

Managing Director's Statement

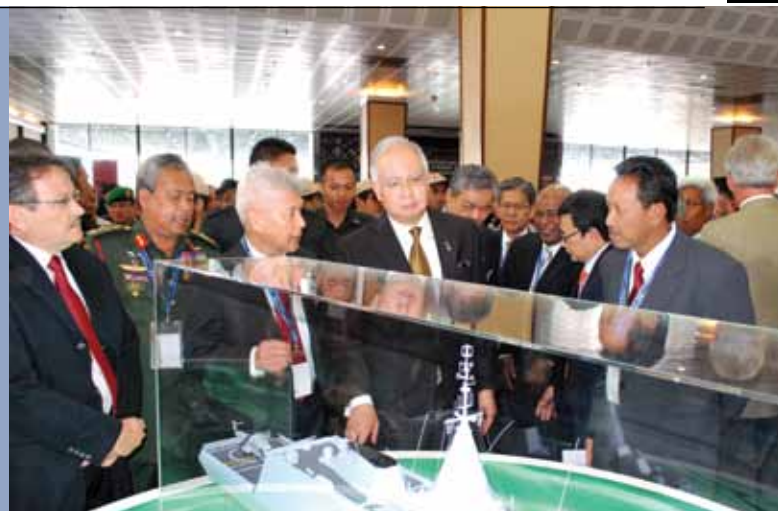


We were honoured by the presence of Y. A. Bhg. Tun Dr. Mahathir bin Mohamad during the recently held LIMA.

*Dear
Shareholders,*

The year under review was, to a large extent, a continuation of 2010's on-going efforts towards enhancing our capabilities and developing resources. Our strategy was underpinned by selective investment in human capital assets and refinements to our systems. We aim to establish an integrated platform for deeper relationships and nurture a long term, sustainable presence in the maritime sector.

During the event, the Prime Minister was among many local and foreign dignitaries given in-depth updates on the design and capabilities of the six Littoral Combat Ships to be constructed by Boustead Naval Shipyard Sdn Bhd.



FINANCIAL PERFORMANCE

For the financial year under review, the Group recorded a modest profit after tax of RM18 million compared with RM80 million in 2010. This was mainly due to lower revenue recognised for works performed on ongoing maintenance, repair & overhaul (MRO) services, which forms the bulk of the subsidiaries' activities.

We previously reported that our commercial shipbuilding projects were hit by cost escalations. With the completion and delivery of an anchor handling tug supply vessel and three chemical tankers, as well as the substantial completion of the two accommodation barges during the year, significant portion of the added costs was taken up in 2011.

In addition to this, our share of profit from associates was smaller with the completion of the New Generation Patrol Vessels Project.

The Group's gearing ratio of 0.88 times rose from the previous financial year (2010: 0.47 times) and this is reflected in the higher financial costs recorded. The new borrowings were utilised to purchase the three chemical tankers and to develop business opportunities which we believe will provide positive returns in the future.



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COMMERCIAL
SHIPBUILDING



In 2011, Boustead Penang Shipyard Sdn Bhd recorded a milestone when it successfully built and delivered its first ship with DP2 requirements. The 67.8 metre anchor handling tug supply vessel is proof of our capability in meeting the ever increasingly sophisticated needs of our clients.

Following close on its heels was our effort to build two accommodation barges which are currently nearing completion. The process involved loading one of the 1,500 tonne accommodation module onto a barge before welding the two structures together. An image depicting this procedure can be found on page 14. This manoeuvre, closely monitored with a strict control of the module's alignment and movement, took approximately six days, and utilised more than 100 staff to complete.

Your Group is looking to expand its commercial products portfolio to include smaller vessels such as tugs and workboats, seismic survey vessels and smaller crafts. To this end, BHIC has teamed up with Macduff Ship Design Limited to ensure the needs of existing and potential clients are met. Macduff, a UK based company, will provide the latest designs for commercial vessels such as harbour tugs, workboats, Multi Mac's, pilot vessels and general harbour support craft which will be constructed at any one of our local yards.



S NAVAL SHIPBUILDING

Artist impression of the Littoral Combat Ship.



In December 2011, the Group's associate company Boustead Naval Shipyard Sdn Bhd (BN Shipyard) received the Letter of Award from the Government for the design, construction, equipping, installation, integration, tests and trials, commissioning and delivery of six Second Generation Patrol Vessels with Littoral Combat Capabilities (SGPV - LCS). These Frigate class vessels will host advanced defence systems with three-dimensional warfare capabilities. These vessels are bigger and faster and more sophisticated than the first generation patrol vessels. The focus in 2012 will be on finalising the detailed designs and drawings while ensuring that BN Shipyard is able to execute the project's supply chain programme seamlessly.

In February 2011, BN Shipyard strengthened its resource base by organizing an industrial briefing to articulate the nation's aspirations and objectives of the SGPV - LCS project to stakeholders. This event was supported by more than 650 vendors and representatives from the Ministry of Defence and the RMN.





These objectives include increasing local content from the 30% achieved during the first patrol vessels project to up to 60%. Local content is defined as supply and services obtained from Malaysian companies in the areas of design, components manufacturing, systems installation, customisation, systems integration and software development. To this end, BN Shipyard developed the Malaysian Industry Participation Strategy to identify and spearhead efforts towards achieving this target through effective technology transfer, joint ventures as well as research and development. With the successful implementation of these strategies, we look forward to an integrated logistics package for an effective through-life support for the SGPV - LCS fleet, while enhancing the competency of local industries, especially in high-technology and value added areas.

During the year, BYO Marine Sdn Bhd (BYO Marine) made headway in its project to deliver ten fast interceptor crafts (FIC) to the Malaysian Maritime Enforcement Agency (MMEA). The advanced composite structure of the FICs has made it possible for the delivery of one of the fastest known platforms of its size, and entails the use of new technology in Malaysia. The first four of the ten FICs were constructed at our joint venture partner's premises at Istanbul. During the period, we ensured that transfer of technology was effected. We are glad to report that BYO Marine recently received ISO certification for its capability in the construction of composite boats of up to 44 metres, and for the provision of the associated after sales support.



In 2011, three boats were completed and handed over to MMEA. On 5 December 2011, the Deputy Prime Minister launched the first Malaysian built FIC at BYO Marine's premises in Langkawi.

We are actively marketing the craft to other countries in the region. The Group's active participation in the 11th Langkawi International Maritime and Aerospace Exhibition 2011 (LIMA) proved beneficial, since we received a number of enquiries from various ASEAN and African nations.



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- 1 The SGPV - LCS industrial briefing was officiated by the Defence Minister, Y. Bhg. Dato' Seri Dr. Ahmad Zahid Hamidi.
- 2 Aerial shot of PENGGALANG 13 during sea trial.
- 3 Launching ceremony of PENGGALANG 12, the first Malaysian built FIC.
- 4 Participants at a retreat conferring on risk management tools and processes to be adopted for the SGPV - LCS project.



M AINTENANCE, REPAIR & OVERHAUL



In 2011, we continued to leverage on our MRO capabilities by undertaking various projects through our Group of companies.

Besides ship repair and maintenance work at the BN Shipyard, a considerable number of man-hours were dedicated to the refit of RMN vessels and the Service Life Extension Programme (SLEP). In 2011, KD MAHAWANGSA, KD JEBAT, KD GANYANG and KD LAKSAMANA MUHAMMAD AMIN completed their refits and were handed over, leaving two remaining ships at the yard undergoing the programme.

In-service support (ISS) of naval vessels is primarily provided by BHIC Navaltech Sdn Bhd (BNT) and Boustead DCNS Naval Corporation Sdn Bhd (BDNC). BNT provides ISS for various RMN vessels stationed in Lumut, Kuantan and Kota Kinabalu, while BDNC specialises in repairs and maintenance work for the nation's two submarines, KDTUNKU ABDUL RAHMAN and KDTUN RAZAK.

During the year, weaponry related repairs and maintenance work were carried out by our two subsidiaries, BHIC Bofors Asia Sdn Bhd and BHIC Defence Techservices Sdn Bhd. The former provided through-life support including spare parts supply, total maintenance and training for various types of BOFORS naval guns, whereas the latter specialises in providing weaponry solutions to the Malaysian Army.



BHIC MSM Sdn Bhd (BHIC MSM), a joint venture company within the Group, provides repair and maintenance services for MTU Friedrichshafen GmbH's products, up to depot level, for users in Malaysia and Brunei Darussalam. For the financial year under review, BHIC MSM completed some work for the RMN. Dominion Defence Industries Sdn Bhd, a trading company based in Lumut, in addition to its core activities of servicing the requirements of the Malaysian Armed Forces, has embarked on various commercial jobs to broaden its revenue base.

BHIC Electronics and Technologies Sdn Bhd (BEAT) and Atlas Defence Technology Sdn Bhd (ADT), two entities involved in providing maintenance for electronics systems, successfully undertook various repairs and maintenance projects. In addition to this, BEAT provided training on HF Scimitar Radio and Digital Radio Relay at Kem Regimen Perhubungan Strategik of the Armed Forces, at Sungai Buloh.

BEAT's Calibration Laboratory was awarded the Accreditation Certificate of ISO/IEC 17025 by the Department of Standards Malaysia. In prior years, ADT had completed the installation and commissioning of the RMN's Bridge Shiphandling Simulator (BSS) for RMN's training centre, KD PELANDOK, as well as the Action Speed Tactical Trainer (ASTT) for the RMN's Maritime Tactical Centre, PUSTAKMAR. ADT is currently supplying spares and providing services for these products, while developing its own combat management system for niche markets.

Boustead Langkawi Shipyard Sdn Bhd (BLS) continued to focus on yacht repairs as well as servicing the local marine sector which includes ferries and other commercial vessels.

In an effort to diversify its business portfolio, the Group ventured into aerospace MRO services through BHIC Aeroservices Sdn Bhd (BHIC AS). In 2011, BHIC AS concentrated on planning and obtaining approvals from related agencies before commencing its sub-contracting work from Eurocopter Malaysia Sdn Bhd which is expected to take off in 2012. The company has set up a temporary facility in Terminal 3, Subang Skypark whilst a permanent MRO Centre is being developed in the new Subang Helicopter Centre.



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- 1 Royal Malaysian Navy's AS555SN Fennec helicopter.
- 2 Head of Operations for BEAT receiving the ISO/IEC 17025 Accreditation Certificate from the Department of Standards Malaysia.
- 3 On completion of governor installation, 4.3mm injection timing and 3 line notch marks for the unit injectors are checked for final adjustments.
- 4 Gun maintenance in progress.



M ANUFACTURING & SERVICES

The Group's manufacturing arm, Contraves Advanced Devices Sdn Bhd (CAD), our joint venture company with Rheinmetall Air Defence AG, performed well despite the looming European economic crisis in the second half of the year. A signing ceremony for a Manufacturing Licensing Agreement with an American company took place in 2011 where CAD was approved as the contract manufacturer of the company's products.

CAD also successfully initiated customer base diversification, from industrial electronics manufacturing to higher value manufacturing and systems integration activities for the aerospace as well as defence markets. During the recent LIMA, CAD and Rheinmetall Defence Electronics GmbH of Germany entered into an agreement to manufacture and supply Cargo Loading System Assemblies for Airbus A400M, A380 and A330 aircrafts. The agreement includes a comprehensive technology transfer programme and investment in new state-of-the-art facilities for aerospace electronics manufacturing.





In May 2011, BHIC Defence Technologies Sdn Bhd signed a Joint Venture & Shareholders Agreement with Prokhas Managers Sdn Bhd, resulting in the incorporation of the joint venture company, Pyrotechnical Ordnance Malaysia Sdn Bhd. The Bentong-based plant will manufacture and distribute double-based artillery and rocket propellants to the local defence industry once it is fully operational.

Despite the down cycle in the shipping industry, BHIC Petroleum Sdn Bhd's chemical tanker, MT CHULAN 1, successfully secured a time charter contract with Asahi Tanker Co Ltd, a chartering company from Japan. MT CHULAN 2 is expected to commence chartering in the near future.

Another important service that your Group offers is education and training, which is primarily provided by the Marine Technology Academy (MTA). Since 1999, MTA has been the focal training ground for staff as well as RMN's personnel. In a recent collaboration with Universiti Teknologi Malaysia, 33 technicians from the Royal Navy of Oman completed their training where 10 were awarded the Executive Diploma in Naval Engineering, while 23 others received their executive certificates in Naval Technology. In addition to this, 12 officers from the Royal Navy of Oman attended the Engineering Application Course which was fully developed and delivered by MTA.



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- 1 The Chulan tankers at sea.
- 2 Signing ceremony of the Joint Venture Agreement between Prokhas Managers Sdn Bhd and BHIC Defence Technologies Sdn Bhd.
- 3 Students carrying out practical activities in the mechanical workshop.
- 4 The Chief of Navy visited CAD in May 2011 and toured its facility.



TRANSFORMATION INITIATIVES

The BHIC Strategic Transformation Work Plan was established during the year, marking the starting point in establishing the right fundamentals for the Group. The transformation drive for the year started off with the Managing Director's town hall engagement in Lumut, followed by Pulau Jerejak, Langkawi, Kota Kinabalu and the Group's headquarters in Menara Boustead, Kuala Lumpur. This Work Plan is an essential element of BHIC's organisation rebuilding programme through the establishment of a structured communications platform. The initiative now includes the announcement of new staff, birthdays and celebrations as well as staff circulars. A Group Policy Task Force was set up to introduce BHIC's Policies, Processes and Procedures (BHIC-3P) and to compile a comprehensive BHIC Group Policy Manual.

The Group aims to offer employees a clear and credible career path with enhanced evaluation processes and initiatives which will focus on the provision of improved training and development programmes. This will help the Group retain the cream of the crop to realise its strategic objectives.

BHIC's core values and core competencies were reemphasized, further defined and rolled out via a Group-wide series of town hall meetings in early 2011 to communicate the expected behavioural norms for everyone within the Group. New Performance Development Review forms were introduced and rolled out in November 2011, accompanied by a "competency dictionary" for deliverables-based assessments. In addition to this, a comprehensive review of the compensation and benefits structure was launched in December 2011 to assist in realising some of the identified strategic objectives of the Group.

Developing potential talent is important to the Group. To this end, we signed an agreement with MIGHT METEOR Advanced Manufacturing Sdn Bhd, a human capital development centre established within the organization of Malaysian Industry-Government Group for High Technology (MIGHT), to facilitate the development of new contributors towards our ongoing corporate sustainability.

The agreement was for the intake of fresh top-notch engineering graduates for the Young Engineers Scheme (YES). After an orientation phase in Kuala Lumpur, these trainees were



stationed at the BN Shipyard, where they underwent rigorous classroom-based and on-the-job training for a duration of 12 months. The initial intake of 19 graduates successfully concluded their training in August 2011.

As part of the drive towards operational excellence, the internal Strategic Management Team conducted training sessions to cover accident investigation and reporting, safety (hazard identification, risk assessment and control), industrial engineering, positive counselling, organisation-wide manpower planning and process mapping as well as facilitation of continuous improvement (CI) projects.

With its yards operations in mind, the BN Shipyard embarked on CI initiatives including creating a “War Room” for daily, weekly and monthly operations meetings, kopitiam sessions and CI circles, monthly financial performance reviews as well as a recognition programme.

With this unrelenting focus on CI projects, the three local shipyards have registered tangible cost savings and profit improvements during the year under review and we anticipate the involvement of other business units to continue their initiatives or begin the process of challenging the status quo, with the aim of securing broad operating improvements.

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- 1 Brainstorming session during BHIC Strategic Retreat.
- 2 Participants at the retreat were further explained on the concepts discussed during the previous information sharing workshop.
- 3 The Kuala Lumpur town hall meeting was held in conjunction with the Hari Raya celebration as part of the Group’s initiative to foster a culture of belonging.
- 4 One of a series of inter departmental meetings held in Lumut to discuss manpower planning and human capital development programmes.

PROSPECTS

The maritime sector has the potential of being a significant driver of Malaysia's economy as it paves its way towards becoming a fully developed nation. This sector can generate high-income and knowledge-based activities, while creating employment opportunities within the industry. We have played our part the best way possible since BHIC's relisting, we have overcome legacy issues and are now at the dawn of a new phase. To reach this point, the drive for operational efficiency was supported by the implementation of industry best practices and the introduction of integrated shipbuilding software, coupled with automation of processes. To maintain our position as a leader in the regional maritime industry, BHIC will continue focusing on growing the breadth and depth of our products and services.

The launch of the Malaysian Shipbuilding / Ship Repair Industry Strategic Plan 2020 in December 2011 was also timely as it articulated the potential market that can be tapped by domestic industry players. The plan is realistic in its targets and should provide an impetus for all stakeholders to come together, since it aims to generate RM6.35 billion in gross national income and create 55,000 job opportunities for the maritime industry.



APPRECIATION

We are deeply appreciative of the loyalty and trust of our shareholders in us. We would also like to express our gratitude to the Government of Malaysia and its agencies for their unwavering support and cooperation in the various aspects of our business. Our thanks also goes to our customers, business partners and regulatory bodies and agencies.

The management and employees have rallied strongly during the past financial year and we thank them for their perseverance and sacrifice. We are confident that the team will continue to provide their support and commitment to propel BHIC's growth. BHIC's success would not be possible without the hard work and commitment from all the parties above.

Thank you.



TAN SRI DATO' SERI AHMAD RAMLI BIN HAJI MOHD NOR

CORPORATE SOCIAL RESPONSIBILITY

As a responsible and caring corporate citizen, we are aware of the importance of looking after the interests of our employees, the community and the environment. At BHIC, our corporate social responsibility (CSR) initiatives are an ongoing effort that we are fully committed to nurturing in order to continue making positive contributions to the communities in which we operate.

VENDOR DEVELOPMENT

We are dedicated to maintain strategic partnerships with our vendors by facilitating the skills development of small and medium size enterprises in the areas of shipbuilding and ship repair activities, as well as supply and manufacturing of maritime defence related products.

The Group Vendor Development Division (GVDD) has worked closely with a number of government bodies, particularly the Ministry of International Trade and Industry, the Entrepreneur Development Department and other government agencies such as Kulim Technology Park Corporation (KTPC), Technology Park Malaysia and SIRIM Berhad in relation to our long-term development plan for local vendors. GVDD has fostered relationships with other Government Link Companies (GLCs) by attending periodic discussions under the purview of the GLC Vendor Development Programme Circle. The purpose of these discussions is to formulate and strategise further advancements of the vendors under each GLC's umbrella.

During the year, we coordinated the participation of several vendors in industrial exhibitions, as well as briefings in preparation for the upcoming SGPV-LCS project. These briefings allowed BN Shipyard to identify several vendors that were in need of additional training which is crucial to the success of the project. Subsequently, GVDD assisted in obtaining a training grant to bear the costs for educational programmes in the areas of project management, business strategy, financial planning and the application of a design software.

In June 2011, 19 participants from 10 BN Shipyard vendors took part in a six month Business Coaching and Mentoring Programme sponsored by KTPC. The objective was to develop the business management competencies of vendors and increase their competitiveness in the marketplace. The programme was successfully concluded with all participants graduating in December 2011.