The Oil and Gas (“O&G”) industry went through one of its most transformative periods in 2016, with the sensational drop in oil prices affecting many companies and consequently redefining the way businesses are run as they tackle costs and prepare to face the challenges ahead. The impact on O&G players worldwide has been dramatic, as oil prices fell sharply over the past two (2) years, with many companies slashing outlays and affecting head count.

The rampant supply and lower global demand coupled with slowing economic growth and closer to home, the weaker Malaysian Ringgit, had similarly affected Kulim’s O&G Division, though not as severely due to our limited exposure to Exploration and Production (“E&P”) activities and our rather diversified portfolio.
Against this challenging backdrop, our O&G Division managed to post a stable revenue of RM626.17 million in 2016, which was comparable against RM569.78 million achieved in 2015, but pre-tax profit was visibly lower at RM21.03 million, halved from 2015’s level of RM48.34 million, as we had to contend with tighter margins and higher costs.

O&G support services operations in Malaysia continued to draw strength from our marine vessel operation, with E.A. Technique (M) Berhad (“EA Tech”) contributing revenue of RM591.66 million, a 10.28% increase from RM536.53 million posted in the previous financial year. Pre-tax profit increase by 36.18% to RM21.54 million, from RM15.82 million in 2015.

It continued to receive steady revenue contribution from Danamin (M) Sdn Bhd (“Danamin”) in 2016 at RM34.50 million, a 8.35% increase from RM31.84 million posted in the previous year. Despite the marginal growth in revenue, the company’s earnings improved substantially, cutting its pre-tax loss of RM4.75 million in 2015 to pre-tax profit of RM1.33 million in 2016. This was mainly due to the effectiveness in costs management, which includes review of manpower planning.

In Indonesia, the acquisition of PT Citra Sarana Energi (“PT CSE”) is still on-going and hence, did not create a significant impact on our earnings in 2016. The PT CSE deal in Indonesia is part of our strategic decision to venture into upstream O&G business and move up the O&G value chain into E&P activities. This comes in the midst of industry expectations that the sector is now on the cusp of recovery.

However, for Kulim, this Indonesian venture remains exploratory at the current stage. Although it offered little or no contribution to the Group’s 2016 financial performance, we are confident that its contribution will grow significantly within the next few years as it enters into the production and commercialisation phase.

Given that O&G exploration, production and operations involve a variety of risks, which may expose the Group to substantial liability, Kulim ensures that the organisation practices high standards of safety precautions. Our risk management team continually monitors data and has in place a sound risk management strategy.

**INDUSTRY OVERVIEW**

Growth of the Malaysian economy expanded at a slower pace of 4.2% in 2016, compared with 5% growth in 2015, underpinned by the manufacturing and services sector and as domestic demand helped offset the impact of lower oil prices.

The central bank, Bank Negara Malaysia, however, had cautioned that the economy was likely to face a challenging operating environment going forward with domestic demand to continue driving growth with added support from exports. Investment activities are seen to remain focused on on-going infrastructure projects and capital spending in the manufacturing and services sectors.

According to the Malaysia External Trade Development Corporation (“MATRADE”), trade remained resilient in 2016, with total trade growing by 1.5% to reach RM1.49 trillion in 2016, from RM1.46 trillion in the preceding year. During the year, exports rose by 1.1% to RM785.93 billion while imports increased by 1.9% to RM698.66 billion.

The World Bank, however, had recently slashed its growth forecast for Malaysia from 2016 through 2018 citing the impact of a subdued global economy on the prospects of Malaysia’s, open economy, predicting Malaysia’s GDP growth would slow to 4.2% in 2016 from 5% in 2015 due to weak demand for oil and manufactured exports. However, it sees the economy rebounding to 4.3% in 2017 before accelerating further to 4.5% in 2018.
In neighbouring Indonesia, overall GDP expanded slightly in 2016, although growth eased in the final quarter of the year, supported by domestic demand with fourth quarter data on private consumption and fixed investment indicating steady economic growth. During the year, some volatility was seen in the external sector with modest growth in exports and trade balance surpluses that mainly attributable to exports of commodities in its heavily-weighted commodity export sector.

**UPSTREAM ACTIVITIES – INDONESIA**

In November 2008, the Indonesian government awarded a Production Sharing Contract (“PSC”) to two (2) subsidiaries of PT Citra Sarana Energi (“PT CSE”) – PT Rizki Bukit Barisan Energi (“PT RBBE”) (formerly known as PT Radiant Bukit Barisan E&P) and PC SKR International (“PC SKR”) - for the South West Bukit Barisan (“SWBB”) PSC. SWBB PSC is located onshore in the West Sumatera Province.

On 10 December 2014, Kulim signed a Conditional Subscription and Shares Purchase Agreement (“CSSPA”) to acquire 60% interest in PT CSE for USD133.55 million to gain a foothold in the Indonesian market. Subsequently, on 7 February 2016, taking into account the lower crude oil prices subsequent to the date of signing of the CSSPA, Kulim inked a Supplemental Agreement with the vendors, revising the investment cost downward to USD 80 million. The CSSPA is expected to be completed in 2017.

Based on the Plan of Development (“POD”) and requirements by Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi (“SKK MIGAS”), PT RBBE has completed all its obligations to drill four (4) exploration wells and had on 28 November 2016 submitted a POD for approval.

PT RBBE is working closely with the Indonesian authorities to obtain the POD approval by 2017.

**SUPPORT SERVICES – MALAYSIA**

**E.A. TECHNIQUE (M) BERHAD (“EA TECH”)**

Incorporated in Malaysia on 18 January 1993, EA Tech was listed on the Bursa Malaysia Securities Berhad on 11 December 2014. The company is a marine vessel operator with its principal activities in marine transportation and offshore storage of O&G, provision of marine port services and marine engineering services. It also has a shipyard to support its vessel operations in terms of shipbuilding, ship repair and minor fabrication.

The company aims to be one of the major shipping companies in Malaysia with a strong culture of safety, quality and security well-embedded in the organisation.

The company is engaged in the provision of port marine services for petrochemical and bulk and container ports in Malaysia. The types of port marine services that EA Tech provides at the ports include, among others:

- Towage services, comprising towing, pushing or maneuvering vessels; and
- Mooring services, which involves securing a marine vessel to specially constructed fixtures such as piers, quays, wharfs, jetties, anchor buoys and mooring buoys.

EA Tech also provides dockside mooring services where mooring personnel will secure vessels to floating structure and fixtures at the wharf.

The company’s marine engineering services are divided into two (2) segments, i.e. provision of marine engineering solutions and shipbuilding and ship repair activities. The former encompasses the provision of marine engineering solution and Engineering, Procurement, Construction, Installation and Commissioning (“EPCIC”) activities, whilst the shipbuilding and ship repair activities provide internal support to its marine vessel operations.

- Shipbuilding: Some of the shipbuilding activities that the company carries out include construction of hull and structure, installation of machinery, equipment and instruments and various embedded systems on the deck of the vessel, painting and coating, as well as testing and commissioning.

EA Tech also undertakes the mirror fabrication of steel structures in its shipyard. The steel structures that the company fabricates are mainly for marine vessels, such as helipad, flare stack, skids and piping systems.

In 2016, the EA Tech Group reported a 10.28% higher revenue of RM591.66 million and PBT of RM21.54 million, compared with a revenue of RM536.53 million and PBT of RM15.82 million previously.

**EA TECH GROUP REVENUE**

<table>
<thead>
<tr>
<th>RM</th>
<th>591.66 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td>10.28%</td>
</tr>
</tbody>
</table>

In November 2008, the Indonesian government awarded a Production Sharing Contract (“PSC”) to two (2) subsidiaries of PT Citra Sarana Energi (“PT CSE”) – PT Rizki Bukit Barisan Energi (“PT RBBE”) (formerly known as PT Radiant Bukit Barisan E&P) and PC SKR International (“PC SKR”) - for the South West Bukit Barisan (“SWBB”) PSC. SWBB PSC is located onshore in the West Sumatera Province.

On 10 December 2014, Kulim signed a Conditional Subscription and Shares Purchase Agreement (“CSSPA”) to acquire 60% interest in PT CSE for USD133.55 million to gain a foothold in the Indonesian market. Subsequently, on 7 February 2016, taking into account the lower crude oil prices subsequent to the date of signing of the CSSPA, Kulim inked a Supplemental Agreement with the vendors, revising the investment cost downward to USD 80 million. The CSSPA is expected to be completed in 2017.

Based on the Plan of Development (“POD”) and requirements by Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi (“SKK MIGAS”), PT RBBE has completed all its obligations to drill four (4) exploration wells and had on 28 November 2016 submitted a POD for approval.

PT RBBE is working closely with the Indonesian authorities to obtain the POD approval by 2017.

**SUPPORT SERVICES – MALAYSIA**

**E.A. TECHNIC E(M) BERHAD (“EA TECH”)**

Incorporated in Malaysia on 18 January 1993, EA Tech was listed on the Bursa Malaysia Securities Berhad on 11 December 2014. The company is a marine vessel operator with its principal activities in marine transportation and offshore storage of O&G, provision of marine port services and marine engineering services. It also has a shipyard to support its vessel operations in terms of shipbuilding, ship repair and minor fabrication.

The company aims to be one of the major shipping companies in Malaysia with a strong culture of safety, quality and security well-embedded in the organisation.

The company is engaged in the provision of port marine services for petrochemical and bulk and container ports in Malaysia. The types of port marine services that EA Tech provides at the ports include, among others:

- Towage services, comprising towing, pushing or maneuvering vessels; and
- Mooring services, which involves securing a marine vessel to specially constructed fixtures such as piers, quays, wharfs, jetties, anchor buoys and mooring buoys.

EA Tech also provides dockside mooring services where mooring personnel will secure vessels to floating structure and fixtures at the wharf.

The company’s marine engineering services are divided into two (2) segments, i.e. provision of marine engineering solutions and shipbuilding and ship repair activities. The former encompasses the provision of marine engineering solution and Engineering, Procurement, Construction, Installation and Commissioning (“EPCIC”) activities, whilst the shipbuilding and ship repair activities provide internal support to its marine vessel operations.

- Shipbuilding: Some of the shipbuilding activities that the company carries out include construction of hull and structure, installation of machinery, equipment and instruments and various embedded systems on the deck of the vessel, painting and coating, as well as testing and commissioning.

EA Tech also undertakes the mirror fabrication of steel structures in its shipyard. The steel structures that the company fabricates are mainly for marine vessels, such as helipad, flare stack, skids and piping systems.

In 2016, the EA Tech Group reported a 10.28% higher revenue of RM591.66 million and PBT of RM21.54 million, compared with a revenue of RM536.53 million and PBT of RM15.82 million previously.
During the year under review, the Company achieved higher revenue from its EPCIC project, marine transportation and offshore operation and port marine services. EPCIC has contributed RM381.17 million or 64.4% of the Group’s revenue, an improvement from RM342.22 million registered a year ago. Our marine operations segment contributed another RM210.49 million or 35.6% of EA Tech’s revenue.

In the 2016 financial statement, the 2015 numbers were restated as a result of prior year adjustment. The adjustment was in relation to our project revenue which had been overstated due to the under statement of total estimated budgeted costs. The adjustment has been reflected retrospectively and it has no impact on the result under review as well as the current prospects.

The weakening Ringgit has also affected the company’s bottom line as a result of foreign exchange losses, arising from its USD-denominated assets and liabilities as at 31 December 2016, based on the prevailing exchange rate on that date.

The company acquired one unit of chemical tanker and one unit of oil tanker on 13 May 2016 and 29 June 2016, respectively and began providing contract services to clients since December 2016. One unit of harbour tugboat, MV Nautica Tg. Puteri XXVII, was delivered on 4 September 2016 whilst another harbour tugboat, MV Nautica Tg. Puteri XXVIII was delivered on the 27 January 2017.

On 8 June 2016, EA Tech signed an agreement to acquire 100% Libra Perfex Precision Sdn Bhd for RM5 million, a deal which was subsequently completed on 22 November 2016.

On 14 December 2015, EA Tech signed a joint-venture agreement with MTC Engineering Sdn Bhd (“MTCE”) to jointly undertake floating services operation and related ancillary activities. However, the move was called off on 22 November 2016 and instead, it was agreed that EA Tech would acquire from MTCE the topside equipment currently attached to EA Tech’s vessel known as MT Nautica Muar for USD24 million.

The equipment include, among others, extended well test system, flare tower system, metering skid, cargo pump, quick release hook and helideck, which are installed to create a complete processing system on a vessel in order to facilitate more efficient transportation, lifting and installation from the dockside onto the vessel.

All the expansion of the company’s fleet of marine vessels as well as business operations are expected to enhance its earnings capability and consequently boost revenue and profitability.
OIL & GAS

As at 31 December 2016, EA Tech has an orderbook of approximately RM0.95 billion, with an additional RM350 million for potential extension. The company has long-term contracts for its marine vessels, which provide a stable and recurring revenue stream.

EA Tech remains focused on ensuring a consistent high utilisation rate of its assets to maximise earnings. Despite the challenging environment, the Company is confident that its business strategies and current strong orderbook will continue to support its growth and remains optimistic on its future performance.

Looking ahead, we believe the growth prospects are bright and EA Tech would be able to continue to perform well and provide positive returns to its stakeholders. We plan to enhance the company’s performance by tapping new potential markets. EA Tech’s portfolio and a wider fleet of marine vessels has enabled the company to meet the diverse needs and requirements of customers in marine, transportation and offshore storage of O&G and provision of port marine services. We are convinced that our resources and people are vital factors for success and we will improve our competitive edge by enhancing their knowledge and skill sets.

DANAMIN (M) SDN BHD (“DANAMIN”)

Established in 1994, Danamin is a company involved in provision of reliable, high quality, cost effective and technology-driven Engineering, Non-Destructive Testing (“NDT”), Quality Assurance, Asset Integrity Management and Inspection services. Danamin is led and managed by a group of Malaysian professionals, focusing on niche activities within selected specialised industries such as Oil & Gas, Marine, Petrochemical, Refinery and Pipeline.

Danamin’s branches are strategically located to allow its team of experts to be based in the vicinity of its customers’ facilities to support their inspection needs. Currently Danamin has a team of more than 300 professional employees with relevant certification.

Danamin’s vision is to become a preferred and successful company by continually providing excellent service in the O&G industry and by complying with internationally recognised standards, such as ISO 9001:2008 for NDT, Heat Treatment (“HT”) & Steel Structure Fabrication, ISO 14001:2008 and OHSAS 18001:2007 for NDT & HT; class certified societies BV.

During the year under review, Danamin registered a marginal 8.35% increase in revenue to RM34.50 million in 2016 from RM31.84 million in 2015. Despite the marginal growth in revenue, the company’s earnings improved substantially, turning its pre-tax loss of RM4.75 million in 2015 into pre-tax profit of RM1.33 million in 2016. This was mainly due to the company’s effort in costs management, which includes review of manpower planning.

Fabrication business commenced operation in 2013, which is still considered at an early stage. Taking advantage of its proximity to the RAPID project in Pengerang, Johor and rapport it has established with big market players such as Malaysia Marine and Heavy Engineering, Lotte Chemical Engineering, Toyo Engineering Corporation, Chec Construction and Petrovietnam Engineering, Danamin is looking forward to share the market with established competitors. The official launching of Pengerang Local Authority in January 2017 to oversee the Pengerang Integrated Petroleum Complex (“PIPC”) industrial zone and its surrounding areas is also seen as an enabler to fast track the development of RAPID project, which would be advantageous to Danamin’s businesses.

Presently, Danamin has RM18 million worth of books ordered for its fabrication business, whereas another RM45 million for the NDT business. Going forward, Danamin remains committed to providing innovative, cost-effective and high quality services as well as ensure customer satisfaction by treating each contract as a partnership.

Plans are also afoot to diversify into areas where it can enhance its capability and resources. This includes its smart partnership Kulim’s R&D company - Kulim Smart Technology Sdn Bhd for construction of the prototype Intelligent In-Line Inspection System (“ILIS”), a pipe inspection device used in detecting metal fatigue in vessels and pipelines. For the initial stage, focus will be on the production of MICRO-ILIS that will be used for the pipe inspection as small as 3 inch diameter.