY STATEMENT (CONTINUED)

Throughout FY2018, we conducted other CSR activities that celebrated festive or religious occasions or which saw to the specific needs of the community. The following is a summary of the activities we conducted:

Back to School Programme



Date : 26 January 2018
Category : Community

Deleum provided school uniforms to 105 underprivileged children from Pusat Aktiviti Kanak-Kanak (PAKK) Chow Kit.

Chinese New Year Donation Drive



Date : 14 February 2018
Category : Community

In conjunction with the Chinese New Year celebrations, we contributed groceries, electrical appliances, home appliances, festive food and snacks to Angel Children's Home Kuala Lumpur.

Earth Hour



Date : 23 March 2018
Category : Environment

Deleum's Group QHSE Department hosted a talk on smart electricity consumption and savings in conjunction with the Earth Hour.

PDK Open Day



Date : 14 April 2018
Category : Community

Deleum employees did their bit to support Pusat Pemulihan Dalam Komuniti (PDK) Mutiara in Labuan for People with Disabilities' Open Day in conjunction with its 10th Anniversary.

Ramadhan Donation Drive



Date : 13 June 2018
Category : Community

In conjunction with Ramadhan, Deleum donated groceries, basic medical equipment and electrical appliances to the Pusat Jagaan Nurul Jannah, a shelter for the elderly folks.

Aidilfitri Celebration with PAKK



Date : 22 June 2018
Category : Community

We celebrated Hari Raya Aidilfitri with 40 children from Pusat Aktiviti Kanak-Kanak (PAKK) Chow Kit with several activities including a bowling competition, talent show and dinner.

We Share, We Care



Date : 29 October 2018
 Category : Community

Deleum volunteers helped clean up, distribute lunch packs and hygiene kits as well as provided barber services at this event. Over 100 residents from Pusat Transit Gelandangan, along with some homeless/underprivileged individuals within the community, benefited from this initiative.

Deepavali Donation Drive



Date : 2 November 2018
 Category : Community

A group of Deleum volunteers visited Siddharthan Care Centre in conjunction with the Deepavali celebrations. They organised kolam art and jasmine garland activities, as well as distributed food items and Deepavali snacks.

7-A-Side Football Tournament



Date : 3 November 2018
 Category : Workplace

Deleum's Group HSE organised a 7-a-side football tournament with participation from each of Deleum's Business Units and subsidiaries.

Deleum Secret Santa



Date : 14 December 2018
 Category : Community

In conjunction with the Christmas celebrations, Deleum hosted a Secret Santa event for 18 underprivileged children from the Shelter. Activities included Christmas tree and cupcakes decoration, Christmas carolling and Christmas gift distribution.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

THE BOARD OF DIRECTORS (THE BOARD) OF DELEUM BERHAD (DELEUM OR THE COMPANY) REMAINS STEADFAST IN ITS COMMITMENT IN ENSURING THAT THE HIGH STANDARDS OF CORPORATE GOVERNANCE ARE CONSISTENTLY OBSERVED AND PRACTISED THROUGHOUT DELEUM AND ITS SUBSIDIARIES (COLLECTIVELY THE GROUP) IN FURTHERANCE OF THE GROUP'S MISSION, VISION AND SHARED VALUES. THE BOARD HAS ADOPTED AND OPERATED IN ACCORDANCE WITH HIGH STANDARDS OF CORPORATE GOVERNANCE WHICH IS ESSENTIAL FOR SUSTAINABLE LONG-TERM PERFORMANCE AND VALUE CREATION, WHERE PRACTICAL AND APPROPRIATE.

This Statement describes the overview of the application of the principles set out in the Malaysian Code on Corporate Governance 2017 (MCCG) and the extent to which the Group has complied with in relation to its corporate governance practices during the financial year 2018 (FY2018).

A. BOARD LEADERSHIP AND EFFECTIVENESS

I. Roles and Responsibilities of the Board

The Board has collective responsibility and accountability for the overall management, direction and performance of the Group and provides leadership within a framework of prudent and effective controls which enables risk to be appropriately assessed and managed.

It has the ultimate and overall responsibility for the entire affairs of the Group and the proper and effective conduct of its business. The Board establishes the vision and strategic objectives of the Group, directs the Company's strategic planning, financial, operational and resource management, key policies, risk assessment and

management and provides effective oversight of Management and stewardship of the Group's resources towards realising the Vision of the Group.

Each Director has duties to act in the interest of the Group and the Directors are, collectively and individually, aware of their responsibilities to the stakeholders for the manner in which the affairs of the Company are managed.

In discharging its functions and responsibilities, the Board is guided by the Board Charter. The Board assumes, amongst others, the following principal duties and responsibilities in discharging its fiduciary and leadership functions:

- (i) Reviewing and approving corporate strategies, business plans, budget and key policies whereby Management presents to the Board its recommended strategies and budget annually together with its proposed business plans for the ensuing year, for the Board's review and endorsement.

The Board plays a pivotal role in reviewing the Group's strategic direction and approving strategic plan of the Group to ensure that the strategic plan supports business sustainability and long-term value creation. The Board held a meeting in October 2018 to discourse on the business strategies and plans for 2019 and beyond, focusing on the challenging operating and trading environment. Prior to that, the Board held a meeting in September 2018 to engage with Key Management to discuss and set out the Group's strategies, operating and investments plans and budget for 2019 within the Group's risk tolerance levels.

- (ii) Reviewing, adopting and approving the Group's key operational initiatives, major investments and funding decisions including major capital commitments, participation in tenders or projects exceeding the prescribed value, material acquisitions and disposals and key policies.
- (iii) Reviewing and discussing the performance and execution of the Maintenance, Construction and Modification Services Contract for PETRONAS Carigali Sdn. Bhd. (PCSB) under Package C (Offshore)-Peninsular Malaysia Gas (MCM Contract) of Deleum Primera Sdn. Bhd. and setting the Board's expectations.
- (iv) Overseeing the conduct of the Group's businesses whereby the Group Managing Director is responsible for the day-to-day management of the business and operations of the Group and implementation of the Group strategies and policies as approved by the Board. He is well supported by the management team.

The Board is well informed of the overall progress of the Group. The Group Managing Director apprises the Board on a quarterly basis on the industry, business, prospects and issues faced by the Group.

- (v) Reviewing the risk management processes within the Group and ensuring the implementation of appropriate internal controls and mitigating measures to address such risks.

Through the Board Risk Committee (BRC), the Board oversees the risk management framework of the Group. The BRC advises and updates the Board on areas of risks and the adequacy of compliance and control procedures throughout the Group.

Details of the Group's risk management framework are set out in the Statement on Risk Management and Internal Control (SORMIC) on pages 90 to 96 of this Annual Report.

- (vi) Reviewing the adequacy and integrity of the Group's internal control and management information systems for compliance with relevant laws, rules, regulations directives and guidelines.

Details of the Group's internal control system and its effectiveness are set out in the SORMIC.

- (vii) Maintaining shareholder and investor relations whereby the Group strives to maintain an open and transparent channel of communication with its shareholders, investors, analysts and the public at large with the objective of providing a clear and complete picture of the Group's performance and financial position. The Group believes that a constructive and effective investor relationship is important and an essential factor in enhancing value

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

for its shareholders. Further details on the shareholder and investor relations are set out in Section C - "Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders" of this Statement.

- (viii) Reviewing and approving the implementation of Talent Management and Succession Planning Framework including the criteria for the role of Group Managing Director which are aligned to the Group's objectives on recommendation of the Joint Remuneration and Nomination Committee (JRNC).

The framework is meant to manage talent pools across the organisation ensuring the Group has a pipeline of talents for the sustainability of business and growth. It includes tools and methodology for succession planning for Group Managing Director's role as well as Leadership Competencies for the Group.

The Board also assumes the following duties, functions and responsibilities:

- approving annual and quarterly financial results and annual report;
- reviewing the effectiveness of the external auditors and their independence;
- reviewing and approving remuneration practices of the Group with particular emphasis on compensation payable to Senior Management;
- reviewing, adopting and implementing appropriate corporate disclosure policies and procedures; and
- appointment, promotion and re-designation of senior management positions.

There are matters reserved set out in the Board Charter for the Board's collective decision, which include the following:

- the overall corporate strategy and direction, business plans and annual budget including major capital commitments;
- participation in tenders or projects exceeding the prescribed value in relation to the core business of the Group and all amounts in relation to non-core business activities;
- material acquisitions and disposals of undertakings and properties; and
- key policies and the delegation of authority guidelines of the Company.

During the year, matters relating to the above were tabled by Management to the Board for discussion, consideration and approval.

Board Delegation

Whilst the Board retains full responsibility for guiding and monitoring the Company in discharging its responsibilities, it delegates the performance of certain of its functions to the Board Committees as detailed in this Statement, which provide the Board with recommendations and advice.

The Board has also delegated limits of authority to the Group Managing Director as specified in the Delegation of Authority Guidelines (DAG) on corporate and operational matters. The DAG sets out the specific approval thresholds for the Group Managing Director and it is regularly reviewed to reflect the dynamic changes within the Group. The Group Managing Director further delegates the authorities granted to him to the operational management team and other executives separately, to approve sales, procurement, capital expenditure, operational banking matters, human resources matters and other operational matters as provided in the operational DAG.

All matters not specifically reserved to the Board and which are necessary for the day-to-day operations of the Group are delegated to Management to operate within the DAG. Specifically, the responsibilities of Management are, amongst others:

- formulating, recommending and implementing the approved strategies and policies of the Group;
- managing the Group's resources, including but not limited to the Group's human, asset and financial resources to achieve the Group's objectives;
- developing, implementing and managing the Group's risk management and internal control systems and compliance to operate within the risk appetite set by the Board;
- keeping pace with industry and economic trends in the Group's operating environment; and
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities.

Chairman, Group Managing Director and Independent Directors

The Board practises a clear demarcation of responsibilities whilst maintaining the balance of power and authority. The positions of the Chairman, Deputy Chairman and Group Managing Director are held by separate persons and the clear separation of powers, roles and responsibilities ensures a balance of power and authority. There is no family relationship between the Chairman, Deputy Chairman and Group Managing Director.

Chairman

The Chairman leads the Board and is responsible for instilling good governance practices and leadership of the Board, ensuring its effectiveness on all aspects of its role and setting

its agenda. He presides over Board meetings and encourages positive contributions of all Directors at Board meetings and promotes an environment for open, robust and effective debate between all Board members and allows for constructive and dissenting views to be freely expressed. He is primarily responsible for the orderly conduct and effective working of the Board, and acts as a liaison between the Board and Management. The Chairman is non-executive and he is not involved in the day-to-day management of the Group.

Deputy Chairman

The Deputy Chairman supports the Chairman and also assists in high level business development and customer relations. The Chairman and the Deputy Chairman work closely with the Group Managing Director in the development of business, corporate policies and strategies for the Group.

Group Managing Director

The Group Managing Director leads the management of the Group and oversees the day-to-day running and management of the business and operations of the Group, advancing long-term shareholder value and implementation of the Board's policies and decisions.

Independent Non-Executive Directors

The Independent Non-Executive Directors are actively involved in various Board Committees. They contribute significantly to areas such as performance monitoring, enhancement of corporate governance and controls, and risk management and oversight. They provide independent and objective views, advice and judgement on management proposals to ensure that the interests of the Group and stakeholders are well taken into account.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Senior Independent Non-Executive Director

Datuk Ir (Dr) Abdul Rahim bin Hashim, the Senior Independent Non-Executive Director, serves as the point of contact between the Independent Directors and the Chairman of the Board on sensitive issues and act as a designated contact to whom shareholders' concerns or queries may be raised. The Senior Independent Non-Executive Director may be reached at email: AbdulRahim.Hashim@deleum.com.

Company Secretaries

The Board is supported by suitably qualified, experienced and competent Company Secretaries in the discharge of its duties and responsibilities and has unhindered access to their advice and services. The Company Secretaries are members of The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).

The Company Secretaries play an advisory and consultancy role to the Board in relation to its roles and responsibilities, the Company's Constitution, Board's policies and procedures, and compliance with corporate governance matters and relevant regulatory and disclosure requirements, codes, guidelines and legislations. They are responsible for organising and facilitating Board and Board Committee meetings and the preparation and circulation of notices, agendas and Board papers. The agendas for the meetings are established prior to the meetings in consultation with the respective Chairs. At the meetings, the Company Secretaries are responsible for ensuring that all relevant rules and procedures are complied with advocating adoption of corporate governance best practices. The Company Secretaries ensure that the deliberations at the meetings are well captured and minuted and the resolutions passed are

recorded properly and accurately and kept in the statutory books at the registered office of the Company. Matters that required the necessary actions are communicated to the relevant Management personnel. The Company Secretaries are also responsible for:

- facilitating Director's induction and assisting in Directors' training and development;
- monitoring corporate governance developments and advising the Board on all corporate governance obligations and development in best practices;
- managing processes for shareholders' meeting; and
- communicating with shareholders as appropriate.

The appointment and removal of the Company Secretaries are decided and agreed by the Board as a whole.

Information provided to Directors

The members of the Board have full and unrestricted access to all information pertaining to the business and affairs of the Group. Prior to the meetings of the Board and Board Committees, all Directors are furnished with the agenda together with comprehensive Board papers containing information relevant to the business of the meetings. As a practice, Board papers in general are circulated within a reasonable period prior to the meetings and on average five (5) days before the meetings. This allows the Directors to have sufficient time to read the papers and to obtain further information, explanations or clarifications, where necessary, in order that deliberations at the meetings are focused and constructive. Where a Director is unable to attend a meeting, he/she may provide comments on the Board papers or discuss issues arising directly with the Chairman and/or Group Managing Director.

The Board is updated with the overview of the Group's financial performance and business activities at quarterly meetings. The financial performance is measured against the approved budget and the corresponding periods. Directors regularly receive additional information or updates on relevant matters from the Company between Board meetings.

The minutes of each Board meeting is circulated to all Directors for their perusal and comments, if any, prior to confirmation. In discharging their duties, all the Directors have full access to the advice and services of the Company Secretaries and other Key Management personnel. The relevant Key Management personnel are invited to attend meetings of the Board and Board Committees to report on matters relating to their areas of responsibility and to brief and provide clarifications and details on recommendations so as to enable the Directors to make independent and informed decisions.

The Directors are also empowered to seek external independent professional advice at the Group's expense should they consider it necessary in the furtherance of their duties. Approval may be obtained at the Board meeting where the matter is deliberated or from the Chairman of the Board. No Director had sought the services of any professional advisor during the year in the discharge of his/her duties.

External advisers may also be invited to relevant Board or Board Committee meetings, if necessary.

The Directors were briefed on relevant correspondences/communications from Bursa Malaysia Securities Berhad (Bursa Securities) and the Securities Commission from time to time and at quarterly meetings. The briefings for FY2018 included the following:

- launch of BURSASUSTAIN, a one-stop online portal designed as a one-stop knowledge and information hub on Corporate Governance and sustainability;
- amendments to the Listing Requirements on fees and charges arose from the Goods and Services Tax (Rate of Tax) (Amendment) Order 2018 and no-par-value regime under the Companies Act 2016 (CA 2016); and
- guidance on corporate disclosure of listed issuers' corporate website.

The Directors are apprised of all the Company's announcements to Bursa Securities. They are also apprised of the restriction in dealing with the securities of the Company at least 30 days prior to the release of the announcement on quarterly financial results. In addition, close periods are strictly enforced on Directors and Key Management personnel maybe in possession of market sensitive information prior to that information being made available to the public.

Board Charter

The Board has adopted a Board Charter which provides guidance to the Board in discharging its duties and responsibilities. The Board Charter, sets out, amongst others:

- composition of the Board;
- duties and responsibilities of the Board;
- division of responsibilities and powers between Chairman, Deputy Chairman and Group Managing Director;
- responsibilities of the Independent Non-Executive Directors and Senior Independent Director;
- matters reserved for the Board as well as those which the Board may delegate to the Board Committees, Group Managing Director and Management;

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

- reviewing and ensuring effective succession planning of Senior Management.
- establishment of Board Committees; and
- processes and procedures for convening Board meetings as well as operations and processes of the Board to promote the standards of corporate governance in line with the Group's shared values.

The Board Charter was last reviewed and revised in March 2019 and is available on the Company's corporate website www.deleum.com.

Directors' Code of Ethics

The Directors' Code of Ethics (Code) outlines certain standards of business conduct and ethical behavior to be observed by all Directors in discharging their duties and responsibilities to the highest standards of personal integrity and professionalism. The Code sets out, amongst others, the Directors' obligations in observing high standards of corporate governance, compliance with legal and statutory requirements, adherence to and upholding the principles of integrity, objectivity, accountability, openness, honesty and leadership and acting in good faith in the best interest of the Group. The Company communicates the Code to all Directors upon their appointment.

Under the Code, the Directors are required to avoid situations of conflict of interest between them as individuals and the interest of the Group and declare such interest at meeting where the matter is to be discussed. A Director should withdraw from the meeting and abstain during the relevant discussion or decision. The Board confirmed that no conflict of interest situation arose in the financial year just ended.

The Code is available on the Company's corporate website.

Code of Business Conduct

The corporate culture of integrity and honesty is applicable across the Group. The Group has in place a Code of Business Conduct (COBC) as a guidance to its Directors and employees as well as its contractors, subcontractors, consultants, agents and other service providers with regard to the Group's standard of integrity and rules of conduct to be observed in the performance of work and business practices. They are refrained from all improper conduct and dishonest or unethical behavior in their performance of work and business dealings with the Group.

The COBC covered the areas of, amongst others, conflict of interest, anti-bribery and anti-corruption, gifts, hospitality and entertainment, health, safety and environment, confidentiality, harassment, drug and alcohol policy and consequences of violation of the COBC.

A briefing on the COBC was conducted at office locations in Kemaman, Miri and Labuan for both executive and non-executive personnel in April 2018. All employees are briefed on the COBC and other key policies of the Group by the Human Resource Department to ensure their awareness and conformity of the same. Employees are required to ascertain their understanding of the COBC via annual awareness test through a set of questionnaires in bilingual (English and Bahasa Malaysia) administered by the Human Resource Department. The COBC policy is accessible via the Company's corporate website and intranet.

Whistleblowing Policy

Deleum has established a Whistleblowing Policy to provide an avenue and an independent feedback channel through which employees, customers, suppliers, professional advisers, contractors, subcontractors and any other third parties providing services to the Group may, in good faith and have reasonable grounds, report any wrongdoings in accordance with the procedure in the policy without fear of reprisal. Under the policy, a whistleblower will be accorded with protection of confidentiality of identity. Any employee or external party who has knowledge or is aware that any improper conduct has been, is being, or is likely to be committed within the Group is encouraged to report through the reporting channels as prescribed in the policy. All cases will be dealt in accordance with the policy and the investigation procedures.

The objective and purposes of the policy have been communicated and socialised to the employees and relevant parties. There was no case reported in 2018 via the Whistleblowing channel.

The policy is reviewed regularly and was last updated in May 2018. It is made available on the Company's corporate website and intranet.

Strategies promoting sustainability

The Board is cognisant of the importance of business sustainability and in assuming the Group's business, the impact on the environment, social and governance were taken into consideration on top of safeguarding the interest of the Group's employees, the community at large and marketplace in which the Group operates.

The Sustainability Statement is set out on pages 38 to 63 of this Annual Report.

II. Board Composition

During FY2018, the Board of Directors comprised seven (7) Directors with one (1) Executive Director and six (6) Non-Executive Directors, as follows:

| Name | Designation |
|--|---|
| Dato' Izham bin Mahmud | Non-Independent Non-Executive Chairman |
| Datuk Vivekananthan a/l M.V. Nathan | Non-Independent Non-Executive Deputy Chairman |
| Nan Yusri bin Nan Rahimy | Group Managing Director |
| Datuk Ishak bin Imam Abas | Independent Non-Executive Director |
| Datuk Chin Kwai Yoong <i>(resigned on 19 February 2019)</i> | Independent Non-Executive Director |
| Datuk Ir (Dr) Abdul Rahim bin Hashim | Senior Independent Non-Executive Director |
| Datuk Noor Azian binti Shaari | Independent Non-Executive Director |

As announced on 12 March 2019, the Board on the recommendation of the JRNC has on 12 March 2019 approved the appointment of Mr Lee Yoke Khai as director of the Company with effect from 15 March 2019. Mr Lee's profile is set out on page 13 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

The composition of the current Board has a well-balanced composition with an effective mix, ensuring that there is an effective and fair representation and also a balance of power and authority on the Board. The Board is appropriately structured to provide the required leadership and governance to realise the Company's mission, objectives and business strategies for the benefit of all stakeholders, in particular shareholders' interest. The Independent Directors make up more than half of the Board and exceeds the minimum as mandated by the Listing Requirements which stipulates that at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, must be independent. The Independent Directors bring a wide range of experience and expertise to the Group's affairs, and carry significant weight in the Board's decision.

The members of the Board are selected on the criteria of proven skills and abilities in their particular field of endeavour and a diversity of outlook and experience which benefits the operation of the Board as the custodian of the business. It provides an effective blend of entrepreneurship, business and professional expertise in business and risk management, financial, legal and technical areas of the industry which the Group is involved in.

The profiles of each Director are presented on pages 10 to 13 of this Annual Report.

Tenure of Independent Directors

Practice 4.2 of the MCCG states the tenure of an independent director should not exceed a cumulative limit of nine (9) years and if the Board intends to retain an Independent Director beyond nine (9) years, it should justify and seek annual shareholders' approval. If the Board continues to retain the Independent Director after the twelfth year, the Board

should seek annual shareholders' approval through a two-tier voting process. The Guidance to Practice 4.2 of the MCCG states that in considering independence, it is necessary to focus not only on whether a director's background and current activities qualify him as independent but also whether the director can act independently of management.

The Board believes that a Director's independence should not be determined through the length of service as there are significant advantages to be gained from long-serving Directors who over the years have developed deeper understanding of the Group's business and possess insight and in-depth knowledge of the Group's business and affairs. As set out in the Board Charter, the Board does not encourage a Director whose term of appointment has exceeded a cumulative period of 12 years to be retained as Independent Director, unless upon assessment by an independent third party, the Board is satisfied that the said Director remains objective and continues to be independent in all aspects and will continue to seek shareholders' approval at general meeting for the retention of such Independent Director.

During FY2018, the Company had applied this practice as it sought the shareholders' approval at the 13th Annual General meeting held on 16 May 2018 to retain Independent Directors, namely Datuk Ishak bin Imam Abas and Datuk Chin Kwai Yoong, who have served more than nine (9) years on the Board. The shareholders by a significant majority of 99.9% supported their retention.

At the forthcoming 14th AGM proposed on 14 May 2019, Datuk Ishak would have served as Independent Director for more than 12 years. Datuk Chin has resigned from the Company on 19 February 2019. Datuk Ishak has confirmed

that he satisfies all the independence criteria as set out in the Listing Requirements. In line with the provisions of the Board Charter, an independent third party was engaged to provide an unbiased evaluation of Datuk Ishak and to assess if he continues to satisfy the quantitative assessment and qualitative assessment of independence in thought and mind.

The independent third party used a rigorous evaluation process which includes an assessment of Datuk Ishak's performance and effectiveness as an Independent Director by his peers through a rating assessment model and an interview session which serves as a moderation exercise to the responses by the Board members. The assessment was administered using instruments that deploy both qualitative and quantitative criteria covering his professional conduct, competence, integrity, understanding of his role and function in bringing independent judgement and objective view in the evaluation of the performance of Management, understanding of his duties on the Board and Board Committees as well as his time commitment. The outcome of the assessment by the independent third party was reported to the JRNC and the Board. The Board having considered the findings and results of the evaluation exercise views that the 'independence' of Datuk Ishak has not been impaired and will recommend to the shareholders to approve his retention as Independent Director.

The Board will seek shareholders' approval at the forthcoming 14th AGM to retain Datuk Ishak as Independent Director of the Company through a single-tier voting process. Although this is a departure from Practice 4.2, the Board views that the independent assessment by the third party confirms that Datuk Ishak's long tenure does not affect the manner in which he makes decision as an Independent Director

and the intended outcome of MCCG that Board decisions are made objectively in the best interests of the company taking into account diverse perspective and insights is still achieved.

Diversity

The Board believes that the requirement for diversity in skills, experience, gender, age and ethnicity can bring a greater range of viewpoints to boardroom debate and improve board dynamics. In this regard, the Board takes into consideration a candidate's background, gender, age and ethnicity and will make the necessary appointment based on good blend of competencies, skills, merits, extensive experience and knowledge and contribution to the overall working of the Board and the needs of the Group. Presently, the Board has one female Director in line with the Company's Board gender diversity policy to have at least one female Director. The Board will endeavour to meet the target of at least 30% women directors based on merits and effective blend of skills, experience and knowledge in areas identified, the size of the Board and the needs of the Company. The Board will do so to ensure there is greater women representation on the Board if the candidates are of equal standing.

The Board is satisfied that given the present mix of skills, independence, work experiences and industry knowledge, the Board composition meets the needs of the Group in line with the nature and scale of the business operations.

The Board recognises that workforce diversity in terms of gender, ethnicity and age, amongst others, can bring a variety of experiences and perspectives towards meeting the changing needs of the business environment and organisational growth. In this respect, the Group has in place the Equal Opportunity Policy.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

As at 31 December 2018, the workforce of the Group comprised 1818 employees in the proportion of 87% male and 13% female. The higher ratio of male employees is due to the nature of the Group's activities which are largely performed offshore. Currently, there are 29 employees holding senior management positions of the Group, of which seven are female. The Group is committed to the policy of equal pay for equal value and no divergence is tolerated on account of gender, age and/or ethnicity.

The Board, assisted by the JRNC, is responsible for developing succession plans for Board and Senior Management positions to ensure there is an appropriate dynamic of skills, experience, expertise and diversity.

Appointment and Re-election of Directors

The appointment of Directors is undertaken by the Board as a whole through a formal process as set out in the provisions of the Company's Constitution and upon the recommendation by the JRNC.

In general, the Board appoints its members through a selection process which involves the identification of candidate for directorship, evaluation and deliberation of suitability of candidate by the JRNC and recommendation to the Board. The JRNC in recommending new appointments to the Board will assess the suitability of an individual to be appointed to the Board by giving due consideration to the individual's skills, industry experience and knowledge, character, integrity and time to effectively discharge his or her role, gender, age and ethnic diversity. In respect of Independent Directors, the JRNC will assess whether the individual is able to exercise independent judgement and to demonstrate the values and principles associated with independence.

Selection of candidates to be considered for appointment as Directors is facilitated through recommendations from the Directors, major shareholders, Management or external parties including the Company's contacts in related industries, finance, legal and accounting professions. The Board will also consider sourcing candidates from other source to fill vacancy that may arise in the future. There was no appointment of Directors in FY2018.

In accordance with the Company's Constitution, at each AGM, one-third (1/3) of the Directors for the time being, or if their number is not three (3) or multiple of three (3), then the number nearest to one-third (1/3), shall retire from office and be eligible for re-election.

Directors who are appointed by the Board during a financial year are subjected to re-election by the shareholders at the next AGM to be held following their appointments. At the 14th AGM to be held on 14 May 2019, Mr Lee Yoke Khai, who was appointed as director of the Company on 15 March 2019, and being eligible, shall stand for re-election pursuant to Article 76 of the Company's Constitution.

All Directors, including the Group Managing Director, shall retire from office once at least in every three (3) years but shall be eligible for re-election.

The JRNC had assessed two (2) Directors namely, Dato' Izham bin Mahmud, the Non-Independent Non-Executive Chairman and Datuk Vivekananthan a/l M.V. Nathan, the Non-Independent Non-Executive Deputy Chairman standing for re-election pursuant to Article 78 of the Company's Constitution.

The JRNC agreed that both Dato' Izham and Datuk Vivekananthan met the criteria of character, experience and knowledge, integrity, competence and time commitment to effectively discharge their respective roles as Directors and recommended to the Board for endorsement of the Directors for re-election at the forthcoming 14th AGM.

Time Commitment

Board meetings for the ensuing financial year are planned and scheduled in advance by the Company Secretaries before the end of the financial year to enable all Directors to plan ahead.

The Chairman encourages active participation and full deliberation of issues brought up at the Board meetings. Decisions reached at the meetings reflect the consensus of the Board and not the views of any individual or group.

The Board Charter of Deleum provides that any Director, subject to the limitations on the number of directorships under the Listing Requirements or applicable laws, may accept new directorships which are not in conflict with the interests of Deleum's business and do not detrimentally affect his performance as a Director. In accepting such appointment, the Director shall take into consideration time spent on the appointment to enable him to devote sufficient time to carry out his duties to the Company. A Director shall seek guidance from the Chairman of the Board if there is any potential conflict of interest and shall upon appointment, notify the Company Secretaries who shall inform the Chairman and other members of the Board accordingly.

All Directors are expected to devote sufficient time for the effective discharge of their functions. None of the Directors of Deleum serve in more than five listed companies and the Group Managing Director of the Company does not serve as a director in other listed companies. The present directorships in external organisations held by Deleum's Directors do not give rise to any conflict of interests nor impair their ability to discharge their responsibilities to the Company.

The Board recognises the need to spend time with Senior Management to discuss the business strategies, plans and performances of the Group. All Board members have committed their time to this effect. The Board had pre-budget offsite meeting with the Management to discuss the long-term strategies and vision of the Group after engaging and discussing with the heads of business units on plans for the next cycle of strategy and budget setting for the Deleum Group for 2019. The goal was to lead and achieve a sustainable and successful business for all stakeholders based on commitments and action plans.

During FY2018, ten (10) meetings of the Board were held to approve quarterly financial results, statutory financial statements, the annual report, dividends, business plans as well as to review the performance of the Company and its operating subsidiaries, governance matters and other business development matters. The Board is satisfied with the level of time commitment given by Directors towards fulfilling their roles and responsibilities as Directors as evidenced by their attendance at the Board, Board Committee meetings and the AGM as follows:

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Attendance of Directors at the meetings held during FY2018

| Name of Director | Board Meetings | AGM | Board Committees | | |
|--|----------------|----------|------------------|----------|----------|
| | | | AC | JRNC | BRC |
| Dato' Izham bin Mahmud | 10/10 | 1/1 | - | 3/3 | - |
| Datuk Vivekananthan a/l M.V. Nathan | 9/10 | 1/1 | - | 2/3 | 3/4 |
| Nan Yusri bin Nan Rahimy | 9/10 | 1/1 | - | - | - |
| Datuk Ishak bin Imam Abas | 10/10 | 1/1 | 4/4 | 3/3 | - |
| Datuk Chin Kwai Yoong <i>(resigned on 19 February 2019)</i> | 9/10 | 1/1 | 4/4 | 2/3 | 4/4 |
| Datuk Ir (Dr) Abdul Rahim bin Hashim | 10/10 | 1/1 | 4/4 | 3/3 | - |
| Datuk Noor Azian binti Shaari | 9/10 | 1/1 | - | 3/3 | 4/4 |
| Total number of Meetings Held during FY2018 | 10 | 1 | 4 | 3 | 4 |

Directors' Training and Induction

The Board believes that continuous training for Directors is vital for the Directors to gain insight and be kept updated on changes and developments in the market place, state of economy and corporate regulatory framework.

On a quarterly basis, the Directors are briefed and updated on any relevant amendments to the Listing Requirements as well as applicable new statutory and regulatory requirements, corporate governance, accounting standards and taxation.

In addition, the Directors also attended various training programmes, seminars and conferences including those organised by the relevant regulatory authorities to be apprised, updated and to further enhance their knowledge and understanding of the business environment, regulatory requirements and corporate governance.

The Company Secretaries keep Directors informed of relevant external training programmes. The training programmes attended by Directors are recorded and maintained by the Company Secretaries.

For FY2018, Directors' attendance at briefings, seminars, conferences and training programmes are as follows:

| Director | Date | Programmes |
|-------------------------------------|-----------------|--|
| Dato' Izham bin Mahmud | 17 January 2018 | · Updates on Changes to Company Law & Listing Requirements |
| | 16 March 2018 | · Corporate Governance Briefing Session: MSSG Reporting & CG Guide |
| Datuk Vivekananthan a/l M.V. Nathan | 17 January 2018 | · Updates on Changes to Company Law & Listing Requirements |
| | 4 December 2018 | · Breakfast Series "Companies of the Future - The Role for Boards" |

| Director | Date | Programmes |
|--|--|---|
| Nan Yusri bin Nan Rahimy | 17 January 2018 | • Updates on Changes to Company Law & Listing Requirements |
| | 6 February 2018 | • IGU Diplomatic Gas Forum |
| | 8 February 2018 | • AMCHAM CEO Briefing: The ROI of TN50 |
| | 16 March 2018 | • Corporate Governance Briefing Session: MSSG Reporting & CG Guide |
| | 20-23 March 2018 | • Offshore Technology Conference Asia 2018 (OTC Asia 2018) as Programme Committee |
| | 25-28 March 2018 | • Solar Turbines Owners' Conference 2018 (STOC 2018) |
| | 25 – 29 June 2018 | • World Gas Conference 2018 (WGC 2018) |
| 9 August 2018 | • Advocacy Programme on CG Assessment Using The Revised Asean CG Scoreboard Methodology (Malaysian PLCs) | |
| Datuk Ishak bin Imam Abas | 17 January 2018 | • Updates on Changes to Company Law & Listing Requirements |
| | 4 December 2018 | • Breakfast Series "Companies of the Future - The Role for Boards" |
| Datuk Chin Kwai Yoong <i>(resigned on 19 February 2019)</i> | 17 January 2018 | • Updates on Changes to Company Law & Listing Requirements |
| | 22 November 2018 | • Budget Dialogue with the Minister of Finance and PwC |
| Datuk Ir (Dr) Abdul Rahim bin Hashim | 17 January 2018 | • Updates on Changes to Company Law & Listing Requirements |
| | 1 March 2018 | • Corporate Governance Briefing Sessions: MSSG Reporting & CG Guide |
| Datuk Noor Azian binti Shaari | 17 January 2018 | • Updates on Changes to Company Law & Listing Requirements |
| | 1 March 2018 | • Fide Forum Event - Navigating the VUCA World |
| | 16 March 2018 | • Corporate Governance Briefing Sessions: MSSG Reporting & CG Guide |
| | 27 March 2018 | • Bursa Workshop: Cyber Resilience Moving Beyond Compliance |

The Board through the JRNC had assessed the training needs of each Director and is satisfied that the Directors have received the necessary training during FY2018.

III. Board Committees

The Board has established three (3) Board Committees namely the AC, the JRNC, and the BRC. The Board Committees are entrusted with specific responsibilities to oversee the Group's affairs, and operate within their own clearly defined Terms of Reference.

The Board Committees will deliberate and review matters within their Terms of Reference in greater detail and report on matters deliberated together with their recommendations to the Board. The Board is kept apprised of the activities and the decisions of the Board Committees through circulation of minutes of the meetings of the Board Committees and oral presentations made by the Chairman of the respective Board Committees at Board meetings.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Joint Remuneration and Nomination Committee

The JRNC comprises Non-Executive Directors, a majority of whom are Independent Directors. The Chairman of the JRNC, Datuk Ir (Dr) Abdul Rahim bin Hashim is the Senior Independent Non-Executive Director of the Company.

During FY2018, the JRNC comprised the following:

| Name | Designation |
|--|--|
| Datuk Ir (Dr) Abdul Rahim bin Hashim | Chairman of JRNC/ Senior Independent Non-Executive Director |
| Dato' Izham bin Mahmud | Member/Non-Independent Non-Executive Chairman |
| Datuk Vivekananthan a/l M. V. Nathan | Member/Non-Independent Non-Executive Deputy Chairman |
| Datuk Ishak bin Imam Abas | Member/ Independent Non-Executive Director |
| Datuk Chin Kwai Yoong <i>(ceased as member on 19 February 2019)</i> | Member/ Independent Non-Executive Director |
| Datuk Noor Azian binti Shaari | Member/ Independent Non-Executive Director |

As announced on 12 March 2019, the Board on the recommendation of the JRNC has approved the appointment of Mr Lee Yoke Khai as member of the JRNC with effect from 15 March 2019.

The JRNC is primarily responsible for the following:

- (i) reviewing and recommending appropriate remuneration packages including short and long-term incentives for Executive Directors and Key Management personnel;
- (ii) identifying and recommending new candidates to be appointed to the Board and memberships to the Board Committees;
- (iii) developing, maintaining and reviewing the criteria to be used in the recruitment process and annual assessment of all Directors;
- (iv) evaluating the effectiveness of the Board, Board Committees and each individual Director, including reviewing the Board's required mix of skills, knowledge, expertise, experience, professionalism and other qualities and core competencies;
- (v) undertaking annual assessment of the independence of the Independent Directors;
- (vi) assisting the Board in examining the size of the Board with a view to determining the impact of the number of directors on its effectiveness;
- (vii) formulating policies on Board composition, nomination and election process;
- (viii) reviewing and ensuring that all Directors receive appropriate induction and continuous training programmes; and
- (ix) reviewing the Board's succession plan.

During FY2018, three (3) meetings of the JRNC were held. The attendance of members at JRNC meetings is set out on page 76.

The Board is satisfied that the JRNC is discharging its duties in accordance with its Terms of Reference which was last reviewed on 26 February 2018 and is available on the Company's corporate website.

As appointed by the Board, the JRNC also undertook the role of the Plan Committee for the implementation and administering of the Group's Long-Term Incentive Plan (LTIP) in accordance with the By-Laws of the LTIP which was approved by the shareholders on 27 May 2014.

During FY2018, the following activities were undertaken by the JRNC:

- (i) reviewed the Terms of Reference of the JRNC in line with the practices of MCCG and particularly in the following areas:
 - sources of identifying candidates for appointment of directors;
 - selection process and criteria for appointment of directors; and
 - objectives, duties and responsibilities of the Committee.
- (ii) reviewed the Directors' Remuneration Framework for Non-Executive Directors which sets out the quantum and guidelines of payment of Directors' Fees and Meeting Allowances for Non-Executive Directors;
- (iii) reviewed the establishment of remuneration framework on determining the remuneration of Executive Directors and Key Senior Management;
- (iv) discussed and reviewed the replacement of company cars for the Chairman and the Deputy Chairman;
- (v) discussed and reviewed the proposed vehicle allowance in lieu of company car for the Group Managing Director and Group Chief Financial Officer;
- (vi) discussed and reviewed the annual bonus for the employees and the Group Managing Director in respect of FY2017 and made recommendation for the Board's approval;
- (vii) discussed salary review for the Group Managing Director;
- (viii) discussed and reviewed salary adjustment, promotion and re-designation for senior management;
- (ix) conducted annual evaluation of the Board's effectiveness and performance covering the assessment of the Board, each individual Director, each Board Committee, and independence of the Independent Directors;
- (x) assessed and recommended the retention of two Independent Directors, who have served for a cumulative term of more than nine years but less than 12 years, to continue to act as Independent Directors of the Company. Their assessment was based on the criteria to ensure that they can continue to bring independence and objective judgment.;
- (xi) reviewed the training courses attended by the Directors;
- (xii) reviewed the Directors who are due for re-election at the Company's 13th AGM and recommended their re-election;
- (xiii) reviewed the proposed key performance Indicators (KPIs) for the Group Managing Director and recommended the same for the Board's approval;
- (xiv) reviewed the Talent Management Framework exercise including the criteria for the role of Group Managing Director for succession planning purposes; and
- (xv) the vesting of the following ordinary shares in Deleum (Deleum Shares) under the Restricted Share Incentive Plan (RS Award) of the LTIP to selected eligible employees:
 - 297,200 Deleum Shares under the Third Tranche of First Grant;
 - 450,100 Deleum Shares under the Second Tranche of Second Grant; and
 - 183,100 Deleum Shares under the Second Tranche of Special Grant.

The Company did not grant any shares under the LTIP during FY2018 based on the current market situation.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Audit Committee

The AC has responsibility for oversight of the Company's financial statements, related party transactions, system of internal control, the Company's relationship with its external auditors and effectiveness of internal audit procedures.

A full AC Report enumerating its membership and a summary of its activities during the financial year is set out on pages 97 to 105 of this Annual Report.

Board Risk Committee

The BRC assists the Board to oversee the implementation of the Group's risk management framework. It ensures the Group has in place a sound enterprise risk management framework and such framework has been effectively implemented to enhance the Group's ability to achieve its strategic objectives. The Management Risk Committee manages the day-to-day operational and business risks. It holds its monthly meeting with structured agenda.

The composition of the BRC and a summary of its activities during the financial year are set out in Section B II - "Risk Management and Internal Control Framework" of this Statement.

Annual Assessment of Board, Board Committees and Individual Directors

The Board through the JRNC and facilitated by the Company Secretary, annually assesses the effectiveness of the Board, Board Committees and the contribution of each individual Directors by way of a set of customised questionnaires. For FY2018, the assessment was conducted online in line with the Group's digitalisation efforts. Summary of results of the annual assessment are tabled to the JRNC for deliberation and reported to the Board.

The outcome of the evaluation for FY2018 highlighted certain key focus areas and future priorities for the Board's consideration, amongst others, including the following:

- enhancement in risk assessment holistically and ensuring effective implementation of mitigation action plans and meeting business objectives.
- consideration for Board membership, persons with IT knowledge and expertise especially one with exposures to cyber security and risks, and with skills of a qualified engineer with operational experience on platforms and rigs.
- revisit the LTIP which was aimed at driving performance and as a retention strategy for senior management and key personnel.

Annual Assessment of Independence

The assessment of the independence of each of the Independent Directors is undertaken annually according to set criteria as prescribed by the Listing Requirements. In addition, the individual's ability to exercise independent judgement and to demonstrate the values and principles associated with independence such as impartiality, objectivity, and consideration of all stakeholders' interests is also assessed.

Based on the evaluation, the JRNC and the Board concluded that all the Independent Directors of the Company continue to demonstrate conduct and behaviour that are essential indicators of independence, and that each of them is independent of the Company's management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Company. The Board was satisfied that the Independent Directors continued to exercise independent and objective judgement and

acted in the interest of the Company and its stakeholders. None of the Independent Directors have any interests in the Company other than shares held amounting to less than 1% and there are no other areas of business conflicts.

IV. Remuneration of Directors and Key Senior Management

The objective of the Group's remuneration policies is to provide fair and competitive remuneration to its Board and Senior Management for retaining a high-quality team for the Group. The Remuneration Framework for Executive Directors and Key Senior Management is available on the Company's corporate website.

The details of Directors' and Key Senior Management's remuneration received or to be received for FY2018 (both from the Company and the Group) are as follows:

(a) Remuneration of Executive Director (Group Managing Director)

During FY2018, the Group Managing Director received the following total remuneration from the Company and did not receive any remuneration from the subsidiaries of the Group:

| Director/ Group Managing Director | Remuneration (RM) | | | | | | |
|--|-------------------|----------------------------|---------------------------------|--|---------|----------------------|--------------|
| | Fees | Salaries and bonuses | Defined contribution plan | *Estimated monetary value of benefits-in- kind | LTIP | #Other emoluments | Total |
| Nan Yusri bin Nan Rahimy | - | 1,293,000 | 193,950 | 20,525 | 185,082 | 9,183.95 | 1,701,740.95 |

* Comprised of prescribed value of company car and driver

Comprised of contribution to Social Security Organisation (SOCSSO), Employment Insurance Scheme (EIS) and club subscription fees.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

As set out in the contract of employment of the Group Managing Director, Nan Yusri bin Nan Rahimy, the compensation payable to him consists of:

- Monthly salary;
- Annual discretionary bonus based on the Group's performance and as recommended by the JRNC and approved by the Board;
- Defined contribution plan;
- Medical and insurance coverage and club subscriptions; and
- Company car and driver.

In addition to the above, the Group Managing Director is entitled to participate in the Group's LTIP scheme.

The Group Managing Director's remuneration package is structured so as to link to corporate and individual performance, aligned with the corporate objectives, and approved by the Board. He is not entitled to any Director's fee from the Group nor is he entitled to receive any meeting allowances for Board or Board Committee meetings. The JRNC reviews the performance of the Group Managing Director annually and submits recommendation to the Board on adjustments in remuneration and/or reward to reflect the Group Managing Director's achievement for the year.

Termination of the contract may be exercised by either party by giving three (3) months' notice in writing.

During FY2018, Nan Yusri bin Nan Rahimy was vested the following shares under the RS Award of the LTIP:

- (i) 48,600 Deleum Shares under Third Tranche of First Grant on 2 March 2018;
- (ii) 72,700 Deleum Shares under Second Tranche of Second Grant on 22 March 2018; and
- (iii) 49,800 Deleum Shares under Second Tranche of Special Grant on 12 June 2018.

(b) Remuneration of Non-Executive Directors

The payment of Directors' fees and meeting allowances for Non-Executive Directors are based on the Non-Executive Directors' Remuneration Framework. The framework is available on the Company's corporate website.

Non-Executive Directors are entitled to Directors' fees and additional fees for chairing or sitting in Board Committees except for the Chairman and Deputy Chairman who do not receive any additional fees. They are each provided a car, a driver and club subscriptions. Non-Executive Directors are not entitled to participate in the LTIP of Deleum or any incentive plan for employees of the Group.

During FY2018, the Non-Executive Directors' fees and meeting allowances were paid in accordance with the Non-Executive Directors' Remuneration Framework, as follows:

| Designation | Fixed fee per month (RM) |
|----------------------|--------------------------|
| Chairman | 25,000 |
| Deputy Chairman | 25,000 |
| Members of the Board | 4,000 |

Board Committees' Fees:

| Designation | AC (Fixed fee per month) (RM) | JRNC (Fixed fee per month) (RM) | BRC (Fixed fee per month) (RM) |
|--------------------------|--|--|---|
| Chairman | 2,500 | 1,000 | 1,000 |
| Members of the Committee | 2,000 | 1,000 | 1,000 |

Fixed meeting allowances are also paid to Non-Executive Directors covering expenses incurred in the course of their duties except for the Chairman and Deputy Chairman.

The Board as a whole determines the remuneration of Non-Executive Directors which is subject to the approval of the shareholders at the AGM. There is no change in the fees and meeting allowances paid to the Non-Executive Directors during FY2018 until the date of AGM in 2019 i.e. 14 May 2019.

The Directors' Remuneration Framework for Non-Executive Directors is available on the Company's corporate website.

For FY2018, the total remuneration received by the Non-Executive Directors individually from the Company are set out below. They did not receive any remuneration from the subsidiaries of the Group:

| Directors | Fees (RM) | Salaries and bonuses (RM) | Defined contribution plan (RM) | *Estimated monetary value of benefits-in- kind (RM) | Meeting Allowances (RM) | *Other emoluments (RM) | Total (RM) |
|---|--------------|------------------------------------|--------------------------------------|---|-------------------------------|------------------------------|---------------|
| Dato' Izham bin Mahmud (Chairman of Board) | 300,000 | - | - | 22,700 | - | 4,151.59 | 326,851.59 |
| Datuk Vivekananthan a/l M.V. Nathan (Deputy Chairman of Board) | 300,000 | - | - | 22,700 | - | 18,684.30 | 341,384.30 |
| Datuk Ishak bin Imam Abas (Chairman of AC) | 90,000 | - | - | - | 29,000 | - | 119,000 |
| Datuk Chin Kwai Yoong (Chairman of BRC) <i>(resigned as Director on 19 February 2019)</i> | 96,000 | - | - | - | 27,500 | - | 123,500 |

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

| Directors | Fees (RM) | Salaries and bonuses (RM) | Defined contribution plan (RM) | *Estimated monetary value of benefits-in-kind (RM) | Meeting Allowances (RM) | #Other emoluments (RM) | Total (RM) |
|---|------------------|----------------------------------|---------------------------------------|---|--------------------------------|-------------------------------|---------------------|
| Datuk Ir (Dr) Abdul Rahim bin Hashim (Chairman of JRNC) | 84,000 | - | - | - | 24,000 | - | 108,000 |
| Datuk Noor Azian binti Shaari | 72,000 | - | - | - | 20,500 | - | 92,500 |
| Total (RM) | 942,000 | - | - | 45,400 | 101,000 | 22,835.89 | 1,111,235.89 |

* Comprised of prescribed value of company car and driver

Comprised of club subscription fees

Directors and Officers of the Group are covered under a Directors and Officers Liability Insurance Policy against any liability incurred by them in their discharge of duties while in office. However, they are not indemnified if any negligence, fraud, breach of duty or trust is proven against them.

(c) Remuneration of Senior Management

For FY2018, the aggregate total remuneration paid to Deleum Group's top five (5) Key Senior Management personnel, who are not Directors, comprising the Group Chief Financial Officer and four (4) Chief Executive Officers of the subsidiaries of the Group is RM4,128,606.55, as follows:

| Remuneration (RM) | | | | | | | |
|-----------------------------|----------------------------------|----------------------------|---|-------------|--------------------------|--------------|--|
| Salaries and bonuses | Defined contribution plan | ** Fixed Allowances | *Estimated monetary value of benefits-in-kind (RM) | LTIP | #Other emoluments | Total | |
| 2,889,784 | 398,768 | 432,461.30 | 94,815.25 | 308,161 | 4,617 | 4,128,606.55 | |

** Comprised of car allowance

* Comprised of prescribed value of company car and driver, petrol consumption and mobile expenses

Comprised of contribution to SOCSO and EIS

In addition, they are covered under the Group insurance policies for Term Life, Hospitalisation and Personal Accident. The annual discretionary bonus is based on the individual's and the Group's performance as recommended by the JRNC and approved by the Board.

The top five (5) Key Senior Management personnel's remuneration received during the financial year is categorised within the disclosure band as follows:

| Remuneration Band (RM) | Number of Key Senior Management personnel |
|------------------------|---|
| RM750,001 – RM800,000 | 2 |
| RM800,001 – RM850,000 | 2 |
| RM900,001 – RM950,000 | 1 |

The Board is of the view that the disclosure in the above manner is appropriate.

No Director or Key Senior Management personnel is involved in deciding his/her own remuneration.

B. EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee and Financial Reporting

The Board is assisted by the AC to oversee the Group's financial reporting process, the quality of its financial reporting and also to ensure that the financial statements are drawn up following appropriate accounting policies and in accordance with the provisions of the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the CA 2016. The accounting policies, once adopted, are consistently applied and supported by reasonable judgments and estimates.

The Group Managing Director and the Group Chief Financial Officer provided assurance in writing to the AC that adequate processes and controls are in place, that appropriate accounting policies had been adopted and applied consistently, and that the relevant

financial statements gave a true and fair view of the state of affairs of the Company and the Group.

Statement of Directors' Responsibilities in Relation to Audited Financial Statements

The Directors are required by the CA 2016 to prepare the financial statements for each financial year which have been made out in accordance with the applicable MFRS, IFRS and the requirements of the CA 2016. The Board is responsible for presenting a balanced, clear and comprehensive assessment of the Group's financial position, performance and prospects through the quarterly and annual audited financial statements released to the shareholders.

In preparing the financial statements of the Group for FY2018, the Directors have:

- adopted the appropriate accounting policies and applied them consistently;
- ensured compliance with the MFRS, IFRS, CA 2016 and any material departures have been disclosed and explained in the financial statements;
- made estimates and judgments which are reasonable and prudent; and
- ensured the financial statements have been prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and the Group.

The Directors have inquired of Management and the Auditors in respect of any fraud or irregularities impacting the Group. No such matter was reported to the Board in 2018.

The Directors are responsible to ensure that the Group and the Company keep accounting records which disclose the financial position of the Group and of the Company with reasonable accuracy, enabling them to ensure that the financial statements comply with the CA 2016.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

The Directors are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and of the Company and to detect and prevent fraud and other irregularities.

External Auditors

The Company's external auditors continue to report to the Company on their findings which are reported in the Company's financial reports with respect to each year of audit on the statutory financial statements and the review of the quarterly announcements. The AC and the Board have established formal and transparent arrangements to maintain appropriate relationships with the Company's external auditors in respect of all their professional services rendered to the Group.

As prescribed in the AC's Terms of Reference, the AC is responsible for the recommendations of the appointment of external auditors, considering the adequacy of experience, resources, audit fee and any issues regarding resignation or dismissal of the external auditors.

The external auditors also submitted their independence statement to the Board as part of their audit process. In order to further maintain independence of the external auditors, the audit partner-in-charge is rotated every five (5) years with the last rotation in FY2016. Assessment of the external auditors is disclosed in the AC Report.

II. Risk Management and Internal Control Framework

The Board acknowledges its responsibility for ensuring the maintenance of a sound system of internal controls and risk management. The Company has the Enterprise Risk Management (ERM) Policy and ERM Framework to ensure a proper and structured enterprise risk management processes for the identification, assessment, response, monitoring and reporting of risks on an enterprise wide basis. The BRC reviewed the ERM Framework as and when it is necessary. The ERM Framework was last reviewed and revised on 22 August 2017.

Board Risk Committee

The BRC comprises a majority of independent directors to oversee the Company's risk management framework and policies.

During FY2018, the members of the BRC are as follows:

| Name | Designation |
|---|---|
| Datuk Chin Kwai Yoong <i>(ceased as chairman on 19 February 2019)</i> | Chairman/ Independent Non- Executive Director |
| Datuk Vivekananthan a/l M. V. Nathan | Member/Non- Independent Non- Executive Deputy Chairman |
| Datuk Noor Azian binti Shaari | Member/ Independent Non- Executive Director |

As announced on 12 March 2019, the Board on the recommendation of the JRNC has approved the appointment of Mr Lee Yoke Khai as Chairman of the BRC with effect from 15 March 2019.

During FY2018, four (4) meetings of the BRC were held and the attendance of members at BRC meetings is set out on page 76.

The BRC is primarily responsible for the following:

- (i) reviewing the Group's risk profile and appetite and establishing and monitoring the effectiveness of the risk management framework, systems, plans, and processes for identifying, evaluating, monitoring and reporting of risks;
- (ii) identifying, reviewing and evaluating risks facing the Group and reviewing the adequacy of the Group's processes and procedures to identify and mitigate key organisational risks;
- (iii) ensuring that continuous risk assessment and monitoring of key risk indicators and exposures are performed by Management based on the Group's risk profile and appetite and that adequate risk mitigation processes, action plans and controls formulated and implemented by Management are functioning effectively;
- (iv) making necessary recommendations to the Board on risk management and control, where appropriate; and
- (v) updating the Board on the activities of the BRC at the quarterly Board meetings.

The Terms of Reference of the BRC was last reviewed and revised on 22 August 2017 and is available on the Company's corporate website.

During FY2018, the following activities were undertaken by the BRC:

- (i) reviewed the revision of Group's Key Risk Profile comprising Operational and Market, Regulatory, Legal, Human Capital, Safety and Financial risks;
- (ii) reviewed the Group's Risk Impact perimeters;

- (iii) reviewed the revision of ERM Framework;
- (iv) reviewed COBC Questionnaire for employees' online awareness test;
- (v) reviewed the Control Self-Assessment Checklist for the Group's Key Risk Profile and the results;
- (vi) notation of the minutes of the Management Risk Committee (MRC);
- (vii) reviewed the compliance checklists of three major contracts;
- (viii) reviewed the project risk assessment for the MCM Contract;
- (ix) reviewed the Explosive Items Handling Report ;
- (x) reviewed the revised Standard Operating Procedures for explosive items;
- (xi) reviewed the Depreciation Policy for Deleum Oilfield Services Sdn. Bhd.;
- (xii) reviewed the outcome of interim interview with external auditors on risk management and internal audit function for FY2018;
- (xiii) reviewed the Key Risk Profile of Penaga Dresser Sdn. Bhd.;
- (xiv) reviewed the gap analysis between PETRONAS Contractors Code of Conduct on Human Rights and Deleum's Equal Opportunity Policy and Grievance Policy;
- (xv) reviewed the Overview of Business Continuity Management; and
- (xvi) reviewed and revised the Terms of Reference of the MRC.

More comprehensive information is set out in the SORMIC.

Internal Audit Function

Deleum engaged the services of BDO Governance Advisory Sdn. Bhd. as the outsourced Internal Audit Function, which reports directly to the AC and is independent from Management. It has full access of the Group's entities, records and personnel.

A summary of the Internal Audit Function's responsibilities and activities is set out in the AC Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Communication with Stakeholders

The Board values the importance of an effective open dialogue with the shareholders and investment community. In this respect, the Group has established processes to ensure disclosures made are clear, accurate, relevant and timely for the shareholders and investment community to make informed investment decisions and enjoy equal access to the information.

The Group continued to engage with the analysts and fund managers on investor relations. The Group held two (2) analyst briefings in FY2018 to provide updates to the investment community. Additional group briefings, private meetings, teleconferences, and media related interviews were also held as and when required. Presentation materials of the analyst briefings were posted on the Company's website to ensure universal access to the same. These investor relations initiatives provide an avenue for dialogue between institutional investors, fund managers and analysts with the Senior Management. It also serves as an effective platform for the fund managers and analysts to receive a balanced and complete view of the business operations, financial performance, key operating statistics and corporate development and challenges facing the Group.

Information on the Group's business operations and financial performance is also disseminated through various readily accessible channels including the announcements of quarterly and annual results via Bursa Securities, Annual Report, media releases and the Company's corporate website. The various disclosures are guided by the Listing Requirements and the

Group's Corporate Disclosure Policy which outlines the timing and manner of disclosure of material information. The Group maintains high confidentiality measures with regard to undisclosed material information.

Deleum's corporate website at www.deleum.com provides quick access to the corporate information of the Group and is regularly updated to incorporate the latest development of the Group. The Group's corporate information, financial results, governance information, statutory announcements, stock information, press releases and corporate related activities are assessable via the Company's corporate website. The website also has an e-mail alerts service where shareholders and anyone who are interested may register to receive the latest announcements on the Group via e-mail. Shareholders' and other stakeholders' queries and concerns affecting the Group can be conveyed to Datuk Ir (Dr) Abdul Rahim bin Hashim, the Senior Independent Non-Executive Director of Deleum who can be reached as follows:

Datuk Ir (Dr) Abdul Rahim bin Hashim

c/o Company Secretary
No. 2, Jalan Bangsar Utama 9
Bangsar Utama
59000 Kuala Lumpur
Tel : +603-2295 7790
Fax : +603-2295 7777
Email : AbdulRahim.Hashim@deleum.com

Shareholders and investors may also direct their queries to the following persons:

Ms Lee Sew Bee

Senior General Manager – Group Corporate Services/Company Secretary
Tel : +603-2295 7790
Fax : +603-2295 7777
Email : SewBee.Lee@deleum.com

Ms Lee Hooi Woen

General Manager – Group Finance
 Tel : +603-2295 7732
 Fax : +603-2295 7777
 Email : HooiWoen.Lee@deleum.com

II. Conduct of General Meetings

AGM is an important channel as it is the principal forum for dialogue and interaction amongst shareholders, the Board and Management and for receiving constructive feedback from shareholders. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf.

The notice of AGM will be sent to shareholders at least 28 days ahead of the meeting date together with the Audited Financial Statements and agenda for the meeting. At the AGM, the Group Managing Director presents the Group's financial highlights and business activities to the shareholders. The 14th AGM will be convened on 14 May 2019.

All Directors including the Chairman of the AC, JRNC and BRC as well as the external auditors were present at the last AGM held on 16 May 2018 to provide meaningful response to questions addressed to them. The Chairman provided ample time for shareholders to participate in the Questions and Answers session. Suggestions and comments communicated by shareholders were noted by the Board and Management.

Poll voting for all resolutions as set out in the notice of the AGM was conducted via electronic means to expedite verification and counting of votes. An independent scrutineer was appointed to validate the votes cast at the AGM. The outcomes of voting were announced to Bursa Securities after the AGM and posted in the Company's corporate website.

III. Dividends

Deleum continues to commit to its dividend policy of distributing 50% of the Group's annual profit attributable to the equity holders of the Company, subject to the availability of adequate distributable reserves, operating cash flow, financial commitments and expansion plans. For FY2018, the Company declared two dividend payments amounting to 3.50 sen per share which were paid within 30 days from the entitlement date.

COMPLIANCE STATEMENT

The Board recognises and subscribes to the importance of the principles and best practices set out in the MCCG. In this respect, where practical and appropriate, the Board has applied the principles and recommendations under the MCCG for FY2018.

The application of each Practice set out in the MCCG during FY2018 and the explanation for a departure is disclosed in the Corporate Governance Report which is available in the Company's corporate website www.deleum.com.

The Board has deliberated, reviewed and approved this Corporate Governance Overview Statement and the Corporate Governance Report on 12 March 2019.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

THE STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL IS MADE IN ACCORDANCE WITH PARAGRAPH 15.26 (B) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (BURSA SECURITIES) AND IS IN LINE WITH THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2017 (MCCG).

BOARD RESPONSIBILITIES

The Board of Directors (the Board) of Deleum Berhad affirms its overall responsibility for reviewing the adequacy and effectiveness of Deleum Berhad and its subsidiaries' (the Group) risk management and internal control systems. The systems in place are designed to ensure key risk areas are managed to an acceptable level to achieve the Group's business objectives. The Group's risk management and internal control systems is an ongoing process designed to meet the Group's particular needs based on the Group's business direction and to manage the risks in line with changes to the business environment, operating conditions and regulatory requirements.

The Board is aware that the risk management and internal control systems can only provide reasonable and not absolute assurance against the risk of material errors, misstatement, fraud or occurrences of unforeseeable circumstances.

RISK MANAGEMENT

Board Risk Committee

The Board Risk Committee (BRC) is chaired by an Independent Non-Executive Director. The BRC meets on a quarterly basis to review the effectiveness of the risk management process and reports arising from risk management activities and also to discuss new and emerging risks.

The duties and responsibilities of the BRC are set out in the Corporate Governance Overview Statement of this Annual Report.

Management Risk Committee

The Management Risk Committee (MRC) was established in 2017 to manage risks on a dynamic basis given that all manner of risks are inherent in our businesses. This Committee provides a platform for members of the Senior Management team to bring their cumulative knowledge and experiences of the trading conditions, operating environment and regulatory requirements to facilitate the identification and monitoring of existing and emerging risks impacting the businesses. The MRC is chaired by the Group Managing Director (GMD) and meets on a monthly basis where matters discussed at the MRC is reported to BRC on a quarterly basis.

The MRC's duties include:

- i. the Group's key risks are deliberated and taken into account in the Group's business strategies,
- ii. the process of risk identification up to the mitigation plans are appropriately considered,
- iii. the risk framework including the strategies, policies and action plans are effectively implemented and
- iv. monitoring and reporting to the Board the risk activities undertaken on a quarterly basis.

During the year, the Terms of Reference for MRC were revised and subsequently approved by the BRC. The revisions included the induction of the Chief Executive Officer of Penaga Dresser Sdn. Bhd. as a new MRC member.

The day-to-day management of risks is the responsibility of the GMD and the heads of business units are responsible in representing the GMD's obligation to all business units. The Senior Management team assisted by Group Risk Department continuously supports the GMD in integrating risk management strategies, policies, risk tolerance, risk appetite and reviewing the application of risk management practices across the Group in line with Deleum's Enterprise Risk Management (ERM) Framework.

KEY RISKS 2018

Operational Risk

Operational risk relates to the risk of loss as a consequence of inadequate or ineffective processes, people and systems impacting the Group's ability to meet its business objectives. This risk was heightened following the continuous fluctuations in oil prices. All our key customers had embarked on operational efficiency programs and reigning in capital expenditures. To manage this risk, the Group widened its integration across the business units to offer customers holistic solutions, new technological products and services in collaboration with partners whilst emphasising on strict cost disciplines alongside measures to improve operational efficiency and productivity.

The Management's mandate is to manage operational risks in a cost-effective manner to prevent financial loss or damage to the Group's reputation. In this context, the Board is reasonably satisfied that the risk had been managed appropriately in light of the difficult trading conditions. Whilst the Group's revenue earned since 2014 were volatile, the Group remained profitable and operating cash generation remained positive and facilitated the fulfilment of our dividend policy.

Financial Risk

Financial risk involves the risk of market volatilities affecting exchange rates and interest rates which may affect the values of our financial assets and liabilities.

One of the Group's key financial risks is currency volatility. A major portion of the Group's revenue and costs are conducted in foreign currencies, primarily the US Dollar (USD). To manage this risk, the Group has in place a Board authorised hedging policy and procedures to manage currency fluctuations. The Board strictly prohibits any speculative activity on currencies.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

To fund its operations the Group relies on Ringgit Malaysia credit facilities from reputable financial institutions. These comprise mainly term loans, import credits and revolving credits. The costs of these facilities are mainly based on the lending institutions' rates which include agreed upon margins. The Board believes that the existing strategies and policies and processes in place are appropriate and effective in managing interest rate risk.

Legal Risk

Legal risk is the risk of financial loss or damage to the Group's reputation arising from failure to comply with contractual terms or the possibility that the Group's interest is not properly protected.

The Group Legal Department partners closely with the business units in mitigating potential legal risks. The department reviews contractual terms to identify and monitor regularly on potential legal issues that may arise. The Group benefits from having a Board member with legal expertise and experience whom Management consults on a need basis. External legal advice may be sought where appropriate, especially in specialised areas.

Safety Risk

The safety of people and assets is a top priority in the oil and gas industry and any adverse incident could result in significant financial loss and damage to the Group's reputation. Hence the Group has in place comprehensive safety policies and processes to address this risk and its effectiveness could be measured by the fact that as of February 2019, the Group had recorded 12.7 million free Lost Time Injury man-hours since 25 August 2012. In recognition of our excellent safety record in 2018, the Group was awarded, amongst others, HSE Achievement Awards by PCSB, MISC and EnQuest. The details of these awards are disclosed in the Sustainability Report on page 60.

Human Capital Risk

Human Capital risk commonly stems mainly from dealing with challenges in attracting talent, managing turnover and competency gaps. The Group has in place

comprehensive learning and development programmes to equip our people with relevant knowledge and skills demanded by the industry. Annually, leaders assess performance of people through annual performance review exercise whilst addressing learning gaps through the establishment of Individual Development Plans. Leadership capabilities are also looked into, particularly in the area of bridging competency gaps between leadership tiers and equipping leaders with managing capabilities in mitigating employee turnover.

In 2018, the Senior Management Team attended the customised valued-based Leadership Development Program. The program emphasises on key values of leadership such as compassion, courage, integrity, responsibility, humility, honesty, loyalty and fairness. Leadership gaps are continuously being assessed in keeping up with the evolving landscape of managing people. Apart from that, the Group is consistently reviewing our position in terms of remuneration and benefits in our effort to ensure compatibility within the industry.

In the Group's effort to enhance the employability of women, the Group revised maternity benefits from 60 days to 90 days, alongside with the enhancement of paternity benefits.

Risk Management Process

The risk management process in Deleum is consistent with The Committee of Sponsoring Organizations of the Treadway Commission (COSO) ERM Framework. The risk management approach taken in Deleum is a bottom-to-top review process. The development of risk profiles begins with assessment at the business unit level before escalating upwards to the executive suite including the MRC and subsequently to the BRC. These assessments depend significantly on inputs from various levels of employees, particularly the key business and process owners. Therefore, a clear understanding by all employees that managing risks is a collective responsibility is central to the Group's risk management process.

Control Self-Assessment Checklist

A Control Self-Assessment (CSA) checklist is a tool developed to assess the adequacy of processes and controls in place within all business units.

The CSA has enabled the Management to track the processes and controls that were put in place to mitigate risks and acts as a check and balance mechanism to ensure that effective action plans, processes and controls are in place. During the year, the CSA for the Group's Key Risk had been reviewed by the Group Risk Management Department and were satisfied with the responses provided.

Risk Briefings and Awareness Sessions

During the year, risk briefings were held with senior managers on a quarterly basis whilst awareness sessions were conducted for all relevant personnel from operational business units and corporate resource units. This is to ensure that the risk processes are reasonably understood and that personnel involved are able to identify and address risks appropriately. Besides being briefed on the ERM Framework and the revisions made, the participants were also informed of the Group's key risks, impact, control measures and action plans.

Risk sessions are also conducted for the project team in respect of large projects during the bidding process to ensure that material risks are identified, assessed and their impact are factored in shaping the business and pricing strategies. This is in accordance with the Project Risk Management Guideline that defines the scope and process for the identification, assessment, management and monitoring of project risks.

Project risks identified are documented in the project risk registers. The assessment is performed using qualitative and quantitative methods to determine the risk exposure. The project risk registers are maintained and reviewed accordingly throughout the project duration to ensure that the risk response strategy and mitigation plans are implemented and monitored regularly.

CONTROL STRUCTURE

The key features of the Group's control structure are as follows:

- **The Board**

The Board provides direction and oversight and is supported by the Joint Nomination and Remuneration Committee (JRNC), Audit Committee (AC) and BRC. Their terms of reference and responsibilities are defined, and together with the Board Charter are available for reference on the Company's corporate website.

The specific lines of responsibility, accountability and delegation of authority as approved by the Board are to facilitate the Group's daily operations and rest with the GMD and the Senior Management team accordingly.

- **Strategic Business Planning, Budget and Reporting**

The planning process for the ensuing year starts with the strategy setting meeting between the Board and the GMD. The deliberations and the decisions are then taken forward in the preparation of the Group Strategic Plan and Budget which sets out clearly the overall objectives, strategies, operating and capital budgets which are approved by the Board in November/December before the commencement of the new financial year. Detailed budgets are prepared by the operational business units and corporate resources units and submitted to the Group Finance Department which consolidates these into a Group Budget. Besides that, an offsite Board meeting between the Board, GMD and GCFO is held to give the Board an avenue to further discuss, deliberate business strategies of the Group for the upcoming year. These expectations are then shared with the Senior Management team in the development of the 2019 Strategies and Budget for the Group.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

The strategic plan covers the Group's strategies and key focus areas for the upcoming year, including operating and financial performance, key business indicators, regional and international expansion plans, key focus areas, core values, Quality, Health, Safety and Environment (QHSE), resource utilisation, capital expenditure, cash flow projection, facilities and operational support, and human capital development.

Upon approval of the strategy and budget, the Group's performances against budget were reported to GMD whilst respective business units' performances were reported to heads of business units and discussed at the monthly Exco meeting.

The Board reviews the results against budget and historical results on a quarterly basis in conjunction with the public announcement of the Group's quarterly results. Concurrently, Management provides a rolling forecast/outlook of the business and any changes in plans and directions are deliberated and sanctioned by the Board accordingly.

- **Audit Committee**

The AC evaluates the adequacy and integrity of the Group's internal control system. The AC reviews internal control matters raised by the internal and external auditors and Management. Where appropriate, the AC is briefed on matters pertaining to corporate governance, financial reporting standards, listing requirements, legal and regulatory requirements as well as key matters affecting the interim and annual financial statements. Details of the AC's activities and responsibilities are further discussed and are set out in the AC Report of this Annual Report.

- **Internal Audit**

The Internal Audit function is undertaken by BDO Governance Advisory Sdn. Bhd. (BDO), a firm that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors.

BDO's primary role is to review the state of the internal controls maintained by the Group and to provide assurance to the AC on the adequacy and integrity of the internal controls and governance framework of the Group. They provide an independent and objective assessment on the adequacy and effectiveness of the risk management, internal control and governance processes.

Details of the Internal Audit reviews conducted during the year are set out in the AC Report.

- **Group Values and Code of Conduct (COBC)**

The Group values are communicated through the Group's corporate statement and each employee is required to comprehend and observe the Group's COBC upon commencement of employment. The Group's Shared Values and COBC are available on the Company's corporate website and the Group's intranet accessible by all employees.

Furthermore, updates on COBC and/or business policies and principles from business partners and customers are communicated to all employees. For contractors, subcontractors, vendors and other service providers, the COBC is directly communicated via our business terms and conditions.

To promote further awareness amongst the employees and visitors, posters covering key critical COBC points such as harassment, anti-bribery, drugs and alcohol are placed at the Group's offices and work places.

To ensure that all employees are aware of and familiar with the COBC, briefings are conducted at office locations in Miri, Labuan and Kemaman. In addition, an awareness test is set for employees to affirm their knowledge, understanding and compliance with the COBC. The test is conducted on an annual basis. During the year, separate tests were conducted for Executive and Non-Executive employees accordingly, and all employees including Board of Directors had successfully participated in the test.

The human rights policy was established during the year and it supersedes the existing Equal Opportunity disclosure in the COBC. Deleum is responsible to comply and socialise the Universal Declaration of Human Rights which is embedded in all contracts with PETRONAS and it is the responsibility of Deleum to ensure that these rights are complied with by Deleum and its business partners. The 30 Human Rights of Universal Declaration of Human Rights has been included as part of the Human Resource Policies of Deleum and is socialised with employees during their onboarding induction by HR.

The Human Rights of Universal Declaration of Human Rights is published in Deleum's corporate website in dual languages (Bahasa Malaysia and English). Suppliers and subcontractors were informed to refer to Deleum's corporate website and reminders of the Policy are mentioned in the Group's purchase orders.

- **Whistleblowing Policy**

The Whistleblowing Policy facilitates employees of the Group and external parties to report any wrongdoings and provides assurance of confidentiality and safeguards against victimisation. The Board is pleased to note that there was no case reported during the year via the Whistleblowing channel.

The policy was last reviewed by the Board and updated in May 2018 in line with current practices. The policy is available on the Company's corporate website.

- **Authorisation Limits**

Authorisation limits in respect of organisational requirements for decision-making limits such as purchasing of goods and/or services, cash management and disbursements, contracting, treasury and banking transactions, human resources and approval of agreements for ordinary course of business are clearly defined and documented for each level of management within the Group. The guidelines also set out matters reserved for the Board's decision. The limits are reviewed and updated regularly to reflect the business environment, operational and structural changes.

- **Policies and Procedures**

Documented internal policies and procedures are in place to ensure compliance with internal controls and the relevant rules and regulations. They are reviewed regularly by Management and periodically by Internal Auditors to ensure that gaps in policies and controls are addressed and where required, policies and procedures are augmented and revised to meet with the changing business dynamics. The process improvement section within the Group reviews the efficiency and effectiveness of the processes and procedures to meet the Group's business goals.

- **Quality Management System (QMS) and Environmental Management System (EMS) Audit**

The Group QHSE Department is responsible for the Group's QMS and EMS certification and audit. The Group successfully maintained its ISO 9001:2015 certification under Deleum Services Sdn. Bhd. (DSSB) covering the products and services of Deleum Oilfield Services Sdn. Bhd. (DOSSB), Deleum Chemicals Sdn. Bhd. (DCSB), Deleum Primera Sdn. Bhd. (DPSB) and Deleum Rotary Services Sdn. Bhd. (DRSSB).

In July 2017, Turboservices Sdn. Bhd.'s (TSSB) ISO 9001:2015 was independently certified. The Group also maintained its ISO 14001:2015 EMS certification for DCSB. These certifications provide assurance to customers of the delivery of quality products and services and compliance with regulatory requirements.

During the year under review, planned audits for ISO certification were performed by Certified IRCA (International Registered Certified Auditors) Internal Auditors on DSSB, DOSSB, DCSB, DRSSB, DPSB, TSSB, Group Information Communication Technology Department, Group Human Resource Department and Group Procurement Department. The audits confirmed these Companies' and Department's continued compliance with the relevant ISO standards.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

• Corporate Secretariat and Compliance

The Company Secretarial function is under the stewardship of the Company Secretaries whose roles and responsibilities are discussed in the Corporate Governance Overview Statement of this Annual Report.

ADEQUACY AND EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board had reviewed the effectiveness of the Group's risk management and internal control systems for the year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

The Board is satisfied with the Group's ongoing processes for identifying, evaluating, managing and monitoring the risks of the business, including the scope and frequency of reports on both risk management and internal controls.

The Board is of the opinion that there are sufficient controls and appropriate management action plans in place to meet the business objectives and strategies of the Group.

No weaknesses in internal control that have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report were noted. Deleum's internal control systems are not extended to the associate companies in which the Group's interests are safeguarded through board representation.

CONCLUSION

The external and internal auditors, in the course of executing their work based on the pre-approved review plans had highlighted their findings and recommendations for addressing the deficiencies and lapses in controls noted during their work. On the basis of the work conducted, they did not note any significant deficiencies in the internal control system.

For the financial year under review, the Board had received representations from the GMD and Group Chief Financial Officer, that the risk management and internal control processes were adequate to safeguard shareholders' investments and the Group's assets.

REVIEW OF THIS STATEMENT

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide (AAPG) 3 issued by the Malaysian Institute of Accountants. AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

Based on the procedures performed, nothing had come to their attention that caused them to believe that the Statement on Risk Management and Internal Control set out above was not prepared in all material respects in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers nor was it factually incorrect.

This statement is made in accordance with the resolution of the Board dated 25 February 2019.

AUDIT COMMITTEE REPORT

DURING FINANCIAL YEAR 2018 (FY2018), THE AUDIT COMMITTEE (AC) HAS CONTINUED TO PLAY A KEY OVERSIGHT ROLE ON BEHALF OF THE BOARD. THE AC PROVIDES ASSISTANCE TO THE BOARD IN FULFILLING THE BOARD'S RESPONSIBILITIES TO DELEUM BERHAD (DELEUM OR THE COMPANY) AND ITS SHAREHOLDERS BY REVIEWING AND MONITORING INTEGRITY OF THE FINANCIAL REPORTING PROCESS AND ACCOUNTING RECORDS OF DELEUM AND ITS SUBSIDIARIES (THE GROUP).

The AC reviews the Group's system of internal control, audit process, compliance and governance. In addition, the AC monitors the independence and effectiveness of the external auditors, and receives reports and presentations from internal auditors relating to their internal control review. The management of risks is the responsibility of the Board Risk Committee (BRC) which reports directly to the Board. The Chair of the BRC is also a member of the AC.

(I) CONSTITUTION

The AC had discharged its function and carried out its duties as set out in the Terms of Reference (TOR) of the AC which is accessible through the Company's corporate website at www.deleum.com under the 'Corporate Profile' section. Where necessary, the TOR will be reviewed accordingly. The last review and revision were done in February 2018.

(II) MEMBERSHIP

During FY2018, the AC comprised solely of independent directors as follows:

| Name of AC Members | Appointment Date | Designation |
|--|------------------|---|
| Datuk Ishak bin Imam Abas | 21 March 2007 | Chairman of AC/ Independent Non-Executive Director |
| Datuk Chin Kwai Yoong <i>(ceased as member on 19 February 2019)</i> | 21 March 2007 | Member/ Independent Non-Executive Director |
| Datuk Ir (Dr) Abdul Rahim bin Hashim | 15 November 2013 | Member/ Senior Independent Non-Executive Director |

As announced on 12 March 2019, the Board on the recommendation of the Joint Remuneration and Nomination Committee (JRNC) has approved the appointment of Mr Lee Yoke Khai as member of the AC with effect from 15 March 2019.

AUDIT COMMITTEE REPORT (CONTINUED)

The composition of the AC meets the requirements of paragraph 15.09(1) of Bursa Malaysia Securities Berhad (Bursa Securities) Main Market Listing Requirements (Listing Requirements) which stipulates that the AC must be composed of not fewer than three (3) members, of which, all must be non-executive directors, with a majority of them being independent directors, and at least one (1) member must be a member of the Malaysian Institute of Accountants (MIA) or fulfilled the requirements as prescribed under the Listing Requirements. The AC members come from different professional and business backgrounds with two (2) members from the accounting background and are members of the MIA.

The members of the AC have sufficient understanding of the Group's business to continuously apply a critical and probing view on the Company's financial reporting process, transactions and other financial information.

(III) COMMITTEE MEETINGS

During FY2018, the AC held four (4) meetings which were attended by all members as reflected below:

| | Name | No. of attendance and meetings |
|----------|--|--------------------------------|
| Chairman | Datuk Ishak bin Imam Abas | 4/4 |
| Members | Datuk Chin Kwai Yoong <i>(ceased as member on 19 February 2019)</i> | 4/4 |
| | Datuk Ir (Dr) Abdul Rahim bin Hashim | 4/4 |

By invitation, the Group Managing Director, the Group Chief Financial Officer and other relevant senior management personnel, and representatives from the external and internal auditors attend the AC meetings to brief and provide clarification to the AC on their areas of responsibility. Invitations were extended to other Directors to AC meetings to share their knowledge and experiences.

The external auditors were present during deliberations at all AC meetings on matters relating to external audit and internal audit. Time was also set aside for both the external and internal auditors to have separate private discussions with the AC in the absence of Executive Director and Management or employees of the Company.

Besides the external and internal auditors, Management presented their reports on the financial results and other matters that required the AC's approval. At the Board meeting, the Chairman of the AC presented the recommendations of the AC and highlighted the relevant findings and issues.

The AC meetings were conducted in accordance with the requisite quorum as stipulated in the TOR of the AC, which requires at least two (2) members to be present with the majority to be Independent Directors. In addition to the AC meetings, certain AC members have pre-AC meetings with Management and discussions with external auditors on the quarterly and annual results prior to the AC meetings to enable early escalation of any significant issues to the AC with a view to a timely resolution. The Company Secretary is the Secretary of the AC who keeps records of the minutes of the AC meetings. Minutes of each AC meeting is circulated to the AC members after the meeting for review and comments before confirmation at the next AC meeting and subsequently tabled to the Board meeting for notation.

(IV) SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year under review, the AC's key focus areas were as follows:

- Quarterly and annual financial results and annual reporting;
- External audit;
- Internal audit; and
- Related party transactions.

1. Financial Results and Annual Reporting

- (a) Reviewed with Management and the external auditors the appropriateness of the unaudited quarterly interim reporting and annual financial statements, before recommending them to the Board for consideration and approval and the release of the Group's results to Bursa Securities, with emphasis being given to:
- the quality and appropriateness of accounting policies and practices;
 - the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
 - key areas in which significant judgements and estimates have been applied and used for the preparation of the financial statements;
 - whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
 - any correspondence from regulators in relation to financial reporting; and
 - the significant audit issues the AC considered in relation to the financial reporting.

When considering the quarterly interim reporting and annual financial statements, the AC considered the quarterly financial reporting from the Group Finance function and the report from the external auditors on their quarterly review and annual audit. In this respect, the AC reviewed the significant audit and accounting issues and the Group's critical accounting policies, with particular focus on the following:

Asset Impairment Testing

The judgements in relation to asset impairment largely relate to the assumptions underlying the calculation of the value in use of the business being tested for impairment, primarily the achievability of

the long-term business plans and macroeconomic assumptions underlying the valuation process.

This review was centred on the carrying value of an investment in an associate company and the plant and equipment in the Oilfield Services segment.

Following an impairment charge of certain assets made in an associate company in the preceding year, Management has continued to monitor the associate company's performance to ensure there is no further impairment indicator to the carrying value of the investment in the associate company and its assets. With improved financial results reported in the associate company and utilisation of its assets, it is concluded that no further impairment was required.

With respect to the plant and equipment in the Oilfield Services segment, the segment has successfully secured new slickline contracts with certain existing customers and new customer. In addition, there are contracts extension granted by two existing customers until mid of financial year 2019. In this respect, impairment indicator does not exist and no impairment was required on these assets.

The AC has satisfied itself that the assessment and related actions taken have been properly prepared by Management and reviewed by the external auditors.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. The Group has diversified range of business activities that different recognition method is applied for goods, services and performance milestone.

The Group has adopted MFRS 15 "Revenue from Contracts with Customers" in the current financial year. The core principle on MFRS 15 is that an

AUDIT COMMITTEE REPORT (CONTINUED)

entity recognises revenue to depict the transfer of promised goods and services to customers for an amount that reflects the consideration to which the entity expects to be entitled on exchange for those goods or services. Revenue is recognised when a customer obtains the use of and obtain the benefits from the goods or services moving from the transfer of risk and reward principles. The adoption of MFRS 15 has resulted in the changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in MFRS 15, the Group has elected to adopt the modified retrospective approach. Appropriate disclosures in the financial statements in accordance with the accounting standard have been reviewed by the external auditors.

The AC is satisfied that the assessment has been properly prepared by Management and reviewed by the external auditors.

- (b) Reviewed the annual consolidated audited financial statements for the year under review before recommending to the Board for consideration and approval. The review was to ensure that the financial reporting and disclosures were updated and in compliance with:
- Listing Requirements of Bursa Securities;
 - Companies Act 2016 and other relevant legal and regulatory requirements; and
 - Applicable approved Malaysian Financial Reporting Standards and International Financial Reporting Standards.
- (c) Reviewed the Statement on Risk Management and Internal Control and the AC Report to ensure adherence to legal and regulatory reporting requirements prior to the Board's approval for inclusion into the Annual Report.

2. External Audit

- (a) Reviewed the external auditors' scope of work, audit plan and audit strategy for FY2018 to ensure appropriate focus on the key risk areas.
- (b) Reviewed the external auditors' report to the AC in relation to the reviews of the quarterly results and announcements along with resolution of issues highlighted in their report to the AC.
- (c) Reviewed the external auditors' report to the AC for the year under review in relation to the audit and accounting issues arising from the audit and Management's responses.
- (d) Reviewed the internal control findings and system of internal control and discussed the impact on the overall soundness of the internal control procedures and processes.
- (e) Reviewed other matters relating to accounting, auditing, financial reporting practices and processes, legal, regulatory and taxation matters of the Group.
- (f) Reviewed the independence and objectivity of the external auditors.
- (g) Monitored the non-audit related fees paid to the external auditors, M/S PricewaterhouseCoopers PLT (PwC) so that the services provided did not affect the objectivity and independence of the external auditors. The fees paid to PwC in FY2018 in relation to non-audit services were RM161,300 (2017: RM57,450) compared to the fees paid in relation to the statutory audit and other audit related fees of RM587,000 (2017: RM573,904).
- (h) Reviewed the performance and effectiveness of the external auditors and recommended to the Board for their re-appointment, remuneration and fees for statutory audit.

- (i) Reviewed with the external auditors the impact of new or proposed changes in accounting standards, regulatory requirements including changes in tax legislation and recent development. The AC will continue to monitor and review with the external auditors on regulatory updates and the impact to the accounting, auditing and financial reporting practices and processes.
- (j) Held two (2) private meetings with the external auditors without the presence of the Executive Director and Management or employees of the Company. The meetings focused on the external auditors' assessment on Management's attitude and responses to adherence to the Group's core values of ethics and integrity, adequacy and competencies of the accounting and support staff at a subsidiary, execution and performance of the Maintenance, Construction and Modification Services Contract (MCM Contract) of Deleum Primera Sdn. Bhd. (DPSB). In addition, key audit matters were discussed. The AC is satisfied that appropriate actions were taken to address the issues and concerns raised by the external auditors arising from these meetings.
- (k) Carried out evaluation of the external auditors and internal auditors, the details of which are in Section (VI) – "Evaluation" of this Report.
- (c) Reviewed the Internal Audit reports, audit recommendations made and Management's responses to these recommendations, including actions taken to improve the system of internal control and procedures covering, amongst others, the following areas:
- review of the sales to receipt, procurement to payment and operations of Deleum Chemicals Sdn. Bhd. to evaluate the adequacy and effectiveness of the internal controls of the Group;
 - quarterly reviews of the compliance with policy and of overall operations pertaining to procurement, payables and payment, vendor and management at DPSB, and evaluations and analysis of project team structure project performance, financials and recovery rate of the MCM Contract to support the AC's oversight over the MCM Contract and to identify areas for improvement;
 - review of the business operations of Deleum Oilfield Services Sdn. Bhd. to determine the Company's strategic plan on oilfield services resources and term loan repayment obligation;
 - review of the revenue to credit control cycle of Oilfield Services and Power & Machinery segments. The review also encompassed the customer credit management and sales and collections; and
 - review of the sales to receipt, procure to pay and operations of Penaga Dresser Sdn. Bhd. to ensure compliance with the Group's policies and procedures.

3. Internal Audit

- (a) Reviewed and approved the Internal Audit Plan prepared by the internal auditors, BDO Governance Advisory Sdn. Bhd. (BDO) to ensure the adequacy of its scope and coverage of the Group's activities.
- (b) Reviewed and assessed the resources, performance and competency of the internal auditors.
- (d) Ensured that appropriate and prompt remedial actions and improved procedures were implemented by Management arising from the findings raised in the internal audit reviews and in respect of outstanding issues identified from the follow-up audits.

AUDIT COMMITTEE REPORT (CONTINUED)

- (e) Reviewed the Statement on Risk Management and Internal Control to ensure that it is consistent with the state of internal controls of the Group.
- (f) Held one (1) private meeting with the internal auditors without the presence of the Executive Director and Management or employees of the Company to discuss any areas of concern.

4. Related Party Transactions

- (a) Apprised the recurrent related party transactions to ensure that the amounts transacted were within the approved shareholders' mandate obtained.
- (b) Reviewed the related party transactions of the Group to ensure that they are based on the Group's normal commercial terms and are not to the detriment of the Group's minority shareholders.
- (c) Reviewed the adequacy of procedures and processes in identifying, monitoring, reviewing and reporting of related party transactions.
- (d) Reviewed the circular to shareholders in respect of the annual shareholders' mandate for recurrent related party transactions prior to recommendation to the Board for consideration and approval.

5. Deleum Berhad Long-Term Incentive Plan (LTIP)

In February 2018, the AC reviewed and verified that the allocation of shares granted under the LTIP for the financial year 2017 was in compliance with the By-Laws of the LTIP approved by the Board and shareholders of the Company. There was no grant made under the LTIP during FY2018.

6. Whistleblowing

The Group has put in place a Whistleblowing Policy to provide an avenue for employees and any other parties who deal with or provide services to the Group to report any genuine concerns or wrongdoings in accordance with the procedures in the policy. The AC shall be updated as and when there are cases reported or any concerns raised. There was no reported case of wrongdoings in 2018.

During the financial year, the AC has reviewed the proposed revision to the Whistleblowing Policy and provided its comments and recommendation to the Board for approval.

Further details of the Whistleblowing Policy are set out in the Corporate Governance Overview Statement.

7. Training

Members of the AC are encouraged to stay abreast of developments in accounting, finance and relevant regulatory matters in order to discharge their duties effectively. During FY2018, the AC members attended seminars and training sessions offered by regulators and other appropriate bodies or organisations including the following:

- Updates on Changes to Company Law and Listing Requirements
- Breakfast Series "Companies of the Future - The Role for Boards
- Budget Dialogue with the Minister of Finance and PwC
- Corporate Governance Briefing Sessions : MSSG Reporting & CG Guide

They were also briefed by Management, external and internal auditors and external consultants on corporate governance practices, changes to accounting, taxation, auditing and reporting requirements as well as the Listing Requirements and Companies Act 2016.

(V) INTERNAL AUDIT FUNCTION

The AC is supported by BDO, a well-established firm that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors (IIA), as the Internal Audit Function (IAF) of the Group. The IAF is carried out in accordance with The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. In carrying out the internal audit for the Group, the IAF team is headed by an Executive Director of BDO who possesses the relevant qualifications and experience and who is assisted by no fewer than four staff including a senior manager.

The IAF's primary role is to assist the AC in reviewing the state of the systems of internal control maintained by Management and to provide assurance to the AC on the adequacy and integrity of the internal control and governance framework of the Group. The IAF reviews and assesses whether the systems of internal control and related procedures are effective and provides recommendations to strengthen internal control procedures and processes.

The IAF, based on its findings, noted that there was no material absence or lapse in internal controls that could result in the Group being exposed to major downside risks, material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. Deleum's internal control system is not extended to the associate companies, in which the Group's interests are safeguarded through board representations.

The IAF is effective and able to function independently of the activities it audits and reports directly to the AC. The IAF team has, and has exercised, direct access to the members of the AC as deemed necessary. The AC reviews and approves the internal auditors' annual audit plan. The IAF also works closely with the external auditors to avoid any activity overlap and to share their findings.

During the financial year, the internal auditors attended the AC meetings and the cost incurred for the outsourced IAF in respect of FY2018 amounted to RM145,774 (2017: RM88,875). The activities carried out by the IAF were as follows:

- (a) Conducted Internal Audit engagements consistent with the annual audit plan presented and approved by the AC.

The plan adopts a risk-based methodology by focusing on key risk areas, which is partly guided by the Group's Enterprise Risk Management framework. The plan is designed and executed upon with the express objectives of testing financial, operational and compliance controls of the Company, as well as the design and operation of key business processes operated. Each annual plan is reviewed throughout the course of the fiscal year and presented to Management and the AC to ensure continued relevance of areas covered in each fiscal year.

A minimum of four (4) internal control reviews is performed a year under each audit plan. The work performed includes financial and operational reviews across the three main business segments with emphasis on contract compliance, project management, inventory management, revenue management and credit control, procurements and the use of the Enterprise Resource Planning implementation. Their findings, together with related recommendations and Management's responses thereto, are reported to the AC on a quarterly basis.

- (b) Reviewed the adequacy and integrity of the system of controls to ensure there is a systematic methodology for identifying, assessing and managing risk areas with regard to:

- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of assets and resources; and
- compliance with laws, regulations and contractual obligations within the Company's governance, operations and information systems.

AUDIT COMMITTEE REPORT (CONTINUED)

- (c) Conducted follow up reviews on actions taken by Management in implementing their recommendations arising from prior audits.

The Company continues to outsource its IAF to BDO as opposed to establishing an in-house IAF after considering the size of the Group as well as in-house resources and difficulty in attracting and retaining qualified and competent internal audit staff. Since its engagement in 2007, BDO has built up a good understanding of the Group's business and the peculiarities of the industry in which the Group operates, and is capable of focusing its time on the higher risk auditable areas. The leadership and key members of the IAF team have worked on the Company's internal audit engagements consistently.

BDO has no relationship with the Group and is independent from Management, staff, Directors and substantial shareholders. The AC is of the opinion that BDO is independent and objective in carrying out its role as IAF.

The AC is satisfied with the services provided by BDO, which have added value and are cost effective. The AC intends to continue with the engagement of BDO as IAF of the Group due to their understanding and knowledge of the Group's business and industry, systems and processes and people and culture.

(VI) EVALUATION

1. External Auditors

The Group has a policy to assess the suitability, objectivity and independence of the external auditors. The AC reviewed and evaluated the suitability, performance and independence of the external auditors with feedback obtained from the AC members, Management, internal auditors and senior Finance personnel engaged with the audit. Self-assessment by the external auditors, PwC

was also carried out for this purpose. Summary of the results of the completed questionnaires were tabled to the AC for review and deliberation at the AC meeting. The evaluation of the external auditors covered the areas of:

- governance and independence;
- communication and interaction with the AC with focus on their audit planning/audit strategy, audit findings/audit finalisation and completion;
- quality of services and sufficiency of resources in respect of the firm, processes, technical knowledge and competency of the audit team; and
- audit fee.

In the evaluation, the AC also takes into account the relevant professional and regulatory requirements, the effectiveness of the audit process and the relationship with the external auditors as a whole, including the provision of any non-audit services.

As part of the annual audit exercise, the Company had obtained written assurance from PwC confirming that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. PwC has complied with the requirement of the MIA and the firm's Guidelines in rotating audit partners every five (5) years. A former engagement audit partner will not be eligible for Board appointment, until he or she has observed a cooling-off period of at least two (2) years. The Group also restricts the employment of former employees of the external auditors to ensure independence of the external auditors and for avoidance of any conflict of interest. During FY2018, no employment was offered to any former partner and/or staff of PwC.

The non-audited services conducted during FY2018 comprised mainly of tax services. As a policy, before appointing the external auditors to

undertake any non-audit services, considerations would be given as to whether this would create a threat to the external auditors' independence or objectivity. The Management is obliged to obtain confirmation from the external auditors on their independence. All engagements of the external auditors to provide non-audit services are subject to the approval of the AC.

During FY2018, the amount of audit fees and non-audit fees paid/payable to PwC or a firm or corporation affiliated to PwC by the Company and the Group respectively were as follows:

| | Company (RM) | Group (RM) |
|---------------------|-----------------|---------------|
| Statutory audit fee | 284,000 | 587,000 |
| Non-audit fee | 116,050 | 161,300 |

The provision of non-audit services by PwC during FY2018 did not compromise its independence and objectivity as the non-audit services was conducted by different teams from the statutory audit team of PwC. The AC concluded that it continues to be satisfied with the performance of PwC and that throughout the year the objectivity and independence of PwC in relation to the audit was not in any way impaired by either the nature of the non-audit related services, the level of non-audit fees charged, or any other facts or circumstances.

The Board on the recommendation of the AC, is satisfied that PwC remains effective, objective and independent in carrying out its role as external auditors of the Company. The Board has at the Board meeting held on 25 February 2019 approved the AC's recommendation for the re-appointment of PwC for the ensuing year to be tabled at the forthcoming Fourteenth Annual General Meeting for shareholders' approval.

2. Internal Auditors

The AC had reviewed and evaluated the suitability, adequacy of the scope, competency, quality of services and sufficiency of resources of the IAF in respect of FY2018 with feedback obtained from the AC members, Management and external auditors as well as self-assessment by the internal auditors prior to the meeting. Summary of results of the assessment was tabled to the AC for deliberation at the meeting.

The AC was satisfied with the performance and suitability of the IAF and approved the renewal of the outsourced IAF for the ensuing year.

3. Audit Committee

The Board through the JRNC had conducted an annual evaluation and assessment on the performance of the AC and its members in respect of FY2018. The evaluation was based on self-assessment carried out by the AC members to monitor their overall effectiveness in meeting their responsibilities.

The evaluation focused on the structure and process including the composition and level of accountability and responsibility demonstrated by the AC. The JRNC was satisfied that the AC had carried out its duties and responsibilities effectively in accordance with its TOR and had demonstrated a high level of diligence, independence and commitment in discharging its responsibilities. The results of the evaluation were reported to the Board accordingly.

The AC members have considerable accounting, financial and business experience and the Board is satisfied with the composition of the AC and considers that the membership as a whole has sufficient relevant expertise and resource to discharge its responsibilities effectively.

FINANCIAL STATEMENTS



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DIRECTORS' REPORT

The Directors are pleased to submit their report to the members together with the audited financial statements of the Group and the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an investment holding company.

The principal activities of the Group consist of the provision of gas turbines packages and related services, oilfield equipment and services, servicing of rotating equipment, integrated corrosion and inspection services, predominantly for the oil and gas industry.

There was no significant change in the nature of the activities of the Group and the Company during the financial year.

FINANCIAL RESULTS

| | Group RM | Company RM |
|---|-------------|---------------|
| Profit for the financial year attributable to | | |
| - Equity holders of the Company | 27,169,147 | 13,045,381 |
| - Non-controlling interest | 2,660,320 | 0 |
| Profit for the financial year | 29,829,467 | 13,045,381 |

DIVIDENDS

The dividends on ordinary shares paid or declared by the Company since 31 December 2017 were as follows:

| | RM |
|--|------------|
| In respect of the financial year ended 31 December 2017, as shown in the Directors' report of that year, a second interim single tier dividend of 3.25 sen per share on 400,492,500 ordinary shares, paid on 28 March 2018 | 13,016,008 |
| In respect of the financial year ended 31 December 2018, first interim single tier dividend of 1.25 sen per share on 401,125,700 ordinary shares, paid on 25 September 2018 | 5,014,073 |
| | 18,030,081 |

The Directors, had on 25 February 2019 declared a second interim single tier dividend of 2.25 sen per ordinary share in respect of the financial year ended 31 December 2018 totalling RM9,025,328, payable on 22 March 2019.

The Directors do not recommend the payment of any final dividend for the financial year ended 31 December 2018.

DIRECTORS' REPORT

RESERVES AND PROVISIONS

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

SHARE CAPITAL AND DEBENTURES

During the financial year, the total number of issued ordinary shares of the Company was increased from 400,195,300 to 401,125,700 by way of:

- (i) issuance of 297,200 new ordinary shares at RM1.567 per share to eligible employees under the Third Tranche of First Grant under the Restricted Share Incentive Plan of the Company's Long-Term Incentive Plan;
- (ii) issuance of 450,100 new ordinary shares at RM1.100 per share to eligible employees under the Second Tranche of Second Grant under the Restricted Share Incentive Plan of the Company's Long-Term Incentive Plan; and
- (iii) issuance of 183,100 new ordinary shares at RM1.022 per share to eligible employees under the Second Tranche of Special Grant under the Restricted Share Incentive Plan of the Company's Long-Term Incentive Plan.

The newly issued ordinary shares rank *pari passu* in all respects with the existing shares of the Company.

Other than as disclosed above, the Company has not issued any new shares or debentures during the financial year.

LONG-TERM INCENTIVE PLAN ("LTIP")

The Company's LTIP is governed by the By-Laws which was approved by the shareholders on 27 May 2014 and is administered by the Plan Committee appointed by the Board of Directors, in accordance with the By-Laws. The LTIP shall be in force for a period of 10 years commencing from 10 October 2014. The salient features, terms and details of the LTIP are disclosed in Note 30 to the financial statements.

On 2 March 2015, the Company made the first grant of 2,396,500 ordinary shares under the LTIP scheme to selected eligible employees of the Group. The first grant comprises the Restricted Share Incentive Plan ("RS Award") of 1,254,300 shares and Performance Share Incentive Plan ("PS Award") of 1,142,200 shares ("1st Grant").

On 22 March 2016, the Company made the second grant of LTIP up to maximum of 4,641,900 ordinary shares to selected eligible employees of the Group which comprises the RS Award of 1,598,700 shares and PS Award of 3,043,200 shares based on outstanding performance target ("2nd Grant").

On 22 March 2017, the Company made a special grant of LTIP comprises solely of the RS Award of 398,400 ordinary shares to selected eligible employees of the Group ("Special Grant") of which 195,300 ordinary shares were vested to eligible employees of the Group under the First Tranche of the Special Grant of the LTIP.

LONG-TERM INCENTIVE PLAN (“LTIP”) (CONTINUED)

The number of shares granted under the LTIP scheme during the financial year and the number of shares outstanding at the end of the financial year are as follows:

| Date of Grant | Type of Grant | At 1.1.2018 | Granted | Vested | Lapsed/ Forfeited | At 31.12.2018 |
|--|----------------------|--------------------|----------------|---------------|------------------------------|----------------------|
| 2 March 2015 (1 st Grant) | RS Award | 327,198 | 0 | (297,200) | (29,998) [^] | 0 |
| | PS Award | 947,300 | 0 | 0 | (947,300) [^] | 0 |
| 22 March 2016 (2 nd Grant) | RS Award | 971,066 | 0 | (450,100) | (66,600) [@] | 454,366 |
| | PS Award | 1,399,300 | 0 | 0 | (146,300) [#] | 1,253,000 |
| 22 March 2017 (Special Grant) | RS Award | 194,800 | 0 | (183,100) | (11,700) [@] | 0 |

Notes: [^] Shares lapsed due to non-vesting as the performance targets in respect of financial year ended 31 December 2017 were not met or forfeited due to the resignation of employees.

[#] Shares forfeited due to the resignation of employees.

[@] Shares forfeited due to resignation of employees and non-meeting of individual performance expectations.

DIRECTORS OF THE COMPANY

The Directors of the Company who have held office during the financial year to the date of this report are as follows:

Dato' Izham bin Mahmud
 Datuk Vivekananthan a/l M.V. Nathan
 Datuk Ishak bin Imam Abas
 Nan Yusri bin Nan Rahimy
 Datuk Ir (Dr) Abdul Rahim bin Hashim
 Datuk Noor Azian binti Shaari
 Datuk Chin Kwai Yoong (resigned on 19 February 2019)

In accordance with Article 78 of the Company's Constitution, Dato' Izham bin Mahmud and Datuk Vivekananthan a/l M.V. Nathan retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS OF SUBSIDIARIES

The Directors who have held office in the subsidiaries of the Company (excluding Directors who are also Directors of the Company) during the financial year and up to the date of this report are as follows:

| Directors of Subsidiaries | Subsidiary |
|--|--|
| Jayanthi a/p Gunaratnam (resigned on 12 March 2018) | Deleum Primera Sdn. Bhd. |
| Mazrin bin Ramli | Deleum Primera Sdn. Bhd. |
| Khairulazmi bin Mohamad Karudin | Deleum Primera Sdn. Bhd. |
| Jayanthi a/p Gunaratnam (appointed as alternate Director to Dato' Izham bin Mahmud on 12 March 2018) | Deleum Primera Sdn. Bhd. |
| Yusri bin Mohamad | Deleum Rotary Services Sdn. Bhd. |
| Seow Keng Seng | Turboservices Sdn. Bhd. |
| Richard Garry Mundy | Turboservices Sdn. Bhd. |
| Nuruzzatulain binti Sahamah | Turboservices Sdn. Bhd. |
| Jayanthi a/p Gunaratnam (alternate Director to Nuruzzatulain binti Sahamah) | Turboservices Sdn. Bhd. |
| Heng Phok Wee | Delflow Solutions Sdn. Bhd. |
| Heng Phok Wee | Wisteria Sdn. Bhd. (In members' voluntary liquidation) |
| Eric Kurt Strecker | Penaga Dresser Sdn. Bhd. |
| Yusri bin Mohamad | Penaga Dresser Sdn. Bhd. |
| Akira Fukasawa | Penaga Dresser Sdn. Bhd. |
| Jayanthi a/p Gunaratnam (alternate Director to Dato' Izham bin Mahmud) | Penaga Dresser Sdn. Bhd. |
| Alicia Chin Mei Yoke (alternate Director to Eric Kurt Strecker) (alternate Director to Akira Fukasawa) | Penaga Dresser Sdn. Bhd. |

The information required to be disclosed pursuant to Section 253 of the Companies Act 2016 is deemed incorporated herein by such reference to the financial statements of the respective subsidiaries and made a part hereof.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company was a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate other than those arising from the LTIP as disclosed in Directors' Interests in Shares.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration disclosed in Note 7) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares in the Company and its related corporations were as follows:

| | Number of ordinary shares in the Company | | | |
|-------------------------------------|--|-----------------------------|-------------|--------------------------|
| | At 1.1.2018 | Vested/ Acquired | Sold | At 31.12.2018 |
| <u>Direct interest</u> | | | | |
| Dato' Izham bin Mahmud | 11,200,000 | 0 | 0 | 11,200,000 |
| Datuk Vivekananthan a/l M.V. Nathan | 42,799,300 | 0 | 0 | 42,799,300 |
| Datuk Ishak bin Imam Abas | 1,962,998 | 0 | 250,000 | 1,712,998 |
| Datuk Chin Kwai Yoong [@] | 750,000 | 0 | 0 | 750,000 |
| Nan Yusri bin Nan Rahimy | 447,032 | 171,100 | 58,900 | 559,232 |
| <u>Indirect interest</u> | | | | |
| Dato' Izham bin Mahmud | 138,264,398 | 22,100 | 0 | 138,286,498 |
| Datuk Vivekananthan a/l M.V. Nathan | 81,718,800 | 22,100 | 0 | 81,740,900 |
| Datuk Chin Kwai Yoong [@] | 50,000 | 0 | 0 | 50,000 |
| Nan Yusri bin Nan Rahimy | 76,332 | 0 | 15,000 | 61,332 |
| | Number of ordinary shares in a subsidiary, VSM Technology Sdn. Bhd. | | | |
| | At 1.1.2018 | Acquired | Sold | At 31.12.2018 |
| <u>Direct interest</u> | | | | |
| Datuk Vivekananthan a/l M.V. Nathan | 40,400 | 0 | 0 | 40,400 |

[@] Resigned on 19 February 2019.

By virtue of their interest in shares in the Company pursuant to Section 8 of the Companies Act 2016, Dato' Izham bin Mahmud and Datuk Vivekananthan a/l M.V. Nathan are also deemed interested in shares of all the Company's subsidiaries to the extent the Company has an interest.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

The following Director is deemed to have interest in the shares of the Company to the extent of the shares granted to him pursuant to the LTIP of the Company:

| | Date of Grant | Type of Grant | Number of ordinary shares granted under LTIP | | | | |
|----------------|-------------------------|---------------|--|---------|----------|-----------|---------------|
| | | | At 1.1.2018 | Granted | Vested | Lapsed | At 31.12.2018 |
| Nan Yusri | 2 March 2015 | RS Award | 48,600 | 0 | (48,600) | 0 | 0 |
| bin Nan Rahimy | (1 st Grant) | PS Award | 226,200 | 0 | 0 | (226,200) | 0 |
| | 22 March 2016 | RS Award | 145,466 | 0 | (72,700) | 0 | 72,766 |
| | (2 nd Grant) | PS Award | 680,600* | 0 | 0 | 0 | 680,600* |
| | 22 March 2017 | RS Award | 49,800 | 0 | (49,800) | 0 | 0 |
| | (Special Grant) | | | | | | |

* The number of shares granted on 22 March 2016 under the PS Award was up to maximum based on outstanding performance targets.

The shares granted to Nan Yusri bin Nan Rahimy were made in accordance with the resolution passed by shareholders of the Company at Annual General Meeting held on 27 May 2014.

Other than as disclosed above, according to the Register of Directors' Shareholdings, the Directors in office at the end of the financial year did not hold any interest in shares, grants and options over shares in the Company or shares, grants and options over shares and debentures of its related corporations during the financial year.

INDEMNITY AND INSURANCE COSTS

The Group has in force a Directors and Officers insurance policy essentially covering the acts of Directors and Officers. The current policy has a limit of liability of RM30,000,000. Annual premiums paid amounted to RM28,010.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the statements of comprehensive income and statements of financial position were made out, the Directors took reasonable steps:

- (a) 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
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business at their values as shown in the accounting records of the Group and the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; or
- (c) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

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, in the opinion of the Directors, will or may affect the ability of the Group or the Company to meet their obligations when they fall due.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group or the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group or the Company which has arisen since the end of the financial year.

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 which would render any amount stated in the financial statements misleading.

DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

In the opinion of the Directors:

- (a) the results of the Group's and the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or the Company for the financial year in which this report is made.

SUBSIDIARIES

Details of subsidiaries are set out in Note 34 to the financial statements.

AUDITORS

The audit fees for services rendered by the auditors to the Group and the Company for the financial year ended 31 December 2018 are disclosed in Note 6 to the financial statements.

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 February 2019.

DATO' IZHAM BIN MAHMUD
DIRECTOR

NAN YUSRI BIN NAN RAHIMY
DIRECTOR

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|--|------|----------------------|---------------------|---------------------|-----------------------|
| Revenue | 5 | 623,685,468 | 534,058,203 | 33,996,800 | 34,559,500 |
| Cost of sales | | (499,234,830) | (394,189,675) | (15,633,200) | (15,053,800) |
| Gross profit | | 124,450,638 | 139,868,528 | 18,363,600 | 19,505,700 |
| Other operating income | | 3,553,165 | 2,946,647 | 1,480,741 | 1,532,589 |
| Selling and distribution costs | | (35,644,457) | (34,101,253) | 0 | 0 |
| Administrative expenses | | (46,585,807) | (44,490,096) | (2,200,260) | (2,684,869) |
| Other operating losses | | (3,786,338) | (6,665,380) | (877,756) | (49,937) |
| Operating profit | | 41,987,201 | 57,558,446 | 16,766,325 | 18,303,483 |
| Finance cost | 8 | (2,852,275) | (4,005,340) | (934,201) | (1,232,424) |
| Share of results of a joint venture (net of tax) | 16 | 1,138,902 | 856,718 | 0 | 0 |
| Share of results of associates (net of tax) | 17 | 2,274,580 | (384,958) | 0 | 0 |
| Profit before tax | 6 | 42,548,408 | 54,024,866 | 15,832,124 | 17,071,059 |
| Tax expense | 9 | (12,718,941) | (14,764,335) | (2,786,743) | (432,796) |
| Profit for the year | | 29,829,467 | 39,260,531 | 13,045,381 | 16,638,263 |
| Other comprehensive income/(loss): Item that may be subsequently reclassified to profit or loss | | | | | |
| Currency translation differences of foreign operations | | 83,617 | (445,329) | 0 | 0 |
| Total comprehensive income for the financial year | | 29,913,084 | 38,815,202 | 13,045,381 | 16,638,263 |

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

| | Note | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---|------|-------------------|---------------------|-------------------|-----------------------|
| Profit attributable to: | | | | | |
| Equity holders of the Company | | 27,169,147 | 32,277,167 | 13,045,381 | 16,638,263 |
| Non-controlling interest | | 2,660,320 | 6,983,364 | 0 | 0 |
| | | 29,829,467 | 39,260,531 | 13,045,381 | 16,638,263 |
| Total comprehensive income attributable to: | | | | | |
| Equity holders of the Company | | 27,187,469 | 32,207,838 | 13,045,381 | 16,638,263 |
| Non-controlling interest | | 2,725,615 | 6,607,364 | 0 | 0 |
| | | 29,913,084 | 38,815,202 | 13,045,381 | 16,638,263 |
| Earnings per share (sen) | | | | | |
| - Basic | 10 | 6.78 | 8.07 | | |
| - Diluted | 10 | 6.75 | 8.01 | | |

The above statements of comprehensive income are to be read in conjunction with the significant accounting policies and notes 1 to 40 to the Financial Statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

| | Note | 2018 | Group 2017 Restated | 2018 | Company 2017 |
|----------------------------------|------|--------------------|---------------------------|--------------------|-----------------|
| | | RM | RM | RM | RM |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 12 | 151,323,557 | 163,525,366 | 4,796,945 | 3,238,766 |
| Investment properties | 13 | 794,423 | 817,999 | 0 | 0 |
| Intangible assets | 14 | 953,567 | 1,644,162 | 154,642 | 237,007 |
| Subsidiaries | 15 | 0 | 0 | 136,822,166 | 136,612,423 |
| Joint venture | 16 | 29,701,991 | 28,563,089 | 29,375,937 | 29,375,937 |
| Associates | 17 | 35,564,981 | 38,595,019 | 0 | 0 |
| Deferred tax assets | 28 | 3,061,817 | 2,009,874 | 798,232 | 1,680,838 |
| Other receivables | 20 | 11,081,732 | 4,921,400 | 0 | 0 |
| | | 232,482,068 | 240,076,909 | 171,947,922 | 171,144,971 |
| CURRENT ASSETS | | | | | |
| Amounts due from subsidiaries | 18 | 0 | 0 | 80,187,580 | 75,484,653 |
| Tax recoverable | | 1,698,045 | 1,739,790 | 24,543 | 27,857 |
| Inventories | 19 | 22,498,519 | 18,340,764 | 0 | 0 |
| Trade and other receivables | 20 | 103,151,062 | 123,663,995 | 255,787 | 403,483 |
| Contract assets | 21 | 163,854,698 | 82,035,083 | 0 | 0 |
| Amounts due from associates | 22 | 1,600,016 | 5,639 | 16 | 40 |
| Amounts due from a joint venture | 23 | 160,470 | 138,264 | 160,309 | 138,264 |
| Derivative financial instruments | 24 | 7,364 | 0 | 0 | 0 |
| Cash and bank balances | 25 | 134,906,863 | 141,387,717 | 6,386,695 | 6,634,501 |
| | | 427,877,037 | 367,311,252 | 87,014,930 | 82,688,798 |

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018 (CONTINUED)

| | Note | 2018 RM | Group 2017 Restated RM | 2018 RM | Company 2017 RM |
|----------------------------------|------|--------------------|---------------------------------|--------------------|-----------------------|
| LESS: CURRENT LIABILITIES | | | | | |
| Amounts due to subsidiaries | 18 | 0 | 0 | 18,596,478 | 15,005,795 |
| Amounts due to associates | 22 | 7,242,375 | 7,050,562 | 0 | 0 |
| Borrowings | 26 | 55,396,346 | 45,298,235 | 24,800,000 | 17,800,000 |
| Taxation | | 1,877,488 | 2,783,396 | 0 | 0 |
| Contract liabilities | 21 | 6,476,785 | 1,972,986 | 0 | 0 |
| Derivative financial instruments | 24 | 0 | 23,775 | 0 | 0 |
| Trade and other payables | 27 | 203,133,916 | 145,917,160 | 2,536,891 | 3,437,820 |
| | | 274,126,910 | 203,046,114 | 45,933,369 | 36,243,615 |
| NET CURRENT ASSETS | | 153,750,127 | 164,265,138 | 41,081,561 | 46,445,183 |
| NON-CURRENT LIABILITIES | | | | | |
| Deferred tax liabilities | 28 | 22,785,561 | 22,724,247 | 0 | 0 |
| Borrowings | 26 | 7,784,614 | 30,750,172 | 0 | 0 |
| | | 30,570,175 | 53,474,419 | 0 | 0 |
| | | 355,662,020 | 350,867,628 | 213,029,483 | 217,590,154 |

| | Note | 2018 RM | Group 2017 Restated RM | 2018 RM | Company 2017 RM |
|---|------|---------------------|---------------------------------|--------------------|-----------------------|
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | | | | |
| Ordinary shares | 29 | 201,353,602 | 200,205,651 | 201,353,602 | 200,205,651 |
| Share based payment | 30 | 1,081,476 | 2,451,689 | 1,081,476 | 2,451,689 |
| Retained earnings | | 181,829,885 | 172,044,528 | 10,594,405 | 14,932,814 |
| Merger deficit | 31 | (50,000,000) | (50,000,000) | 0 | 0 |
| Foreign currency translation | | (2,704,952) | (2,723,274) | 0 | 0 |
| Shareholders' equity | | 331,560,011 | 321,978,594 | 213,029,483 | 217,590,154 |
| NON-CONTROLLING INTEREST | | 24,102,009 | 28,889,034 | 0 | 0 |
| TOTAL EQUITY | | 355,662,020 | 350,867,628 | 213,029,483 | 217,590,154 |

The above statements of financial position are to be read in conjunction with the significant accounting policies and notes 1 to 40 to the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

| Group | Note | Attributable to equity holders of the Company | | | | | | | | Total equity RM |
|---|------|---|------------------------|---------------------------------|--|-------------------------|----------------------------|--------------------|-----------------------------------|--------------------|
| | | Issued and fully paid ordinary shares | | Non-distributable | | | | Total RM | Non-controlling interest RM | |
| | | Number of shares | Share capital RM | Share based payment RM | Foreign currency translation RM | Merger deficit RM | Retained earnings RM | | | |
| At 1 January 2018 | | 400,195,300 | 200,205,651 | 2,451,689 | (2,723,274) | (50,000,000) | 172,044,528 | 321,978,594 | 28,889,034 | 350,867,628 |
| Profit for the financial year | | 0 | 0 | 0 | 0 | 0 | 27,169,147 | 27,169,147 | 2,660,320 | 29,829,467 |
| Other comprehensive income for the financial year | | 0 | 0 | 0 | 18,322 | 0 | 0 | 18,322 | 65,295 | 83,617 |
| Total comprehensive income for the financial year | | 0 | 0 | 0 | 18,322 | 0 | 27,169,147 | 27,187,469 | 2,725,615 | 29,913,084 |
| LTIP: | | | | | | | | | | |
| - Share based payment | 30 | 0 | 0 | 424,029 | 0 | 0 | 0 | 424,029 | 0 | 424,029 |
| - Ordinary shares issued pursuant to the LTIP | 29 | 930,400 | 1,147,951 | (1,147,951) | 0 | 0 | 0 | 0 | 0 | 0 |
| - Transfer of lapsed share grants | | 0 | 0 | (646,291) | 0 | 0 | 646,291 | 0 | 0 | 0 |
| Dividends | 11 | 0 | 0 | 0 | 0 | 0 | (18,030,081) | (18,030,081) | (7,512,640) | (25,542,721) |
| At 31 December 2018 | | 401,125,700 | 201,353,602 | 1,081,476 | (2,704,952) | (50,000,000) | 181,829,885 | 331,560,011 | 24,102,009 | 355,662,020 |

The above consolidated statement of changes in equity is to be read in conjunction with the significant accounting policies and notes 1 to 40 to the Financial Statements.

| Group | Note | Attributable to equity holders of the Company | | | | | | | | Total equity RM |
|--|------|---|------------------------|---------------------------------|--|-------------------------|----------------------------|--------------|---------------------------------------|--------------------|
| | | Issued and fully paid ordinary shares | | Non- distributable | | | Distributable | | Non- controlling interest RM | |
| | | Number of shares | Share capital RM | Share based payment RM | Foreign currency translation RM | Merger deficit RM | Retained earnings RM | Total RM | | |
| At 1 January 2017 | | 400,000,000 | 200,000,000 | 654,488 | (2,653,945) | (50,000,000) | 152,769,314 | 300,769,857 | 27,671,670 | 328,441,527 |
| Profit for the financial year | | 0 | 0 | 0 | 0 | 0 | 32,277,167 | 32,277,167 | 6,983,364 | 39,260,531 |
| Other comprehensive loss for the financial year | | 0 | 0 | 0 | (69,329) | 0 | 0 | (69,329) | (376,000) | (445,329) |
| Total comprehensive (loss)/income for the financial year | | 0 | 0 | 0 | (69,329) | 0 | 32,277,167 | 32,207,838 | 6,607,364 | 38,815,202 |
| LTIP: | | | | | | | | | | |
| - Share based payment | 30 | 0 | 0 | 2,002,852 | 0 | 0 | 0 | 2,002,852 | 0 | 2,002,852 |
| - Ordinary shares issued pursuant to the LTIP | 29 | 195,300 | 205,651 | (205,651) | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends | 11 | 0 | 0 | 0 | 0 | 0 | (13,001,953) | (13,001,953) | (5,390,000) | (18,391,953) |
| At 31 December 2017 | | 400,195,300 | 200,205,651 | 2,451,689 | (2,723,274) | (50,000,000) | 172,044,528 | 321,978,594 | 28,889,034 | 350,867,628 |

The above consolidated statement of changes in equity is to be read in conjunction with the significant accounting policies and notes 1 to 40 to the Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

| Company | Note | Issued and fully paid ordinary shares | | Non- distributable | Distributable | Total RM |
|---|------|--|------------------------|------------------------------|----------------------------|--------------------|
| | | Number of shares | Share capital RM | Share based payment RM | Retained earnings RM | |
| At 1 January 2018 | | 400,195,300 | 200,205,651 | 2,451,689 | 14,932,814 | 217,590,154 |
| Total comprehensive income for the financial year | | 0 | 0 | 0 | 13,045,381 | 13,045,381 |
| LTIP: | | | | | | |
| - Share based payment | 30 | 0 | 0 | 424,029 | 0 | 424,029 |
| - Ordinary shares issued pursuant to the LTIP | 29 | 930,400 | 1,147,951 | (1,147,951) | 0 | 0 |
| - Transfer of lapsed share grants | | 0 | 0 | (646,291) | 646,291 | 0 |
| Dividends | 11 | 0 | 0 | 0 | (18,030,081) | (18,030,081) |
| At 31 December 2018 | | 401,125,700 | 201,353,602 | 1,081,476 | 10,594,405 | 213,029,483 |

The above statement of changes in equity is to be read in conjunction with the significant accounting policies and notes 1 to 40 to the Financial Statements.

| Company | Note | Issued and fully paid ordinary shares | | Non- distributable | Distributable | Total RM |
|---|------|--|------------------------|------------------------------|----------------------------|--------------|
| | | Number of shares | Share capital RM | Share based payment RM | Retained earnings RM | |
| At 1 January 2017 | | 400,000,000 | 200,000,000 | 654,488 | 11,296,504 | 211,950,992 |
| Total comprehensive income for the financial year | | 0 | 0 | 0 | 16,638,263 | 16,638,263 |
| Share based payment | 30 | 0 | 0 | 2,002,852 | 0 | 2,002,852 |
| Ordinary shares issued pursuant to the LTIP | 29 | 195,300 | 205,651 | (205,651) | 0 | 0 |
| Dividends | 11 | 0 | 0 | 0 | (13,001,953) | (13,001,953) |
| At 31 December 2017 | | 400,195,300 | 200,205,651 | 2,451,689 | 14,932,814 | 217,590,154 |

The above statement of changes in equity is to be read in conjunction with the significant accounting policies and notes 1 to 40 to the Financial Statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 RM | Group 2017 Restated RM | 2018 RM | Company 2017 RM |
|--|------|--------------------|---------------------------------|---------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit for the year | | 29,829,467 | 39,260,531 | 13,045,381 | 16,638,263 |
| <u>Adjustments for:</u> | | | | | |
| Trade receivables: | | | | | |
| - impairment | | 9,926 | 274,079 | 0 | 0 |
| - write back of impairment | | (136,212) | (100,454) | 0 | 0 |
| Contract assets: | | | | | |
| - impairment | | 23,038 | 90,556 | 0 | 0 |
| - write back of impairment | | (9,160) | 0 | 0 | 0 |
| Other receivables: | | | | | |
| - impairment | | 0 | 48,030 | 0 | 0 |
| Inventories | | | | | |
| - allowance | | 209,470 | 317,545 | 0 | 0 |
| - write back | | (27,154) | (119,907) | 0 | 0 |
| Amortisation of intangible assets | | 716,725 | 727,119 | 82,365 | 55,365 |
| Depreciation | | | | | |
| - property, plant and equipment | | 30,646,573 | 30,723,481 | 324,801 | 305,629 |
| - investment properties | | 23,576 | 23,575 | 0 | 0 |
| Liquidated damages: | | | | | |
| - provision | | 60,289 | 0 | 0 | 0 |
| - write back | | (58,223) | (182,486) | 0 | 0 |
| (Gain)/Loss on disposal of property, plant and equipment | | (333,887) | (76,683) | (231,997) | 3,920 |
| Write-off | | | | | |
| - property, plant and equipment | | 150,880 | 77,563 | 1 | 0 |
| - inventories | | 64,194 | 88,371 | 0 | 0 |
| - other receivables | | 0 | 2,120 | 0 | 0 |
| Interest income | | (2,898,177) | (2,385,117) | (191,803) | (173,443) |
| Amortisation of financial guarantee liabilities | | 0 | (8,712) | 0 | (8,712) |
| Dividend income | | 0 | 0 | (16,800,000) | (18,000,000) |
| Inter-company interest income | | 0 | 0 | (1,025,497) | (1,335,469) |
| Finance cost | | 2,852,275 | 4,005,340 | 934,201 | 1,232,424 |
| Share based payment expense | | 424,029 | 2,002,852 | 214,286 | 755,532 |
| Share of results of associates | | (2,274,580) | 384,958 | 0 | 0 |
| Share of results of a joint venture | | (1,138,902) | (856,718) | 0 | 0 |
| Tax expense | | 12,718,941 | 14,764,335 | 2,786,743 | 432,796 |
| Unrealised foreign exchange loss | | 140,782 | 396,087 | 0 | 0 |
| Fair value loss on forward foreign exchange contracts | | 649,536 | 23,775 | 0 | 0 |
| Operating profit/(loss) before working capital changes | | 71,643,406 | 89,480,240 | (861,519) | (93,695) |

| | Note | 2018 RM | Group 2017 Restated RM | 2018 RM | Company 2017 RM |
|---|------|--------------|---------------------------------|-------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED) | | | | | |
| <u>Changes in working capital</u> | | | | | |
| Amounts due from subsidiaries | | 0 | 0 | (1,492,820) | (4,956,530) |
| Inventories | | (4,404,265) | 3,451,593 | 0 | 0 |
| Trade and other receivables | | 19,860,726 | 8,854,183 | 149,427 | (59,296) |
| Contract assets | | (82,105,356) | 15,229,867 | 0 | 0 |
| Amounts due from a joint venture | | 0 | (32,772) | (19,562) | (36,682) |
| Amounts due to subsidiaries | | 0 | 0 | 3,590,683 | 2,779,828 |
| Trade and other payables | | 57,465,664 | (37,293,188) | (923,601) | 845,901 |
| Contract liabilities | | 4,503,799 | (5,388,731) | 0 | 0 |
| Cash generated from/(used in) operation | | 66,963,974 | 74,301,192 | 442,608 | (1,520,474) |
| Tax paid | | (14,573,733) | (10,124,720) | (1,900,823) | (40,001) |
| Interest paid | | (2,857,416) | (4,021,449) | (911,529) | (1,261,211) |
| Net cash generated from/(used in) operating activities | | 49,532,825 | 60,155,023 | (2,369,744) | (2,821,686) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest received | | 2,921,702 | 2,346,175 | 1,302,060 | 1,224,307 |
| Purchase of property, plant and equipment | 12 | (24,676,589) | (2,641,335) | (1,882,984) | (122,097) |
| Proceeds from disposal of property, plant and equipment | | 334,500 | 163,373 | 232,000 | 2,303 |
| Purchase of intangible assets | 14 | (26,130) | 0 | 0 | 0 |
| Deposits made for an investment | | 0 | (4,921,400) | 0 | 0 |
| Amounts due from/(to) an associate | | 5,623 | 7,514 | 24 | (148) |
| Amounts due from a joint venture | | (22,206) | 0 | (2,483) | 2,544 |
| Amounts due to a joint venture | | 0 | (77,589) | 0 | 0 |
| Dividends received from a subsidiary | | 0 | 0 | 21,800,000 | 15,000,000 |
| Dividends received from associates | | 3,840,000 | 0 | 0 | 0 |
| Repayment of advances (to)/from subsidiaries | | 0 | 0 | (8,296,598) | 9,546,066 |
| Net cash (used in)/generated from investing activities | | (17,623,100) | (5,123,262) | 13,152,019 | 25,652,975 |

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

| | Note | 2018 RM | Group 2017 Restated RM | 2018 RM | Company 2017 RM |
|---|------|--------------------|---------------------------------|------------------|-----------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Term loan: | | | | | |
| - drawn down | | 4,903,000 | 0 | 0 | 0 |
| - repayments | | (24,600,000) | (24,599,123) | 0 | 0 |
| Revolving credit: | | | | | |
| - drawn down | | 15,000,000 | 0 | 15,000,000 | 0 |
| - repayments | | (8,000,000) | (11,100,000) | (8,000,000) | (11,100,000) |
| Loans against imports | | | | | |
| - drawn down | | 6,794,972 | 4,939,631 | 0 | 0 |
| - repayments | | (7,045,419) | (2,748,398) | 0 | 0 |
| Finance lease liabilities | | | | | |
| - repayments | | 0 | (11,042) | 0 | 0 |
| Dividends paid to: | | | | | |
| - shareholders | | (18,030,081) | (13,001,953) | (18,030,081) | (13,001,953) |
| - non-controlling interest | | (7,512,640) | (5,536,537) | 0 | 0 |
| Decrease in restricted cash | | 109,281 | 83,071 | 0 | 0 |
| Net cash used in financing activities | | (38,380,887) | (51,974,351) | (11,030,081) | (24,101,953) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR | | (6,471,162) | 3,057,410 | (247,806) | (1,270,664) |
| FOREIGN CURRENCY TRANSLATION | | 99,589 | (2,020,587) | 0 | 0 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR | | 130,647,897 | 129,611,074 | 6,634,501 | 7,905,165 |
| CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR | 25 | 124,276,324 | 130,647,897 | 6,386,695 | 6,634,501 |

The above statements of cash flows are to be read in conjunction with the significant accounting policies and notes 1 to 40 to the Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

A BASIS OF PREPARATION

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The financial statements have been prepared under the historical cost convention, except as disclosed in the significant accounting policies below.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements are disclosed in Note 3.

- (a) Standards, amendments to published standards and IC Interpretation that are effective and applicable to the Group and the Company.

The new standards, amendments to published standards and IC Interpretation that are effective for the Group's and the Company's financial year beginning on or after 1 January 2018 are as follows:

- MFRS 9 Financial Instruments
- MFRS 15 Revenue from Contracts with Customers
- Amendments to MFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 140 Transfer of Investment Property
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to MFRS 2014 - 2016 cycle (Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards and Amendments to MFRS 128 Investment in Associates and Joint Ventures)

The Group has adopted MFRS 9 and MFRS 15 for the first time in the 2018 financial statements, which resulted in changes in accounting policies of (i) financial assets (Note K) and financial liabilities (Note L) and (ii) revenue (Note T) as compared to those adopted in previous financial statements. The detailed impact of change in accounting policies are set out in Note 39 to the financial statements.

Other than that, the adoption of other amendments listed above did not have any material impact to the Group and the Company on the current periods or any prior period and is not likely to affect future periods.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

- (b) Standards, amendments to published standards and IC Interpretation that are applicable to the Group and the Company but not yet effective

The Group and the Company will apply the new standards, amendments to published standards and IC Interpretation in the following periods:

- (i) Financial year beginning on or after 1 January 2019
- MFRS 16 Leases
 - Amendments to MFRS 9 Prepayment Features with Negative Compensation
 - Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures
 - IC Interpretation 23 Uncertainty over Income Tax Treatments
 - Annual Improvements to MFRS Standards 2015 – 2017 cycle (Amendments to MFRS 3 Business Combinations, Amendments to MFRS 11 Joint Arrangements, Amendments to MFRS 112 Income Taxes, Amendments to MFRS 123 Borrowing Costs)
 - Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement
- (ii) Financial year beginning on or after 1 January 2020
- Amendment 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
- (iii) The effective date has been deferred to a date to be determined by Malaysian Accounting Standards Board
- Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

A BASIS OF PREPARATION (CONTINUED)

- (b) Standards, amendments to published standards and IC Interpretations that are applicable to the Group and the Company but not yet effective (continued)

The initial application of the above mentioned new accounting standards, amendments to published standards and IC Interpretations are not expected to have any material impacts to the financial statements of the Group and the Company except as mentioned below:

MFRS 16 Leases

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a “right-of-use” of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 “Property, Plant and Equipment” and the lease liability is accreted over time with interest expense recognised in profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured on transition as if the new rules had always been applied.

The Group has assessed the estimated financial impact on its financial statements upon the initial application of MFRS 16. As allowed by the transitional provision of MFRS 16, the Group intends to elect and apply the modified retrospective approach with no restatement of comparative and cumulative adjustments resulting from the initial application of MFRS 16. Based on an estimated adjustments as at 1 January 2019, an increase in the right-to-use assets with a corresponding increase in the financial lease liability of approximately RM3.5 million with minimal impact to retained earnings and reserves of the Group is expected.

The Group’s activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

B CONSOLIDATION

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

Subsidiaries are consolidated using the acquisition method of accounting except for certain business combinations which were accounted for using the predecessor basis of accounting as follows:

- subsidiaries that were consolidated prior to 1 April 2002 in accordance with Malaysian Accounting Standard 2 "Accounting for Acquisitions and Mergers", the generally accepted accounting principles prevailing at that time
- business combinations consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in MASB 21 "Business Combinations"
- internal group reorganisations, as defined in MASB 21, consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 where:
 - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
 - the minorities' share of net assets of the Group is not altered by the transfer
- combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006

The Group has adopted the transitional provisions as provided by MASB 21, FRS 3 and FRS 3 (revised) to apply these Standards prospectively. Transitional provisions of MASB 21, FRS 3 and FRS 3 (revised) that were previously applied and disclosed in the prior year (FRS) financial statements are not relevant in the first set of MFRS financial statements. These provisions were applied to Deleum Services Sdn. Bhd. ("DSSB"). DSSB, a wholly-owned subsidiary company, is consolidated using the merger method of accounting as the internal group reorganisation took place on/after 1 April 2002 and with agreement dates before 1 January 2006, and where the ultimate shareholders remain the same, and the rights of each such shareholder relative to the others, are unchanged and the non-controlling interests' share of net assets of the Group is not altered by the transfer.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

B CONSOLIDATION (CONTINUED)

(a) Subsidiaries (continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss. Refer to accounting policy Note C(a) on goodwill.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date, any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 9 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. On an acquisition-by-acquisition basis, the Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. At the end of reporting period, non-controlling interest consists of amount calculated on the date of combinations and its share of changes in the subsidiary's equity since the date of combination.

All earnings and losses of the subsidiary are attributed to the parent and the non-controlling interest, even if the attribution of losses to the non-controlling interest results in a debit balance in the shareholders' equity. Profit or loss attribution to non-controlling interests for prior years is not restated.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

B CONSOLIDATION (CONTINUED)

(a) Subsidiaries (continued)

Under the merger method of accounting, the results of subsidiaries are presented as if the merger had been effected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any resulting credit difference is classified as a non-distributable reserve. Any other reserves which are attributable to share capital of the merged enterprises, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in merger deficit.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with equity owners of the Group. Any change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(c) Disposal of subsidiaries

When the Group ceases to have control over a subsidiary any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

B CONSOLIDATION (CONTINUED)**(d) Joint Ventures**

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position. Under the equity method, the investment in a joint venture is initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the joint venture in profit or loss, and the Group's share of movements in other comprehensive income of the joint venture in other comprehensive income. Dividends received or receivable from a joint venture are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture, including any long-term interests that, in substance, form part of the Group's net investment in the joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. An impairment loss is recognised for the amount by which the carrying amount of the joint venture exceeds its recoverable amount. The Group presents the impairment loss adjacent to "share of profit/(loss) of a joint venture" in the statement of comprehensive income.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to equity account its joint venture because of a loss of joint control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

B CONSOLIDATION (CONTINUED)

(e) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Carrying amount of the investment is reduced by dividends receivable from associates when the Group's right to receive payment is established. Dividends receivable is presented within amount due from associate.

The Group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit/(loss) of an associate" in the statement of comprehensive income.

B CONSOLIDATION (CONTINUED)

(f) Transactions with non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the statement of comprehensive income as an allocation of the profit or loss on the total comprehensive income for the year between non-controlling interests and owners of the Company.

C INTANGIBLE ASSETS

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the aggregate of the acquisition date fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in the profit or loss.

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

C INTANGIBLE ASSETS (CONTINUED)

(b) Contracts

Customer contracts acquired as part of the business combination have finite useful life which ranges between one to two years and are capitalised at fair value at acquisition date and amortised using the straight line basis over their contractual periods or estimated useful lives, whichever is shorter. Customer contracts are carried at cost less accumulated amortisation and is tested for impairment whenever indication of impairment exists.

(c) Distributorship agreement

Distributorship agreement acquired as part of the business combination is capitalised at fair value at the acquisition date and amortised using the straight line basis over the duration of the agreement. Distributorship agreement is carried at cost less accumulated amortisation and is tested for impairment whenever indication of impairment exists.

(d) Software costs

Software costs are recognised when the Group and the Company can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use, its intention to complete and its ability to use, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditures during the development.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software costs recognised as assets are amortised using the straight line basis over their estimated useful lives, which does not exceed five years.

Computer software costs for assets in progress are not amortised until they are ready for their intended use.

D INVESTMENTS IN SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

In the Company's separate financial statements, investments in subsidiaries, joint venture and associates are carried at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount (see accounting policy Note J on impairment of non-financial assets). Impairment losses are charged to profit or loss.

On disposal of investments in subsidiaries, joint venture and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

E PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are initially stated at cost. All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also include borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note S on borrowings).

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 cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are recognised as expenses in profit or loss during the financial year in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Leasehold land classified as finance lease (refer to accounting policy Note H on leases) is amortised in equal instalments over the period of the respective leases that range from 60 to 99 years. Other property, plant and equipment are depreciated on the straight line basis to allocate the cost of each asset to their residual values over their estimated useful lives at the following annual rates:

| | |
|--|------------------|
| Freehold building | 2% |
| Long term leasehold buildings | 2% - 5% |
| Office equipment, furniture and fittings | 10% - 33 1/3% |
| Renovations | 10% - 20% |
| Plant, machinery and other equipment | 6 2/3% - 33 1/3% |
| Motor vehicles | 16 2/3% - 20% |

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

E PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Residual values and useful lives of assets are reviewed and adjusted where appropriate at the end of each reporting period.

At the end of the reporting period, the Group and the Company assess whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see accounting policy Note J on impairment of non-financial assets).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in other income or other operating losses in profit or loss.

F INVESTMENT PROPERTIES

Investment properties, comprising principally land and office buildings, are held for long term rental yields or for capital appreciation or both, and are not occupied by the Group.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs if the investment property meets the definition of qualifying asset.

After initial recognition, investment property is stated at cost less any accumulated depreciation and impairment losses. Investment property is depreciated on the straight line basis to allocate the cost to their residual values over their estimated useful lives at the rate of 2% per annum.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is de-recognised.

Investment property is de-recognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Gains and losses on disposals are determined by comparing net disposal proceeds with the carrying amount and are included in profit or loss.

Useful lives of investment properties are reviewed and are adjusted where appropriate at the end of the reporting period.

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the investment property is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see accounting policy Note J on impairment of non-financial assets).

G INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average method. Cost of purchased inventories for resale purpose is determined after deducting discounts and rebates. For other inventories, the cost comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

Where a subsidiary adopts accounting policies that are different from the Group, their reported results shall be restated to comply with the Group accounting policies unless the discrepancy is immaterial.

H LEASES

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Accounting by lessee

Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

H LEASES (CONTINUED)

Accounting by lessee (continued)

Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight line basis over the lease period. Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in profit or loss when incurred.

I CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments (less than 3 months maturity) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

J IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example goodwill are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to profit or loss. Any subsequent increase in recoverable amount is recognised in profit or loss. Impairment losses on goodwill are not reversed.

K FINANCIAL ASSETS

(a) Classification

The Group and the Company classifies its financial assets at the time it is initially recognised and is subsequently measured at either amortised costs or fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

The classification of financial asset at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and Company's business model for managing the financial assets. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI"). For investments in equity instruments that are not held for trading, this will depend on whether the Group and the Company have made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group and the Company reclassifies debt investments when and only when its business model for managing those assets change.

Accounting policies applied until 31 December 2017

The Group and the Company classifies all its financial assets as loans and receivables other than financial assets acquired principally for the purpose of selling in the short term, i.e. are held for trading in which these financial assets shall be classified at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired and are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. Management determines the classification at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's and the Company's loans and receivables comprise "amounts due from subsidiaries", "trade and other receivables (excluding prepayments)", "amounts due from associates", "amounts due from a joint venture", and "cash and bank balances" in the statements of financial position (Notes 18, 20, 22, 23 and 25).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

K FINANCIAL ASSETS (CONTINUED)

(b) Recognition and initial measurement

At initial recognition, with the exception of trade receivables that do not contain a significant financing component or for which the Group and the Company has applied the practical expedient, the Group and the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient is measured at the transaction price as determined under MFRS 15 (see accounting policy Note T and Note P).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Accounting policies applied until 31 December 2017

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group and the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset for all financial assets not carried at fair value through profit or loss.

(c) Subsequent measurement – debts instruments

Subsequent measurement of debt instruments depends on the Group's and Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

(i) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition of the Group's and Company's financial assets are recognised directly in profit or loss and presented in other operating gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss. The Group's and the Company's financial assets that are measured at amortised cost comprised of "amounts due from subsidiaries", "trade and other receivables (excluding prepayments)", "amounts due from associates", "amounts due from a joint venture", and "cash and bank balances" in the statements of financial position (Notes 18, 20, 22, 23 and 25).

K FINANCIAL ASSETS (CONTINUED)

(c) Subsequent measurement – debts instruments (continued)

(ii) FVOCI

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other operating gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented in other operating gains/(losses). The impairment expenses shall be presented as separate line item in the statement of profit or loss.

(iii) FVTPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other operating gains/(losses) in the period in which it arises.

Accounting policies applied until 31 December 2017

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(d) Subsequent measurement – equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other operating gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

K FINANCIAL ASSETS (CONTINUED)

(e) Impairment of financial assets

The Group assesses on a forward looking basis on the expected credit loss (“ECL”) associated with its debt instruments carried at amortised cost and at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Group expects to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(i) General 3-stage approach for other receivables, amounts due from associates and amounts due from a joint venture

At each reporting date, the Group measures ECL through loss allowance at an amount equal to 12-month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required.

(ii) Simplified approach for trade receivables and contract assets

The Group applies the MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets.

Significant increase in credit risk

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward looking information that includes historical default rate, internal and external credit rating (as applicable), actual or expected changes in economic and regulatory environment that are expected to cause a significant change to the debtor’s ability to meet its obligations.

K FINANCIAL ASSETS (CONTINUED)

(e) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

A significant increase in credit risk is presumed if a debtor become inactive, indication of consistent delay in making contractual payments that are long past due with history of default or the debtor is expected to/or is experiencing significant financial difficulties and cash flow problems.

Definition of default and credit-impaired financial assets

The Group defines a financial instrument as default when counterparty become inactive and/or consistently slow in making contractual payments that are long past due with history of default or the debtor is insolvent or has significant financial difficulties. For certain categories of financial assets such as trade receivables and contract assets balances are assessed on an individual basis.

Prior to the adoption of the new MFRS 9, a financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Accounting policies applied until 31 December 2017

Assets carried at amortised cost

The Group and the Company assess at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

K FINANCIAL ASSETS (CONTINUED)

(e) Impairment of financial assets (continued)

Accounting policies applied until 31 December 2017 (continued)

Assets carried at amortised cost (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If "loans and receivables" has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group and the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(f) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group and the Company have transferred substantially all risks and rewards of ownership.

Receivables that are factored out to banks and other financial institutions with recourse to the Group and the Company are not de-recognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

L FINANCIAL LIABILITIES

(a) Classification

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. Management determines the classification of financial liabilities at initial recognition.

Financial liabilities are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. The Group and the Company classify all its financial liabilities as other financial liabilities. The Group's and the Company's other financial liabilities comprised of "amounts due to subsidiaries", "amounts due to associates", "borrowings" and "trade and other payables (excluding statutory obligations)" in the statements of financial position (Notes 18, 22, 26 and 27).

(b) Recognition and measurement

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

All fair value changes on financial liabilities which are irrecoverably designated as FVTPL is to be recognised in the statement of profit or loss other than the amount of change in the fair value of the financial liability that is attributable to the change in the Group and the Company's own equity credit risks which is to be presented in the OCI.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Accounting policies applied until 31 December 2017

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

All fair value changes on financial liabilities which are irrecoverably designated as FVTPL is to be recognised in the statement of profit or loss.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

L FINANCIAL LIABILITIES (CONTINUED)

(c) De-recognition

A financial liability is derecognised when the obligation under the liability is extinguished. 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statements of comprehensive income.

M OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

N DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, comprising of forward foreign exchange contracts.

Derivatives are initially recognised at their fair values at the date the derivative contract is entered into and are subsequently re-measured at their fair values at the end of each reporting period. The method on recognising the subsequent changes in the fair value depends on whether the derivative is designated and effective as a hedging instrument, and if so, the nature of the item being hedged.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss upon when the fair value changes on the derivatives arise.

O SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(b) Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown as a deduction in equity. Other share issue costs are charged to profit or loss.

O SHARE CAPITAL (CONTINUED)**(c) Dividends to shareholders of the Company**

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the end of reporting period. A dividend proposed or declared after the end of the reporting period, but before the financial statements are authorised for issue, is not recognised as a liability at the end of the reporting period. Upon the dividend becoming payable, it will be accounted as a liability. Distributions to holders of an equity instrument is recognised directly in equity.

P TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Other receivables generally arise from transactions outside the usual operating activities of the Group. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, where they are recognised at fair value plus transaction costs. Other receivables are recognised at initially at fair value plus transaction costs.

After recognition, trade and other receivables are subsequently measured at amortised cost using the effective interest rate method. See accounting policy Note K(e) on impairment of financial assets.

Q TRADE AND OTHER PAYABLES

Trade and other payables represent liabilities for goods or services provided to the Group prior to the end of financial year which are unpaid. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method.

R CONTRACT BALANCES

Contract asset is the right to consideration for goods or services transferred to the customers when that right is conditional on something other than the passage of time. Contract asset is the excess of cumulative revenue earned over the billings to-date. Contract asset also includes advance payment to supplier or advance billing from suppliers where the performance obligation is yet to be satisfied.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

R CONTRACT BALANCES (CONTINUED)

Impairment on contract asset is assessed based on the policy in Note K(e).

Contract liability is the obligation to transfer goods or services to customer for which the Group has received the consideration or has billed the customer in advance or is the excess of the billings to-date over the cumulative revenue earned.

S BORROWINGS AND BORROWING COSTS

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method, except for borrowing costs incurred for the construction of any qualifying asset.

Borrowings are classified as current liabilities unless the Group and the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowings are removed from the statements of financial position when the obligation specified in the contract is discharged, cancelled or expired.

(b) Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

T REVENUE RECOGNITION

Revenue from contracts with customers is recognised by reference to each distinct promise of goods and services (a performance obligation) in the contract with customer. Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of goods and service tax, returns, rebates and discounts. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or services promised in the contract. When the standalone selling prices are not directly observable, they are estimated based on expected cost-plus margin. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

T REVENUE RECOGNITION (CONTINUED)

Performance obligations by segment are as follows:

(a) Power and Machinery (“P&M”)

P&M segment revenue focuses on the sale and provision of after sales support services for gas turbines generators and compressors packages, supply, installation, repair and maintenance of safety valves and flow regulators, and maintenance, repair and overhaul services for motor, generators and transformers.

(i) Sale of gas turbine packages and after sales support services

After sales support services

The Group provides various after sales support services in respect of gas turbines generators and compressors that the Group sells. After sales support services includes but not limited to gas turbines exchange services, compressors maintenance and technical services, and sale of gas turbines parts and components with installation services and other ancillary services. Provision of maintenance services is either performed based on a scheduled interval periods or on an ad hoc basis at the request of customers.

Revenue from gas turbines exchange services which involve the delivery of the gas turbine are recognised when the customer accepts the delivery of the gas turbines.

Revenue from maintenance and technical services are recognised over the period in which the services are rendered.

Maintenance and technical services may be bundled with sale of parts and components. Sale of parts and components are assessed as separate performance obligations and revenue allocated to the parts and components is recognised when the parts and components are delivered and accepted by customers.

Sale of parts and components with installation services are assessed as a single performance obligation as the series of activities involved are significantly integrated. Revenue are recognised over the period based on the fulfilment of the performance obligations of the contract milestones.

For contract with payment/billing schedule, contract asset is recognised if the services rendered by the Group exceeded the payment. If the payments exceed the services rendered, a contract liability is recognised.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

T REVENUE RECOGNITION (CONTINUED)

(a) Power and Machinery ("P&M") (continued)

(i) Sale of gas turbine packages and after sales support services (continued)

Sale of gas turbine generators and compressors packages

Revenue from the sale of gas turbine generators and compressors including sale of parts and components ("gas turbine packages") is recognised when the Group sells and the control of the gas turbine packages has been transferred, being when these gas turbine packages are delivered and accepted by the customers.

Revenue from the provision of freight and handling services is assessed as a single performance obligation with the sale of gas turbine parts and components as the controls of goods are transferred after the delivery services. Revenue is recognised over the period in which the services are rendered.

There is no element of financing contained in the revenue as sales are generally made with a standard credit terms which is consistent with market practises unless otherwise as applicable and disclosed in the financial statements.

(ii) Sales of valves and flow regulators and after sales support services

After sales support services

The Group provides after sales support services including repair and maintenance in relation to valves and flow regulators that the Group sells.

Revenue from repair and maintenance services are recognised when the customer accepts the services rendered.

Repair and maintenance services may be bundled with sale of valves and flow regulators. Sale of valves and flow regulators is assessed as separate performance obligations and revenue allocated to the sale of valves and flow regulators is recognised when the valves and flow regulators are delivered and accepted by the customers.

For contract with payment/billing schedule, contract asset is recognised if the services rendered by the Group exceeded the payment. If the payments exceed the services rendered, a contract liability is recognised.

T REVENUE RECOGNITION (CONTINUED)

(a) Power and Machinery ("P&M") (continued)

(ii) Sales of valves and flow regulators and after sales support services (continued)

Sale of valves and flow regulators

Revenue from sale of valves and flow regulators on stand-alone is recognised when the Group sells the valves and flow regulators to customers and control of the valves and flow regulators has transferred, being when the valves and flow regulators are delivered and accepted by the customer.

Revenue from the provision of freight services is assessed as a single performance obligation with the sale of valve and flow regulators as the controls of goods is transferred after the delivery services. Revenue is recognised over the period in which the services are rendered.

There is no element of financing contained in the revenue as sales are generally made with a standard credit terms which is consistent with market practises unless otherwise as applicable and disclosed in the financial statements.

(iii) Sale, repair and maintenance of motors, generators and transformers

Sale of motors, generators and transformers

Revenue from sale of motors, generators and transformers including parts and components is recognised when the Group sells the motors, generators and transformers to customers and control of the motors, generators and transformers has transferred, being when the motors, generators and transformers are delivered and accepted by the customer.

Revenue from the provision of freight services is assessed as a single performance obligation with the sale of motors, generators and transformers as the controls of goods is transferred after the delivery services. Revenue is recognised over the period in which the services are rendered.

Repair and maintenance services

The Group provides repair and maintenance services in relation to motors, generators and transformers that the Group sells. Revenue from repair and maintenance services are recognised when the customer accepts the services rendered.

There is no element of financing contained in the revenue as sales are generally made with a standard credit terms which is consistent with market practises unless otherwise as applicable and disclosed in the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

T REVENUE RECOGNITION (CONTINUED)

(b) Oilfield Services ("OS")

Oilfield Services segment specialises mainly in upstream operations, topside and downhole support services which consist of the provision of slickline equipment and services, well intervention and cased hole logging services, asset integrated solution services and drilling and production services, provision of specialty chemicals and well stimulation services.

- (i) Provision of slickline equipment and services, well intervention, asset integrated solution services, cased hole logging services and drilling and production services

The Group provides slickline equipment and services, well intervention, asset integrated solution services, cased hole logging services and drilling and production services. Revenue from slickline equipment and services, well intervention, asset integrated solution services and cased hole logging services are recognised over the period in which the services are rendered.

Revenue from sale of drilling products is recognised when the Group sells the drilling products to customers and control of the drilling products has transferred, being when the drilling products are delivered and accepted by the customer.

- (ii) Provision of specialty chemicals and well stimulation services

Well stimulation services

The Group provides well stimulation services at request from customers. Revenue from well stimulation services are recognised when the services are rendered and accepted by customers.

Well stimulation services may be bundled with sale of specialty chemicals. Sale of specialty chemicals is assessed as separate performance obligations and revenue allocated to the sale of specialty chemicals is recognised when the chemicals are delivered and accepted by customers.

Sale of chemicals

Revenue from chemicals is recognised when the Group sells the chemicals to customers and control of the chemicals has transferred, being when the chemicals are delivered to the customer.

Revenue from the provision of freight services is assessed as a single performance obligation with the sale of chemicals as the controls of goods is transferred after the delivery services. Revenue is recognised over the period in which the services are rendered.

There is no element of financing contained in the revenue as sales are generally made with a standard credit terms which is consistent with market practises unless otherwise as applicable and disclosed in the financial statements.

T REVENUE RECOGNITION (CONTINUED)

(c) Integrated Corrosion Solution ("ICS")

ICS segment involved in the provision of integrated corrosion and inspection, blasting technology, maintenance, construction and modification ("MCM") maintenance services.

(i) Provision of integrated corrosion and inspection, blasting technology and maintenance services

The Group provides integrated corrosion and inspection, blasting technology and maintenance services in relation to corrosion for tanks, structures and piping. Revenue from integrated corrosion inspection, blasting technology and maintenance services is recognised over the service period as customer receives and consumes the benefit of the Group's performance as the Group performs.

Revenue is recognised based on the actual service provided to the end of the financial year as a proportion of the total services to be provided. This is determined based on the actual costs incurred relative to the total budgeted costs. This method represents a faithful depiction of the service as the actual costs incurred represents the percentage of service rendered.

Revenue recognised from provision of integrated corrosion and inspection, blasting technology and maintenance services involves management's estimation on the total budgeted costs. Estimates of total budgeted costs are revised if circumstances change. Any resulting increases or decreases in the estimates of total budgeted costs would result in a change in the measure of progress and a corresponding change in the amount of revenue recognised. The change in estimates are reflected in profit or loss in the period in which the circumstances that give rise to the revision occurs. Refer Note 3 for critical accounting estimates and judgments.

Provision of integrated corrosion and inspection, blasting technology and maintenance services may be bundled with sale of sponge jet media and consumables. Sale of sponge jet media and consumables are assessed as separate performance obligations and revenue allocated to the sale of sponge jet media and consumables respectively are recognised when the sponge jet media and consumables are delivered and accepted by customers.

For contract with payment/billing schedule, contract asset is recognised if the services rendered by the Group exceeded the payment. If the payments exceed the services rendered, a contract liability is recognised.

There is no element of financing contained in the revenue as sales are generally made with a standard credit terms which is consistent with market practises unless otherwise as applicable and disclosed in the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

T REVENUE RECOGNITION (CONTINUED)

(c) Integrated Corrosion Solution (“ICS”) (continued)

(ii) Provision of maintenance, construction and modification (“MCM”) maintenance services

Provision of maintenance, construction and modification (“MCM”) maintenance services covers provision of site surveys, supply of materials and consumables, fabrication and offshore maintenance services, and provision of marine spread.

Provision of site surveys

Revenue from site surveys is recognised when the reports on site survey are completed and accepted by customers.

Supply of materials and consumables

The Groups sells materials and consumables to customers upon request. Revenue from supply of materials and consumables are recognised when the customer accepts the delivery of the goods.

Revenue from the provision of freight services is assessed as a single performance obligation with the sale of materials and consumables as the controls of goods is transferred after the delivery services. Revenue is recognised over the period in which the services are rendered.

Fabrication and offshore maintenance works

The Group provides fabrication or offshore maintenance works at the request of the customer. Revenue from fabrication or offshore maintenance works are recognised over the services period as the customer receives and consumes the benefit of the Group’s performance as the Group performs and/or the Group is enhancing the assets that the customer controls.

Revenue is recognised based on the actual service provided to the end of the financial year as a proportion of the total services to be provided. This is determined based on the actual costs incurred relative to the total budgeted costs. This method represents a faithful depiction of the service as the actual costs incurred represents the percentage of service rendered.

Revenue recognised from the provision of fabrication or offshore maintenance services involves management’s estimation on the total budgeted costs. Estimates of total budgeted costs are revised if circumstances change. Any resulting increases or decreases in the estimates of total budgeted costs would result in a change in the measure of progress and a corresponding change in the amount of revenue recognised. The change in estimates are reflected in profit or loss in the period in which the circumstances that give rise to the revision occurs. Refer Note 3 for critical accounting estimates and judgments.

T REVENUE RECOGNITION (CONTINUED)

(c) Integrated Corrosion Solution ("ICS") (continued)

(ii) Provision of maintenance, construction and modification ("MCM") maintenance services (continued)

Fabrication and offshore maintenance works (continued)

For contract with payment/billing schedule, contract asset is recognised if the services rendered by the Group exceeded the payment. If the payments exceed the services rendered, a contract liability is recognised.

Marine spread

The Group provides vessels and associated services to customers at the request of the customer. Provision of vessels and associated services is single performance obligation. Revenue from marine spread is recognised over the period based on time lapsed method, determined based on the actual time lapsed relative to the total services period.

There is no element of financing contained in the revenue as sales are generally made with a standard credit terms which is consistent with market practises unless otherwise as applicable and disclosed in the financial statements.

Other revenue earned by the Group includes principal and commission based income services. Revenue from third party based transactions is recognised upon when the Group's right to receive the payment is established.

Other Operating Income

Other operating income earned by the Group is recognised on the following basis:

- (i) Interest income - using the effective interest method.
- (ii) Rental income - on a straight-line basis over the lease term.
- (iii) Dividend income - when the Group's right to receive payment is established.
- (iv) Management fee - when the Company is recognised upon performance of services.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

T REVENUE RECOGNITION (CONTINUED)

Accounting policies applied until 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Revenues are measured at the fair value of the consideration received or receivable by the Group. In arrangements whereby the criteria set out below are not met, the marketing fee earned on the sale is recognised as revenue:

- the Group has latitude to set transaction terms with customers including selling price and payment terms;
- part of the integrated specialised services provided to customers are rendered by the Group; and
- the Group assumes risks associated with ownership, such as price risks, credit risks, inventory risks and contractual risks.

Sale of equipment is recognised upon delivery and customer acceptance, net of sales taxes and discounts, and after eliminating sales within the Group. Revenue arising from provision of services is recognised upon performance of services and customer acceptance.

Revenue associated with performance milestones are recognised based on achievement of the deliverables as defined in the respective agreements as accrued revenue. Upfront payments for which there are subsequent deliverables are initially reported as deferred revenue and are recognised as revenue only when the deliverables are completed and accepted by the customers. Cost incurred for work performed for which performance milestones have yet to be achieved is initially recorded as deferred cost and recognised as cost of sales only when the deliverables are completed and accepted by customers.

Dividend income is recognised when the Group's right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Dividend income earned by the Company is classified as revenue.

Management fee earned by the Company is recognised upon performance of services.

Other operating income earned by the Group is recognised on the following basis:

- (i) Interest income - using the effective interest method.
- (ii) Rental income - on a straight-line basis over the lease term.
- (iii) Dividend income - when the Group's right to receive payment is established.

U EMPLOYEE BENEFITS

(a) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Company.

The Group and the Company recognise a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group and the Company recognise a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Company pay fixed contributions into the Kumpulan Wang Simpanan Pekerja fund.

The Group's and the Company's contributions to defined contribution plans are charged to the profit or loss in the period to which they relate. Once the contributions have been paid, the Group and the Company have no further payment obligations.

(c) Share based payment transactions

The Group operates an equity settled share-based compensation plan under which the Group receives services from employees as consideration for equity instruments of the Company. The fair value of the employee services received in exchange for the grant of the share awards is recognised as employee benefit expense with a corresponding increase to the share based payment reserve within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share awards granted, including market performance conditions but excluding the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions and service conditions are included in assumptions about the number of grants that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of the reporting period, the Group revises its estimates of the number of grants that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to share based payment reserve in equity.

In its separate financial statements of the Company, the grant of share awards by the Company to the employees of subsidiaries in the Group is treated as a capital contribution to the subsidiary. The fair value of shares granted to employees of the subsidiary in exchange for the services of the employees to the subsidiaries are recognised as investment in subsidiaries, with a corresponding credit to equity of the Company.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

V CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries, joint venture and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred tax liabilities are recognised on temporary differences arising on investments in subsidiaries, associates and a joint venture except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Group's share of income taxes of joint venture and associates are included in the Group's share of results of joint venture and associates.

W FOREIGN CURRENCIES

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Group's and the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. However, exchange differences are deferred in other comprehensive income when they arose from qualifying cash flow or net investment hedges or are attributable to items that form part of the net investment in a foreign operation.

Foreign exchange gains and losses arising from the settlement on foreign currency transactions and retranslation of balances on monetary assets and liabilities that are denominated in foreign currencies are presented in profit or loss on a net basis within "other operating gains/(losses)".

(c) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income. When a foreign operation is partially sold or disposed of that will result in a loss of control, exchange differences that were recorded in other comprehensive income and accumulated in the separate component of equity are reclassified to profit or loss. If the partial disposal did not result in a loss of control over the foreign operation, the proportionate shares of exchange differences that were recorded in other comprehensive income and accumulated in the separate component of equity shall be reclassified to non-controlling interest.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

W FOREIGN CURRENCIES (CONTINUED)

(c) Group companies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

X SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment has been identified as the Group Managing Director who makes strategic decisions.

Y CONTINGENT LIABILITIES

The Group and the Company do not recognise contingent liabilities but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

1 GENERAL INFORMATION

The principal activity of the Company is that of an investment holding company.

The principal activities of the Group consist of the provision of gas turbines packages and related services, oilfield equipment and services, servicing of rotating equipment, integrated corrosion and inspection services, predominantly for the oil and gas industry.

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 address of the registered office and principal place of business of the Company is:

No. 2, Jalan Bangsar Utama 9
Bangsar Utama
59000 Kuala Lumpur

2 FINANCIAL RISK MANAGEMENT POLICIES

The Group's activities expose it to a variety of financial risks from its operations including market risk, credit risk and liquidity risk. The Group's overall financial risk management objectives are to ensure that the Group creates value for its shareholders and to ensure that adequate financial resources are available for the development of the Group's businesses. The Group operates within clearly defined guidelines that are approved by the Board and seeks to minimise potential adverse effects on its financial performance. Such guidelines are reviewed periodically to ensure that the Group's policy guidelines are complied with.

Pursuant to the new Foreign Exchange Administration Rules ("FEA") which came into effect on 1 April 2017, the degree and level of the Group's exposure to foreign currency exchange risks had changed as the Group could no longer apply to the extent possible, by collecting and paying in the same currency as all settlement of goods and services between local resident entities shall be made only in Ringgit Malaysia. To mitigate this risk, the Group had reviewed its financial risk management policies and framework of which a new foreign exchange management policy was established during the year that permits derivatives to be undertaken principally on forward foreign exchange contracts by the Group to manage its foreign currency exchange risks. Fair value changes on derivatives undertaken shall be charged to profit or loss as and when it arises.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Market risk

Market risk refers to the risk that changes in market prices such as foreign exchange rates, interest rates and prices will affect the Group's financial position and cash flows.

(i) Foreign currency exchange risk

The Group is exposed to currency risk as a result of foreign currency transactions entered into currencies other than their functional currency. The Group uses financial instruments such as forward foreign exchange contracts to minimise the exposure of transaction risk in addition to the natural hedges by matching foreign currency receivables against foreign currency payables.

At the end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the functional currencies are as follows:

| | Assets RM | 2018 Liabilities RM | Assets RM | Group 2017 Liabilities RM |
|-----------|--------------------|---------------------------|--------------|------------------------------------|
| US Dollar | 134,276,357 | 107,644,221 | 109,505,658 | 97,055,138 |
| Others | 2,062,668 | 935,472 | 124,615 | 258,892 |
| | 136,339,025 | 108,579,693 | 109,630,273 | 97,314,030 |

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase and decrease in the US Dollar against Ringgit Malaysia. 10% sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items adjusted, based on the translation value at the period end, for a 10% change in foreign currency rates.

2 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Market risk (continued)

(i) Foreign currency exchange risk (continued)

Foreign currency sensitivity (continued)

If the relevant foreign currency weakens/strengthens by 10% against the functional currency, the profit or loss will (decrease)/increase by:

| | 2018 RM | Group 2017 RM |
|---|--------------------|---------------------|
| <u>Weaken by 10% impact to profit or loss</u> | | |
| US Dollar | (2,024,042) | (946,240) |
| <u>Strengthen by 10% impact to profit or loss</u> | | |
| US Dollar | 2,024,042 | 946,240 |

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in interest rates. Interest rate exposure arises from the Group's borrowings and deposits and is managed through the use of fixed and floating rate borrowings and deposits with short term tenure.

Interest rate sensitivity

This is mainly attributable to the Group's exposure to interest rates on its floating rate borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment. At the reporting date, if interest rates had been 100 basis points lower, with all other variables held constant, the Group's profit or loss would increase by RM479,567 (2017: RM577,968). Similarly, if interest rates had been 100 basis points higher, with all other variables held constant, the Group's profit before tax would decrease by a similar amount.

(iii) Price risk

The Group is not materially affected by price fluctuation and does not have exposure to price risk.

The Group does not have exposure to share price risk as it does not hold investment in quoted equity instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amounts of each class of financial assets recognised in the statements of financial position.

(i) Receivables and contract assets (excluding deferred costs)

The Group's exposure to credit risk is monitored on an ongoing basis. The risk is managed through the application of the Group's credit management procedures which include the application of credit approvals whereby credit evaluations are performed on all customers requiring credit over a certain amount and period, adherence to credit limits, regular monitoring and follow up procedures.

The Group's customers are mainly from the oil and gas industry. The Group considers the material loss in the event of non-performance by a customer to be low.

The Group applies the MFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets are assessed individually.

The expected loss rates are determined based on historical information about counterparty default rates. The historical loss rates are adjusted to reflect forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables

| | 2018 | Group 2017 Restated |
|---|-------------------|---------------------------|
| | RM | RM |
| Neither past due nor impaired: Counterparties without external credit rating | | |
| - New customers during the year | 463,571 | 194,190 |
| - Existing customers with no defaults in the past | 52,704,497 | 82,088,652 |
| Total unimpaired trade receivables | 53,168,068 | 82,282,842 |

2 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Credit risk (continued)

(i) Receivables and contract assets (excluding deferred costs) (continued)

Trade receivables (continued)

| | 2018 | Group 2017 |
|--|--------------------|----------------|
| | RM | Restated RM |
| Past due but not impaired: | | |
| Counterparties without external credit rating | | |
| - New customers during the year | 795,842 | 351,072 |
| - Existing customers with no defaults in the past | 39,019,664 | 27,347,120 |
| Total past due but not impaired trade receivables | 39,815,506 | 27,698,192 |
| Not past due but impaired: | | |
| Counterparties without external credit rating | | |
| - Existing customers | 1,400 | 0 |
| Past due and impaired: | | |
| Counterparties without external credit rating | | |
| - Existing customers | 1,732,264 | 2,049,988 |
| Total impaired trade receivables | 1,733,664 | 2,049,988 |
| <u>Contract assets (excluding deferred costs)</u> | | |
| Neither past due nor impaired: | | |
| Counterparties without external credit rating | | |
| - New customers during the year | 962,492 | 1,816,417 |
| - Existing customers | 159,834,177 | 78,866,861 |
| Total unimpaired contract assets | 160,796,669 | 80,683,278 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Credit risk (continued)

(i) Receivables and contract assets (excluding deferred costs) (continued)

Contract assets (excluding deferred costs) (continued)

| | 2018 | Group 2017 Restated |
|--|----------------|---------------------------|
| | RM | RM |
| Not past due but impaired: | | |
| Counterparties without external credit rating | | |
| - New customers during the year | 0 | 800 |
| - Existing customers | 585,346 | 622,334 |
| Total not past due but impaired contract assets | 585,346 | 623,134 |

(ii) Amounts due from subsidiaries, associates and a joint venture

The Company provides unsecured loans and advances to subsidiaries and a joint venture. The amounts due from associates is in relation to dividend receivable. The Company monitors the results of the subsidiaries, associates and joint venture regularly. As at 31 December 2018, the maximum exposure to credit risk is represented by their carrying amounts in the statements of financial position.

Management has taken reasonable steps to ensure that amounts due from subsidiaries, associates and a joint venture are stated at the realisable values. As at 31 December 2018, there was no indication that the loans and advances extended to the subsidiaries and amounts due from associates and a joint venture are not recoverable.

(iii) Cash and bank balances

For cash and bank balances, the Group and the Company seek to ensure that cash assets are invested safely and profitably by assessing counterparty risks and allocating placement limits for various creditworthy financial institutions.

While cash and bank balances are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

Bank balances are with approved financial institutions with credit ratings of AA and above.

2 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Credit risk (continued)

(iii) Cash and bank balances (continued)

As at the end of the reporting period, the maximum exposure to credit risk arising from cash and bank balances is represented by the carrying amounts in the statements of financial position.

Management does not expect any counterparties to fail to meet their obligations. The credit qualities of the financial institutions in respect of bank balances are as follows:

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|-----|--------------------|---------------------|------------------|-----------------------|
| AAA | 134,818,285 | 141,266,434 | 6,353,321 | 6,562,227 |
| AA | 43,948 | 84,202 | 31,267 | 70,274 |

The credit quality of the above bank balances are assessed by reference to RAM Ratings Services Berhad.

Liquidity risk

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 or the Company has sufficient cash and bank balances and maintains standby credit lines to ensure availability of funding to meet operational requirements. The Group's and the Company's borrowings and standby credit lines are provided by financial institutions with sound credit ratings.

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.

| | | | | 2018 |
|---|---------------------------------------|---------------------------|----------------------------|--------------------|
| | On demand or within one year RM | One to two years RM | Two to five years RM | Total RM |
| <u>Group</u> | | | | |
| <u>Financial liabilities</u> | | | | |
| Trade and other payables (excluding statutory obligations) | 201,334,513 | 0 | 0 | 201,334,513 |
| Borrowings | 56,419,447 | 7,795,670 | 43,928 | 64,259,045 |
| Total undiscounted financial liabilities | 257,753,960 | 7,795,670 | 43,928 | 265,593,558 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

| | | | | 2018 |
|--|---------------------------------------|---------------------------|----------------------------|-------------------|
| | On demand or within one year RM | One to two years RM | Two to five years RM | Total RM |
| <u>Company</u> | | | | |
| <u>Financial liabilities</u> | | | | |
| Amounts due to subsidiaries | 18,596,478 | 0 | 0 | 18,596,478 |
| Borrowings | 24,913,726 | 0 | 0 | 24,913,726 |
| Other payables and accruals (excluding statutory obligations) | 2,372,399 | 0 | 0 | 2,372,399 |
| Total undiscounted financial liabilities | 45,882,603 | 0 | 0 | 45,882,603 |

| | | | | 2017 |
|---|---------------------------------------|---------------------------|----------------------------|--------------------|
| | On demand or within one year RM | One to two years RM | Two to five years RM | Total RM |
| <u>Group</u> | | | | |
| <u>Financial liabilities</u> | | | | |
| Trade and other payables (excluding statutory obligations) | 139,878,375 | 0 | 0 | 139,878,375 |
| Derivative financial instruments | 23,775 | 0 | 0 | 23,775 |
| Borrowings | 47,156,355 | 25,372,809 | 6,190,581 | 78,719,745 |
| Total undiscounted financial liabilities | 187,058,505 | 25,372,809 | 6,190,581 | 218,621,895 |

2 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Liquidity risk (coninued)

Analysis of financial instruments by remaining contractual maturities (continued)

| | | | | 2017 |
|--|---------------------------------------|---------------------------|----------------------------|-------------|
| | On demand or within one year RM | One to two years RM | Two to five years RM | Total RM |
| <u>Company</u> | | | | |
| <u>Financial liabilities</u> | | | | |
| Amounts due to subsidiaries | 15,005,795 | 0 | 0 | 15,005,795 |
| Borrowings | 17,875,139 | 0 | 0 | 17,875,139 |
| Other payables and accruals (excluding statutory obligations) | 3,266,489 | 0 | 0 | 3,266,489 |
| Total undiscounted financial liabilities | 36,147,423 | 0 | 0 | 36,147,423 |

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and judgments

The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(i) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgment 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(a) Critical accounting estimates and judgments (continued)

The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below (continued).

(ii) Revenue recognition

Revenue is recognised as and when the control of the asset is transferred to our customers and it is probable that the Group will collect the consideration to which it will be entitled in exchange for the asset that will be transferred to the customer. Depending on the terms of the contract and the applicable laws governing the contract, control of the asset may transfer over time or at a point in time.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the measurement of the Group's progress towards complete satisfaction of that performance obligation.

Significant judgment is required in determining the progress towards complete satisfaction of that performance obligation based on the actual costs incurred to-date over the total budgeted costs. The total budgeted costs are based on management's best estimates, relying on historical experiences and collaboration with specialists and expertise.

(iii) Impairment assessment of investment in an associate

The Group assesses impairment of the equity investment are incurred if, and only if, there is objective evidence of an impairment as a result of one or more events that occurred after the initial recognition of the equity investment (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows on the issuer of the equity investment.

In assessing whether there is a "loss event" (or events) that has an impact on the estimated future cash flows on the issuer of the equity investment, the Group will consider the significant changes with an adverse effect, if any, that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.

Recoverable amount is measured at the higher of the fair value less costs of disposal for the equity investment and its value in use. The value in use is the net present value of future projected cash flow expected to be generated by the investment discounted at an appropriate discount rate.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(a) Critical accounting estimates and judgments (continued)

The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below (continued).

(iii) Impairment assessment of investment in an associate (continued)

During the financial year, the Group reviewed its material associate with a carrying amount of RM28.2 million as at 31 December 2018 for potential impairment amidst lesser than robust drilling activities within the oil and gas industry in Malaysia in which the associate operates and this has resulted in the low utilisation rates in its operating assets and resulted in the associate to report a loss of RM29,000 in 2017. However, the associate has managed to turnaround its business and reported a profit after tax of RM7.1 million in the current financial year on the back of better operating condition with sign of improvement on the utilisation rates of its operating assets. Accordingly, no impairment was made as its recoverable amount ascertained was in excess of the Group's carrying amount in the material associate.

The recoverable amount was determined based on the value-in-use calculation that is derived from a five (5) years cash flow projection expected to be generated by the associate and the associate's residual terminal value at its terminal life after adjusting for the annual budgeted costs of asset replacement that will be shared by the Group based on its equity interest in the associate. The cash flow projections include approved budgeted and forecasted financials based on the following assumptions:

| | |
|---|-----------|
| Revenue rental growth rate within the next five-years | 5.0% |
| Services related revenue growth rate within the next five-years | 5.0% |
| Terminal growth rate | 3.0% |
| Inflation rate | 3.0% |
| Cost of equity | 12.48% |
| Earnings before interest, taxes, depreciation and amortisation margin | 48% - 53% |

The key estimation uncertainty over the assumptions used in the value-in-use calculations is the achievability of the projected revenue by the associate or the return on cost of equity estimated. The sensitivity of the assumptions to the recoverable amount, with all other variables remain constant, is that impairment loss will occur when the projected services related revenue on a year-on-year growth rate is reduced to lower than 3.89% or if the cost of equity used is 13.06% or higher.

(iv) Impairment of financial assets

The impairment loss for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, expected change in economy and regulatory environment that results in change in credit risks, expected change in internal or external credit rating, if any, changes in operating results as well as forward looking estimates at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) Critical judgment in applying the Group's accounting policies

In determining and applying accounting policies, judgment is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Group. There is no critical judgment which may materially affect the reported results and financial position of the Group.

4 SEGMENTAL REPORTING

The Group Managing Director is the Group's Chief Operating Decision Maker ("CODM"). Management has determined the operating segments based on the information reviewed by the Group Managing Director for the purposes of allocating resources and assessing performance. The Group is now primarily engaged in the following segments, by nature of business activities:

- Power and Machinery ("P&M") – Mainly consists of:
 - Sale of gas turbines and related parts, and overhaul of turbines, maintenance and technical services, including complete installation turnkey for new installations, package renewal and retrofit;
 - Supply and commission of combined heat and power plants;
 - Supply, install, repair and maintenance of valves, flow regulators and other production related equipment; and
 - Repair, servicing, maintenance and overhaul of motors, generators, transformers and pumps.
- Oilfield Services ("OS") – Mainly consists of:
 - Provision of slickline equipment and services;
 - Provision of integrated wellhead maintenance services;
 - Provision of well intervention and cased hole logging services;
 - Provision of specialty chemicals and well stimulation services;
 - Provision of drilling and completions services; and
 - Provision of subsurface engineering services.
- Integrated Corrosion Solution ("ICS") – Mainly consists of:
 - Provision of integrated corrosion and inspection services, blasting technology, maintenance, construction and modification ("MCM") maintenance activities, services for tanks, vessels, structures and piping.
- Other non-reportable segment comprises management fees charged to a joint venture which does not meet the quantitative threshold for a reporting segment in 2018.

The P&M and OS segments comprise of a series of cohesive and linked business activities within each of this segment within the Group. These business activities are aggregated to form an operating segment due to the similar nature and economic characteristics of the products and services.

4 SEGMENTAL REPORTING (CONTINUED)

Segment operating profit or loss is derived from the segment revenue less cost of sales and operating expenses directly attributed to the respective segments and including other income.

Unallocated income comprised mainly interest income earned by the Group. These income are not allocated to the business segments, as these types of activities are driven by the Group treasury function, which manages the cash position of the Group.

Unallocated corporate expenses represent the Group's corporate expenses including depreciation of property, plant and equipment of corporate assets and other common corporate overhead costs that are not charged to business segments.

Tax expenses and results of joint venture and associates are not allocated to the business segments as they are measured at the entity level.

Unallocated corporate assets represent the Group's corporate assets including property, plant and equipment, investment properties, intangible assets, investment in joint venture and associates, deferred tax assets and tax recoverable that are not allocated by business segments.

Unallocated corporate liabilities represent the Group's corporate liabilities including deferred tax liabilities, taxation and dividend payable that are not allocated by business segments.

(a) Business Segments

| | Power and machinery RM | Oilfield services RM | Integrated corrosion solution RM | Group RM |
|---------------------------------------|---------------------------------|----------------------------|---|--------------------|
| Financial year ended 31 December 2018 | | | | |
| SEGMENT REVENUE | | | | |
| External revenue | 360,179,284 | 124,810,950 | 138,212,684 | 623,202,918 |
| Other non-reportable segment | | | | 482,550 |
| | | | | 623,685,468 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4 SEGMENTAL REPORTING (CONTINUED)

(a) Business Segments (continued)

| | Power and machinery RM | Oilfield services RM | Integrated corrosion solution RM | Group RM |
|---|---------------------------------|----------------------------|---|---------------------|
| Financial year ended 31 December 2018 (continued) | | | | |
| SEGMENT RESULTS | | | | |
| Segment operating profit | 36,040,928 | 14,422,651 | (6,500,686) | 43,962,893 |
| Other non-reportable segment | | | | 54,095 |
| | | | | 44,016,988 |
| Profit from operations | | | | 44,016,988 |
| Unallocated income | | | | 455,945 |
| Unallocated corporate expenses | | | | (5,338,007) |
| Share of results of a joint venture | | | | 1,138,902 |
| Share of results of associates | | | | 2,274,580 |
| Profit before tax | | | | 42,548,408 |
| Tax expense | | | | (12,718,941) |
| Profit for the year | | | | 29,829,467 |
| Other information: | | | | |
| Depreciation and amortisation | 1,531,731 | 27,112,980 | 1,929,845 | 30,574,556 |
| Other material items | | | | |
| Impairment for | | | | |
| - trade receivables | 9,926 | 0 | 0 | 9,926 |
| - contract assets | 203 | 22,835 | 0 | 23,038 |

4 SEGMENTAL REPORTING (CONTINUED)

(a) Business Segments (continued)

| | Power and machinery RM | Oilfield services RM | Integrated corrosion solution RM | Group RM |
|--|---------------------------------|----------------------------|---|---------------|
| Financial year ended 31 December 2018 (continued) | | | | |
| Other material items (continued) | | | | |
| Write back of impairment for | | | | |
| - trade receivables | (2,602) | (63,610) | (70,000) | (136,212) |
| - contract assets | (9,160) | 0 | 0 | (9,160) |
| Write-off of property, plant and equipment | 60,331 | 21,647 | 68,901 | 150,879 |
| Write-off of inventories | 28,186 | 36,008 | 0 | 64,194 |
| Allowance for slow moving inventories | 209,470 | 0 | 0 | 209,470 |
| Provision for liquidated damages | 60,289 | 0 | 0 | 60,289 |
| Reversal of allowance for slow moving inventories | (27,154) | 0 | 0 | (27,154) |
| Reversal of provision of liquidated damages | (58,223) | 0 | 0 | (58,223) |
| Unrealised losses/(gains) on foreign exchange | 87,714 | 38,474 | (55,173) | 71,015 |
| Fair value loss on forward foreign exchange contracts | 625,686 | 23,850 | 0 | 649,536 |
| Finance cost | 0 | 2,487,153 | 365,122 | 2,852,275 |
| Revenue contributed by major customers which individually contributed to more than 10% of the Group's total revenue: | | | | |
| - Customer A | (92,740,865) | (60,147,243) | (130,910,774) | (283,798,882) |
| - Customer B | (82,135,643) | (12,780) | 0 | (82,148,423) |
| Addition of plant and equipment | 1,670,128 | 6,614,818 | 8,286,257 | 16,571,203 |
| Segment assets | 264,705,477 | 215,323,205 | 83,923,536 | 563,952,218 |
| Unallocated corporate assets | | | | 96,406,887 |
| Total assets | | | | 660,359,105 |
| Segment liabilities | 141,799,731 | 61,732,962 | 66,714,045 | 270,246,738 |
| Unallocated corporate liabilities | | | | 34,450,347 |
| Total liabilities | | | | 304,697,085 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4 SEGMENTAL REPORTING (CONTINUED)

(a) Business Segments (continued)

| | Power and machinery RM | Oilfield services RM | Integrated corrosion solution RM | Group RM |
|---------------------------------------|---------------------------------|----------------------------|---|--------------------|
| Financial year ended 31 December 2017 | | | | |
| SEGMENT REVENUE | | | | |
| External revenue | 364,409,777 | 119,402,748 | 49,746,028 | 533,558,553 |
| Other non-reportable segment | | | | 499,650 |
| | | | | <u>534,058,203</u> |
| SEGMENT RESULTS | | | | |
| Segment operating profit | 39,108,529 | 14,523,273 | 4,071,905 | 57,703,707 |
| Other non-reportable segment | | | | 55,550 |
| | | | | <u>57,759,257</u> |
| Profit from operations | | | | 57,759,257 |
| Unallocated income | | | | 197,165 |
| Unallocated corporate expenses | | | | (4,403,316) |
| Share of results of a joint venture | | | | 856,718 |
| Share of results of associates | | | | (384,958) |
| Profit before tax | | | | 54,024,866 |
| Tax expense | | | | (14,764,335) |
| Profit for the year | | | | <u>39,260,531</u> |
| Other information: | | | | |
| Depreciation and amortisation | 1,300,559 | 27,616,292 | 1,280,616 | 30,197,467 |
| Other material items | | | | |
| Impairment for | | | | |
| - trade receivables | 11,624 | 63,610 | 198,845 | 274,079 |
| - other receivables | 0 | 0 | 48,030 | 48,030 |
| - contract assets | 90,556 | 0 | 0 | 90,556 |

4 SEGMENTAL REPORTING (CONTINUED)

(a) Business Segments (continued)

| | Power and machinery RM | Oilfield services RM | Integrated corrosion solution RM | Group RM |
|---|---------------------------------|----------------------------|---|---------------|
| Financial year ended 31 December 2017 (continued) | | | | |
| Other information (continued): | | | | |
| Other material items (continued) | | | | |
| Write back of impairment for | | | | |
| - trade receivables | 0 | (38,685) | (61,769) | (100,454) |
| Write-off of property, plant and equipment | 5,188 | 29,287 | 43,088 | 77,563 |
| Write-off of inventories | 0 | 84,764 | 3,607 | 88,371 |
| Allowance for slow moving inventories | 317,545 | 0 | 0 | 317,545 |
| Reversal of allowance for slow moving inventories | (119,907) | 0 | 0 | (119,907) |
| Reversal of provision of liquidated damages | (182,486) | 0 | 0 | (182,486) |
| Fair value loss on forward foreign exchange contracts | 0 | 23,775 | 0 | 23,775 |
| Unrealised losses/(gains) on foreign exchange | 458,210 | (102,629) | 40,506 | 396,087 |
| Finance cost | 289 | 3,870,100 | 134,951 | 4,005,340 |
| Revenue contributed by major customers | | | | |
| which individually contributed to more than 10% | | | | |
| of the Group's total revenue: | | | | |
| - Customer A | (111,173,962) | (50,706,727) | (43,277,734) | (205,158,423) |
| - Customer B | (68,596,390) | (42,334) | 0 | (68,638,724) |
| Addition of plant and equipment | 454,906 | 775,269 | 1,267,477 | 2,497,652 |
| Segment assets | 241,525,892 | 234,289,309 | 37,089,286 | 512,904,487 |
| Unallocated corporate assets | | | | 94,483,674 |
| Total assets | | | | 607,388,161 |
| Segment liabilities | 111,272,792 | 93,641,072 | 15,587,937 | 220,501,801 |
| Unallocated corporate liabilities | | | | 36,018,732 |
| Total liabilities | | | | 256,520,533 |

(b) Geographical information

The Group's transactions are principally conducted in one geographical segment, Malaysia, as such no segmental information by geographical segment has been disclosed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5 REVENUE

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|--------------------------------------|--------------------|---------------------|-------------------|-----------------------|
| Revenue from contract with customers | 623,202,918 | 533,558,553 | 0 | 0 |
| Revenue from other sources: | | | | |
| - Dividend income | 11,250 | 11,250 | 16,800,000 | 18,000,000 |
| - Management fee | 471,300 | 488,400 | 17,196,800 | 16,559,500 |
| | 623,685,468 | 534,058,203 | 33,996,800 | 34,559,500 |

Revenue from contracts with customers:

| | Power and machinery RM | Oilfield services RM | Integrated corrosion solution RM | Group RM |
|--|---------------------------------|----------------------------|---|--------------------|
| Financial year ended 31 December 2018 | | | | |
| <u>Type of goods and services</u> | | | | |
| Sale of gas turbine packages and after sales support and services | 298,583,370 | 0 | 0 | 298,583,370 |
| Commission based income services | 4,382,111 | 0 | 0 | 4,382,111 |
| Principal based income services | 0 | 697,528 | 0 | 697,528 |
| Sale of valves and flow regulators and after sales support and services | 50,845,225 | 0 | 0 | 50,845,225 |
| Sale, repair and maintenance of motors, generators and transformers | 6,368,578 | 0 | 0 | 6,368,578 |
| Provision of slickline equipment and services, well intervention, asset integrated solution services, cased hole logging services and drilling and production services | 0 | 120,373,070 | 0 | 120,373,070 |
| Provision of specialty chemicals and well stimulation services | 0 | 3,740,352 | 0 | 3,740,352 |
| Provision of integrated corrosion and inspection services, blasting technology and maintenance services | 0 | 0 | 20,177,257 | 20,177,257 |
| Provision of maintenance, construction and modification maintenance services | 0 | 0 | 118,035,427 | 118,035,427 |
| | 360,179,284 | 124,810,950 | 138,212,684 | 623,202,918 |

5 REVENUE (CONTINUED)

Revenue from contracts with customers: (continued)

| | Power and machinery RM | Oilfield services RM | Integrated corrosion solution RM | Group RM |
|--|---------------------------------|----------------------------|---|--------------------|
| Financial year ended 31 December 2018 | | | | |
| Timing of revenue recognition: | | | | |
| - At a point in time | 270,691,987 | 2,330,854 | 6,068,584 | 279,091,425 |
| - Over time | 89,487,297 | 122,480,096 | 132,144,100 | 344,111,493 |
| | 360,179,284 | 124,810,950 | 138,212,684 | 623,202,918 |
| Financial year ended 31 December 2017 | | | | |
| <u>Type of goods and services</u> | | | | |
| Sale of gas turbine packages and after sales support and services | 296,528,926 | 0 | 0 | 296,528,926 |
| Commission based income services | 1,980,637 | 0 | 0 | 1,980,637 |
| Principal based income services | 0 | 973,790 | 0 | 973,790 |
| Sale of valves and flow regulators and after sales support and services | 59,009,091 | 0 | 0 | 59,009,091 |
| Sale, repair and maintenance of motors, generators and transformers | 6,891,123 | 0 | 0 | 6,891,123 |
| Provision of slickline equipment and services, well intervention, asset integrated solution services, cased hole logging services and drilling and production services | 0 | 107,676,154 | 0 | 107,676,154 |
| Provision of specialty chemicals and well stimulation services | 0 | 10,752,804 | 0 | 10,752,804 |
| Provision of integrated corrosion and inspection services, blasting technology and maintenance services | 0 | 0 | 49,699,308 | 49,699,308 |
| Provision of maintenance, construction and modification maintenance services | 0 | 0 | 46,720 | 46,720 |
| | 364,409,777 | 119,402,748 | 49,746,028 | 533,558,553 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5 REVENUE (CONTINUED)

Revenue from contracts with customers: (continued)

| | Power and machinery RM | Oilfield services RM | Integrated corrosion solution RM | Group RM |
|---------------------------------------|---------------------------------|----------------------------|---|-------------|
| Financial year ended 31 December 2017 | | | | |
| Timing of revenue recognition: | | | | |
| - At a point in time | 264,952,576 | 8,062,787 | 1,561,573 | 274,576,936 |
| - Over time | 99,457,201 | 111,339,961 | 48,184,455 | 258,981,617 |
| | 364,409,777 | 119,402,748 | 49,746,028 | 533,558,553 |

6 PROFIT BEFORE TAX

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---|--------------------|---------------------|--------------------|-----------------------|
| The following items have been charged/(credited) in arriving at profit before tax: | | | | |
| Inventories consumed and recognised as cost of sales | 77,760,481 | 107,121,694 | 0 | 0 |
| Cost of services purchased | 253,716,705 | 200,134,785 | 0 | 0 |
| Purchase of products, parts and consumable | 21,204,114 | 10,392,156 | 0 | 0 |
| Inter-company interest income | 0 | 0 | (1,025,497) | (1,335,469) |
| Impairment for : | | | | |
| - Trade receivables | | | | |
| - impairment | 9,926 | 274,079 | 0 | 0 |
| - write back of impairment | (136,212) | (100,454) | 0 | 0 |
| - Other receivables | | | | |
| - impairment | 0 | 48,030 | 0 | 0 |
| - Contract assets | | | | |
| - impairment | 23,038 | 90,556 | 0 | 0 |
| - write back of impairment | (9,160) | 0 | 0 | 0 |
| Amortisation of financial guarantee liabilities | 0 | (8,712) | 0 | (8,712) |
| Amortisation of intangible assets | 716,725 | 727,119 | 82,365 | 55,365 |

6 PROFIT BEFORE TAX (CONTINUED)

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---|--------------------|---------------------|-------------------|-----------------------|
| The following items have been charged/(credited) in arriving at profit before tax (continued): | | | | |
| Depreciation: | | | | |
| - property, plant and equipment | 30,646,573 | 30,723,481 | 324,801 | 305,629 |
| - investment properties | 23,576 | 23,575 | 0 | 0 |
| Fees to PricewaterhouseCoopers PLT Malaysia: | | | | |
| - statutory audit services | | | | |
| - current year | 428,000 | 402,027 | 125,000 | 123,234 |
| - audit related services | 159,000 | 143,535 | 159,000 | 143,535 |
| - non-audit related services | 161,300 | 57,450 | 116,050 | 8,000 |
| Statutory audit fees to other auditors | | | | |
| - current year | 22,142 | 46,248 | 0 | 0 |
| (Gain)/Loss on disposal of property, plant and equipment | (333,887) | (76,683) | (231,997) | 3,920 |
| Loss/(gain) on foreign exchange: | | | | |
| - realised | 335,695 | 4,654,374 | 38 | (15,433) |
| - unrealised | 140,782 | 396,087 | 0 | 0 |
| Fair value loss on forward foreign exchange contracts | 649,536 | 23,775 | 0 | 0 |
| Inventories | | | | |
| - allowance | 209,470 | 317,545 | 0 | 0 |
| - write back | (27,154) | (119,907) | 0 | 0 |
| Write off: | | | | |
| - property, plant and equipment | 150,880 | 77,563 | 1 | 0 |
| - other receivables | 0 | 2,120 | 0 | 0 |
| - inventories | 64,194 | 88,371 | 0 | 0 |
| Liquidated damages | | | | |
| - provision | 60,289 | 0 | 0 | 0 |
| - write back | (58,223) | (182,486) | 0 | 0 |
| Interest income | (2,898,177) | (2,385,117) | (191,803) | (173,443) |
| Rental income | (194,016) | (144,120) | 0 | 0 |
| Rental expense: | | | | |
| - business premises | 3,577,507 | 3,368,378 | 0 | 0 |
| - equipment | 52,856,666 | 12,967,231 | 0 | 0 |
| Staff cost (including Executive Directors' remuneration as disclosed in Note 7) | | | | |
| - Wages, salaries and others | 103,498,495 | 72,844,989 | 11,239,303 | 10,701,921 |
| - Share based payment expense | 424,029 | 2,002,852 | 214,286 | 755,532 |
| - Defined contribution plan | 10,610,398 | 7,612,499 | 1,234,000 | 1,194,097 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

7 DIRECTORS' REMUNERATION

The aggregate amounts of emoluments received and receivable by Directors of the Company during the financial year were as follows:

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|--|------------------|---------------------|------------------|-----------------------|
| Executive Directors: | | | | |
| - salaries and bonuses | 1,293,000 | 1,250,000 | 1,293,000 | 1,250,000 |
| - defined contribution plan | 193,950 | 187,500 | 193,950 | 187,500 |
| - other emoluments | 186,005 | 46,305 | 186,005 | 46,305 |
| - estimated monetary value of benefits-in-kind | 28,786 | 50,642 | 28,786 | 50,642 |
| Non-Executive Directors: | | | | |
| - fees | 942,000 | 942,000 | 942,000 | 942,000 |
| - other emoluments | 101,000 | 92,000 | 101,000 | 92,000 |
| - estimated monetary value of benefits-in-kind | 68,236 | 99,156 | 68,236 | 99,156 |
| | 2,812,977 | 2,667,603 | 2,812,977 | 2,667,603 |

8 FINANCE COST

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---------------------------------------|------------------|---------------------|----------------|-----------------------|
| Interest on revolving credit facility | 934,200 | 1,232,424 | 934,201 | 1,232,424 |
| Interest on loans against imports | 73,315 | 42,499 | 0 | 0 |
| Interest on term loan | 1,844,760 | 2,730,128 | 0 | 0 |
| Interest on finance lease | 0 | 289 | 0 | 0 |
| | 2,852,275 | 4,005,340 | 934,201 | 1,232,424 |

During the current financial year, finance cost incurred of RM934,201 (2017: RM1,232,424) at the Company level had been re-charged to its subsidiaries for the utilisation of the revolving credit facility.

9 TAX EXPENSE

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|--|-------------------|---------------------|------------------|-----------------------|
| Current tax: | | | | |
| - Malaysian tax | 12,007,486 | 11,612,697 | 36,894 | 39,581 |
| Under provision in prior years: | | | | |
| - Malaysian tax * | 1,702,084 | 133,595 | 1,867,243 | 0 |
| Deferred tax (Note 28): | | | | |
| - Origination and reversal of temporary differences | (697,830) | 3,974,603 | 882,606 | 393,215 |
| - Recognition of previously unrecognised temporary differences | (292,799) | (956,560) | 0 | 0 |
| | 12,718,941 | 14,764,335 | 2,786,743 | 432,796 |

* Included in under provision in prior years relate to additional taxes for the years of assessment 2010 to 2015 arising from the differences on the interpretation on the deductibility of certain expenses incurred by the Company with the tax authority. In addition, a tax penalty amounting to RM838,000 was raised by the tax authority under Section 113(2) of the Income Tax Act 1967. This amount was included in the other operating losses in the statements of comprehensive income of the Group and of the Company.

The explanation of the relationship between tax expense and profit before tax is as follows:

| | 2018 % | Group 2017 % | 2018 % | Company 2017 % |
|--|------------|--------------------|-------------|----------------------|
| Numerical reconciliation between the effective tax rate and the Malaysian tax rate | | | | |
| Malaysian tax rate | 24 | 24 | 24 | 24 |
| Tax effects of: | | | | |
| - expenses not deductible for tax purposes | 4 | 5 | 3 | 3 |
| - income not subject to tax | (1) | (1) | (25) | (25) |
| - share of results of associates and joint venture | (2) | 0 | 0 | 0 |
| - recognition of previously unrecognised temporary differences | (1) | (2) | 0 | 0 |
| - under provision in prior periods | 6 | 1 | 16 | 1 |
| Effective tax rate | 30 | 27 | 18 | 3 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

10 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the profit attributable to equity holders of the Company for the financial year by the weighted average number of ordinary shares in issue during the financial year.

| | 2018 RM | Group 2017 RM |
|---|--------------------|---------------------|
| Profit for the financial year attributable to equity holders of the Company | 27,169,147 | 32,277,167 |
| Number of ordinary shares at the beginning of the year | 400,195,300 | 400,000,000 |
| Adjusted weighted average number of ordinary shares | 400,874,404 | 400,195,300 |
| Basic earnings per share (sen) | 6.78 | 8.07 |

Diluted earnings per share

Diluted earnings per share of the Group is calculated by dividing the profit attributable to equity holders of the Company for the financial year by the weighted average number of ordinary shares in issue during the financial year after adjustments for the effects of all dilutive potential ordinary shares.

| | 2018 RM | Group 2017 RM |
|---|--------------------|---------------------|
| Profit for the financial year attributable to equity holders of the Company | 27,169,147 | 32,277,167 |
| Adjusted weighted average number of ordinary shares as per basic earnings per share | 400,874,404 | 400,195,300 |
| Effect of potential vesting of LTIP | 1,488,583 | 2,776,918 |
| Adjusted weighted average number of ordinary shares | 402,362,987 | 402,972,218 |
| Diluted earnings per share (sen) | 6.75 | 8.01 |

11 DIVIDENDS

The dividends paid or declared by the Company during the financial year are as set out below.

| | Gross dividend per share sen | 2018 Amount of dividend RM | Gross dividend per share sen | 2017 Amount of dividend RM |
|---|---------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|
| <u>In respect of the financial year ended 31 December 2016</u> | | | | |
| Second interim single tier dividend, on 400,000,000 ordinary shares, paid on 28 March 2017 | 0 | 0 | 2.25 | 9,000,000 |
| <u>In respect of the financial year ended 31 December 2017</u> | | | | |
| First interim single tier dividend, on 400,195,300 ordinary shares, paid on 26 September 2017 | 0 | 0 | 1.00 | 4,001,953 |
| Second interim single tier dividend, on 400,492,500 ordinary shares, paid on 28 March 2018 | 3.25 | 13,016,008 | 0 | 0 |
| <u>In respect of the financial year ended 31 December 2018</u> | | | | |
| First interim single tier dividend, on 401,125,700 ordinary shares, paid on 25 September 2018 | 1.25 | 5,014,073 | 0 | 0 |
| | | 18,030,081 | | 13,001,953 |

The Directors had on 25 February 2019 declared a second interim single tier dividend of 2.25 sen per share in respect of the financial year ended 31 December 2018, totalling RM9,025,328, payable on 22 March 2019.

Total dividend for the financial year ended 31 December 2018 is 3.50 sen (2017: 4.25 sen) based on ordinary shares of 401,125,700 (2017: 400,195,300).

The Directors do not recommend the payment of any final dividend for the financial year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12 PROPERTY, PLANT AND EQUIPMENT

| Group | Long term leasehold land RM | Long term leasehold buildings RM | Office equipment, furniture and fittings and renovations RM | Plant, machinery and other equipment RM | Motor vehicles RM | Assets under construction RM | Total RM |
|------------------------------------|--------------------------------------|---|--|--|-------------------------|------------------------------------|--------------------|
| <u>Year ended 31 December 2018</u> | | | | | | | |
| <u>Net book value</u> | | | | | | | |
| At 1 January 2018 | 3,203,640 | 3,334,224 | 6,278,394 | 150,472,126 | 236,982 | 0 | 163,525,366 |
| Additions | 0 | 0 | 3,731,235 | 12,484,983 | 1,911,618 | 468,421 | 18,596,257 |
| Written off | 0 | 0 | (101,810) | (49,070) | 0 | 0 | (150,880) |
| Disposals | 0 | 0 | 0 | (609) | (4) | 0 | (613) |
| Depreciation charge | (87,758) | (175,441) | (2,890,952) | (27,159,371) | (333,051) | 0 | (30,646,573) |
| At 31 December 2018 | 3,115,882 | 3,158,783 | 7,016,867 | 135,748,059 | 1,815,545 | 468,421 | 151,323,557 |
| <u>At 31 December 2018</u> | | | | | | | |
| Cost | 4,387,284 | 5,885,747 | 33,385,438 | 304,024,784 | 3,418,656 | 468,421 | 351,570,330 |
| Accumulated depreciation | (1,271,402) | (2,726,964) | (26,368,571) | (163,928,150) | (1,603,111) | 0 | (195,898,198) |
| Accumulated impairment | 0 | 0 | 0 | (4,348,575) | 0 | 0 | (4,348,575) |
| Net book value | 3,115,882 | 3,158,783 | 7,016,867 | 135,748,059 | 1,815,545 | 468,421 | 151,323,557 |
| <u>At 31 December 2017</u> | | | | | | | |
| Cost | 4,387,284 | 5,885,747 | 30,818,841 | 292,048,877 | 4,141,191 | 0 | 337,281,940 |
| Accumulated depreciation | (1,183,644) | (2,551,523) | (24,540,447) | (137,219,664) | (3,904,209) | 0 | (169,399,487) |
| Accumulated impairment | 0 | 0 | 0 | (4,357,087) | 0 | 0 | (4,357,087) |
| Net book value | 3,203,640 | 3,334,224 | 6,278,394 | 150,472,126 | 236,982 | 0 | 163,525,366 |

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Group | Long term leasehold land RM | Long term leasehold buildings RM | Office equipment, furniture and fittings and renovations RM | Plant, machinery and other equipment RM | Motor vehicles RM | Total RM |
|------------------------------------|--------------------------------------|---|--|--|-------------------------|---------------|
| <u>Year ended 31 December 2017</u> | | | | | | |
| <u>Net book value</u> | | | | | | |
| At 1 January 2017 | 3,291,398 | 3,506,959 | 9,168,486 | 175,591,314 | 444,392 | 192,002,549 |
| Additions | 0 | 0 | 592,049 | 2,049,286 | 0 | 2,641,335 |
| Written off | 0 | 0 | (4,592) | (72,971) | 0 | (77,563) |
| Disposals | 0 | 0 | (277,724) | (39,750) | 0 | (317,474) |
| Depreciation charge | (87,758) | (172,735) | (3,199,825) | (27,055,753) | (207,410) | (30,723,481) |
| At 31 December 2017 | 3,203,640 | 3,334,224 | 6,278,394 | 150,472,126 | 236,982 | 163,525,366 |
| <u>At 31 December 2017</u> | | | | | | |
| Cost | 4,387,284 | 5,885,747 | 30,818,841 | 292,048,877 | 4,141,191 | 337,281,940 |
| Accumulated depreciation | (1,183,644) | (2,551,523) | (24,540,447) | (137,219,664) | (3,904,209) | (169,399,487) |
| Accumulated impairment | 0 | 0 | 0 | (4,357,087) | 0 | (4,357,087) |
| Net book value | 3,203,640 | 3,334,224 | 6,278,394 | 150,472,126 | 236,982 | 163,525,366 |
| <u>At 31 December 2016</u> | | | | | | |
| Cost | 4,387,284 | 5,885,747 | 30,919,492 | 290,402,534 | 4,141,191 | 335,736,248 |
| Accumulated depreciation | (1,095,886) | (2,378,788) | (21,751,006) | (110,454,133) | (3,696,799) | (139,376,612) |
| Accumulated impairment | 0 | 0 | 0 | (4,357,087) | 0 | (4,357,087) |
| Net book value | 3,291,398 | 3,506,959 | 9,168,486 | 175,591,314 | 444,392 | 192,002,549 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Company | Long term leasehold land RM | Long term leasehold buildings RM | Office equipment, furniture and fittings and renovations RM | Motor vehicles RM | Total RM |
|------------------------------------|--------------------------------------|---|--|-------------------------|------------------|
| <u>Year ended 31 December 2018</u> | | | | | |
| <u>Net book value</u> | | | | | |
| At 1 January 2018 | 2,008,662 | 1,047,600 | 182,501 | 3 | 3,238,766 |
| Additions | 0 | 0 | 429,417 | 1,453,567 | 1,882,984 |
| Written off | 0 | 0 | (1) | 0 | (1) |
| Disposal | 0 | 0 | 0 | (3) | (3) |
| Depreciation charge | (48,892) | (26,190) | (119,970) | (129,749) | (324,801) |
| At 31 December 2018 | 1,959,770 | 1,021,410 | 491,947 | 1,323,818 | 4,796,945 |
| <u>At 31 December 2018</u> | | | | | |
| Cost | 2,444,000 | 1,309,500 | 4,904,436 | 1,453,567 | 10,111,503 |
| Accumulated depreciation | (484,230) | (288,090) | (4,412,489) | (129,749) | (5,314,558) |
| Net book value | 1,959,770 | 1,021,410 | 491,947 | 1,323,818 | 4,796,945 |
| <u>At 31 December 2017</u> | | | | | |
| Cost | 2,444,000 | 1,309,500 | 4,501,239 | 2,227,587 | 10,482,326 |
| Accumulated depreciation | (435,338) | (261,900) | (4,318,738) | (2,227,584) | (7,243,560) |
| Net book value | 2,008,662 | 1,047,600 | 182,501 | 3 | 3,238,766 |

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Company | Long term leasehold land RM | Long term leasehold buildings RM | Office equipment, furniture and fittings and renovations RM | Motor vehicles RM | Total RM |
|------------------------------------|--------------------------------------|---|--|-------------------------|-------------|
| <u>Year ended 31 December 2017</u> | | | | | |
| <u>Net book value</u> | | | | | |
| At 1 January 2017 | 2,057,554 | 1,073,790 | 297,174 | 3 | 3,428,521 |
| Additions | 0 | 0 | 122,097 | 0 | 122,097 |
| Disposal | 0 | 0 | (6,223) | 0 | (6,223) |
| Depreciation charge | (48,892) | (26,190) | (230,547) | 0 | (305,629) |
| At 31 December 2017 | 2,008,662 | 1,047,600 | 182,501 | 3 | 3,238,766 |
| <u>At 31 December 2017</u> | | | | | |
| Cost | 2,444,000 | 1,309,500 | 4,501,239 | 2,227,587 | 10,482,326 |
| Accumulated depreciation | (435,338) | (261,900) | (4,318,738) | (2,227,584) | (7,243,560) |
| Net book value | 2,008,662 | 1,047,600 | 182,501 | 3 | 3,238,766 |
| <u>At 31 December 2016</u> | | | | | |
| Cost | 2,444,000 | 1,309,500 | 4,390,933 | 2,227,587 | 10,372,020 |
| Accumulated depreciation | (386,446) | (235,710) | (4,093,759) | (2,227,584) | (6,943,499) |
| Net book value | 2,057,554 | 1,073,790 | 297,174 | 3 | 3,428,521 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | 2018 RM | Group 2017 RM |
|---|--------------------|---------------------|
| Net book value of property, plant and equipment of the Group pledged as security: | | |
| - long term leasehold land | 1,156,113 | 1,194,979 |
| - long term leasehold buildings | 1,058,901 | 1,177,171 |
| - office equipment, furniture and fittings and renovations | 2,851,200 | 2,015,013 |
| - plant, machinery and other equipment | 130,029,473 | 145,938,172 |
| - motor vehicles | 326,882 | 114,899 |
| | 135,422,569 | 150,440,234 |

The property, plant and equipment above have been pledged as security for borrowings as disclosed in Note 26 and the unutilised banking facilities as at financial year end.

The Group had paid for the acquisition of property, plant and equipment amounting to RM24,756,589 (2017: RM2,641,335) of which RM6,160,332 (2017: RM nil) paid were deposits (Note 20).

The Group had recognised an aggregate cost of RM18,596,257 (2017: RM2,641,335) on the acquisition of property, plant and equipment of which RM80,000 (2017: RM nil) was acquired by means of hire purchase arrangement (Note 26).

The net book value of motor vehicles acquired under hire purchase arrangement amounted to RM93,612 (2017: RM nil) as at financial year end.

13 INVESTMENT PROPERTIES

| | 2018 | Group |
|-------------------------------------|------------------|--------------|
| | RM | 2017 |
| | | RM |
| <u>Net book value</u> | | |
| At 1 January | 817,999 | 841,574 |
| Depreciation charge | (23,576) | (23,575) |
| At 31 December | 794,423 | 817,999 |
| Cost | 1,178,764 | 1,178,764 |
| Accumulated depreciation | (352,878) | (329,302) |
| Accumulated impairment loss | (31,463) | (31,463) |
| | 794,423 | 817,999 |
| Fair value of investment properties | 1,234,000 | 1,048,900 |

The following are recognised in profit or loss in respect of investment properties:

| | 2018 | Group |
|---------------|---------------|--------------|
| | RM | 2017 |
| | | RM |
| Rental income | 85,152 | 85,152 |

There were no direct operating expenses incurred in respect of investment properties as they were borne by the lessee.

The investment properties have been pledged as security for the unutilised banking facilities as at financial year end.

The fair value of the investment properties was estimated by Directors using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for difference in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13 INVESTMENT PROPERTIES (CONTINUED)

The Group measures the fair value using the level 3 fair value hierarchy. This level represents unobservable inputs to valuation techniques used to measure fair value.

| Description | Valuation technique | Unobservable input | Unobservable input | Relationships of unobservable inputs to fair value |
|------------------------------|---------------------------|-----------------------|--------------------|---|
| Office lot - Mutiara Bangsar | Sales comparison approach | Price per square foot | RM400 | The higher the price per square foot, the higher fair value |

14 INTANGIBLE ASSETS

| Group | Goodwill RM | Contracts RM | Software costs RM | Software costs for assets in progress RM | Total RM |
|--------------------------|----------------|-----------------|----------------------|---|-------------|
| <u>2018</u> | | | | | |
| At 1 January | 108,997 | 0 | 1,391,206 | 143,959 | 1,644,162 |
| Addition | 0 | 0 | 26,130 | 0 | 26,130 |
| Transfer | 0 | 0 | 143,959 | (143,959) | 0 |
| Amortisation | 0 | 0 | (716,725) | 0 | (716,725) |
| At 31 December | 108,997 | 0 | 844,570 | 0 | 953,567 |
| Cost | 108,997 | 3,953,810 | 3,671,099 | 0 | 7,733,906 |
| Accumulated amortisation | 0 | (3,953,810) | (2,826,529) | 0 | (6,780,339) |
| At 31 December | 108,997 | 0 | 844,570 | 0 | 953,567 |

14 INTANGIBLE ASSETS (CONTINUED)

| Group | Goodwill RM | Contracts RM | Software costs RM | Software costs for assets in progress RM | Total RM |
|--------------------------|------------------------|-------------------------|----------------------------------|---|---------------------|
| <u>2017</u> | | | | | |
| At 1 January | 108,997 | 0 | 2,118,325 | 143,959 | 2,371,281 |
| Amortisation | 0 | 0 | (727,119) | 0 | (727,119) |
| At 31 December | 108,997 | 0 | 1,391,206 | 143,959 | 1,644,162 |
| Cost | 108,997 | 3,953,810 | 3,501,010 | 143,959 | 7,707,776 |
| Accumulated amortisation | 0 | (3,953,810) | (2,109,804) | 0 | (6,063,614) |
| At 31 December | 108,997 | 0 | 1,391,206 | 143,959 | 1,644,162 |
| Company | | | Software costs RM | Software costs for assets in progress RM | Total RM |
| <u>2018</u> | | | | | |
| At 1 January | | | 93,048 | 143,959 | 237,007 |
| Transfer | | | 143,959 | (143,959) | 0 |
| Amortisation | | | (82,365) | 0 | (82,365) |
| At 31 December | | | 154,642 | 0 | 154,642 |
| Cost | | | 414,067 | 0 | 414,067 |
| Accumulated amortisation | | | (259,425) | 0 | (259,425) |
| | | | 154,642 | 0 | 154,642 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14 INTANGIBLE ASSETS (CONTINUED)

| Company | Software costs RM | Software costs for assets in progress RM | Total RM |
|--------------------------|----------------------|---|-------------|
| <u>2017</u> | | | |
| At 1 January | 148,413 | 143,959 | 292,372 |
| Amortisation | (55,365) | 0 | (55,365) |
| At 31 December | 93,048 | 143,959 | 237,007 |
| Cost | 270,108 | 143,959 | 414,067 |
| Accumulated amortisation | (177,060) | 0 | (177,060) |
| | 93,048 | 143,959 | 237,007 |

15 SUBSIDIARIES

| | 2018 RM | Company 2017 RM |
|-------------------------|--------------------|-----------------------|
| Unquoted shares at cost | 146,222,166 | 146,012,423 |
| Less: Impairment loss | (9,400,000) | (9,400,000) |
| | 136,822,166 | 136,612,423 |

During the financial year, the Company increased its investment in its subsidiaries by RM209,743 (2017: RM1,247,320) through grant of shares to selected eligible employees of subsidiaries in the Group under the LTIP.

Details of subsidiaries, the Company's effective interest, principal activities and country of incorporation are set out in Note 34 to the financial statements.

15 SUBSIDIARIES (CONTINUED)

The Group's subsidiaries that have material non-controlling interests ("NCI") are as follows:

| | Penaga Dresser Sdn. Bhd. | Delcom Utilities (Cambodia) Limited | Turboservices Sdn. Bhd. | Deleum Primera Sdn. Bhd. | Other individually immaterial subsidiary | Total |
|------------------------------------|-------------------------------------|--|------------------------------------|---|---|-------------------|
| In RM | | | | | | |
| <u>Year ended 31 December 2018</u> | | | | | | |
| NCI percentage of ownership | | | | | | |
| interest and voting interest | 49% | 40% | 26% | 40% | | |
| Carrying amount of NCI | 12,751,203 | 5,406,842 | 3,807,484 | 2,095,882 | 40,598 | 24,102,009 |
| <hr/> | | | | | | |
| <u>Year ended 31 December 2017</u> | | | | | | |
| NCI percentage of ownership | | | | | | |
| interest and voting interest | 49% | 40% | 26% | 40% | | |
| Carrying amount of NCI | 13,728,475 | 5,399,349 | 5,411,657 | 4,387,566 | (38,013) | 28,889,034 |
| <hr/> | | | | | | |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

15 SUBSIDIARIES (CONTINUED)

Summarised financial information on subsidiaries with material NCI

Summarised statements of comprehensive income

| | Penaga Dresser Sdn. Bhd. | | Delcom Utilities (Cambodia) Limited | | Turboservices Sdn. Bhd. | | Deleum Primera Sdn. Bhd. | |
|---|---|-------------|---|-------------|---|-------------|---|-------------|
| | For the financial year ended 31 December | | For the financial year ended 31 December | | For the financial year ended 31 December | | For the financial year ended 31 December | |
| | 2018 RM | 2017 RM | 2018 RM | 2017 RM | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Revenue | 50,845,225 | 59,009,091 | 0 | 0 | 297,873,386 | 294,594,977 | 138,212,683 | 49,746,028 |
| Profit/(Loss) before tax | 11,848,841 | 14,261,205 | (142,749) | (366,457) | 2,612,504 | 5,792,021 | (6,920,551) | 3,617,088 |
| Tax expense | (2,843,273) | (3,542,353) | 0 | 0 | (618,402) | (2,312,162) | 1,191,344 | (1,108,344) |
| Profit/(Loss) for the year | 9,005,568 | 10,718,852 | (142,749) | (366,457) | 1,994,102 | 3,479,859 | (5,729,207) | 2,508,744 |
| Other comprehensive income/(loss) Currency translation differences | 0 | 0 | 161,481 | (961,788) | 0 | 0 | 0 | 0 |
| Total comprehensive income/(loss) for the financial year | 9,005,568 | 10,718,852 | 18,732 | (1,328,245) | 1,994,102 | 3,479,859 | (5,729,207) | 2,508,744 |
| Total profit or loss allocated to NCI | 4,412,728 | 5,252,237 | (57,100) | (146,582) | 518,467 | 904,763 | (2,291,685) | 1,003,497 |
| Total comprehensive income/(loss) allocated to NCI | 4,412,728 | 5,252,237 | 7,493 | (531,298) | 518,467 | 904,763 | (2,291,685) | 1,003,497 |
| Dividends to NCI | 5,390,000 | 5,390,000 | 0 | 0 | 2,122,640 | 0 | 0 | 0 |

15 SUBSIDIARIES (CONTINUED)

Summarised statements of financial position

| | Penaga Dresser Sdn. Bhd. | | Delcom Utilities (Cambodia) Limited | | Turboservices Sdn. Bhd. | | Deleum Primera Sdn. Bhd. | |
|---|-----------------------------|----------------|--|-------------|----------------------------|---------------|-----------------------------|--------------|
| | As at 31 December | | As at 31 December | | As at 31 December | | As at 31 December | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | RM | Restated RM | RM | RM | RM | RM | RM | RM |
| Current | | | | | | | | |
| Assets | 31,659,005 | 35,053,935 | 3,963,645 | 3,957,236 | 172,930,065 | 142,679,575 | 72,711,129 | 31,363,415 |
| Liabilities | (7,537,519) | (8,848,143) | (7,276,529) | (7,070,762) | (160,494,909) | (122,847,685) | (78,565,507) | (25,559,477) |
| Total current net assets/(liabilities) | 24,121,486 | 26,205,792 | (3,312,884) | (3,113,526) | 12,435,156 | 19,831,890 | (5,854,378) | 5,803,938 |
| Non-current | | | | | | | | |
| Assets | 2,382,586 | 2,163,863 | 16,829,989 | 16,611,899 | 2,209,013 | 1,475,702 | 13,036,341 | 5,740,396 |
| Liabilities | (61,442) | 0 | 0 | 0 | 0 | (493,525) | (1,573,000) | (275,403) |
| Total non-current net assets | 2,321,144 | 2,163,863 | 16,829,989 | 16,611,899 | 2,209,013 | 982,177 | 11,463,341 | 5,464,993 |
| Net assets | 26,442,630 | 28,369,655 | 13,517,105 | 13,498,373 | 14,644,169 | 20,814,067 | 5,608,963 | 11,268,931 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

15 SUBSIDIARIES (CONTINUED)

Summarised statements of cash flows

| | Penaga Dresser Sdn. Bhd. | | Delcom Utilities (Cambodia) Limited | | Turboservices Sdn. Bhd. | | Deleum Primera Sdn. Bhd. | |
|---|---|--------------|---|------------|---|-------------|---|-------------|
| | For the financial year ended 31 December | | For the financial year ended 31 December | | For the financial year ended 31 December | | For the financial year ended 31 December | |
| | 2018 RM | 2017 RM | 2018 RM | 2017 RM | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Cash flows from operating activities | | | | | | | | |
| Cash generated from/ (used in) operations | 14,737,023 | 9,855,067 | 9,548 | (46,701) | (2,896,265) | (6,733,715) | (13,126,784) | (4,636,505) |
| Tax paid | (3,795,040) | (2,986,289) | 0 | 0 | (1,040,075) | (151,071) | (893,467) | (1,520,411) |
| Interest (paid)/received | 0 | (289) | 0 | 0 | 808,643 | 767,253 | (231,345) | (219,409) |
| Net cash generated from/(used in) operating activities | 10,941,983 | 6,868,489 | 9,548 | (46,701) | (3,127,697) | (6,117,533) | (14,251,596) | (6,376,325) |
| Net cash used in investing activities | (387,657) | (134,675) | (3,854,048) | (139,191) | (242,327) | (85,051) | (8,308,556) | (1,266,003) |
| Net cash (used in)/ generated from financing activities | (11,001,217) | (11,011,042) | 0 | 0 | 3,620,887 | (2,697,963) | 22,878,889 | 1,399,330 |

15 SUBSIDIARIES (CONTINUED)

Summarised statements of cash flows (continued)

| | Penaga Dresser Sdn. Bhd. | | Delcom Utilities (Cambodia) Limited | | Turboservices Sdn. Bhd. | | Deleum Primera Sdn. Bhd. | |
|---|---|-------------|---|-----------|---|-------------|---|-------------|
| | For the financial year ended 31 December | | For the financial year ended 31 December | | For the financial year ended 31 December | | For the financial year ended 31 December | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM | RM | RM | RM | RM |
| Net (decrease)/increase in cash and cash equivalents | (446,891) | (4,277,228) | (3,844,500) | (185,892) | 250,863 | (8,900,547) | 318,737 | (6,242,998) |
| Foreign currency translation | (5,593) | (37,601) | (34,540) | (411,208) | 28,056 | 42,723 | 0 | 0 |
| Cash and cash equivalents at beginning of the financial year | 8,720,312 | 13,035,141 | 3,879,040 | 4,476,140 | 29,564,960 | 38,422,784 | 4,283,971 | 10,526,969 |
| Cash and cash equivalents at end of the financial year | 8,267,828 | 8,720,312 | 0 | 3,879,040 | 29,843,879 | 29,564,960 | 4,602,708 | 4,283,971 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

16 JOINT VENTURE

| | 2018 RM | Company 2017 RM |
|-------------------------|-------------------|-----------------------|
| Unquoted shares at cost | 29,375,937 | 29,375,937 |

| | 2018 RM | Group 2017 RM |
|--|-------------------|---------------------|
| Group's share of net assets of joint venture | 29,701,991 | 28,563,089 |

Turboservices Overhaul Sdn. Bhd. ("TOSB") was a wholly owned subsidiary of the Group. It was incorporated in Malaysia and its main activities included the provision of gas turbine overhaul and maintenance services. In March 2015, the Group entered into a Subscription Agreement with STICO, which resulted in the Group having an equity interest of 80.55%. However, both parties approval on relevant activities is required as stated in the Subscription Agreement. Based on MFRS and in the opinion of the Directors, TOSB is regarded as a material joint venture and its results and net assets are accounted for under the equity method of accounting.

The capital of TOSB consists of ordinary shares and redeemable convertible preference shares. It is a private company and there is no readily available quoted market price available for its shares.

Summarised statement of comprehensive income

| | TOSB | |
|------------------|---|-------------|
| | For the financial year ended | |
| | 2018 RM | 2017 RM |
| Revenue | 6,763,568 | 6,763,568 |
| Depreciation | (2,857,243) | (2,925,583) |
| Interest expense | 0 | (8,592) |
| Interest income | 385,432 | 252,763 |

16 JOINT VENTURE (CONTINUED)

Summarised statement of comprehensive income (continued)

| | TOSB | |
|---|-------------------------------------|-------------|
| | For the financial year ended | |
| | 2018 | 2017 |
| | RM | RM |
| Profit before tax | 1,853,459 | 1,421,111 |
| Tax expense | (439,552) | (357,526) |
| Profit for the year/Total comprehensive income for the financial year | 1,413,907 | 1,063,585 |
| Interest in joint venture (80.55%) Share of results | 1,138,902 | 856,718 |

Summarised statement of financial position

| | TOSB | |
|---|--------------------------|-------------|
| | As at 31 December | |
| | 2018 | 2017 |
| | RM | RM |
| <u>Current</u> | | |
| Cash and bank balances | 15,732,909 | 12,959,621 |
| Other current assets (excluding cash and bank balances) | 4,723,127 | 3,053,628 |
| Total current assets | 20,456,036 | 16,013,249 |
| Financial liabilities (excluding trade payables) | (265,223) | (544,469) |
| Other current liabilities (including trade payables) | (210,793) | (166,521) |
| Total current liabilities | (476,016) | (710,990) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

16 JOINT VENTURE (CONTINUED)

Summarised statement of financial position (continued)

| | TOSB | |
|------------------------------|--------------------------|-------------|
| | As at 31 December | |
| | 2018 | 2017 |
| | RM | RM |
| <u>Non-current</u> Assets | 18,112,571 | 20,998,193 |
| Liabilities | (1,218,611) | (840,379) |
| Net assets | 36,873,980 | 35,460,073 |

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in joint venture.

| | TOSB | |
|------------------------------------|--------------------------|-------------|
| | As at 31 December | |
| | 2018 | 2017 |
| | RM | RM |
| Opening net assets 1 January | 28,563,089 | 27,706,371 |
| Share of profit for the year | 1,138,902 | 856,718 |
| Closing net assets | 29,701,991 | 28,563,089 |
| Interest in joint venture (80.55%) | 29,701,991 | 28,563,089 |
| Carrying value | 29,701,991 | 28,563,089 |

17 ASSOCIATES

| | 2018 | Group |
|---|-------------------|--------------|
| | RM | 2017 |
| | | RM |
| Group's share of net assets of associates | 35,564,981 | 38,595,019 |

In the opinion of the Directors, Malaysian Mud and Chemicals Sdn. Bhd. ("MMC") and Cambodia Utilities Pte Ltd ("CUPL") are material associates to the Group. The Group's effective equity interest in the associates, the nature of the relationship, place of business and country of incorporation are set out in Note 34 to the financial statements. The associates have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation is also their principal place of business.

Both associates are private companies and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the associates.

The power generating facility operated by CUPL under a build, operate and transfer agreement with Electricite Du Cambodge expired in May 2015. Upon its expiration, the Company will continue to equity account for the results of CUPL until it ceases to be an associate. The Company's interest in CUPL at that date will be represented by current assets which are expected to be liquidated in which the surplus after net of any amount due to CUPL will be returned to the Company in the form of cash. The share of loss from this associate and its contribution attributable to the shareholders of the Company in the financial year ended 31 December 2018 amounted to RM212 (2017: RM375,622) and RM127 (2017: RM225,373) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

17 ASSOCIATES (CONTINUED)

Summarised statements of comprehensive income

| | MMC | | CUPL | | Total | |
|--|-------------------------------------|-------------|-------------------------------------|-------------|-------------------------------------|-------------|
| | For the financial year ended | | For the financial year ended | | For the financial year ended | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM | RM | RM |
| Revenue | 30,655,967 | 31,925,418 | 0 | 0 | 30,655,967 | 31,925,418 |
| Depreciation | (7,724,888) | (8,880,272) | 0 | 0 | (7,724,888) | (8,880,272) |
| Interest income | 0 | 0 | 2,756 | 13,399 | 2,756 | 13,399 |
| Profit/(Loss) before tax | 8,342,293 | (312,874) | (1,060) | (1,878,113) | 8,341,233 | (2,190,987) |
| Tax expense | (1,233,569) | 283,700 | 0 | 0 | (1,233,569) | 283,700 |
| Profit/(Loss) for the year | 7,108,724 | (29,174) | (1,060) | (1,878,113) | 7,107,664 | (1,907,287) |
| Other comprehensive income/(loss) | | | | | | |
| Currency translation differences | 0 | 0 | 676,911 | (3,823,202) | 679,911 | (3,823,202) |
| Total comprehensive income/(loss) for the financial year | 7,108,724 | (29,174) | 675,851 | (5,701,315) | 7,787,575 | (5,730,489) |
| Interest in associates (32%; 20%) | | | | | | |
| Share of results | 2,274,792 | (9,336) | (212) | (375,622) | 2,274,580 | (384,958) |
| Dividends received from associate | 3,840,000 | 0 | 0 | 0 | 3,840,000 | 0 |

17 ASSOCIATES (CONTINUED)

Summarised statements of financial position

| | MMC | | CUPL | | Total | |
|---|---------------------|--------------|-------------------|------------|---------------------|--------------|
| | As at 31 December | | As at 31 December | | As at 31 December | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM | RM | RM |
| <u>Current</u> | | | | | | |
| Cash and bank balances | 4,339,724 | 3,195,994 | 756,146 | 457,181 | 5,095,870 | 3,653,175 |
| Other current assets (excluding cash and bank balances) | 31,102,114 | 36,044,006 | 36,213,502 | 35,831,018 | 67,315,616 | 71,875,024 |
| Total current assets | 35,441,838 | 39,240,000 | 36,969,648 | 36,288,199 | 72,411,486 | 75,528,199 |
| <u>Financial liabilities</u> | | | | | | |
| (excluding trade payables) | (3,229,786) | (1,388,923) | 0 | 0 | (3,229,786) | (1,388,923) |
| Other current liabilities (including trade payables) | (67,415) | (2,686,241) | (349,710) | (344,112) | (417,125) | (3,030,353) |
| Total current liabilities | (3,297,201) | (4,075,164) | (349,710) | (344,112) | (3,646,911) | (4,419,276) |
| <u>Non-current</u> | | | | | | |
| Assets | 67,558,667 | 74,481,562 | 0 | 0 | 67,558,667 | 74,481,562 |
| Liabilities | (11,450,200) | (11,502,018) | 0 | 0 | (11,450,200) | (11,502,018) |
| Net assets | 88,253,104 | 98,144,380 | 36,619,938 | 35,944,087 | 124,873,042 | 134,088,467 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

17 ASSOCIATES (CONTINUED)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates.

| | MMC | | CUPL | | Total | |
|-----------------------------------|---------------------|------------|-------------------|-------------|---------------------|-------------|
| | 2018 RM | 2017 RM | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Opening net assets | | | | | | |
| 1 January | 98,144,380 | 98,173,554 | 35,944,087 | 41,645,402 | 134,088,467 | 139,818,956 |
| Profit/(Loss) for the year | 7,108,724 | (29,174) | (1,060) | (1,878,113) | 7,107,664 | (1,907,287) |
| Other comprehensive | | | | | | |
| income/(loss) | 0 | 0 | 676,911 | (3,823,202) | 676,911 | (3,823,202) |
| Dividends | (17,000,000) | 0 | 0 | 0 | (17,000,000) | 0 |
| Closing net assets | 88,253,104 | 98,144,380 | 36,619,938 | 35,944,087 | 124,873,042 | 134,088,467 |
| Interest in associates (32%; 20%) | 28,240,993 | 31,406,202 | 7,323,988 | 7,188,817 | 35,564,981 | 38,595,019 |
| Carrying value | 28,240,993 | 31,406,202 | 7,323,988 | 7,188,817 | 35,564,981 | 38,595,019 |

18 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

| | 2018 RM | Company 2017 RM |
|-------------------------------|---------------------|-----------------------|
| Amounts due from subsidiaries | 80,187,580 | 75,484,653 |
| Amounts due to subsidiaries | (18,596,478) | (15,005,795) |

Included in amounts due from subsidiaries are amounts due from a subsidiary amounting to RM2,200,000 (2017: RM2,200,000) in relation to finance the purchase of equipment. These amounts are unsecured, charged interest at 4.15% per annum (2017: 4.15% per annum) and are repayable on demand.

Except as mentioned above, the amounts due from/(to) subsidiaries are unsecured, interest free and are repayable/payable on demand.

Amounts due from/(to) subsidiaries are denominated in Ringgit Malaysia.

19 INVENTORIES

| | 2018 | Group |
|---|-------------------|--------------|
| | RM | 2017 |
| | | RM |
| At cost: | | |
| Finished goods | 23,272,428 | 19,029,398 |
| Less: Allowance for slow moving inventories | (773,909) | (688,634) |
| | 22,498,519 | 18,340,764 |

Included in costs of sales are inventories consumed and recognised as cost of sales during the year of RM77,760,481 (2017: RM107,121,694).

Movement in allowance for slow moving inventories is as follows:

| | 2018 | Group |
|--------------------------------|-----------------|--------------|
| | RM | 2017 |
| | | RM |
| At 1 January | 688,634 | 678,026 |
| Allowance made during the year | 209,470 | 317,545 |
| Written off during the year | (97,041) | (187,030) |
| Reversal of allowance made | (27,154) | (119,907) |
| At 31 December | 773,909 | 688,634 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

20 TRADE AND OTHER RECEIVABLES

| | 2018 | Group 2017 Restated | 2018 | Company 2017 |
|---------------------------------|--------------------|---------------------------|----------------|-----------------|
| | RM | RM | RM | RM |
| <u>Non-current:</u> | | | | |
| Other long-term receivables | 4,921,400 | 4,921,400 | 0 | 0 |
| Deposits (Note 12) | 6,160,332 | 0 | 0 | 0 |
| | 11,081,732 | 4,921,400 | 0 | 0 |
| <u>Current:</u> | | | | |
| Trade receivables | 94,717,238 | 112,031,022 | 0 | 0 |
| Less: Impairment of receivables | (1,733,664) | (2,049,988) | 0 | 0 |
| Trade receivables, net | 92,983,574 | 109,981,034 | 0 | 0 |
| Other receivables | 2,422,260 | 8,278,421 | 57,171 | 48,320 |
| Less: Impairment of receivables | (48,030) | (48,030) | 0 | 0 |
| | 2,374,230 | 8,230,391 | 57,171 | 48,320 |
| Deposits | 2,701,855 | 1,572,866 | 23,150 | 23,100 |
| Prepayments | 5,091,403 | 3,879,704 | 175,466 | 332,063 |
| | 10,167,488 | 13,682,961 | 255,787 | 403,483 |
| | 103,151,062 | 123,663,995 | 255,787 | 403,483 |

Other long-term receivables

The other long-term receivables are non-current upfront deposits paid by the Group totalling RM4,921,400 (2017: RM4,921,400) for an investment which involves a joint collaborative effort with an independent third party and is held for long-term for strategic purposes.

Deposits

Included in deposits are advance payments made amounting to RM6,160,332 (2017: RM nil) for the purchases of plant and equipment that are pending fulfilment on the asset recognition prerequisites and is classified as non-current assets.

20 TRADE AND OTHER RECEIVABLES (CONTINUED)Trade receivables

The currency profile of trade receivables is as follows:

| | 2018 | Group 2017 Restated |
|---------------------|-------------------|---------------------------|
| | RM | RM |
| - Ringgit Malaysia | 29,992,055 | 46,953,857 |
| - US Dollar | 61,054,027 | 63,027,177 |
| - Indonesian Rupiah | 1,937,492 | 0 |
| | 92,983,574 | 109,981,034 |

Credit terms of trade receivables range from 30 to 90 days (2017: 30 to 90 days) and trade receivables are non-interest bearing. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

68% of the Group's trade receivables as at 31 December 2018 (2017: 69%) relates to 6 (2017: 6) main customers while the remaining balance is spread over a large number of customers. The major customers are primarily players in the oil and gas industry.

The ageing analysis of the Group's trade receivables is as follows:

| | 2018 | Group 2017 Restated |
|--|-------------------|---------------------------|
| | RM | RM |
| Neither past due nor impaired | 53,168,068 | 82,282,842 |
| 1 to 30 days past due not impaired | 20,929,368 | 14,477,434 |
| 31 to 60 days past due not impaired | 4,303,118 | 9,007,291 |
| 61 to 90 days past due not impaired | 7,452,157 | 2,511,234 |
| 91 to 120 days past due not impaired | 6,533,959 | 482,102 |
| More than 121 days past due not impaired | 596,904 | 1,220,131 |
| Neither past due but impaired | 1,400 | 0 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

20 TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables (continued)

The ageing analysis of the Group's trade receivables is as follows: (continued)

| | 2018 | Group 2017 |
|--|--------------------|----------------|
| | RM | Restated RM |
| Past due and impaired: | | |
| 61 to 90 days past due and impaired | 0 | 63,610 |
| More than 121 days past due and impaired | 1,732,264 | 1,986,378 |
| | 94,717,238 | 112,031,022 |
| Less: Impairment of receivables | (1,733,664) | (2,049,988) |
| | 92,983,574 | 109,981,034 |

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are debtors with good payment history. A number of these debtors are from the oil and gas industry. None of the Group'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 RM39,815,506 (2017: RM27,698,192) that are past due at the reporting date but not impaired. The receivable balances are unsecured in nature. These balances relate mainly to customers who have good payment history.

20 TRADE AND OTHER RECEIVABLES (CONTINUED)Trade receivables (continued)Receivables that are not past due but impaired

Trade receivables that are not past due but impaired are specific debtors that are identified in which collection are in doubt.

Movement in impairment of trade receivables is as follows:

| | 2018 | Group 2017 Restated |
|---------------------------------|------------------|---------------------------|
| | RM | RM |
| At 1 January | 2,049,988 | 2,100,792 |
| Impairment made during the year | 9,926 | 274,079 |
| Written off during the year | (190,038) | (220,431) |
| Reversal of impairment losses | (136,212) | (100,454) |
| Exchange differences | 0 | (3,998) |
| At 31 December | 1,733,664 | 2,049,988 |

All impaired trade receivables are individually or collectively determined on the basis of shared credit risk characteristics. These impaired receivables are from customers whose credit risks have significantly increased since initial recognition. These receivables are not secured by collateral or credit enhancements.

At 31 December 2018, the lifetime expected credit loss allowance for trade receivables is as follows:

| | Carrying amounts | Group Impairment |
|-----------------------------|------------------|---------------------|
| | RM | RM |
| Not past due | 6,990 | 1,400 |
| Past due: | | |
| More than 121 days past due | 13,623 | 2,195 |
| | 20,613 | 3,595 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

20 TRADE AND OTHER RECEIVABLES (CONTINUED)

Other receivables

Other receivables are non-trade in nature, unsecured, interest free, payable on demand and in relation to payments made on behalf and the now repealed Goods and Services Tax ("GST") amount recoverable from the Royal Malaysian Customs Department.

Movement in impairment of other receivables is as follows:

| | 2018 RM | Group 2017 RM |
|---------------------------------|------------|---------------------|
| At 1 January | 48,030 | 0 |
| Impairment made during the year | 0 | 48,030 |
| At 31 December | 48,030 | 48,030 |

In the previous financial year, the impairment made on other receivables relate to an earnest deposit paid for a space rental. This amount was impaired in view that the space rental arrangement was cancelled and that the recoverability of the amount is uncertain.

21 CONTRACT BALANCES

CONTRACT ASSETS

| | 2018 RM | Group 2017 RM |
|-------------------------------------|-------------|---------------------|
| Accrued revenue | 160,852,032 | 80,128,637 |
| Less: Impairment of accrued revenue | (585,346) | (623,134) |
| Accrued revenue, net (note (a)) | 160,266,686 | 79,505,503 |
| Retention sum (note (a)) | 529,983 | 1,177,775 |
| Deferred costs (note (b)) | 160,796,669 | 80,683,278 |
| | 3,058,029 | 1,351,805 |
| | 163,854,698 | 82,035,083 |

21 CONTRACT BALANCES (CONTINUED)CONTRACT LIABILITIES

| | 2018 | Group |
|-----------------------------|--------------------|--------------|
| | RM | 2017 |
| | | RM |
| Deferred revenue (note (b)) | (6,476,785) | (1,972,986) |
| Net contract assets | 157,377,913 | 80,062,097 |

Contract assets of which performance obligations has been satisfieda. Accrued Revenue and Retention Sum

Accrued revenue represents timing difference in revenue earned from customers against the corresponding billings made to the respective customers. This includes accrued revenue arising from construction and project based contracts where this represents the excess of cumulative revenue earned over the total billings made to-date on the contract. These billings will be issued when the billing milestone is met. Retention sum receivables are monies withheld by contract customers and will be released upon the completion of the contract jobs and/or expiry of the defect liability period of the contract.

The currency profile of contract assets consisting of accrued revenue and retention sum are as follows:

| | 2018 | Group |
|---------------------|--------------------|--------------|
| | RM | 2017 |
| | | RM |
| - Ringgit Malaysia | 95,279,817 | 54,264,887 |
| - US Dollar | 65,504,860 | 26,418,391 |
| - Indonesian Rupiah | 11,992 | 0 |
| | 160,796,669 | 80,683,278 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

21 CONTRACT BALANCES (CONTINUED)

Contract assets of which performance obligations has been satisfied (continued)

a. Accrued Revenue and Retention Sum (continued)

Movement in impairment of accrued revenue and retention sum are as follows:

| | 2018 RM | Group 2017 RM |
|---------------------------------|----------------|---------------------|
| At 1 January | 623,134 | 532,578 |
| Impairment made during the year | 23,038 | 90,556 |
| Written off during the year | (51,666) | 0 |
| Reversal of impairment losses | (9,160) | 0 |
| At 31 December | 585,346 | 623,134 |

Contract assets of which performance obligations has not been satisfied

b. Deferred Costs and Deferred Revenue

Deferred costs represent costs incurred for work performed for which performance milestone have yet to be achieved or performance obligation are yet to be completed and accepted by customers. These deferred costs shall be recognised as cost of sales only when the performance obligation is satisfied.

Deferred revenue represent advance payments received from customers and other deferred income where the Group has billed or has collected the payment for which the performance obligations is yet to be satisfied and is initially recorded as deferred revenue. This deferred revenue shall be recognised as revenue earned only when the performance obligations is satisfied.

The Group applies the practical expedient in MFRS 15 on not disclosing the expected revenues and costs to be recognised in the future for the above mentioned deferred costs and revenue respectively as these performance obligations are part of contracts that have an original expected duration of one year or less.

22 AMOUNTS DUE FROM/(TO) ASSOCIATES

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|-----------------------------|--------------------|---------------------|------------|-----------------------|
| Amounts due from associates | 1,600,016 | 5,639 | 16 | 40 |
| Amounts due to associates | (7,242,375) | (7,050,562) | 0 | 0 |

Included in the amounts due from associates is dividend receivable of RM1,600,000 (2017: RM nil).

Except as mentioned above, the amounts due from/(to) associates are non-trade in nature, unsecured, interest free, repayable/payable on demand and in relation to payments made on behalf for operating expenses.

The amounts due from/(to) associates are denominated in Ringgit Malaysia.

23 AMOUNTS DUE FROM A JOINT VENTURE

| | 2018 RM | Group 2017 Restated RM | 2018 RM | Company 2017 RM |
|----------------------------------|----------------|---------------------------------|----------------|-----------------------|
| Amounts due from a joint venture | 160,470 | 138,264 | 160,309 | 138,264 |

The amounts due from/(to) a joint venture are unsecured, interest free, repayable/payable on demand and are denominated in Ringgit Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

24 DERIVATIVE FINANCIAL INSTRUMENTS

Movement in derivative assets/(liabilities) are as follows:

| | 2018 RM | Group 2017 RM |
|--------------------------------|------------------|---------------------|
| As at 1 January | (23,775) | 0 |
| Changes in fair value (Note 6) | (649,536) | (23,775) |
| Settlement during the year | 680,675 | 0 |
| As at 31 December | 7,364 | (23,775) |

Forward foreign exchange contracts are used to manage the foreign currency exposures arising from the Group's obligation to settle its liabilities that are denominated in currencies other than the functional currency of the Group. The settlement dates on forward foreign exchange contracts range between 1 to 180 days. As at the reporting date, the notional principal amounts of the outstanding forward foreign exchange contracts are RM2,602,300 (2017: RM609,300).

The Group determines the fair value of the derivative financial instruments relating to the forward foreign exchange contracts using a valuation technique which utilises input from recognised and reliable financial information sources. Assumptions are based on market conditions existed at each reporting date. The fair value of forward foreign exchange contract is determined by using the forward exchange rates as at each reporting date.

As at 31 December 2018, the fair value changes arising from the forward foreign exchange contracts entered into by the Group and remained outstanding are fair value gains of RM7,364 (2017: fair value loss of RM23,775).

25 CASH AND BANK BALANCES

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|-------------------------------------|--------------------|---------------------|------------------|-----------------------|
| Cash and cash equivalents | 124,276,324 | 130,647,897 | 6,386,695 | 6,634,501 |
| Add: | | | | |
| Cash held in a designated account | 5,130,539 | 5,239,820 | 0 | 0 |
| Deposits pledged as security | 5,500,000 | 5,500,000 | 0 | 0 |
| Total cash and bank balances | 134,906,863 | 141,387,717 | 6,386,695 | 6,634,501 |
| Represented by: | | | | |
| Deposits with licensed banks | 93,068,352 | 100,884,814 | 6,260,000 | 6,500,000 |
| Cash and bank balances | 41,838,511 | 40,502,903 | 126,695 | 134,501 |
| Total cash and bank balances | 134,906,863 | 141,387,717 | 6,386,695 | 6,634,501 |

The currency profile of cash and bank balances is as follows:

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|--------------------|--------------------|---------------------|------------------|-----------------------|
| - Ringgit Malaysia | 127,076,209 | 121,203,012 | 6,386,695 | 6,634,501 |
| - US Dollar | 7,717,470 | 20,060,090 | 0 | 0 |
| - Euro Dollar | 4,342 | 15,534 | 0 | 0 |
| - Singapore Dollar | 90,401 | 90,608 | 0 | 0 |
| - Hong Kong Dollar | 18,441 | 18,473 | 0 | 0 |
| Total | 134,906,863 | 141,387,717 | 6,386,695 | 6,634,501 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

25 CASH AND BANK BALANCES (CONTINUED)

The range of interest rate (per annum) and maturity periods of the deposits are as follows:

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|-------------------|--------------------|---------------------|--------------------|-----------------------|
| Interest rate (%) | 0.13 - 3.18 | 0.10 - 2.97 | 2.75 - 3.14 | 2.65 - 2.90 |
| Maturities (days) | 1 - 30 | 1 - 40 | 1 - 16 | 1 - 31 |

Cash held in a designated account is required by the terms of the term loan undertaken by a subsidiary company (Note 26).

26 BORROWINGS

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---|---------------------|---------------------|---------------------|-----------------------|
| Revolving credits | 24,800,000 | 17,800,000 | 24,800,000 | 17,800,000 |
| Finance lease liabilities (Note 12) | 80,000 | 0 | 0 | 0 |
| Term loans | 35,653,000 | 55,350,000 | 0 | 0 |
| Loans against imports | 2,647,960 | 2,898,407 | 0 | 0 |
| | 63,180,960 | 76,048,407 | 24,800,000 | 17,800,000 |
| Less: amount repayable within 12 months | | | | |
| Revolving credits | (24,800,000) | (17,800,000) | (24,800,000) | (17,800,000) |
| Finance lease liabilities | (18,558) | 0 | 0 | 0 |
| Term loans | (27,929,828) | (24,599,828) | 0 | 0 |
| Loans against imports | (2,647,960) | (2,898,407) | 0 | 0 |
| | (55,396,346) | (45,298,235) | (24,800,000) | (17,800,000) |
| Amount repayable after 12 months | 7,784,614 | 30,750,172 | 0 | 0 |

26 BORROWINGS (CONTINUED)(a) Term loans (secured)

The above term loans were structured as follows:

| | 2018 | Group |
|------------|-------------------|--------------|
| | RM | 2017 |
| | | RM |
| Term loans | 35,653,000 | 55,350,000 |

On 9 November 2018, a subsidiary of the Group drew down a new term loan to part finance the purchase of plant and equipment. The total draw down as at 31 December 2018 was RM4,903,000. The term loan is secured over the plant and equipment which financed under the term loan.

The term loan carries an interest of 0.9% above the bank's KLIBOR. The loan is repayable by way of 60 monthly principal instalment of RM370,000. The first instalment is to be commenced on 6th month from the date of the first draw down. The first instalment payment will be due by April 2019. The tenure of the loan is 5 years.

On 29 October 2013, a subsidiary of the Group drew down a term loan to part finance the purchase of slickline equipment and tools. The total draw down was RM122,999,142. The term loan is secured by an "all monies" first legal charge over machinery of slickline equipment and tools of the subsidiary as disclosed in Note 12 and corporate guarantee of RM123,000,000 furnished by another subsidiary of the Group.

The term loan carries an interest of 4.22% per annum (0.90% above the KLIBOR) (2017: 3.97%). The loan is repayable by way of 60 monthly principal instalments of RM2,049,986. The first instalment commences on the 18th month from the date of the first draw down or the 6th month from the date of the full draw down, whichever is earlier. The first instalment payment was made in April 2015. The tenure of the loan is 5 years.

Under the loan covenant, the subsidiary is required to open an escrow account under its own name. A minimum of two instalments (principal and interest) must be maintained at all time in that account. The balance in the escrow account as at 31 December 2018 is RM5,130,539 (2017: RM5,239,820) (Note 25).

The fair value of these term loans approximates its carrying amount due to it being a floating rate instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

26 BORROWINGS (CONTINUED)

(a) Term loans (secured) (continued)

The periods in which the term loans of the Group attain maturity are as follows:

| | 2018 RM | Group 2017 RM |
|---|-------------------|---------------------|
| Not later than 1 year | 27,929,828 | 24,599,828 |
| Later than 1 year but not later than 2 years | 7,723,172 | 24,599,828 |
| Later than 2 years but not later than 5 years | 0 | 6,150,344 |
| | 35,653,000 | 55,350,000 |

(b) Revolving credit (unsecured)

The revolving credit facility was drawn down to part finance the purchase of additional slickline equipment and tools and for working capital requirements. The amount was rolled-over on a monthly basis at an average rate of 5.21% (1.00% per annum above the bank's cost of fund) (2017: 4.96%). The interest is fixed at the date of each draw down and subsequently revised at the commencement of each roll-over period. No securities have been pledged under this facility.

The fair value of the revolving credit approximates its carrying amount due to it being a floating rate instruments.

(c) Loans against imports (unsecured)

The loans against imports facility was drawn down to finance the import of inventories, parts and machineries. The facility carries an interest rate of 4.64% (1.15% per annum above the bank's cost of fund) (2017: 4.51%). No securities have been pledged under this facility.

The fair value of the loans against imports approximates its carrying amount due to it being a floating rate instruments.

26 BORROWINGS (CONTINUED)(d) Finance lease liabilities

| | Group 2018 RM |
|---|------------------------------|
| <u>Future minimum hire purchase payments:</u> | |
| Not later than 1 year | 21,972 |
| Later than 1 year and not later than 2 years | 21,972 |
| Later than 2 years and not later than 5 years | 43,928 |
| | 87,872 |
| Less: Future finance charges | (7,872) |
| Present value of hire purchase liabilities | 80,000 |
| <u>Analysis of present value of hire purchase payables:</u> | |
| Not later than 1 year | 18,558 |
| Later than 1 year and not later than 2 years | 19,522 |
| Later than 2 years and not later than 5 years | 41,920 |
| | 80,000 |
| Analysed as: | |
| Due within 12 months | 18,558 |
| Due after 12 months | 61,442 |
| | 80,000 |

The hire purchase payables bore interest of 2.46% (2017: nil%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

27 TRADE AND OTHER PAYABLES

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|------------------------|--------------------|---------------------|------------------|-----------------------|
| Trade payables | 183,646,429 | 120,809,907 | 0 | 0 |
| Other payables | 7,758,816 | 14,620,552 | 474,410 | 1,196,961 |
| Staff related accruals | 5,557,484 | 6,899,958 | 1,214,780 | 1,652,676 |
| Other accruals | 6,171,187 | 3,586,743 | 847,701 | 588,183 |
| | 11,728,671 | 10,486,701 | 2,062,481 | 2,240,859 |
| | 19,487,487 | 25,107,253 | 2,536,891 | 3,437,820 |
| | 203,133,916 | 145,917,160 | 2,536,891 | 3,437,820 |

The other payables include the now repealed GST amount payable to the Royal Malaysian Customs Department.

The currency profile of trade payables is as follows:

| | 2018 RM | Group 2017 RM |
|---------------------|--------------------|---------------------|
| - Ringgit Malaysia | 75,066,736 | 23,495,877 |
| - US Dollar | 107,644,221 | 97,055,138 |
| - Singapore Dollar | 772,524 | 100,634 |
| - Euro Dollar | 140,152 | 158,258 |
| - Indonesian Rupiah | 22,796 | 0 |
| | 183,646,429 | 120,809,907 |

Credit terms of payment granted by the suppliers of the Group are 30 to 60 days (2017: 30 to 60 days).

28 DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same tax authority.

Deferred tax assets are recognised for tax losses carried forward to the extent the realisation of the benefit through future taxable profit are probable.

The following amounts, determined after appropriate offsetting, are shown on the statements of financial position:

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---|---------------------|---------------------|------------------|-----------------------|
| Deferred tax assets | 3,061,817 | 2,009,874 | 798,232 | 1,680,838 |
| Deferred tax liabilities | (22,785,561) | (22,724,247) | 0 | 0 |
| At 1 January | (20,714,373) | (17,696,330) | 1,680,838 | 2,074,053 |
| (Charged)/credited to profit or loss (Note 9) | | | | |
| - property, plant and equipment | (165,983) | (1,234,229) | (43,656) | (244,226) |
| - unutilised tax losses | 153,153 | (1,578,073) | (720,200) | (171,493) |
| - deferred cost | (462,710) | 1,342,964 | 0 | 0 |
| - deferred revenue | 1,438,206 | (1,889,796) | 0 | 0 |
| - accruals | (324,768) | (29,152) | (118,750) | 22,504 |
| - others | 352,731 | 370,243 | 0 | 0 |
| | 990,629 | (3,018,043) | (882,606) | (393,215) |
| | (19,723,744) | (20,714,373) | 798,232 | 1,680,838 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

28 DEFERRED TAX (CONTINUED)

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---|---------------------|---------------------|----------------|-----------------------|
| <u>Recognised deferred tax assets</u> | | | | |
| <u>Deferred tax assets (before offsetting)</u> | | | | |
| Property, plant and equipment | 772,395 | 317 | 0 | 39,927 |
| Unutilised tax losses | 1,383,294 | 1,230,141 | 450,740 | 1,170,940 |
| Deferred revenue | 1,589,876 | 151,670 | 0 | 0 |
| Accruals | 1,094,593 | 1,419,361 | 351,221 | 469,971 |
| Others | 157,668 | 441,408 | 0 | 0 |
| | 4,997,826 | 3,242,897 | 801,961 | 1,680,838 |
| Less: Offsetting | (1,936,009) | (1,233,023) | (3,729) | 0 |
| Deferred tax assets (after offsetting) | 3,061,817 | 2,009,874 | 798,232 | 1,680,838 |
| <u>Recognised deferred tax liabilities</u> | | | | |
| <u>Deferred tax liabilities (before offsetting)</u> | | | | |
| Property, plant and equipment | (23,879,080) | (22,941,019) | (3,729) | 0 |
| Deferred cost | (743,220) | (280,510) | 0 | 0 |
| Others | (99,270) | (735,741) | 0 | 0 |
| | (24,721,570) | (23,957,270) | (3,729) | 0 |
| Less: Offsetting | 1,936,009 | 1,233,023 | 3,729 | 0 |
| Deferred tax liabilities (after offsetting) | (22,785,561) | (22,724,247) | 0 | 0 |

28 DEFERRED TAX (CONTINUED)Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | 2018 RM | Group 2017 RM |
|---|-------------------|---------------------|
| Property, plant and equipment | 2,488,278 | 3,628,549 |
| Unutilised tax losses | 13,019,346 | 12,039,563 |
| Deferred revenue | 0 | 94,060 |
| Deferred cost | (208,896) | (160,571) |
| Accruals | 227,277 | 447,802 |
| Others | 164,839 | 183,628 |
| Total unrecognised deferred tax assets | 15,690,844 | 16,233,031 |

The unabsorbed capital allowances, unutilised tax losses and other deductible temporary difference do not expire under the current tax legislation as at reporting date. Effective from 2019 onwards, any unutilised tax losses shall only be allowed to be carried forward for a maximum period of seven (7) consecutive years commencing from the year such unutilised tax losses were incurred or from 2019 onwards for any unutilised tax losses that were incurred prior to 2019. Deferred tax assets have not been recognised in respect of these items because it is not probable that sufficient future taxable profits will be available against which the Group can utilise the benefits therefrom or upon when such tax benefits had expired under the prevailing tax laws on that reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29 SHARE CAPITAL

| | Group and Company | |
|--|--------------------------|-------------|
| | 2018 | 2017 |
| | RM | RM |
| <u>Issued and fully paid ordinary shares:</u> | | |
| At 1 January | | |
| - 400,195,300 ordinary shares with no par value (2017: 400,000,000 ordinary shares with no par value) | 200,205,651 | 200,000,000 |
| Issued pursuant to the Long-Term Incentive Plan (Note 30) | | |
| - 930,400 ordinary shares with no par value (2017: 195,300 ordinary shares with no par value) | 1,147,951 | 205,651 |
| At 31 December | | |
| - 401,125,700 ordinary shares with no par value (2017: 400,195,300 ordinary shares with no par value) | 201,353,602 | 200,205,651 |

During the financial year, the total number of issued ordinary shares of the Company was increased from 400,195,300 to 401,125,700 by way of:

- (i) issuance of 297,200 new ordinary shares at RM1.567 per share to eligible employees under the Third Tranche of the First Grant under Restricted Share Incentive Plan of the Company's Long-Term Incentive Plan;
- (ii) issuance of 450,100 new ordinary shares at RM1.100 per share to eligible employees under the Second Tranche of Second Grant under Restricted Share Incentive Plan of the Company's Long-Term Incentive Plan; and
- (iii) issuance of 183,100 new ordinary shares at RM1.022 per share to eligible employees under the Second Tranche of Special Grant under Restricted Share Incentive Plan of the Company's Long-Term Incentive Plan.

The newly issued ordinary shares rank pari passu in all respects with the existing shares of the Company.

30 SHARE BASED PAYMENT

The Long-Term Incentive Plan (“LTIP”) allows the Company to grant shares under the scheme to Directors of the Company acting in an executive capacity and key employees of the Group and the Company of up to 10% of the issued and paid-up share capital of the Company (excluding treasury shares, if any). The LTIP is governed by the By-Laws which was approved by shareholders on 27 May 2014 and is administered by the Plan Committee which is appointed by the Board of Directors, in accordance with the By-Laws. The LTIP shall be in force for a period of 10 years commencing from 10 October 2014.

The LTIP comprises the Restricted Share Incentive Plan (“RS Award”) and Performance Share Incentive Plan (“PS Award”). The salient features of the LTIP, inter alia, are as follows:

- (a) Any Executive Director of the Company or key employees of the Group shall be eligible to be considered for the awards if that person meets the eligibility criteria, amongst others, holding a senior management or key position within the Group whose service or employment has been confirmed in writing.
- (b) The maximum number of LTIP shares which may be made available under the LTIP shall not be more than in aggregate 10% of the issued and paid-up ordinary share capital of the Company (excluding treasury shares, if any) at any point in time when the award is made during the duration of the LTIP.
- (c) The total number of LTIP shares that may be awarded to any one of the selected eligible employees and/or to be vested in any one of the selected eligible employees under the LTIP at any time shall be at the discretion of the Plan Committee after taking into account such criteria as may be determined by the Plan Committee in its discretion in accordance with the By-Laws of the LTIP.
- (d) The LTIP shares to be allotted and issued pursuant to the LTIP shall upon allotment and issuance, rank pari passu in all respects with the then existing ordinary shares in the Company in issue and shall be entitled to any rights, dividends, allotments and/or distributions attached thereto and/or which may be declared, made or paid to the Company's shareholders, provided that the relevant allotment date of such LTIP shares is before the entitlement date of such rights, dividends, allotments and/or distributions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

30 SHARE BASED PAYMENT (CONTINUED)

The movement during the financial year in the number of shares in which employees of the Group and the Company is entitled to are as follows:

| Date of Grants | Type of Grant | At 1.1.2018 | Granted | Vested | Lapsed/ Forfeited | At 31.12.2018 |
|--|---------------|-------------|---------|-----------|------------------------|---------------|
| 2 March 2015 (1 st Grant) | RS Award | 327,198 | 0 | (297,200) | (29,998) [^] | 0 |
| | PS Award | 947,300 | 0 | 0 | (947,300) [^] | 0 |
| 22 March 2016 (2 nd Grant) | RS Award | 971,066 | 0 | (450,100) | (66,600) [@] | 454,366 |
| | PS Award | 1,399,300 | 0 | 0 | (146,300) [#] | 1,253,000 |
| 22 March 2017 (Special Grant) | RS Award | 194,800 | 0 | (183,100) | (11,700) [@] | 0 |

The vesting periods for the Grants are as follows:

1st Grant

RS Award - One-third annually from the date of 1st Grant over 3 years, with the first vesting commencing on 2 March 2016 or such other date to be determined by the Plan Committee.

PS Award - Over 3 years from the date of 1st Grant, with vesting on 2 March 2018 or such other date to be determined by the Plan Committee.

2nd Grant

RS Award - One-third annually from the date of 2nd Grant over 3 years, with the first vesting commencing on 22 March 2017 or such other date to be determined by the Plan Committee.

PS Award - Over 3 years from the date of 2nd Grant, with vesting on 22 March 2019 or such other date to be determined by the Plan Committee.

Special Grant

RS Award - Half annually from the date of Special Grant over 2 years, with the first vesting on 15 June 2017 and the second vesting on 15 June 2018 or such other date to be determined by the Plan Committee.

Notes: [^] Shares lapsed due to non-vesting as the performance targets in respect of financial year ended 31 December 2017 were not met or forfeited due to the resignation of employees.

[#] Shares forfeited due to the resignation of employees.

[@] Shares forfeited due to resignation of employees and non-meeting of individual performance expectations.

30 SHARE BASED PAYMENT (CONTINUED)

The fair value of the shares under the LTIP scheme to which MFRS 2 applies was determined using the Monte Carlo simulation model. The significant inputs into the model were as follows:

| | 1st Grant | 2nd Grant | Special Grant |
|--|-----------------------------|-----------------------------|----------------------|
| Date of grant | 2 March 2015 | 22 March 2016 | 22 March 2017 |
| Aggregated fair values/Fair value at grant date – RS Award | RM1.567 | RM1.100 | RM1.053 and RM1.022 |
| Aggregated fair values/Fair value at grant date – PS Award | RM1.462 | RM1.076 | * |
| Vesting period | 3 years | 3 years | 2 years |
| Weighted average share price at grant date | RM1.72 | RM1.21 | RM1.06 |
| Expected dividend yield | 4.70% | 5.00% | 2.83% |
| Risk free interest rates | 3.51% | 3.27% | 3.37%-3.40% |
| Expected volatility | 41.83% | 44.95% | 25.73%-35.24% |

* Not applicable

The expected life of the shares is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumptions that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the shares granted were incorporated into the measurement of fair value.

31 MERGER DEFICIT

| | 2018 | Group |
|--|-------------------|--------------|
| | RM | 2017 |
| | | RM |
| Arising from the Company's business combination with Deleum Services Sdn. Bhd. | 50,000,000 | 50,000,000 |

Merger deficit represents the excess of the nominal value of the shares of the Company being allotted of RM60,000,000 over the nominal value of the share capital of Deleum Services Sdn. Bhd. acquired of RM10,000,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

32 FINANCIAL INSTRUMENTS

Financial instruments by category

Year ended 31 December 2018

| Group | Financial assets at amortised cost RM | Other financial liabilities at amortised cost RM | Fair value through profit or loss RM | Total RM |
|--|--|---|---|--------------------|
| <u>Assets</u> | | | | |
| Trade and other receivables (excluding prepayments and GST receivables) | 97,412,473 | 0 | 0 | 97,412,473 |
| Amounts due from associates | 1,600,016 | 0 | 0 | 1,600,016 |
| Amounts due from a joint venture | 160,470 | 0 | 0 | 160,470 |
| Derivative financial instruments | 0 | 0 | 7,364 | 7,364 |
| Cash and bank balances | 134,906,863 | 0 | 0 | 134,906,863 |
| | 234,079,822 | 0 | 7,364 | 234,087,186 |
| <u>Liabilities</u> | | | | |
| Trade and other payables (excluding statutory obligations) | 0 | 201,334,513 | 0 | 201,334,513 |
| Amounts due to associates | 0 | 7,242,375 | 0 | 7,242,375 |
| Borrowings | 0 | 63,180,960 | 0 | 63,180,960 |
| | 0 | 271,757,848 | 0 | 271,757,848 |

32 FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by category (continued)

Year ended 31 December 2018 (continued)

| Company | Financial assets at amortised cost RM | Other financial liabilities at amortised cost RM | Total RM |
|---|--|---|---------------------|
| <u>Assets</u> | | | |
| Trade and other receivables (excluding prepayments and GST receivables) | 41,559 | 0 | 41,559 |
| Amounts due from subsidiaries | 80,187,580 | 0 | 80,187,580 |
| Amounts due from a joint venture | 160,309 | 0 | 160,309 |
| Amounts due from an associate | 16 | 0 | 16 |
| Cash and bank balances | 6,386,695 | 0 | 6,386,695 |
| | 86,776,159 | 0 | 86,776,159 |
| <u>Liabilities</u> | | | |
| Other payables and accruals (excluding statutory obligations) | 0 | 2,372,399 | 2,372,399 |
| Amounts due to subsidiaries | 0 | 18,596,478 | 18,596,478 |
| Borrowings | 0 | 24,800,000 | 24,800,000 |
| | 0 | 45,768,877 | 45,768,877 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

32 FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by category (continued)

Year ended 31 December 2017

| Group | Financial assets at amortised cost RM | Other financial liabilities at amortised cost RM | Fair value through profit or loss RM | Total RM |
|--|--|---|---|-------------|
| <u>Assets</u> | | | | |
| Trade and other receivables (excluding prepayments and GST receivables) | 119,756,155 | 0 | 0 | 119,756,155 |
| Amounts due from associates | 5,639 | 0 | 0 | 5,639 |
| Amounts due from a joint venture | 138,264 | 0 | 0 | 138,264 |
| Cash and bank balances | 141,387,717 | 0 | 0 | 141,387,717 |
| | 261,287,775 | 0 | 0 | 261,287,775 |
| <u>Liabilities</u> | | | | |
| Trade and other payables (excluding statutory obligations) | 0 | 137,607,672 | 0 | 137,607,672 |
| Amounts due to associates | 0 | 7,050,562 | 0 | 7,050,562 |
| Borrowings | 0 | 76,048,407 | 0 | 76,048,407 |
| Derivative financial instruments | 0 | 0 | 23,775 | 23,775 |
| | 0 | 220,706,641 | 23,775 | 220,730,416 |

32 FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by category (continued)

Year ended 31 December 2017 (continued)

| Company | Financial assets at amortised cost RM | Other financial liabilities at amortised cost RM | Total RM |
|---|--|---|---------------------|
| <u>Assets</u> | | | |
| Trade and other receivables (excluding prepayments and GST receivables) | 71,420 | 0 | 71,420 |
| Amounts due from subsidiaries | 75,484,653 | 0 | 75,484,653 |
| Amounts due from a joint venture | 138,264 | 0 | 138,264 |
| Amounts due from an associate | 40 | 0 | 40 |
| Cash and bank balances | 6,634,501 | 0 | 6,634,501 |
| | 82,328,878 | 0 | 82,328,878 |
| <u>Liabilities</u> | | | |
| Other payables and accruals (excluding statutory obligations) | 0 | 3,266,489 | 3,266,489 |
| Amounts due to subsidiaries | 0 | 15,005,795 | 15,005,795 |
| Borrowings | 0 | 17,800,000 | 17,800,000 |
| | 0 | 36,072,284 | 36,072,284 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

33 SIGNIFICANT RELATED PARTY DISCLOSURES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions.

(a) The following transactions are with subsidiaries of the Company

| | 2018 RM | Company 2017 RM |
|---------------------------------|-------------------|-----------------------|
| - Management fees | 16,725,500 | 16,071,100 |
| - Dividend income | 16,800,000 | 18,000,000 |
| - Inter-company interest income | 1,025,497 | 1,335,469 |
| - Re-charge of expenses | 3,002,872 | 2,751,690 |

(b) The following transactions are with a joint venture of the Company

| | Group and Company | |
|-------------------------|-------------------|------------|
| | 2018 RM | 2017 RM |
| - Management fees | 471,300 | 488,400 |
| - Re-charge of expenses | 89,735 | 69,556 |

33 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

- (c) The following transactions are with a corporate shareholder and affiliated companies of a subsidiary of the Group, Turboservices Sdn. Bhd.

| | 2018 RM | Group 2017 RM |
|---|--------------------|---------------------|
| Purchases from Solar Turbines International Company ("STICO") | 193,308,462 | 211,930,753 |
| Purchases from an affiliated company of STICO | 36,685,189 | 8,747,582 |
| Technical fees to STICO | 1,073,546 | 3,377,691 |
| Re-charge of expenses from an affiliated company of STICO | 1,649,264 | 591,774 |
| | 232,716,461 | 224,647,800 |
| Manpower services to STICO | 6,651,359 | 4,042,447 |
| Rental income from an affiliated company of STICO | 54,432 | 113,400 |
| | 6,705,791 | 4,155,847 |

Significant outstanding balances arising from the above transactions during the financial year are as follows:

| | 2018 RM | Group 2017 RM |
|--|--------------------|---------------------|
| Amount due from STICO and its affiliated company | 2,186,065 | 5,773,692 |
| Amount due to STICO and its affiliated company | 116,123,121 | 85,988,991 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

33 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

- (d) The following transactions are with a corporate shareholder and affiliated companies of the corporate shareholder of a subsidiary of the Group, Penaga Dresser Sdn. Bhd.

| | 2018 RM | Group 2017 RM |
|--|-------------------|---------------------|
| Sales to related parties of Dresser Italia S.R.L | 1,252,923 | 21,979 |
| Purchases from Dresser Italia S.R.L | 91,301 | 0 |
| Purchases from related parties of Dresser Italia S.R.L | 19,642,856 | 29,437,643 |
| | 19,734,157 | 29,437,643 |

Significant outstanding balances arising from the above transactions during the financial year are as follows:

| | 2018 RM | Group 2017 RM |
|---|------------------|---------------------|
| Amount due from related parties of Dresser Italia S.R.L | 230,362 | 0 |
| Amount due to related parties of Dresser Italia S.R.L | 2,902,186 | 3,104,199 |

- (e) TOSB is a joint venture between the Company and Solar Turbines International Company ("STICO") and the related party transactions during the year are as follows:

| | 2018 RM | Group 2017 RM |
|--|------------------|---------------------|
| Sales to STICO | 5,936,000 | 5,936,000 |
| Rental income from affiliated company of STICO | 827,568 | 827,568 |
| | 6,763,568 | 6,763,568 |

33 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

- (e) TOSB is a joint venture between the Company and Solar Turbines International Company ("STICO") and the related party transactions during the year are as follows: (continued)

Significant outstanding balance arising from the above transactions during the financial year is as follows:

| | 2018 RM | Group 2017 RM |
|-----------------------|-------------------|-----------------------------------|
| Amount due from STICO | 1,471,212 | 538,434 |

- (f) The following transaction is with a person connected to Datuk Vivekananthan a/l M.V. Nathan, the Deputy Chairman and a major shareholder of the Company.

| | Group and Company 2018 RM | 2017 RM |
|-----------------------------|---|-------------------|
| Purchase of a motor vehicle | 0 | 7,000 |

- (g) The remuneration of key management personnel during the financial year are as follows:

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|--|-------------------|-----------------------------------|-------------------|-------------------------------------|
| Directors' fees | 942,000 | 942,000 | 942,000 | 942,000 |
| Salaries and bonuses | 9,170,565 | 8,493,274 | 3,673,738 | 2,993,589 |
| Defined contribution plans | 1,219,692 | 1,133,103 | 500,153 | 411,378 |
| Other remuneration | 1,177,378 | 995,092 | 355,077 | 224,619 |
| Share based payment | 452,368 | 1,254,193 | 206,884 | 530,142 |
| Estimated monetary value of benefits-in-kind | 293,199 | 421,954 | 154,958 | 234,732 |
| | 13,255,202 | 13,239,616 | 5,832,810 | 5,336,460 |

The above is inclusive of Directors' remuneration as disclosed in Note 7 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

34 CORPORATIONS IN THE GROUP

The Group's effective equity interest in the subsidiaries, joint venture and associates, their respective principal activities and country of incorporation are as follows:

| Name of company | Place of business/ Country of incorporation | Group's effective equity interest | | Principal activities |
|---|---|--------------------------------------|-----------|--|
| | | 2018 % | 2017 % | |
| SUBSIDIARIES: | | | | |
| Deleum Services Sdn. Bhd. | Malaysia | 100 | 100 | Provision of gas turbines packages, maintenance and technical services, combined heat and power plants, and production related equipment and services predominantly for the oil and gas industry. |
| Deleum Services Holdings Limited * | Hong Kong | 100 | 100 | Investment holding. |
| Delflow Solutions Sdn. Bhd. | Malaysia | 100 | 100 | Dormant. |
| Subsidiaries of <u>Deleum Services Sdn. Bhd.</u> | | | | |
| Deleum Oilfield Services Sdn. Bhd. | Malaysia | 100 | 100 | Provision of slickline equipment and services, integrated wellhead maintenance services, oilfield chemicals, drilling equipment and services, and other oilfield related products and services for the oil and gas industry. |
| Turboservices Sdn. Bhd. | Malaysia | 74 | 74 | Provision of gas turbine overhaul and technical services and supply of gas turbine parts to the oil and gas industry. |
| VSM Technology Sdn. Bhd. | Malaysia | 90 | 90 | Dormant. |

34 CORPORATIONS IN THE GROUP (CONTINUED)

| Name of company | Place of business/ Country of incorporation | Group's effective equity interest | | Principal activities |
|---|---|--------------------------------------|-----------|--|
| | | 2018 % | 2017 % | |
| SUBSIDIARIES (CONTINUED): | | | | |
| Subsidiaries of <u>Deleum Services Sdn. Bhd. (continued)</u> | | | | |
| Deleum Chemicals Sdn. Bhd. | Malaysia | 100 | 100 | Development and provision of solid deposit removal solutions for enhancement of crude oil production and the supply of oilfield chemicals and services to the oil and gas industry. |
| Wisteria Sdn. Bhd. ^{&} | Malaysia | 100 | 100 | Dormant. |
| Delcom Holdings Sdn. Bhd. | Malaysia | 100 | 100 | Dormant. |
| Deleum Rotary Services Sdn. Bhd. | Malaysia | 100 | 100 | Servicing, repair and maintenance of motors, generators, transformers, pumps and valves. |
| Sledgehammer Malaysia Sdn. Bhd. [§] | Malaysia | 100 | 100 | Dormant. |
| Deleum Primera Sdn. Bhd. | Malaysia | 60 | 60 | Provision of integrated corrosion and inspection services, blasting technology, maintenance, construction and modification maintenance activities, services for tanks, vessels, structures and piping. |
| Penaga Dresser Sdn. Bhd. | Malaysia | 51 | 51 | Supply, repair, maintenance and installation of valves and flow regulators for the oil and gas industry. |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

34 CORPORATIONS IN THE GROUP (CONTINUED)

| Name of company | Place of business/ Country of incorporation | Group's effective equity interest | | Principal activities |
|-----------------|---|--------------------------------------|-----------|----------------------|
| | | 2018 % | 2017 % | |

SUBSIDIARIES (CONTINUED):

Subsidiaries of

Deleum Services Holdings Limited

| | | | | |
|--|------------------------|-----------|----|---------------------|
| Delcom Utilities (Cambodia) Limited * | British Virgin Islands | 60 | 60 | Investment holding. |
| Delcom Power (Cambodia) Limited ** | British Virgin Islands | 60 | 60 | Dormant. |

JOINT VENTURE:

Joint venture of

Deleum Berhad

| | | | | |
|-------------------------------------|----------|--------------|-------|--|
| Turboservices Overhaul Sdn. Bhd. | Malaysia | 80.55 | 80.55 | Overhaul of gas turbine and maintenance services to oil and gas companies. |
|-------------------------------------|----------|--------------|-------|--|

34 CORPORATIONS IN THE GROUP (CONTINUED)

| Name of company | Place of business/ Country of incorporation | Group's effective equity interest | | Principal activities |
|--|---|--------------------------------------|-----------------|---|
| | | 2018 % | 2017 % | |
| ASSOCIATES: | | | | |
| Associate of <u>Deleum Services Sdn. Bhd.</u> | | | | |
| Malaysian Mud and Chemicals Sdn. Bhd. | Malaysia | 32 | 32 | Operation of a bulking installation, offering dry and liquid bulking services to offshore oil and gas companies. |
| Associate of <u>Delcom Utilities (Cambodia) Limited</u> | | | | |
| Cambodia Utilities Pte Ltd [^] | Cambodia | 12[@] | 12 [@] | Maintain and operate a power plant in Cambodia in line with the power generation business. |

* Corporations not audited by PricewaterhouseCoopers PLT, Malaysia or member firm of PricewaterhouseCoopers International Limited.

@ Deemed as associate as significant influence is exercised by the Group by virtue of the 20% voting rights held by the Group and Board representation.

& Subsidiary had been placed under members' voluntary liquidation pursuant to Section 439(1)(b) of the Companies Act 2016.

\$ Subsidiary has applied to the Registrar of Companies to strike off its name from the Register pursuant to Section 550 of the Companies Act 2016.

Subsidiary will be struck off from Register effective from six (6) months after the expiry of its license on 30 November 2018.

[^] No legal requirement to appoint auditors.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

35 OPERATING LEASE COMMITMENTS

The Group has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments is as follows:

| | 2018 RM | Group 2017 RM |
|---------------------------|------------------|---------------------|
| Within one year | 1,907,894 | 648,209 |
| Between two to five years | 1,316,588 | 605,552 |

36 CAPITAL COMMITMENTS

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---|-------------------|---------------------|----------------|-----------------------|
| Authorised and contracted for at the end of the reporting period but not yet incurred | | | | |
| - Plant and machinery | 12,213,066 | 2,479,588 | 0 | 0 |
| - Others | 6,839,175 | 6,221,609 | 0 | 7,000 |
| Authorised but not contracted for at the end of the reporting period | | | | |
| - Plant and machinery | 41,201,391 | 30,220,810 | 0 | 0 |
| - Others | 11,386,954 | 13,707,267 | 544,429 | 1,968,520 |
| | 71,640,586 | 52,629,274 | 544,429 | 1,975,520 |
| Share of capital commitment of a joint venture | 898,732 | 58,880 | 0 | 0 |
| | 72,539,318 | 52,688,154 | 544,429 | 1,975,520 |

37 CONTINGENT LIABILITIES

In the ordinary course of business, the Group has given guarantees amounting to RM38,116,203 (2017: RM32,898,112) to third parties in respect of operational requirements, utilities and maintenance contracts.

The Company provides financial guarantees amounting to RM1,029,225 (2017: RM2,668,803) to bank in favour of its subsidiaries to third parties for their operational requirements, utilities and maintenance contracts.

Included in the previous financial year, the Company provides unsecured financial guarantees to banks in respect of banking facilities granted to a joint venture. The banking facilities has been fully settled by the joint venture in the previous financial year and the joint venture is currently in the midst of discharging the guarantee.

38 CAPITAL MANAGEMENT

The Group's and the Company's objective when managing capital is to safeguard the Group's and the Company's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group and the Company may adjust the amount of dividends, return capital to shareholders or issue new shares and debts.

The capital structure for the Group and the Company consists of borrowings, cash and bank balances and total equity as follows:

| | 2018 RM | Group 2017 RM | 2018 RM | Company 2017 RM |
|---------------------------|---------------------|---------------------|---------------------|-----------------------|
| Cash and cash equivalents | 124,276,324 | 130,647,897 | 6,386,695 | 6,634,501 |
| Less: Total borrowings | (63,180,960) | (76,048,407) | (24,800,000) | (17,800,000) |
| | 61,095,364 | 54,599,490 | (18,413,305) | (11,165,499) |
| Total equity | 355,662,020 | 350,867,628 | 213,029,483 | 217,590,154 |

The borrowings of the Group and the Company are subject to the bank's covenants, which include liquidity and solvency ratios, for which the Group and the Company have complied with.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) Adoption of MFRS 9 Financial Instruments

MFRS 9 replaces MFRS 139 "Financial Instruments: Recognition and Measurement". The adoption of MFRS 9 on 1 January 2018 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets. The new accounting policies are set out in Note K and L.

MFRS 9 retains but simplifies the measurement categories on financial instruments with the basis of classification for financial assets depending upon the entity's business model and the cash flow characteristics of the financial assets, a substantially-reformed model for hedge accounting that improved the alignment of the accounting treatment with risk management activities and introduces a new requirement on impairment.

As permitted by the transitional provisions of MFRS 9, the Group has elected not to restate comparative figures and thus adjustments arising from the adoption of MFRS 9 were recognised in the opening statement of financial position as at 1 January 2018.

Classification and measurement of financial instruments

On 1 January 2018 (the date of initial application of MFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate MFRS 9 categories.

There are no changes to the classification of financial instruments from the assessment.

Impairment of financial assets

MFRS 9 introduces an Expected Credit Loss ("ECL") model on impairment that replaces the incurred loss impairment model used in MFRS 139. The ECL model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Group applies the MFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables and contract assets. Trade receivables and contract assets are assessed on individual basis, which is initially measured based on the Group's historical observed default rate, adjusted with forward looking information based on prevailing economic conditions on where the Group operates as at the reporting date. The identified impairment loss was immaterial.

Cash and bank balances, other receivables, amounts due from associates and amounts due from a joint venture are assessed on individual basis for ECL measurement. The identified impairment losses were immaterial.

39 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

This note explains the impact of the adoption of MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers on the Group's financial statements (continued).

(b) Adoption of MFRS 15 "Revenue from Contracts with Customers"

The Group has adopted MFRS 15 in the current financial year. MFRS 15 introduces a single comprehensive revenue recognition model which establishes the principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers focusing on the identification and satisfaction of the performance obligation.

The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods and services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services moving from the transfer of risk and rewards principals.

MFRS 15 has resulted in the changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note T.

In accordance with the transitional provisions in MFRS 15, the Group has elected to adopt the modified retrospective approach. The adjustments made to the comparative figures are set out in Note 39(c).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

This note explains the impact of the adoption of MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers on the Group's financial statements (continued).

(c) Impact on the financial statements

The following tables show the adjustments recognised in financial statements of the Group for each individual financial statement line item as a result of the adoption of MFRS 15.

Line items that were not affected by the changes have been excluded. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

| | As previously reported RM | Effects of changes in accounting policies RM | Group As restated RM |
|----------------------------------|---------------------------------|--|-------------------------------|
| <u>2017</u> | | | |
| Statements of financial position | | | |
| <u>Current assets</u> | | | |
| Trade and other receivables | 206,593,631 | (82,929,636) | 123,663,995 |
| Deferred costs | 1,351,805 | (1,351,805) | 0 |
| Amounts due from a joint venture | 162,609 | (24,345) | 138,264 |
| Contract assets | 0 | 82,035,083 | 82,035,083 |
| <u>Current liabilities</u> | | | |
| Deferred revenue | 1,972,986 | (1,972,986) | 0 |
| Contract liabilities | 0 | 1,972,986 | 1,972,986 |
| Trade and other payables | 148,187,863 | (2,270,703) | 145,917,160 |

39 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

This note explains the impact of the adoption of MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers on the Group's financial statements (continued).

(c) Impact on the financial statements (continued)

The following tables show the adjustments recognised in financial statements of the Group for each individual financial statement line item as a result of the adoption of MFRS 15 (continued).

Line items that were not affected by the changes have been excluded. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided (continued).

| | As previously reported RM | Effects of changes in accounting policies RM | Group As restated RM |
|--------------------------------------|---------------------------------|--|-------------------------------|
| <u>2017</u> | | | |
| Statements of Cash Flows | | | |
| Cash Flows from Operating Activities | | | |
| <u>Changes in working capital</u> | | | |
| Trade and other receivables | 19,811,614 | (10,957,431) | 8,854,183 |
| Deferred costs | 3,253,029 | (3,253,029) | 0 |
| Contract assets | 0 | 15,229,867 | 15,229,867 |
| Amounts due from a joint venture | (57,117) | 24,345 | (32,772) |
| Deferred revenue | (5,388,731) | 5,388,731 | 0 |
| Trade and other payables | (36,249,436) | (1,043,752) | (37,293,188) |
| Contract liabilities | 0 | (5,388,731) | (5,388,731) |

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 25 February 2019.

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

We, Dato' Izham bin Mahmud and Nan Yusri bin Nan Rahimy, being two of the Directors of Deleum Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 115 to 249 are drawn up in accordance with the provisions of Companies Act 2016 and the Malaysian Financial Reporting Standards, and International Financial Reporting Standards, so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 February 2019.

DATO' IZHAM BIN MAHMUD
DIRECTOR

NAN YUSRI BIN NAN RAHIMY
DIRECTOR

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

I, Jayanthi a/p Gunaratnam, the officer primarily responsible for the financial management of Deleum Berhad, do solemnly and sincerely declare that the financial statements set out on pages 115 to 249 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.

JAYANTHI A/P GUNARATNAM

Subscribed and solemnly declared by the abovenamed Jayanthi a/p Gunaratnam.

At : Kuala Lumpur

On : 25 February 2019

Before me:

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DELEUM BERHAD

(Incorporated in Malaysia)
(Company No. 715640-T)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Deleum Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, 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.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of 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 115 to 249.

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 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Group and the Company. In particular, we considered where the Directors made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DELEUM BERHAD

(Incorporated in Malaysia)

(Company No. 715640-T) (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our audit approach (continued)

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.

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 of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

How our audit addressed the key audit matters

Revenue recognition

Refer to Note T - Significant accounting policies:

Revenue Recognition,

Note 5 - Revenue

During the year, the Group reported revenue of RM624 million primarily derived from the sale of gas turbine packages and after sales support services of RM299 million, provision of slickline equipment and services, well intervention, asset integrated services, cased hole logging services and drilling and production services of RM120 million and provision of maintenance, construction and modification maintenance ("MCM") services of RM118 million.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters**How our audit addressed the key audit matters****Revenue recognition (continued)**

The timing and quantity of revenue recognised for each type of revenue is dependent on the nature and the different contractual terms as set out in the agreements with the respective customers.

We focused on this area as significant effort was spent auditing the accuracy of the revenue recognised by the Group. In addition, we focused on revenue recognised on fabrication and offshore maintenance works of the MCM contract as significant judgment is made by the Group to measure the progress of revenue recognised over time in accordance with MFRS 15, Revenue from Contracts with Customers ("MFRS 15").

The Group measures progress and recognises revenue for the fabrication and offshore maintenance works based on actual costs incurred to-date over the total budgeted costs of the project. Determining the total budgeted costs involve significant estimation. Any significant changes to the total budgeted costs will impact the amount of revenue recognised during the year.

We performed the following audit procedures:

- We read and understood the key terms and conditions of significant revenue agreements entered into during the financial year;
- We tested on sampling basis the revenue transactions during the year to the acceptance documents from customers;
- For revenue where services were rendered over a period of time, we assessed the accuracy of revenue recognised by performing the following on a sampling basis:
 - Tested the contract value to the work orders or contracts with customers;
 - Tested the actual costs incurred to-date to the supporting documentation such as supplier invoices and payroll records;
 - Tested the total budgeted costs of the project to the approved budgets by the Chief Executive Officer of the relevant subsidiary; and
 - Recomputed the progress of the project based on actual costs incurred to-date over total budgeted costs of the project.

Based on the procedures performed, no material exceptions were noted.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DELEUM BERHAD

(Incorporated in Malaysia)

(Company No. 715640-T) (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| <p>Impairment assessment on the carrying value of investment in a material associate</p> <p><i>Refer to Note 3 - Critical accounting estimates and judgments.</i></p> <p>As at 31 December 2018, the carrying value of the material associate recorded in the Group amounted to RM28.2 million. The associate reported a profit after tax of RM7.1 million during the year.</p> <p>The volatile in activities and profits of the associate in the recent years triggered the need for impairment assessment. Management has performed the assessment and determined the recoverable amount of the associate based on its VIU.</p> <p>Based on the impairment assessment performed by management, the Directors concluded that no impairment on the associate is required.</p> <p>We focused on this matter as the carrying amount of the associate is material to the Group and the estimation of recoverable amount is inherently uncertain and requires significant judgment on the future cash flows and the discount rate applied to the calculation of the VIU.</p> | <p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> • Evaluated management's cash flow projections and the process by which they were developed to ensure key inputs are in line with the cash flow projections approved by the associate's Board of Directors; • Compared the key assumptions used in the VIU which comprised of revenue growth rate, terminal growth rate and EBITDA margins to historical results and industry forecasts of comparable oil and gas companies in Malaysia; • Checked the discount rate used in the model with the assistance of our valuation experts by benchmarking to market data and industry research; and • Independently performed sensitivity analysis on those key assumptions used in the model. <p>Based on the procedures performed, no material exceptions were noted.</p> |

We have determined that there are no Key Audit Matters for the Company to communicate in our report.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Directors' Report and Statement of Risk Management and Internal Control, which we obtained prior to the date of this auditors' report, and Financial Highlights, Group Corporate Structure, Message from Chairman, Management Discussion and Analysis, Sustainability Statement, Audit Committee Report, Corporate Governance Report, List of Properties, Analysis of Shareholdings and other sections of the 2018 Annual Report, which is expected to be made available to us after that date. Other information 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.

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 on the other information that we obtained prior to the date of this auditors' report, 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 statements

The Directors of the Company are responsible for the preparation of the 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DELEUM BERHAD

(Incorporated in Malaysia)

(Company No. 715640-T) (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 judgment 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.
- (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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

- (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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 34 to the financial statements.

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.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SOO KWAI FONG
03144/07/2019 J
Chartered Accountant

Kuala Lumpur
25 February 2019

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fourteenth Annual General Meeting of DELEUM BERHAD (the Company) will be held at Ballroom 1, First Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Tuesday, 14 May 2019 at 10.00 a.m., for the following purposes:

AGENDA

AS ORDINARY BUSINESS:

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and Auditors thereon.

Please refer to Explanatory Note A

2. To re-elect the following Directors who retire by rotation pursuant to Article 78 of the Company's Constitution and, being eligible, have offered themselves for re-election:

- (a) Dato' Izham bin Mahmud
- (b) Datuk Vivekananthan a/l M.V. Nathan

Ordinary Resolution 1
Ordinary Resolution 2

3. To re-elect Mr Lee Yoke Khai who retires pursuant to Article 76 of the Company's Constitution and being eligible, offers himself for re-election.

Ordinary Resolution 3

4. To approve the payment of Directors' fees and benefits to Non-Executive Directors up to an amount of RM1,380,000 from 15 May 2019 until the next Annual General Meeting of the Company.

Ordinary Resolution 4

Please refer to Explanatory Note B

5. To re-appoint Messrs. PricewaterhouseCoopers PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.

Ordinary Resolution 5

AS SPECIAL BUSINESS:

To consider and if thought fit, to pass the following Resolutions, with or without modifications:

6. AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016

Ordinary Resolution 6

“THAT subject always to the Companies Act 2016, the Constitution of the Company and approvals from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued and any other governmental/regulatory authorities, where such approval is necessary, full authority be and is hereby given to the Directors pursuant to Sections 75 and 76 of the Companies Act 2016 to allot and issue not more than ten percent (10%) of the total number of issued shares of the Company at any time upon any such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit **AND THAT** such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company.”

Please refer to Explanatory Note C

7. PROPOSED SHAREHOLDERS’ MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE AS SET OUT UNDER SECTION 2.5(i)(1) OF THE CIRCULAR TO SHAREHOLDERS DATED 15 APRIL 2019

Ordinary Resolution 7

“THAT subject to Bursa Malaysia Securities Berhad Main Market Listing Requirements, approval be and is hereby given for the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in Section 2.5(i)(1) of the Circular to Shareholders dated 15 April 2019 which are necessary for day-to-day operations and are carried out in the ordinary course of business on terms which are not more favourable to the related parties than those generally available to the public and are undertaken on arms’ length basis and not to the detriment of minority shareholders;

AND THAT the authority conferred by such mandate shall commence upon the passing of this resolution and continue to be in full force until:

- (a) the conclusion of the next Annual General Meeting (AGM) of the Company at which this shareholders’ mandate will lapse, unless by a resolution passed at the next AGM, the mandate is renewed;
- (b) the expiration of the period within which the next AGM is required to be held pursuant to Section 340(2) of the Companies Act 2016 (the Act) (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

(c) revoked or varied by resolution passed by the shareholders in general meeting;

whichever is the earlier;

AND THAT the Board of Directors be and is hereby authorised to complete and do all such acts and things as it may consider expedient or necessary (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by this mandate.”

Please refer to Explanatory Note D

8. **PROPOSED SHAREHOLDERS’ MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE AS SET OUT UNDER SECTIONS 2.5(i)(2) AND 2.5(ii)(1) OF THE CIRCULAR TO SHAREHOLDERS DATED 15 APRIL 2019**

Ordinary Resolution 8

“**THAT** subject to Bursa Malaysia Securities Berhad Main Market Listing Requirements, approval be and is hereby given for the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in Sections 2.5(i)(2) and 2.5(ii)(1) of the Circular to Shareholders dated 15 April 2019 which are necessary for day-to-day operations and are carried out in the ordinary course of business on terms which are not more favourable to the related parties than those generally available to the public and are undertaken on arms’ length basis and not to the detriment of minority shareholders;

AND THAT the authority conferred by such mandate shall commence upon the passing of this resolution and continue to be in full force until:

- (a) the conclusion of the next Annual General Meeting (AGM) of the Company at which this shareholders’ mandate will lapse, unless by a resolution passed at the next AGM, the mandate is renewed;
- (b) the expiration of the period within which the next AGM is required to be held pursuant to Section 340(2) of the Companies Act 2016 (the Act) (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting;

whichever is the earlier;

AND THAT the Board of Directors be and is hereby authorised to complete and do all such acts and things as it may consider expedient or necessary (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by this mandate.”

Please refer to Explanatory Note D

9. **RETENTION OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

“**THAT** approval be and is hereby given to Datuk Ishak bin Imam Abas, who has served as an Independent Non-Executive Director for a cumulative term of more than twelve (12) years, to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting.”

Please refer to Explanatory Note E

Ordinary Resolution 9

10. **PROPOSED ADOPTION OF NEW CONSTITUTION OF THE COMPANY**

“**THAT** approval be and is hereby given to revoke the existing Constitution of the Company with immediate effect and in place thereof, the proposed new Constitution as set out in Appendix I be and is hereby adopted as the Constitution of the Company **AND THAT** the Directors of the Company be and are hereby authorised to assent to any modifications, variations and/or amendments as may be required by any relevant authorities, and to do all such acts and things and take all such steps as may be considered necessary to give full effect to the foregoing.”

Please refer to Explanatory Note F

Special Resolution

11. To transact any other business of which due notice shall have been given in accordance with the Companies Act 2016 and the Company's Constitution.

BY ORDER OF THE BOARD

LEE SEW BEE (MAICSA 0791319)
LIM HOOI MOOI (MAICSA 0799764)
 Company Secretaries
 Kuala Lumpur

15 April 2019

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

Notes on Proxy

1. A member of the Company entitled to attend and vote at the Annual General Meeting (AGM) is entitled to appoint a proxy or proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
2. A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the AGM. Where a member appoints two (2) proxies, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds in respect of the number of ordinary shares of the Company standing to the credit of the said securities account.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account (omnibus account), there is no limit to the number of proxies which an exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. Where an authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
6. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, under its Common Seal or the hand of its duly authorised officer.
7. The instrument appointing a proxy must be deposited at the Registered Office of the Company at No. 2, Jalan Bangsar Utama 9, Bangsar Utama, 59000 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time appointed for holding the AGM or any adjournment thereof.
8. Pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice of AGM will be put to vote by poll.

Explanatory Notes to the Agenda

A. For Agenda Item 1

To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and Auditors thereon.

The Audited Financial Statements are laid in accordance with Section 340(1)(a) of the Companies Act 2016 (the Act) for discussion only under this Agenda item. They do not require shareholders' approval and hence, will not be put for voting.

B. For Agenda Item 4**To approve the payment of Directors' fees and benefits to Non-Executive Directors up to an amount of RM1,380,000 from 15 May 2019 until the next Annual General Meeting of the Company**

The amount of up to RM1,380,000 under Ordinary Resolution 4 comprising Directors' fees and benefits to Non-Executive Directors of the Company is estimated for the period from 15 May 2019 until the next AGM of the Company to be held in 2020. Directors' benefits comprise fixed meeting allowances payable to Independent Non-Executive Directors for attendance of Board and Board Committee meetings and the provision of company car, driver and club subscriptions for Non-Executive Chairman and Non-Executive Deputy Chairman of the Company.

The estimated amount of Directors' fees and benefits is based on the estimated number of scheduled meetings and the number of Directors involved in these meetings. The number of Board and Board Committee meetings are determined based on the strategy and plans of the Group.

The fees and benefits to Non-Executive Directors are in accordance with the Directors' Remuneration Framework for Non-Executive Directors in line with their duties and responsibilities and time commitment required to discharge their duties.

C. For Agenda Item 6**Authority to allot and issue shares pursuant to Sections 75 and 76 of the Companies Act 2016**

The Company had at the Thirteenth AGM held on 16 May 2018, obtained its shareholders' approval for the renewal of the general mandate for issuance of shares pursuant to Sections 75 and 76 of the Act. The Company, however did not issue any new shares pursuant to this mandate obtained as at the date of this Notice.

The proposed Ordinary Resolution 6 is a renewal mandate for the issue of shares under Sections 75 and 76 of the Act. If passed, it will give the Directors of the Company from the date of this AGM, authority to allot and issue shares not exceeding 10% of the total number of issued shares of the Company.

A renewal of this general mandate is to provide flexibility to the Company to issue new shares without the need to convene a separate general meeting to obtain its shareholders' approval so as to avoid incurring additional cost and time. The purpose of this general mandate is for possible fund raising exercise including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital and/or acquisitions and/or for issuance of shares as settlement of purchase consideration.

D. For Agenda Items 7 and 8**Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature as set out under Sections 2.5(i)(1), 2.5(ii)(1) and 2.5(i)(2) of the Circular to Shareholders dated 15 April 2019**

Please refer to the Circular to Shareholders dated 15 April 2019 accompanying the Company's Annual Report for the financial year ended 31 December 2018 for detailed information. The Ordinary Resolutions proposed under Agenda Items 7 and 8, if passed, will allow the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature pursuant to paragraph 10.09 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad. This mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

E. For Agenda Item 9

Retention of Independent Non-Executive Director

The Joint Remuneration and Nomination Committee and the Board of Directors have assessed the independence of Datuk Ishak bin Imam Abas, including engaging an independent third party to conduct and provide an unbiased evaluation. Based on the assessment, the Board is satisfied that Datuk Ishak continues to be independent and the Board recommended that he continues to act as Independent Non-Executive Director of the Company based on the following justifications:

- (a) He is able to exercise independent and objective judgement and to act in the best interest of the Company, notwithstanding his tenure of service;
- (b) He has met the independence guidelines set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad;
- (c) He has contributed sufficient time and efforts and exercised due care in all undertakings of the Company and has acted and carried out his fiduciary duty in the interest of the Company during his tenure as Independent Director;
- (d) He is independent of Management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Company; and
- (e) Datuk Ishak bin Imam Abas, having held various senior positions in the oil and gas industry before retirement, has vast experience and a depth of knowledge of the industry. His in-depth knowledge of the industry, understanding of the Company's objectives, strategies and business operations and proven commitment, experience and competency will continue to benefit the Board in discharging its duties and provide advice and critical oversight to Management effectively.

Shareholders' approval for the proposed Ordinary Resolution 9 on the retention of Datuk Ishak bin Imam Abas as Independent Non-Executive Director will be sought via a single tier voting process.

The proposed Ordinary Resolution 9, if passed, will enable Datuk Ishak bin Imam Abas to hold office as Independent Non-Executive Director until the conclusion of the next AGM of the Company.

F. For Agenda Item 10

Proposed Adoption of the Constitution of the Company

The "Appendix I" as stated in the proposed Special Resolution is set out in Part B of Circular to Shareholders dated 15 April 2019 accompanying the Company's Annual Report for the financial year ended 31 December 2018.

The Special Resolution, if passed, will align the Constitution of the Company with the Companies Act 2016 which came into effect on 31 January 2017, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and/or other applicable laws or regulations or guidelines.

Members Entitled to Attend

For the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. to make available to the Company a Record of Depositors as at 8 May 2019 and only a depositor whose name appears on this Record shall be entitled to attend this AGM or appoint proxy or proxies to attend and/or vote on his/her stead.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(PURSUANT TO PARAGRAPH 8.27(2) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA
SECURITIES BERHAD)

There is no person seeking election as Director of the Company at this Annual General Meeting (AGM).

Details of the general mandate to issue shares in the Company pursuant to Sections 75 and 76 of the Companies Act 2016 are set out in Explanatory Note C of the Notice of AGM.

ADDITIONAL COMPLIANCE INFORMATION

1. UTILISATION OF PROCEEDS

There were no proceeds raised from any corporate proposal during the financial year ended 31 December 2018 (FY2018).

2. LONG-TERM INCENTIVE PLAN

The Long-Term Incentive Plan (LTIP) implemented on 10 October 2014 is the only share scheme of the Company in existence during FY2018.

(a) Brief details on the total number of shares granted, vested, lapsed/forfeited and outstanding under the LTIP since its commencement on 10 October 2014 and during the financial year ended 31 December 2015 (FY2015), 31 December 2016 (FY2016), 31 December 2017 (FY2017) and FY2018 are set out below:

| Description | Number of Shares Granted | |
|--|--------------------------|--------------------|
| | Total | Executive Director |
| FY2015 | | |
| Granted | | |
| - First Grant of Restricted Share Incentive Plan (RS) | 1,254,300 | 145,800 |
| - First Grant of Performance Share Incentive Plan (PS) | 1,142,200 | 226,200 |
| Vested | | |
| - First Grant of RS | - | - |
| - First Grant of PS | - | - |
| Forfeited | | |
| - First Grant of RS | 150,300 [#] | - |
| - First Grant of PS | 101,200 [#] | - |
| Total Outstanding of First Grant as at 31 December 2015 | | |
| - RS | 1,104,000 | 145,800 |
| - PS | 1,041,000 | 226,200 |

2. LONG-TERM INCENTIVE PLAN (continued)

- (a) Brief details on the total number of shares granted, vested, lapsed/forfeited and outstanding under the LTIP since its commencement on 10 October 2014 and during FY2015, FY2016, FY2017 and FY2018 are set out below: (continued)

| Description | Number of Shares Granted | |
|--|--------------------------|---------------------|
| | Total | Executive Director |
| FY2016 | | |
| Granted | | |
| - Second Grant of RS | 1,598,700 | 218,200 |
| - Second Grant of PS | 1,521,600 | 680,600* |
| Vested | | |
| - First Grant of RS | - | - |
| - First Grant of PS | - | - |
| - Second Grant of RS | - | - |
| - Second Grant of PS | - | - |
| Lapsed/Forfeited | | |
| - First Grant of RS | 397,800 [^] | 48,600 [^] |
| - First Grant of PS | 27,300 [#] | - |
| - Second Grant of RS | 79,200 [#] | - |
| - Second Grant of PS | 41,300 [#] | - |
| Outstanding as at 31 December 2016 | | |
| - First Grant of RS | 706,200 | 97,200 |
| - First Grant of PS | 1,013,700 | 226,200 |
| - Second Grant of RS | 1,519,500 | 218,200 |
| - Second Grant of PS | 1,480,300 | 680,600 |
| Total Outstanding of First Grant, Second Grant and Special Grant as at 31 December 2016 | 2,225,700 | 315,400 |
| - RS | 2,494,000 | 906,800 |
| - PS | | |

ADDITIONAL COMPLIANCE INFORMATION (CONTINUED)

2. LONG-TERM INCENTIVE PLAN (continued)

(a) Brief details on the total number of shares granted, vested, lapsed/forfeited and outstanding under the LTIP since its commencement on 10 October 2014 and during FY2015, FY2016, FY2017 and FY2018 are set out below: (continued)

| Description | Number of Shares Granted | |
|--|--------------------------|---------------------|
| | Total | Executive Director |
| FY2017 | | |
| Granted | | |
| - Special Grant of RS | 398,400 | 99,500 |
| Vested | | |
| - First Grant of RS | - | - |
| - First Grant of PS | - | - |
| - Second Grant of RS | - | - |
| - Second Grant of PS | - | - |
| - Special Grant of RS | 195,300 | 49,700 |
| Lapsed/Forfeited | | |
| - First Grant of RS | 379,002 [^] | 48,600 ⁺ |
| - First Grant of PS | 66,400 [#] | - |
| - Second Grant of RS | 548,434 [^] | 72,734 ⁺ |
| - Second Grant of PS | 81,000 [#] | - |
| - Special Grant of RS | 8,300 [@] | - |
| Outstanding as at 31 December 2017 | | |
| - First Grant of RS | 327,198 | 48,600 |
| - First Grant of PS | 947,300 | 226,200 |
| - Second Grant of RS | 971,066 | 145,466 |
| - Second Grant of PS | 1,399,300 | 680,600 |
| - Special Grant of RS | 194,800 | 49,800 |
| Total Outstanding of First Grant, Second Grant and Special Grant as at 31 December 2017 | 1,493,064 | 243,866 |
| - RS | 2,346,600 | 906,800 |
| - PS | | |

2. LONG-TERM INCENTIVE PLAN (continued)

(a) Brief details on the total number of shares granted, vested, lapsed/forfeited and outstanding under the LTIP since its commencement on 10 October 2014 and during FY2015, FY2016, FY2017 and FY2018 are set out below: (continued)

| Description | Number of Shares Granted | |
|--|--------------------------|----------------------|
| | Total | Executive Director |
| FY2018 | | |
| Granted | | |
| Vested | 297,200 | 48,600 |
| - First Grant of RS | - | - |
| - First Grant of PS | 450,100 | 72,700 |
| - Second Grant of RS | - | - |
| - Second Grant of PS | 183,100 | 49,800 |
| - Special Grant of RS | | |
| Lapsed/Forfeited | | |
| - First Grant of RS | 29,998 [^] | - |
| - First Grant of PS | 947,300 [^] | 226,200 ⁺ |
| - Second Grant of RS | 66,600 [@] | - |
| - Second Grant of PS | 146,300 [#] | - |
| - Special Grant of RS | 11,700 [@] | - |
| Outstanding as at 31 December 2018 | | |
| - First Grant of RS | - | - |
| - First Grant of PS | - | - |
| - Second Grant of RS | 454,366 | 72,766 |
| - Second Grant of PS | 1,253,000 | 680,600 |
| - Special Grant of RS | - | - |
| Total Outstanding of First Grant, Second Grant and Special Grant as at 31 December 2018 | 454,366 | 72,766 |
| - RS | 1,253,300 | 680,600 |
| - PS | | |

Notes:

- # Shares forfeited due to the resignation of employees.
- [^] Shares lapsed due to non-vesting as the performance targets in respect of FY2015, FY2016 and FY2017 were not met or forfeited due to the resignation of employees.
- ⁺ The number of shares granted to the Group Managing Director under the Second Grant of PS was up to maximum based on outstanding performance targets.
- ⁺ Shares lapsed due to non-vesting as the performance targets in respect of FY2015, FY2016 and FY2017 were not met.
- [@] Shares forfeited due to resignation of employees and non-meeting of individual performance expectations.

ADDITIONAL COMPLIANCE INFORMATION (CONTINUED)

2. LONG-TERM INCENTIVE PLAN (continued)

(b) Percentages of shares granted to Executive Director and selected eligible senior management and key employees under the LTIP during the financial year and since its commencement up to FY2018 are set out below:

| | Percentage (%) | |
|---|---------------------------|---------------------------------|
| | During the financial year | Since commencement up to FY2018 |
| Executive Director and Senior Management and key employees | | |
| (i) Aggregate maximum allocation | 100 | 100 |
| (ii) Actual shares granted | 0.99 | 14.78 |

(c) The Non-Executive Directors are not eligible to participate in the LTIP.

3. MATERIAL CONTRACTS INVOLVING THE INTERESTS OF DIRECTORS, CHIEF EXECUTIVE AND MAJOR SHAREHOLDERS

There were no material contracts entered into by the Company and/or its subsidiaries involving the interests of Directors and/or chief executive and/or major shareholders, either still subsisting at the end of FY2018 or entered into since the end of the previous financial year.

LIST OF PROPERTIES

| No | Company | Address | Brief Description | Existing Use | Land Area/ Built up Area | Tenure/ Date of Expiry of Lease | Age of Building | Net Book Value @31/12/18 | Revaluation, if any | Date of Acquisition |
|----|---|---|----------------------------------|----------------|---|------------------------------------|-----------------|--------------------------|---------------------|---------------------|
| 1 | Deleum Berhad (Corporate Head Office) | No. 2, Jalan Bangsar Utama 9, Bangsar Utama, 59000 Kuala Lumpur, Malaysia | 6 storey corner shop office | Office | 350.00 sq metres/ 2,049.56 sq metres | Leasehold/ 03/12/2085 | 20 years | 2,981,179 | | 02/05/2006 |
| 2 | Deleum Services Sdn. Bhd. | No. 42, Jalan Bangsar Utama 1, Bangsar Utama, 59000 Kuala Lumpur, Malaysia | 5 storey corner shop office | Office | 237.00 sq metres/ 1,080.90 sq metres | Leasehold/ 03/12/2085 | 30 years | 423,658 | | 19/09/1988 |
| 3 | Deleum Services Sdn. Bhd. | No. 40, Jalan Bangsar Utama 1, Bangsar Utama, 59000 Kuala Lumpur, Malaysia | 5 storey shop office | Office | 168.00 sq metres/ 822.65 sq metres | Leasehold/ 03/12/2085 | 30 years | 451,356 | | 28/09/1988 |
| 4 | Deleum Services Sdn. Bhd. | Unit No. 8-11-3, Menara Mutiara Bangsar, Jalan Liku, Off Jalan Bangsar, 59100 Kuala Lumpur, Malaysia | Office Lot | Office | 141.00 sq metres/ 141.00 sq metres | Freehold | 16 years | 387,172 | | 03/02/1997 |
| 5 | Deleum Services Sdn. Bhd. | Unit No. 8-11-4, Menara Mutiara Bangsar, Jalan Liku, Off Jalan Bangsar, 59100 Kuala Lumpur, Malaysia | Office Lot | Office | 147.00 sq metres/ 147.00 sq metres | Freehold | 16 years | 407,251 | | 03/02/1997 |
| 6 | Deleum Services Sdn. Bhd. | Lot 1315, Block 9, Miri Concession Land District, Miri Waterfront Commercial Centre, Jalan Bendahara, 98008 Miri, Sarawak, Malaysia | 4 storey corner shop office | Office | 186.70 sq metres/ 891.84 sq metres | Leasehold/ 30/09/2066 | 14 years | 840,000 | | 20/08/2004 |
| 7 | Deleum Services Sdn. Bhd. (Operations) | Asian Supply Base, Ranca Ranca Industrial Estate, P.O. Box 81730, 87027 Labuan, Federal Territory, Malaysia | Warehouse | Warehouse | 5,700.00 sq metres/ 1,776.43 sq metres | On Lease / 30/09/2024 | 18 years | 500,000 | | - |
| 8 | Deleum Services Sdn. Bhd. (Operations) | Kemaman Supply Base, Warehouse 28, 24007 Kemaman, Terengganu Darul Iman, Malaysia | Warehouse | Warehouse | 4,134.00 sq metres/ 1,456.00 sq metres | On Lease/ 31/03/2019 | 10 years | 31 | | - |
| 9 | Penaga Dresser Sdn. Bhd. (Operations) | No. A1-A2, Kawasan MIEL, Jakar Phase III, 24000 Kemaman, Terengganu Darul Iman, Malaysia | 2 units of semi-detached factory | Assembly Plant | A1-1723 sq metres A2-1229 sq metres | Leasehold/ 19/04/2053 | 26 years | 1,078,472 | 04/11/2009 | 12/04/2004 |

ANALYSIS OF SHAREHOLDINGS

AS AT 13 MARCH 2019

Total number of issued shares : 401,125,700 ordinary shares
 Voting rights : One (1) vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Shareholders | % of Shareholders | Total Shareholdings | % of Shareholdings |
|--|---------------------|-------------------|---------------------|--------------------|
| less than 100 shares | 282 | 6.77 | 7,803 | 0.00 |
| 100 to 1,000 shares | 534 | 12.81 | 333,936 | 0.08 |
| 1,001 to 10,000 shares | 2,256 | 54.14 | 11,728,437 | 2.93 |
| 10,001 to 100,000 shares | 901 | 21.62 | 29,489,761 | 7.35 |
| 100,001 to less than 5% of issued shares | 190 | 4.56 | 162,769,445 | 40.58 |
| 5% and above of issued shares | 4 | 0.10 | 196,796,318 | 49.06 |
| Total | 4,167 | 100.00 | 401,125,700 | 100.00 |

30 LARGEST SECURITIES ACCOUNT HOLDERS AS PER RECORD OF DEPOSITORS

(Without aggregating the securities from different securities accounts belonging to the same Depositor)

| No. | Name of Shareholders | No. of Shares | Percentage (%) |
|-----|---|---------------|----------------|
| 1. | Lantas Mutiara Sdn. Bhd. | 81,740,900 | 20.38 |
| 2. | Amsec Nominees (Tempatan) Sdn. Bhd. Amara Investment Management Sdn. Bhd. for Hartapac Sdn. Bhd. | 48,165,418 | 12.01 |
| 3. | Datuk Vivekananthan a/l M.V. Nathan | 42,530,000 | 10.60 |
| 4. | IM Holdings Sdn. Bhd. | 24,360,000 | 6.07 |
| 5. | Datin Che Bashah @ Zaiton binti Mustaffa | 19,024,000 | 4.74 |
| 6. | Dato' Izham bin Mahmud | 11,200,000 | 2.79 |
| 7. | Maybank Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tan Sri Dato' Mohd Ibrahim bin Mohd Zain (Margin) | 8,566,998 | 2.14 |
| 8. | Datin Che Bashah @ Zaiton binti Mustaffa | 7,741,600 | 1.93 |
| 9. | Chandran Aloysius Rajadurai | 5,300,000 | 1.32 |
| 10. | Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board (AM INV) | 4,336,900 | 1.08 |
| 11. | Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board (PHEIM) | 4,331,800 | 1.08 |

30 LARGEST SECURITIES ACCOUNT HOLDERS AS PER RECORD OF DEPOSITORS (continued)

(Without aggregating the securities from different securities accounts belonging to the same Depositor)

| No. | Name of Shareholders | No. of Shares | Percentage (%) |
|-----|--|---------------|----------------|
| 12. | Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Chan Cheu Leong | 3,929,000 | 0.98 |
| 13. | HSBC Nominees (Asing) Sdn. Bhd. Exempt AN for Credit Suisse (SG BR-TST-Asing) | 3,884,600 | 0.97 |
| 14. | CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB Bank for Tan Sri Dato' Mohd Ibrahim bin Mohd Zain (MM0804) | 3,333,000 | 0.83 |
| 15. | Dilip Manharlal Gathani | 3,060,800 | 0.76 |
| 16. | DYMM Tuanku Syed Sirajuddin Putra Jamalullail | 2,901,066 | 0.72 |
| 17. | Neoh Choo Ee & Company, Sdn. Berhad. | 2,749,332 | 0.69 |
| 18. | Hj. Abd Razak bin Abu Hurairah | 2,681,946 | 0.67 |
| 19. | Lee Sew Bee | 2,578,000 | 0.64 |
| 20. | Saudah binti Hashim | 2,500,000 | 0.62 |
| 21. | Universal Trustee (Malaysia) Berhad KAF Dana Alif | 2,237,500 | 0.56 |
| 22. | CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB Bank for Datin Che Bashah @ Zaiton binti Mustaffa (PBCL-0G0239) | 2,050,000 | 0.51 |
| 23. | Universal Trustee (Malaysia) Berhad KAF Dana Adib | 1,818,900 | 0.45 |
| 24. | Universal Trustee (Malaysia) Berhad KAF Tactical Fund | 1,773,700 | 0.44 |
| 25. | Amanahraya Trustees Berhad Amtotal Return | 1,766,600 | 0.44 |
| 26. | RHB Capital Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Datin Che Bashah @ Zaiton binti Mustaffa (CEB) | 1,700,000 | 0.42 |
| 27. | Datuk Ishak bin Imam Abas | 1,696,332 | 0.42 |
| 28. | CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB Bank for Tan Swee Leong (PBCL-0G0165) | 1,660,000 | 0.41 |
| 29. | CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB Bank for Datin Che Bashah @ Zaiton binti Mustaffa (PBCL-0G0054) | 1,650,000 | 0.41 |
| 30. | Celine D' Cruz a/p Francis D' Cruz | 1,630,000 | 0.41 |

ANALYSIS OF SHAREHOLDINGS (CONTINUED)

AS AT 13 MARCH 2019

SUBSTANTIAL SHAREHOLDERS

| Name of Substantial Shareholders | Direct Interest | | Indirect Interest | |
|--|-----------------|-------|----------------------------|-------|
| | No. of Shares | % | No. of Shares | % |
| Lantas Mutiara Sdn. Bhd. | 81,740,900 | 20.38 | 0 | 0 |
| Hartapac Sdn. Bhd. | 48,165,418 | 12.01 | 0 | 0 |
| Datuk Vivekananthan a/l M.V. Nathan | 42,799,300 | 10.67 | 81,740,900 ⁽¹⁾ | 20.38 |
| Datin Che Bashah @ Zaiton binti Mustaffa | 32,185,598 | 8.02 | 0 | 0 |
| IM Holdings Sdn. Bhd. | 24,360,000 | 6.07 | 0 | 0 |
| Dato' Izham bin Mahmud | 11,200,000 | 2.79 | 138,286,498 ⁽²⁾ | 34.47 |
| Datin Sian Rahimah Abdullah | 0 | 0 | 48,165,418 ⁽³⁾ | 12.01 |
| Faye Miriam Abdullah | 0 | 0 | 48,165,418 ⁽³⁾ | 12.01 |
| Hugh Idris Abdullah | 0 | 0 | 48,165,418 ⁽³⁾ | 12.01 |
| Farid Riza Izham | 0 | 0 | 24,360,000 ⁽⁴⁾ | 6.07 |
| Faidz Raziff Izham | 0 | 0 | 24,360,000 ⁽⁴⁾ | 6.07 |
| Hana Sakina Izham | 0 | 0 | 24,360,000 ⁽⁴⁾ | 6.07 |

Notes:

- ⁽¹⁾ Deemed interested by virtue of his shareholdings in Lantas Mutiara Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016 (the Act).
⁽²⁾ Deemed interested by virtue of his shareholdings in IM Holdings Sdn. Bhd. and Lantas Mutiara Sdn. Bhd. pursuant to Section 8 of the Act and shares held by his spouse.
⁽³⁾ Deemed interested by virtue of his/her shareholdings in Hartapac Sdn. Bhd. pursuant to Section 8 of the Act.
⁽⁴⁾ Deemed interested by virtue of his/her shareholdings in IM Holdings Sdn. Bhd. pursuant to Section 8 of the Act.

DIRECTORS' SHAREHOLDINGS

| Name of Directors | Direct Interest | | Indirect Interest | |
|---|-----------------|-------|----------------------------|-------|
| | No. of Shares | % | No. of Shares | % |
| Dato' Izham bin Mahmud | 11,200,000 | 2.79 | 138,286,498 ⁽¹⁾ | 34.47 |
| Datuk Vivekananthan a/l M.V. Nathan | 42,799,300 | 10.67 | 81,740,900 ⁽²⁾ | 20.38 |
| Datuk Ishak bin Imam Abas | 1,712,998 | 0.43 | 0 | 0 |
| Nan Yusri bin Nan Rahimy ⁽⁴⁾ | 559,232 | 0.14 | 61,332 ⁽³⁾ | 0.02 |

Notes:

- ⁽¹⁾ Deemed interested by virtue of his shareholdings in IM Holdings Sdn. Bhd. and Lantas Mutiara Sdn. Bhd. pursuant to Section 8 of the Act and shares held by his spouse.
⁽²⁾ Deemed interested by virtue of his shareholdings in Lantas Mutiara Sdn. Bhd. pursuant to Section 8 of the Act.
⁽³⁾ Deemed interested by virtue of shares held by his spouse.
⁽⁴⁾ Nan Yusri bin Nan Rahimy is also deemed to have interest in the shares of Deleum Berhad to the extent of the shares granted to him pursuant to the Long-Term Incentive Plan (LTIP) of Deleum Berhad as follows:
(a) 72,766 shares granted under the second grant of the LTIP under Restricted Share Incentive Plan (RS Award)
(b) Up to maximum of 680,600 shares granted under the second grant of the LTIP under Performance Share Incentive Plan, based on outstanding performance targets

The shares granted under Note (4)(a) and (b) will be vested only upon fulfilment of vesting conditions which include achievement of service period and performance targets.

CORPORATE DIRECTORY

HEAD OFFICE

Deleum Berhad and its subsidiaries:

Deleum Services Sdn. Bhd.
Deleum Oilfield Services Sdn. Bhd.
Deleum Chemicals Sdn. Bhd.
Turboservices Sdn. Bhd.

No. 2, Jalan Bangsar Utama 9
 Bangsar Utama, 59000
 Kuala Lumpur, Malaysia
 Tel : +603-2295 7788
 Fax : +603-2295 7777
 Email : info@deleum.com

BRANCH OFFICE

Miri

Lot 1315, Miri Waterfront
 Commercial Centre
 98008 Miri
 Sarawak, Malaysia
 Tel : +6085-413 528/417 020
 Fax : +6085-418 037
 Email : info@deleum.com

Kota Kinabalu

Unit No. J-55-3A, 4th Floor
 Block J, KK Times Square
 Off Coastal Highway
 88100 Kota Kinabalu
 Sabah, Malaysia
 Tel : +6088-485 189
 Email : info@deleum.com

SUBSIDIARIES

Deleum Rotary Services Sdn. Bhd.

No. 3, Jalan P4/8, Seksyen 4
 Bandar Teknologi Kajang
 43500 Kajang
 Selangor Darul Ehsan, Malaysia
 Tel : +603-8723 7070
 Fax : +603-8723 3070
 Email : info@deleum.com

Turboservices Sdn. Bhd.

Unit No. B-23-1, Level 23, Tower B
 Menara UOA Bangsar
 No. 5, Jalan Bangsar Utama 1
 59000 Kuala Lumpur, Malaysia
 Tel : +603-2280 2200
 Fax : +603-2280 2249/2250

Deleum Primera Sdn. Bhd.

E-09-01, Menara Suezcap 2,
 KL Gateway, No. 2, Jalan Kerinchi,
 Gerbang Kerinchi Lestari,
 59200 Kuala Lumpur, Malaysia
 Tel : +603-7773 7777
 Fax : +603-7773 7778
 Email : info@deleum.com

Penaga Dresser Sdn. Bhd.

Business Suite, 19A-9-1
 Level 9, UOA Centre,
 No. 19, Jalan Pinang, 50450
 Kuala Lumpur, Malaysia
 Tel : +603-2163 2322
 Fax : +603-2161 8312
 Email : sales@penagadresser.com

Penaga Dresser Sdn. Bhd.

(Kota Kinabalu Sales Office)
 Unit No. J-55-3A, 4th Floor
 Block J, KK Times Square
 Off Coastal Highway
 88100 Kota Kinabalu
 Sabah, Malaysia
 Tel : +6088-485 189
 Email : sales@penagadresser.com

OPERATIONS AND SUPPLY BASES

Kemaman

Kemaman Supply Base
 Warehouse 28, 24007 Kemaman
 Terengganu Darul Iman, Malaysia
 Tel : +609-863 1407/1408
 Fax : +609-863 1379
 Email : info@deleum.com

Labuan

Asian Supply Base
 Rancha Rancha Industrial Estate
 87017 Labuan, Malaysia
 Tel : +6087-413 935/583 205
 Fax : +6087-425 694
 Email : info@deleum.com

SERVICE CENTRE/FACILITY

Miri

(Miri Service Facility)
 Sublot 3017
 Permyjaya Technology Park
 Bandar Baru Permyjaya,
 98000 Miri,
 Sarawak, Malaysia
 Tel / Fax : +6085-418 364
 Email : info@deleum.com

Deleum Rotary Services Sdn. Bhd.

(Bintulu Service Facility)
 Lot 3955, Block 32
 Jalan Sungai Nyigu
 97000 Bintulu, Sarawak, Malaysia
 Tel : +6086-339 964
 Fax : +6086-339 984
 Email : info@deleum.com

Integrated Workshop Facility

Lot 4019, Kawasan Industri Teluk
 Kalong, 24007 Kemaman
 Terengganu Darul Iman, Malaysia
 Tel : +609-863 4588
 Fax : +609-863 2588
 Email : info@deleum.com

Teluk Kalong Base

Lot PT 8777, Telok Kalong Industrial
 Area, 24000 Kemaman, Terengganu,
 Malaysia
 Tel : +609-863 4588
 Fax : +609-863 2588
 Email : info@deleum.com

Penaga Dresser Sdn. Bhd.

(Terengganu Engineering Centre)
 Lot A1-A2, Kawasan Miel
 Jakar Phase III, 24000 Kemaman
 Terengganu Darul Iman, Malaysia
 Tel : +609-868 6799
 Fax : +609-868 3453
 Email : sales@penagadresser.com

Penaga Dresser Sdn. Bhd.

(Sabah Sarawak Engineering
 Centre)
 Lot 3326 & 3327, Piasau Industrial
 Shophouse, Off Jalan Piasau Utara
 98000 Miri, Sarawak, Malaysia
 Tel : +6085-419 126
 Fax : +6085-412 127
 Email : sales@penagadresser.com

Penaga Dresser Sdn. Bhd.

(Labuan Engineering Service
 Centre)
 Asian Supply Base
 Rancha Rancha Industrial Estate
 87017 Labuan, Malaysia
 Email : sales@penagadresser.com

OTHER FACILITIES

Research & Development Facility

No. 4-3, Jalan Bangsar Utama 9
 Bangsar Utama, 59000
 Kuala Lumpur, Malaysia
 Tel : +603-2295 7788
 Fax : +603-2295 7777
 Email : info@deleum.com

JOINT VENTURE

Turboservices Overhaul Sdn. Bhd.

(Turboservices: Solar Turbines
 Integrated Service Centre)
 Lot 26197, Kawasan Perindustrian
 Tuanku Jaafar, 71450 Seremban
 Negeri Sembilan Darul Khusus
 Malaysia
 Tel : +606-6798 270/207
 Fax : +606-6798 267
 Email : info@deleum.com

ASSOCIATES

Malaysian Mud And Chemicals Sdn. Bhd.

Asian Supply Base
 Rancha Rancha Industrial Estate
 87017 Labuan, Malaysia
 Tel : +6087-415 922
 Fax : +6087-415 921
 Email : mc2@tm.net.my

Cambodia Utilities Pte. Ltd.

Power Plant #2, Road #2
 Sangkat Chak Angre Leu
 Khan Meanchey, Phnom Penh
 Kingdom of Cambodia
 Tel : +855-23 425 592
 Fax : +855-23 425 050
 Email : administrationcupl@cupl.com.kh

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PROXY FORM



DELEUM
Deleum Berhad
(Company No. 715640-T)
(Incorporated in Malaysia)

| CDS Account No. | No. of Shares Held |
|-----------------|--------------------|
| | |

I/We _____
(Full name in block letters)

I.C./Passport/Company No. _____

of _____
(Address in full)

being a member of **DELEUM BERHAD** hereby appoint _____
(Full name in block letters)

I.C./Passport No. _____

of _____
(Address in full)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Fourteenth Annual General Meeting of the Company to be held at **Ballroom 1, First Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Tuesday, 14 May 2019 at 10:00 a.m.** and at any adjournment thereof.

| No. | Ordinary Resolutions | For | Against |
|-----|---|-----|---------|
| 1. | To re-elect Dato' Izham bin Mahmud as Director. | | |
| 2. | To re-elect Datuk Vivekananthan a/l M.V. Nathan as Director. | | |
| 3. | To re-elect Mr Lee Yoke Khai as Director. | | |
| 4. | To approve the payment of Directors' fees and benefits to Non-Executive Directors up to an amount of RM1,380,000. | | |
| 5. | To re-appoint Messrs. PricewaterhouseCoopers PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. | | |
| 6. | To authorise the issuance of shares pursuant to Sections 75 and 76 of the Companies Act 2016. | | |
| 7. | To approve the Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature as set out under Section 2.5(i)(1) of the Circular to Shareholders dated 15 April 2019. | | |
| 8. | To approve the Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature as set out under Sections 2.5(i)(2) and 2.5(ii)(1) of the Circular to Shareholders dated 15 April 2019. | | |
| 9. | To approve the retention of Datuk Ishak bin Imam Abas as an Independent Non-Executive Director of the Company. | | |
| | Special Resolution | | |
| 10. | To approve the Proposed Adoption of New Constitution of the Company. | | |

Please indicate with an "x" in the spaces provided how you wish your vote to be cast. If no instruction as to voting is given, the Proxy will vote as he or she thinks fit, or abstain from voting at his or her discretion.

Dated this _____ day of _____ 2019.

Signature/Common Seal of Member(s)

| | | |
|---|---------------|------------|
| For appointment of two (2) proxies, percentage of shareholdings to be represented by the proxies: | | |
| | No. of Shares | Percentage |
| Proxy 1 | | % |
| Proxy 2 | | % |
| Total | | 100% |

Notes:

- A member of the Company entitled to attend and vote at the Annual General Meeting (AGM) is entitled to appoint a proxy or proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
- A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the AGM. Where a member appoints two (2) proxies, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
- Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds in respect of the number of ordinary shares of the Company standing to the credit of the said securities account.
- Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account (omnibus account), there is no limit to the number of proxies which an exempt authorised nominee may appoint in respect of each omnibus account it holds.
- Where an authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
- The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, under its Common Seal or the hand of its duly authorised officer.
- The instrument appointing a proxy must be deposited at the Registered Office of the Company at No. 2, Jalan Bangsar Utama 9, Bangsar Utama, 59000 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time appointed for holding the AGM or any adjournment thereof.
- Pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of Fourteenth AGM will be put to vote by poll.
- For the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. to make available to the Company a Record of Depositors as at 8 May 2019 and only a depositor whose name appears on this Record shall be entitled to attend this AGM or appoint proxy or proxies to attend and/or vote on his/her stead.

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AFFIX
STAMP

The Company Secretary

DELEUM BERHAD
(Company No. 715640-T)
(Incorporated in Malaysia)

No. 2, Jalan Bangsar Utama 9
Bangsar Utama, 59000 Kuala Lumpur, Malaysia

2nd fold here

Deleum Berhad (715640-T)

No. 2, Jalan Bangsar Utama 9
Bangsar Utama
59000 Kuala Lumpur

T +603 2295 7788

F +603 2295 7777

www.deleum.com