



**UNITY**  
**INDIVERSITY**  
annual report ■ 2012

BOUSTEAD HOLDINGS BERHAD 3871-H

annual report 2012

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# BOUSTEAD HOLDINGS BERHAD 2012 ANNUAL REPORT

## RATIONALE

Our diversity is our strength. This year is testimony to the fact that our diverse businesses are imperative to our growth. The unity which we share amongst all Bousteadians is reflected in the cover design and in the hard work that has been achieved.



# ABOUT US

Boustead Holdings Berhad, with well over 180 years since its establishment, has evolved and reinvented itself from a modest trading company to a leading participant in the plantation sector and now a well-diversified homegrown conglomerate. The Group has six core areas of business, namely plantation, property, finance & investment, pharmaceutical, trading & manufacturing and heavy industries.

With a human capital of more than 17,000 employees spanning listed and non-listed subsidiaries, the Group has total assets in excess of RM13 billion. As one of the leading investments in the stable of companies owned by Lembaga Tabung Angkatan Tentera, Boustead's shareholders' funds at the close of the financial year was more than RM4.7 billion.





## OUR CORE VALUES



Respect

**Dignity | Trust | Fair | Open | Honour**



**Honest | Truthful | Conscience |  
Sincere | Accountability**

Integrity



Teamwork

**Unity | Harmony | Cooperation |  
Commitment | Collaboration**



**Professional | Courage | Pride |  
Proactive | Competitive**

Excellence

# OUR CORE BUSINESS

## plantation

The Plantation Division is one of the key contributors to the Group's earnings. With a sizeable acreage in Peninsular and East Malaysia, this Division invests in substantial research and development with the aim of achieving higher yields.



## property

The Property Division has a firm footing in this highly competitive sector. Involved in core activities such as property investment, property development and hotel operations, the Division is a niche strategic participant in the sector.



## finance & investment

With its investment in one of Malaysia's prominent financial services groups, accompanied by a diverse range of investments from education to confectionery and personal care products, this Division is a key contributor to Boustead.







## pharmaceutical

We have a sizeable investment in Malaysia's largest listed pharmaceutical group. Its full scope of services and products plays an important role in the nation's pharmaceutical and healthcare sector.



## trading & manufacturing

With diverse investments in a series of companies, ranging from Malaysia's only other homegrown national retail petroleum network to the manufacture and distribution of building materials, this Division also engages in the services sector, namely travel, shipping and engineering.



## heavy industries

The marine sector is the Division's focus, particularly for naval vessels and its full suite of services gives it a strong proposition. In addition, the Division has investments in the oil and gas and aviation business.



## PERFORMANCE HIGHLIGHTS



Revenue

**RM10.2**  
billion

- Significant 19% increase year-on-year.

Profit Before Tax

**RM619**  
million

- Contributions primarily from the Plantation, Property and Trading & Manufacturing Divisions.

Profit After Tax

**RM518**  
million

- Achieved, due to our diverse investments.

EBITDA

**RM1.1**  
billion

- 11% of revenue.

CAPEX

**RM875**  
million

- Propelling organic and inorganic growth.



Total Assets

**RM13.9**  
billion

- 9% growth year-on-year.

Employees

**17,079**

- 9% expansion in human capital.

Dividend

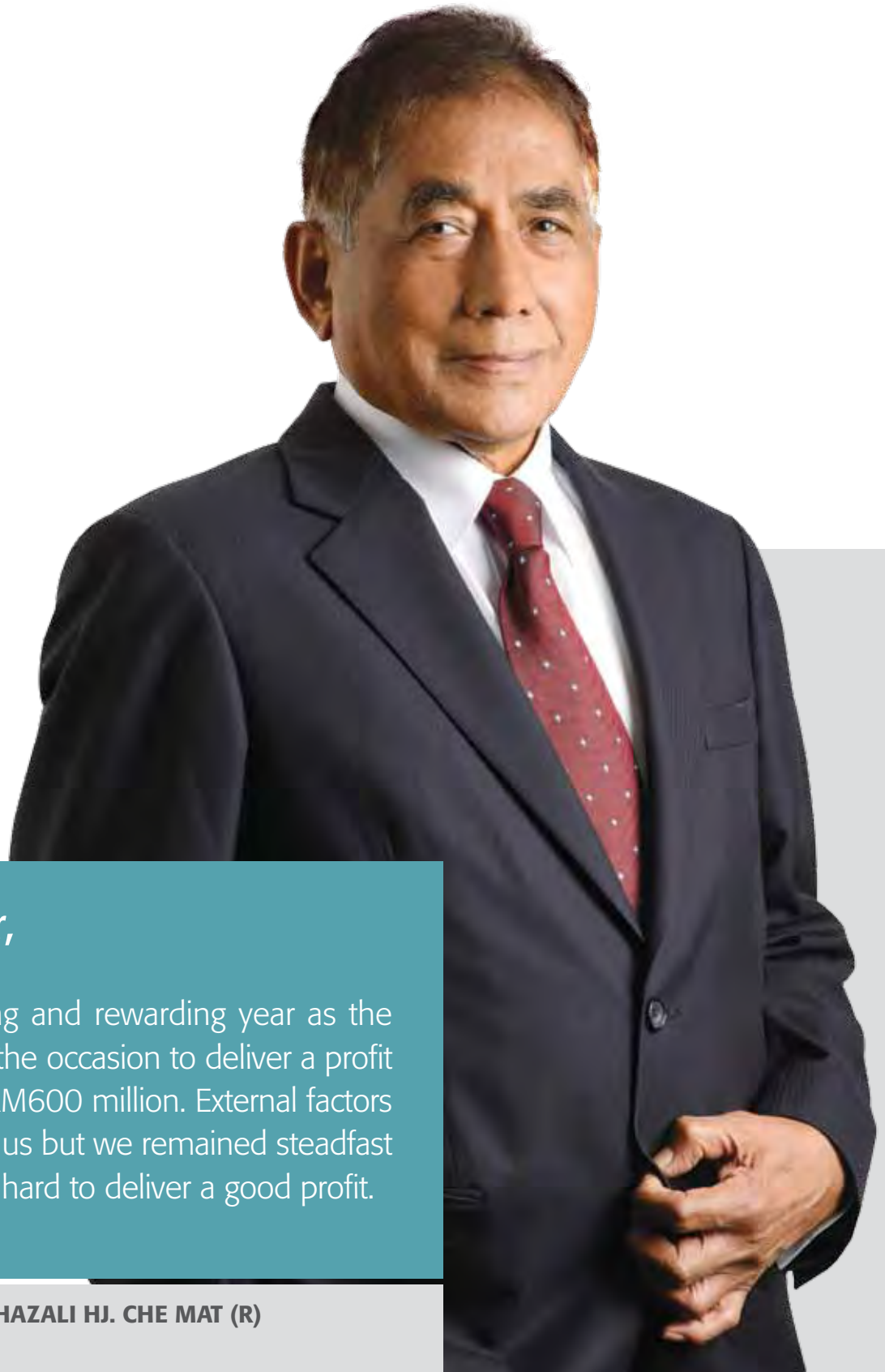
**32.5** sen

- 6.3% yield on closing price for the financial year.

**Leading  
the Way**

- The Al-Hadharah Boustead REIT, Malaysia's first and only Islamic plantations REIT.
- Pharmaniaga, Malaysia's largest listed integrated pharmaceutical group.
- BHPetrol, Malaysia's only other national retail petroleum network.
- The Royale chain of hotels, a leading hotel chain in Malaysia.
- University of Nottingham Malaysia Campus, a top private university in Malaysia.
- MHS Aviation, a leading provider of air transportation to the oil and gas sector.
- Boustead Naval Shipyard, Malaysia's leading solution provider for naval vessels.

## CHAIRMAN'S STATEMENT



Dear Shareholder,

It has been a challenging and rewarding year as the Boustead Group rose to the occasion to deliver a profit before tax in excess of RM600 million. External factors did their utmost to affect us but we remained steadfast in our quest and worked hard to deliver a good profit.

**GEN. TAN SRI DATO' MOHD GHAZALI HJ. CHE MAT (R)**  
Chairman



With this, I am pleased to present to you, our annual report for the financial year ended 31 December 2012.

### **ECONOMIC LANDSCAPE**

The Malaysian economy has weathered the volatile global economic climate stemming from protracted sovereign debt and banking sector complications that have in turn squeezed various major economies.

The National Transformation Policy introduced by the Government via the 2012 National Budget has strengthened domestic demand as the nation races towards achieving its mission of inclusive and sustainable growth. Its effects can be seen from Malaysia's gross domestic product growth, which moderated to a commendable 5.6% for 2012.

This resilient performance is mainly attributable to domestic demand as well as growth in private consumption along with foreign and local direct investment. However, the deterioration in external demand for commodities and the impact on the marine sector amongst other factors bore upon our businesses.



# CHAIRMAN'S STATEMENT



## FINANCIAL PERFORMANCE

The Group performed well for the year under review, with a profit after tax of RM518 million. Key reasons that affected the Group's bottom line were the deficit recorded by the Heavy Industries Division and the drop in profitability by the Plantation and Property Divisions.

Earnings per share ended at 40 sen and net assets per share was RM4.50 while shareholders' funds stood at RM4.7 billion for the year ended 31 December 2012.

## DIVIDEND

Our dividend policy is testament to our commitment to provide loyal shareholders with a strong and stable flow of yields. While it is important to deliver shareholder value, we are conscious of the need to balance this with a prudent capital management strategy.

The Group's dividend was 32.5 sen per share representing a 6.25% yield based on the closing stock price for the fiscal year. To date, dividends totalling 25 sen have been paid to shareholders, while the remaining 7.5 sen will be paid on 29 March 2013 to shareholders on the register as at 18 March 2013.

## HUMAN CAPITAL

The capacity of government and businesses to attract, develop, motivate and retain talent is an inescapable reality for today's knowledge-based economy. The Malaysian Government is mindful of this fact and has identified 'Strengthening Education and Training' as one of its key focuses as part of the 2013 Budget announcement in order to nurture knowledgeable, creative and innovative human capital.



The Group is conscious of the need to position Boustead as an employer of choice while enhancing workforce competitiveness. Moreover, we are aware of the direct correlation between the quality of our talent pool and our productivity. We have implemented several strategic measures to ensure talent development to support the Group's growth. These initiatives have been built on the bedrock of our core values and competencies which I am glad to note have permeated almost all levels of the Group.

## OUTLOOK

Although global economic growth for 2013 is overcast by the unrelenting Eurozone crisis and continued fragilities in advanced economies, domestic demand is expected to remain positive and the Malaysian economy is expected to grow.

Asia will hold its fair share of economic challenges as India and China balance growth with inflation. While Southeast Asia may not experience soaring growth rates, there will still be sustained improvements. These considerations will augur well for Malaysia as we are very much part of Asia's economic cycle.

We trust that with the quality and diversity of our investments coupled with the calibre of our people who manage them, we will be able to optimise value and deliver another positive year.

## ACKNOWLEDGEMENT

I would like to take this opportunity to thank our Board members for their vision, experience and knowledge in providing the counsel and corporate oversight required to continue leading the Group forward. Warm welcome to our latest Board member Datuk Francis Tan Leh Kiah who was appointed as an Independent and Non-Executive Director on 11 October 2012.



*Prime Ministers of UK and Malaysia at UNMC*

The Boustead Group's accomplishments in the past year were made possible by our management and staff. They have responded to the formidable challenge of delivering yet another year of professionalism, dedication and diligence as a cohesive team.

We are as always thankful for the support and trust given to us by our majority shareholder, Lembaga Tabung Angkatan Tentera. My gratitude also to our shareholders, financiers, business associates, consultants and the regulatory authorities for their on-going support.

A stylized, handwritten signature in black ink, enclosed within a large, loopy oval shape.

**GEN. TAN SRI DATO' MOHD GHAZALI  
HJ. CHE MAT (R)**

Chairman

4 March 2013

## CHIEF EXECUTIVE'S REVIEW

### Dear Shareholder,

Your Group is no newcomer to challenges. For well over a century and particularly during the last 20 over years, we have weathered a number of storms. During these times of global economic uncertainty, we have risen to the challenge. This was all the more evident as Malaysia is one of the top trading nations in the world and given that Boustead Holdings Berhad is at the forefront of the Malaysian economy in more ways than one, we were not spared from global headwinds.

**TAN SRI DATO' SERI LODIN WOK KAMARUDDIN**  
Deputy Chairman/Group Managing Director







## FINANCIAL PERFORMANCE

In rising to the challenge, we delivered a profit before tax of RM619 million with a profit after tax of RM518 million. The maritime sector affected our Heavy Industries Division and this coupled with factors that bore upon crude palm oil (CPO) prices caused us to experience a dip in earnings. Lower fair value gain registered by our Property Division affected us as well.

Our balance sheet remains strong with shareholders' funds coming in at RM4.7 billion and turnover for the year was a record RM10 billion. As I have mentioned over the last few financial years, it is the strength of our multifaceted portfolio of investments that has been the cornerstone for profitability. If not for this spread of earnings, we would not have been able to succeed in achieving a profit in excess of RM600 million.

With this in mind, our shareholders, both institutional and retail have benefited from another year of handsome dividends amounting to 32.5 sen. Total pay out for the year was RM336 million.

## CHIEF EXECUTIVE'S REVIEW



This year we undertook a series of corporate exercises in order to improve our business prospects and widen our earnings potential. I have elaborated further on this under the section, Corporate Initiatives. With these plans, our gearing ratio moved up to 1.4 times compared with 1.1 times in the previous financial year. Contributing factors included the syndicated facilities to fund the Littoral Combat Ships undertaken by Boustead Naval Shipyard Sdn Bhd. Additionally, the buy-back of plantation assets from Golden Crop Returns Berhad impacted gearing.

What is important to note is that due to our recurring earnings, exponential growth in turnover, sound treasury management and balance sheet, our debt level is healthy.

Our six Divisions have done us proud in one way or another. Leading each Division is a team of professional managers driven respectively by able Divisional chiefs.

Though we were impacted by the vagaries of CPO prices, the Plantation Division recorded the highest earnings for the year, contributing 33% to Group profit.

The Property Division was down on account of lower fair value gains and as a result, its contribution to Group profit was 26%. Nevertheless, during the year new measures were put in place increasing the potential of the Division.

The Trading and Manufacturing Division delivered a record profit far surpassing their previous year's results. Posting a profit contribution of 26% to the Group, the Division's results were led by Boustead Petroleum Marketing Sdn Bhd.

Our Finance and Investment Division which constitutes multiple investments for the Boustead Group from a range of associate companies along with a handful of subsidiaries has done us proud this year registering a profit contribution of 18%. The chief driver was the Affin Group which delivered another year of record earnings. Our associate company Cadbury Confectionery Malaysia along with our subsidiary University of Nottingham Malaysia Campus, performed well.



This year we undertook a series of corporate exercises in order to improve our business prospects and widen our earnings potential.



Photo courtesy of The Malaysian Reserve

The Pharmaceutical Division outperformed its previous year's results, contributing 13% to the Group's bottom line. Significant improvements were achieved in operating efficiencies resulting in the increased contribution.

Due to the tough economic environment in the maritime sector, the Heavy Industries Division registered a deficit. The upside for the year was the fact that MHS Aviation Berhad which was acquired in the previous financial year produced improved profit, while Boustead Naval Shipyard Sdn Bhd also delivered profit. Unfortunately, this was weighed down by the deficit posted by Boustead Heavy Industries Corporation Berhad. Having reviewed its current business model and remaining steadfast that our goal is to seek out opportunities while improving business prospects, we have decided to minimise our dependence on the construction of large commercial vessels, opting instead to focus on smaller commercial craft.



# CHIEF EXECUTIVE'S REVIEW

## CORPORATE INITIATIVES

A Group of our nature must always be able to maximise value and seek out innovative ways to improve our corporate structure. Optimising interest cost with funding instruments that bear us the best yields is paramount to our success given our appetite for mergers, acquisitions and restructuring.

Reflective of these aspirations, strategic and meaningful exercises were completed. Foremost amongst them was the buy-back of plantation assets from Golden Crop Returns Berhad, a special purpose vehicle established for the Islamic Asset Backed Securitisation programme in Malaysia which was undertaken by the Group in 2005.

Under this unique programme, the Group entered into a sale and purchase agreement for the disposal of the beneficial rights of identified plantation assets to Golden Crop Returns Berhad while the Group continued to generate operating profits from these assets through a leaseback arrangement. With the successfully completed buy-back, the bulk of our estates are now held via a stable of companies within the Plantation Division while the remaining assets are held within Al-Hadharah Boustead REIT.

As we have mentioned in the previous year's report, it has always been our strategy to dispose of our plantation assets in Indonesia and this was successfully achieved during the year.

The Group undertook a bond issuance to raise RM900 million via a sale and leaseback transaction backed by several of our prime investment properties. The funds raised will be utilised to pare down some of our short term financial obligations. At the same time, we have initiated plans to acquire new strategic land banks and this will be the cornerstone for the Property Division's earnings stream in the next few years.

CPO is gaining ground beyond Asia mainly due to its inherent health advantages and price compared with other vegetable oils.



At our listed subsidiary, Pharmaniaga Berhad, we successfully achieved the required public spread during the year as it was our intention to maintain its listed status. Moreover, Pharmaniaga has proposed a share split involving the subdivision of every one existing ordinary share of RM1 each into two ordinary shares of 50 sen each. In addition, it has proposed a bonus issue



of new ordinary shares on the basis of one bonus share for every 10 subdivided shares held. With this exercise, we should expect to see better liquidity at Pharmaniaga and possibly appreciation in its valuation, which will then have a direct impact on the Boustead Group given our investment in this pharmaceutical giant.

UAC Berhad, previously a listed subsidiary, was successfully taken private for a cash consideration of RM111 million. We offered its shareholders a compelling opportunity to realise a cash payment for their UAC shares at a level that would not have been possible on the share market based on the historical share price trend of UAC, thus the overwhelming acceptance of our offer. In addition, we acquired a 98% stake in Johan Ceramics Berhad.

These last two years in particular have been busy ones from a corporate perspective. Having consolidated and restructured our investments in Pharmaniaga Berhad, MHS Aviation Berhad and Boustead Heavy Industries Corporation Berhad, we expect these entities to improve their contributions to our bottom line.



## OUTLOOK

In last year's annual report, I had penned that we are not oblivious to the fact that external conditions will have an impact on our earnings. Unfortunately and true to form, it was the case this financial year. As we look ahead in the new fiscal year, the challenges will not abate.

Pressures on CPO prices due to inventory levels, erratic weather conditions, escalating labour costs, lower seed oil production forecasts and the uncertainty of soybean prices will contribute to a hazy projection of how prices will fare over the next 12 months.

Notwithstanding these circumstances, it is undisputable that CPO is the preferred vegetable oil in Asia with India and China fuelling demand. It is gaining ground beyond Asia mainly due to its inherent health advantages and price compared with other vegetable oils. It is only a matter of time before CPO's competitive edge places it far ahead.

Our tried and tested results in the property sector is proof that we are one of the more successful developers in Malaysia offering investors, home owners and retailers excellent opportunities to be part of Malaysia's thriving property market. This year, we undertook the acquisition of land banks that will certainly bode well for the Property Division.

## CHIEF EXECUTIVE'S REVIEW



*Artists' impression of our proposed condominium development at Cochrane*

With our acquisition at Jalan Cochrane, we have kicked off a new phase of development that will bring about rejuvenation to this vicinity. As we unravel the potential of this prime parcel of land, we will be replicating proven strategies and formulas that have contributed to the success of Mutiara Damansara and Mutiara Rini. One of the keystones will be the joint venture with the Ikano Group. Our plans will see a net lettable area of more than one million square feet of retail space in Jalan Cochrane coming to fruition. As for our hospitality business, we expect the newly opened Royale Bintang Damansara to continue its successful track record moving forward.

When we undertake acquisitions, rarely do we remain passive as we are committed to improving any business venture that we acquire with a keen eye on unravelling its potential.



In our Trading and Manufacturing Division, BHPetrol will make further gains in market share with new programmes to attract consumers. In the Finance and Investment Division, we have no doubt that the Affin Group along with other associate companies such as Cadbury Confectionery Malaysia and our subsidiary UNMC will maintain if not improve their contributions.

The Pharmaceutical Division will perform even better as a result of the demand for better healthcare. Pharmaniaga's listed subsidiary in Indonesia is forecast to double its efforts in Southeast Asia's largest market with its growing healthcare requirements.







The Heavy Industries Division will improve its contribution to our Group's bottom line, more so with the discontinuation of the construction of large commercial vessels. The Littoral Combat Ship project has already begun contributing to the Division's bottom line. What is important to note is that this project will straddle several financial years and with each passing year, its contribution will grow.

When we undertake acquisitions, rarely do we remain passive as we are committed to improving any business venture that we acquire, with a keen eye on unravelling its potential. Take for instance, our turnaround of BHIC and more recently Pharmaniaga and MHS among many others. Not only do we bring about eventual improvements to bottom line, we also improve the corporate and operating structure of all our investments. In the year ahead, we hope to expand organic growth by exploring new ways to improve operational efficiencies in our six Divisions.

In the following pages are detailed developments of how these Divisions have performed. One clear thread should be evident and that is that we have heightened our resolve in the face of competition and pressing external economic conditions. We hope you will find our reviews informative and we assure you of our steadfastness to always have our shareholders' best interests in mind as we pursue our numerous initiatives to unlock and deliver shareholder value.

**TAN SRI DATO' SERI LODIN WOK KAMARUDDIN**  
Deputy Chairman/Group Managing Director

4 March 2013

It was a tough year for the Plantation Division as we were hit by plunging crude palm oil (CPO) prices compounded by higher operating costs. In fact, we expected CPO to trade at a higher plateau given the discount ranging between US\$300 to US\$350 per metric tonne (MT) to soyoil. This did not materialise as macroeconomic conditions significantly drove down CPO prices.

plantation division







## plantation division



The Division was adversely affected by these factors in 2012, hence profit for the year was RM206 million against last year's RM299 million. Our average CPO price for the year was RM2,902 per MT as compared with the previous year's historical high of RM3,272. The average palm kernel price was RM1,568 per MT compared with RM2,195 the previous year.

### Market Review

The 13 month rally spilling over from 2011 and capping off in April 2012 saw CPO prices reach a peak of RM3,600 per MT. From then on, prices remained steady for the first half of 2012 ranging between a satisfactory band of RM2,800 to RM3,200 per MT. CPO prices for the first half of the year were buoyed by signs of recovery in the US and a minor stabilisation of the Eurozone's economy. In addition, the weakening of the US dollar against a basket of currencies resulted in higher commodity prices due to the fact that commodities are quoted in the US dollar in the world market, which had a positive impact on prices.

Regrettably in the second half of the year, global commodities took a beating amidst concerns over global growth prospects. Key external factors that adversely affected CPO prices were the cooling off of China's economy and the persistent Eurozone crisis.





## CHIEF EXECUTIVE'S REVIEW

Other contributing factors were the downtrend of Brent crude oil prices which dropped by nearly 30% and the high level of CPO stocks in Malaysia, which had accumulated to 2.63 million MT by end December. Clearly, the correlation between vegetable oil and energy prices is ever evident. This resulted in a steady drop of prices to a low of RM2,000 during the second half of the year, thus the significant impact on earnings to the Division.

### Estates and Mills

At the close of the year total land bank stood at 81,333 hectares (ha) compared with 96,393 ha in the previous year. The decrease in land bank was largely a result of the disposal of 14,857 ha of our Indonesian plantation assets. In addition, there was a disposal of 3.7 ha in Balau Estate for the Crops For The Future Research Centre project.

We completed the buy-back of plantation assets from the special purpose vehicle, Golden Crop Returns Berhad. As a result, the bulk of our estates now sit in the stable of companies within the Plantation Division, the exception being 19,945 ha held under a lease arrangement with Al-Hadharah Boustead REIT. Total area under oil palm cultivation stands at 68,375 ha, which comprises 62,777 ha of mature palms and 5,598 ha of immature palms.



Our average CPO price for the year was RM2,902 per MT compared with the previous financial year's historical high of RM3,272.



Fresh fruit bunches (FFB) production excluding our Indonesian estates was 1,100,000 MT. The average yield was 17.5 MT per ha compared with 16.5 MT for the previous year. Our Peninsular estates produced better yields averaging at 20.9 MT per ha (2011: 20.2 MT). The Sabah and Sarawak estates experienced sluggish yields due to poor weather conditions, labour shortages and community issues which disrupted harvesting activities.

FFB production cost stood at RM302 per MT, signifying a 16% increase compared with the previous year's RM261 per MT. The escalation in cost was due to higher fertiliser prices, increased wages for the labour force arising from special gratuitous payments to all workers in our estates, coupled with a jump in maintenance cost.

To improve our oil and FFB yield per ha, we have expanded the planted areas of compact (used for high density planting) and clonal ramet materials in our planting programme which commenced in 1999. To date, 765 ha are planted with compact planting materials and 14,218 ha are planted with clonal ramet materials.

We have embarked on mechanisation programmes which aim to increase the land to labour ratio in our estates and this has resulted in improved workers' productivity, crop quality and crop evacuation from the fields.

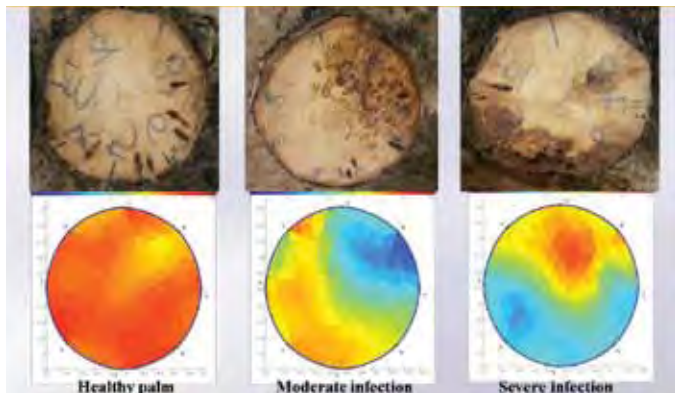
## plantation division

We have enhanced our mechanisation efforts by introducing motorised FFB cutters or CANTAS to replace the conventional aluminium poles for harvesting fresh fruit bunches in selected oil palm areas, particularly for palm heights ranging from three to seven meters. To date, a total of 12,000 ha are covered by the CANTAS harvesting system. We are assessing the use of graphite harvesting poles for taller palms that exceed 14 meters.

To speed up FFB evacuation from the fields to the mills for processing, we have also introduced mechanised platform FFB collections through integration of bin or shunting tractor system. A total of 40,000 ha of the Group's mature areas are using this innovative system.

Our commitment to sustainable practices is on-going, as this year our Sungai Jernih Business Unit retained its Roundtable of Sustainable Palm Oil (RSPO) certification status and our Nak Business Unit in Sandakan is expected to attain its RSPO certification in early 2014. In total, 6,898 ha of our plantations have RSPO accreditation.

Our palm oil mills processed 1,204,000 MT of FFB during the year. The average oil extraction rate was 20.8% (2011: 20.3%) and kernel extraction rate was 4.7% (2011: 4.6%). In an effort to improve milling



Electrical impedance tomograph has the potential to detect early *Ganoderma* infection of oil palm. Blueness indicates the severity of rotting while redness shows healthiness of palm tissues.



*Hybrid palm*

efficiencies, we commenced the replacement of conventional horizontal sterilisers with slanting vertical sterilisers, which will also bring about a reduction in labour and operational costs.

As one of the Entry Point Projects under the Economic Transformation Program, the Government aims to reduce carbon emissions to protect the environment. As a corporate citizen in sharing this responsibility, Boustead is set to commence the construction of its first biogas facility in one of its mills in 2013. This will also help to reduce energy costs in our mills.

### Research and Development

Our Research and Development (R&D) efforts drive the growth and sustainability of the Division as we maintain our focus on improving quality, reducing costs and enhancing overall expertise in soil management and crop production. During the year, our associate research arm, Applied Agricultural Resources Sdn Bhd provided vital agronomical expertise on research initiatives aimed at enhancing the quality of planting materials and developing control measures against *Ganoderma* disease, which typically affects mature palms.



Our long term R&D breeding plan is to produce elite planting materials using marker assisted genomewide selected palms from our molecular marker assisted breeding selection. This will lead to a more precise prediction of superior parents for seed production and reduce the selection period.

We are participating in the oil palm genomic project for development of genomic resources that can be applied in our molecular assisted selection in oil palm breeding. We are collaborating with University of Nottingham Malaysia Campus towards the development of a molecular tool box to verify the purity of oil palm seedlings, which should be completed in mid-2013.

## Outlook

The year under review was most certainly a challenging one for the plantation sector. As we look towards the future, assessing how CPO prices will fare in 2013 will remain a complex effort. Even leading vegetable oil analysts have immensely differing views on the price points for CPO. The fact remains, it will be a volatile year for the oils and fats industry.

Drawing from 2012, we expect the global economic situation, volatile weather, record high stock levels, lower seed oil production forecasts and the uncertainty of soybean prices to influence the poor visibility of determining trends for CPO prices. Operational costs will certainly jump in 2013 as the minimum wage takes effect, which will have an adverse impact on the Division's bottom line.

Another key factor which will have an impact on prices will be the CPO tax structure in Malaysia. The Government will introduce a flexible CPO export tax structure which will be accompanied by the abolishment of duty free CPO export quotas. Of course, it is expected that these efforts by the Government will stabilise the downtrend in CPO prices. In spite of the dark clouds overshadowing CPO prices, there are fundamental factors that will have the potential to lead prices into a better territory.

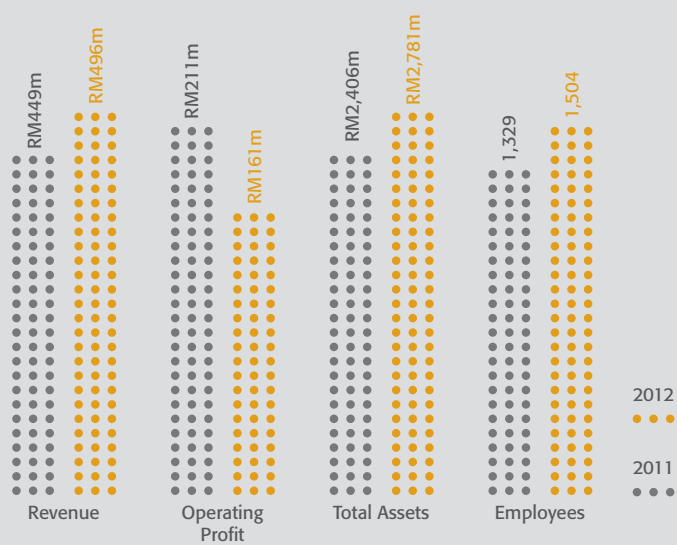
Foremost is the fact that with the reduction of taxes and abolishment of quotas, exports should increase thus impacting prices positively as stock level drops. As vegetable oil prices approach that of crude mineral oil, vegetable oils become an increasingly attractive option for biodiesel production. As a matter of fact, the Government is implementing the B10 biodiesel programme from B5 to ensure an additional up take of 500,000 MT of CPO for the biofuel sector.

Above all, consumers worldwide are becoming more dependent on CPO due to the insufficient production of other oils and fats. Furthermore, the wide discount of more than US\$300 per MT to soyoil is untenable for the long term. There are even bullish prospects for a global shift in demand for CPO given the considerable shortage in soft oils. For as long as CPO remains a cheaper alternative, it will have the potential to steer buyers towards CPO.

With a possible decline in supplies of competing vegetable oils, we are hopeful that CPO will recover in the first half of 2013 and trade towards the RM2,400 to RM2,600 range. Prices may return to a bullish trend again if it breaks above RM3,000 in 2013.



## Financial Highlights





The Property Division undertook a series of initiatives during the year to strengthen its future prospects while improving the appeal of its various investments and products. Given that appreciation in values of our properties were lower, the Division registered a profit of RM161 million.



## property division



## property division



### Property Investment

In spite of the drop in fair value gains, this segment of our business registered a profit of RM110 million. Our prime investment properties particularly in the Golden Triangle of Kuala Lumpur continued to be well received, enjoying almost full tenancies. Coupled with this, our retail investment properties namely, the Curve, eCurve and Curve NX are well tenanted with a good mix of local and international retailers, with rentals on the uptrend.

The Group undertook a bond issuance to raise RM900 million via the disposal of Menara Boustead, Menara Affin, the Curve, eCurve and The Royale Bintang Curve to a special purpose vehicle (SPV), Mecuro Properties Sdn Bhd. This SPV is a wholly owned subsidiary of ours, thus ensuring that these investment properties remain within the Boustead Group. The RM900 million raised was used to pare down debt and invest in the acquisition of new land banks.

Revenue  
**RM496**  
million

Profit  
Before Tax  
**RM161**  
million





## CHIEF EXECUTIVE'S REVIEW

As consumer spending grows in Malaysia accompanied by a stronger level of disposable income, a number of new shopping malls have emerged in the Klang Valley, increasing competition in this sector. Regardless of these factors, the Curve and eCurve attracted shopper interest, with an offer of more retailers to cater for current fashion and food and beverage trends. In this respect, our malls attracted a range of new outlets which included Timberland, Puma, Floor Depot, Western Union, Bulgogi Brothers, San Francisco Coffee, Laser Warzone, and Hip & Hoop by Nike amongst many others.

The ever popular CIMB Malaysian Open Squash Championship, BHPetrol Orange Run, Fashion Week, annual festival celebrations during Hari Raya, Chinese New Year as well as Christmas and of course the year end celebration which culminates in the New Year street party, are yearly events that increase footfall to our malls. Kidzania, located at Curve NX, is an indoor children's theme park, providing children with the opportunity to role play adults in 90 different occupations including pilot, doctor, surgeon, entrepreneur, journalist

the Curve, eCurve and Curve NX are well tenanted with a good mix of local and international retailers, with rentals on the uptrend.



and fireman. The Group has a 20% equity interest in KidZania Kuala Lumpur. KidZania Singapore, which is also jointly owned by Khazanah Nasional Berhad and the Boustead Group, will be opening in Singapore's Sentosa Island when its standalone building is completed in early 2015.

During the year, the Curve and eCurve stepped up its security measures which led to the installation of a police beat base manned by Polis DiRaja Malaysia (PDRM) at the Piazza of the Curve. To complement the beat base, regular joint patrols have been initiated throughout the malls by RELA and PDRM officers. Additionally, we increased the number of security guards as well as the frequency of patrols within our malls. We also increased the frequency of patrols on foot, motorcycle and buggies. Our basements are now fully lit round the clock and at designated areas our security guards are equipped with reflective vests as well as batons, while some buggies are installed with beacon lights in order to enhance their visibility.



## property division

Our security personnel have also been trained to escort ladies to their cars, especially those who are alone. Among others, enhanced security measures introduced included visual screening at our two basement level car park exits and entrances, providing dedicated motorcycle parking bays manned by security guards and encouraging motorcyclists to remove their helmets for screening before they exit the car park.

### Property Development

This segment registered a profit of RM45 million. In the Klang Valley, we successfully completed the construction of 311 units of Surian Residences in Mutiara Damansara. We are currently improving traffic flow with a view to ease congestion, particularly for the corporate lots and offices around Mutiara Damansara.

Our flagship development in Taman Mutiara Rini, Johor, has received a strong following from both property investors and home owners. For 2012, a total of 717 units of double storey terrace and semi-detached



houses were launched, while 564 units of double storey and semi-detached houses were physically completed and handed over to purchasers.

Our remaining 750 acres in Taman Mutiara Rini will be developed over the next 10 years and we plan to launch approximately 700 units of residential properties per annum. Demand for gated and guarded residential units in Johor is strong in view of the surrounding developments, especially in Iskandar. For our future launches, we will track these trends as we hope to capitalise on the demand from neighbouring countries as well as with the EduCity in Johor taking shape.

In fulfilling our corporate obligation, we held a groundbreaking ceremony to launch the affordable home programme in Taman Mutiara Rini which was graced by the Menteri Besar of Johor.

With the acquisition of several prime parcels of land in the Kuala Lumpur city centre, we will commence physical work for our condominiums at Jalan Cochrane, as soon as approvals from the local authorities are obtained. A key consideration in the design of these units is the availability of public transportation in the form of the Mass Rapid Transit system that will traverse Jalan Cochrane together with the conveniences of a shopping mall nearby.

### Hotels

This segment saw sustained profitability which was supported by strong occupancy levels for The Royale Bintang Curve and The Royale Bintang Kuala Lumpur. A further accolade was achieved by The Royale Bintang Kuala Lumpur which won the Best Golden Circle award from Agoda, a major online booking company in the hotel industry.





The Royale Chulan Kuala Lumpur proved to be an award-winning hotel of choice for hosting high-end functions as well as international conventions. Among the notable recognitions received was the multiple awards from the Malaysian International Gourmet Festival 2012 and more importantly this hotel made it to the top 25 hotels in Kuala Lumpur out of 217 hotels surveyed by the world famous Trip Advisor website. The hotel also received its official five star rating from the Ministry of Tourism.

The highlight for the hotel segment for the financial year was the opening of The Royale Bintang Damansara. As the only hotel in the country with an indoor ice-skating rink, it operates 370 rooms, nine food and beverage outlets, 12 function rooms and two ballrooms with a capacity of up to 1,000 people. To date, the property has received overwhelming response from both corporate as well as Government clients. The hotel's ballrooms are booked very much in advance for weddings, annual dinners, conferences and social events.

## property division



The Royale Bintang Resort & Spa Seremban experienced improved occupancy rates and continues to be a popular venue for local events in Seremban. The construction of The Royale Bintang Penang is well underway and is expected to be completed end 2013.

The Royale Cherating Resort & Spa, a sprawling 124 units of villas overlooking the South China Sea is expected to start construction in 2013 as soon as approvals have been obtained. This 16 acre resort will be the seventh in the Royale stable of hotels.

### Outlook

We have initiated significant efforts in order for us to remain relevant in a very competitive property market by undertaking strategic moves. With this in mind, we acquired 12.8 acres of prime development land in Jalan Cochrane, Kuala Lumpur from LTAT in 2012. This investment, costing RM119 million is earmarked for

commercial and residential development. We plan to develop condominiums, offices and a hotel in this part of Kuala Lumpur which is undergoing a rejuvenation exercise.

At Jalan Cochrane, we have entered into a joint venture with the Ikano Group to develop and manage a shopping centre with a net lettable area of more than one million square feet. We plan to connect this shopping mall to the IKEA store, which will be located on an adjacent parcel of land. Subject to approval by the authorities we expect the shopping centre to be operational by 2016. The shopping centre will tap both parties' expertise in developing and managing malls as well as create thousands of job opportunities for young Malaysians and entrepreneurs.



## CHIEF EXECUTIVE'S REVIEW

The Group entered into an agreement to acquire 200 acres of prime development land in Bukit Raja, Klang. The strategic acquisition is to synergise combined development with the 700 acres that the Group and LTAT own on adjacent plots in Bukit Raja.

With the completion of the construction of Surian Residences in Mutiara Damansara, we look forward to hand over 311 units of condominiums to home owners and property investors in early 2013.

Over the years, we have positioned ourselves as a strategic niche developer unlocking land value and improving yields for investors in highly strategic land banks. We intend to keep to this strategy as we look towards the future.





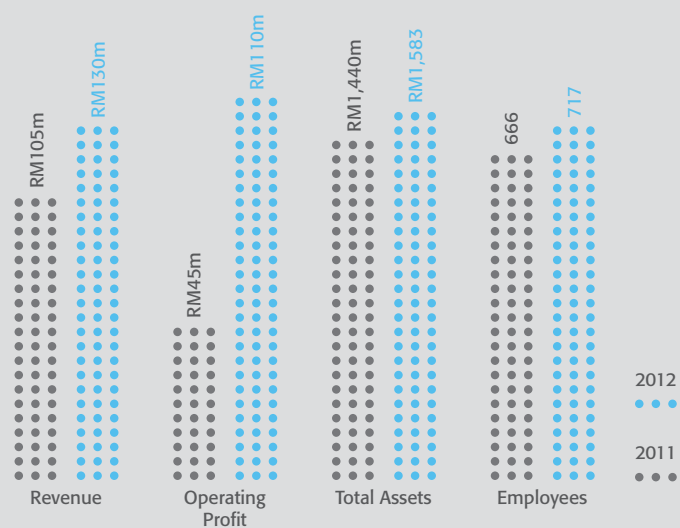
The Division performed exceptionally well for the year under review registering a profit of RM110 million, a substantial increase compared with RM45 million in the previous year. This was achieved on the back of an outstanding contribution from the Affin Group along with sustained growth momentum from the Division's other strategic business units, notably University of Nottingham in Malaysia Sdn Bhd and Cadbury Confectionery Malaysia Sdn Bhd.



## finance & investment division



## Financial Highlights





## finance & investment division



The Division is mandated to manage the central treasury requirements for the entire Group. Positive strides were achieved as a result of the paring down of some of our investments, which had a direct impact on reducing net interest cost for the Company. From the investing activities of Boustead Holdings Berhad, we have also achieved a reduction in expenditure.

**Affin Holdings Berhad** delivered record results for the second consecutive year with a profit before tax of RM834 million, an 18% increase compared with RM709 million the previous year. The financial services group contributed RM130 million to Boustead, a 23% rise over the previous year.

**Affin Bank Berhad** registered an improved consolidated profit of RM703 million compared with RM613 million in the last financial year. This performance was attributable to strong growth in loans, advances and deposits coupled with resilient asset quality, resulting in a lower net impaired loan ratio for the year.

Revenue\*  
**RM130**  
million

Profit  
Before Tax  
**RM110**  
million



\* Excludes revenue contribution from associates.



## CHIEF EXECUTIVE'S REVIEW

The Bank also increased its market presence and brand visibility via marketing campaigns and the expansion of its branch network to 100 centres nationwide. Meanwhile, customer service levels were improved via enhanced operational efficiency and productivity measures. In order to ensure long-term sustainable growth of the business, the Bank embarked on initiatives to strengthen operational capabilities with a focus on talent development and technology.

*Affin Islamic Bank Berhad's* contribution to Affin Bank was a profit of RM106 million, a 42% increase compared with RM75 million the previous year. These healthy earnings were driven by loan growth in retail and business enterprise sectors with total financing up by 17% to RM5 billion. Customer deposits rose by 21% to RM9 billion.

*Affin Investment Bank Berhad (AIBB)* delivered a profit of RM91 million compared with RM89 million the previous year. This was achieved via improved contributions from fee and investment income and the expansion of AIBB's retail stockbroking business with branches in strategic locations.



*The inaugural "Politics and Business: The Malaysian Connection" forum organised by AIBB, attended by YABhg. Tun Dr. Mahathir Mohamad who was the keynote speaker*

The Bank embarked on initiatives to strengthen operational capabilities with a focus on talent development and technology.



AIBB was involved in notable corporate exercises, be it as adviser, underwriter and joint placement agent for initial public offerings, principal adviser and lead arranger for bonds issuance and joint mandate lead arranger for syndicated loans, amongst many others. With this string of successes, AIBB has moved up in the league tables and has bagged industry awards for their outstanding research.

*Affin Fund Management Berhad's (AFMB)* contribution to AIBB was a profit of RM9 million. Growth in assets under its management stood at RM1.9 billion, an impressive 126% increase. AFMB's performance was buoyed by the launch of Affin 1Wholesale Fund and Affin 1-iWholesale Fund, bringing total unit trust funds under the management to ten. This was further supported by marketing initiatives and the aggressive expansion of distribution channels.

## finance & investment division

*AXA Affin General Insurance Berhad (AAGIB)* reported an 18% increase in gross premiums, which rose to RM827 million compared with the previous year's RM700 million. Important contributors were the motor and health insurance segments, as distribution channels were strengthened and there has been substantial growth in new markets within these areas.

In tandem with this, there has been an elevation in service levels across AAGIB, with a clear strategy for growth opportunities in the next financial year.

*AXA Affin Life Insurance Berhad (AALIB)* registered a profit of RM4 million on the back of a 15% growth in gross premiums amounting to RM229 million compared with RM200 million in the previous fiscal year. These improved results were supported by weighted new business premiums of RM100 million, while Bancassurance, another distribution platform achieved a 13% growth in new business premiums. Higher investment income and realised gains also contributed to AALIB's performance.

*Affin Moneybrokers Sdn Bhd* recorded a lower profit of RM2.7 million (2011: RM3.3 million) largely due to a volatile economic market which adversely impacted trading volume.

**Kao (Malaysia) Sdn Bhd** performed well, registering profit and revenue growth despite increased competition in the fast moving consumer goods sector and cautious consumer spending. Discerning consumers view our stable of brands as a preferred choice, which was further boosted by the introduction of innovative value-added products to our 'Biore', 'Liese', 'Attack' and 'Laurier' brands.

**Cadbury Confectionery Malaysia Sdn Bhd** maintained its pole position as a leader in the confectionery industry, registering strong results with a profit contribution of RM11 million to the Boustead Group. Building on its strategic portfolio of brands,



Cadbury's performance was bolstered by contributions from its core brand Cadbury Dairy Milk which saw improved sales driven by lucrative marketing campaigns. The successful integration with Kraft Foods has brought about immediate positive benefits, particularly from the distribution strength of the Kraft brands in traditional markets.

**Drew Ameroid (Malaysia) Sdn Bhd** generated a modest profit for the year, registering an increase in turnover despite an uncertain economic climate which saw higher product costs. In order to meet customers' needs, the company will maintain its focus on driving sales via new products and services, including the supply of innovative water treatment systems and equipment.

**Boustead Credit Sdn Bhd** experienced a challenging year as the market was adversely affected by new stringent policies established by regulators. This resulted in decreased demand in the secondhand car financing segment as well as higher interest rates on motor vehicles.



UNMC played host to the Right Honourable David Cameron, Prime Minister of the United Kingdom and YAB Dato' Sri Najib Tun Razak, Prime Minister of Malaysia as part of the international summit, Global Movement of Moderates held on UNMC's campus

**University of Nottingham in Malaysia Sdn Bhd**, also known as University of Nottingham Malaysia Campus (UNMC), recorded a jump in profit amounting to RM5 million (2011: RM1.9 million).

Today, UNMC is a globally recognised higher-education institution with over 4,400 foundation, undergraduate and postgraduate students. Around 35% of students are international, representing over 60 nations.

The Campus provides a high-quality learning environment where students benefit from excellent facilities and small class sizes with a student to staff ratio of less than 20:1. There are currently over 200 members of academic staff, which include senior staff seconded from the University of Nottingham UK as well as highly-qualified international and local personnel. UNMC enjoys *Tier 5, Excellent* status in the official Rating System for Malaysian Higher Education Institutions.

Significant investment is being made in the student experience with the development of new on-campus student accommodation, which will result in an additional 1,200 beds. UNMC has also introduced new degree programmes including two undergraduate courses in English, an MSc in Environmental Engineering and an MSc in Investment and Islamic Finance.

UNMC is a research intensive institution that benefits from extensive collaborations with Nottingham campuses in the UK and China. It has successfully obtained competitive research funding from the Malaysian Government and other external institutions with research income topping RM5 million in 2012. Collaboration with the prestigious Crops for the Future Research Centre has also provided significant ongoing funding for a range of doctoral projects.

**Asia Smart Cards Centre (M) Sdn Bhd** was impacted by reduced economies of scale during the year, as a result of increased audit and certification fees as well as a diversification of cards.



The Division achieved excellent results this year, reporting a jump in profit of RM80 million, representing an 18% increase compared with last year's profit of RM68 million. This year's results from Pharmaniaga Berhad are based on a 12 month contribution compared with 2011, which was only for nine months.

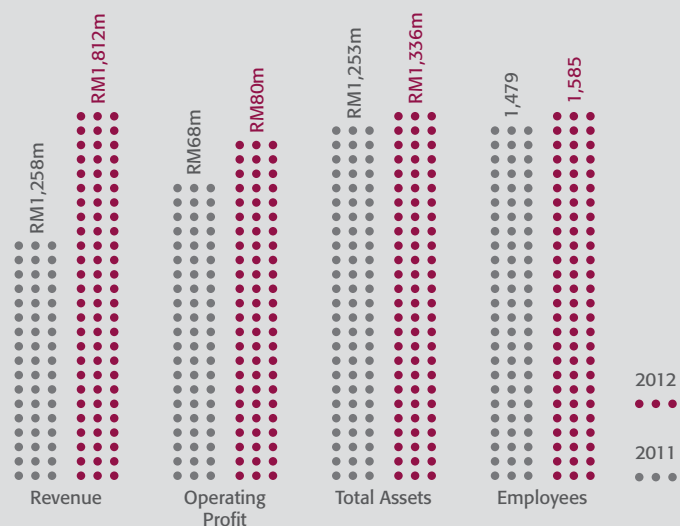


## pharmaceutical division





## Financial Highlights



## pharmaceutical division



### Logistics & Distribution

The Concession Agreement (CA) with the Ministry of Health (MOH) which forms the pillar for revenue and profitability for this business unit has experienced strong organic growth on a year on year basis. In order to strengthen our service levels for MOH, enhancements to the order fulfilment process along with proper inventory management, reduction in back orders amongst other initiatives were undertaken during the year.

As MOH is a key client, we have taken active steps to ensure customer satisfaction and one of the imperative efforts during the year was the allocation of one dedicated call centre agent to each state in Malaysia, allowing us to cater to their various requirements. Downtime was reduced considerably and customer service agents were able to respond more efficiently to the needs of this client.

Revenue  
**RM1.8**  
billion

Profit  
Before Tax  
**RM80**  
million





## CHIEF EXECUTIVE'S REVIEW

With a view to raise the calibre of our customer service, which remains at the core of our growth prospects, a survey on the performance of our Malaysian operations was carried out during the year resulting in a marked improvement in our service levels, with respondents rating our performance positively.

In tandem with the growth in business opportunities pertaining to the CA, we have also strengthened our consumer healthcare business both domestically as well as internationally. Our proprietary brand CITREX has performed well, increasing its market share, while Baraka which we distribute exclusively for our Middle Eastern clients has seen much upside in terms of contribution to the Division's revenue.

Apart from our current product portfolio, we have introduced a range of new products to our generic prescriptions portfolio. This included the "Wound Care Unit" and the rapid dengue test kit "My Denkit", both of which have had an immediate positive impact on revenue generation. In addition, we made progress into the area of oncology treatment with irinotecan along with the introduction and launch of other products.



Enhancements to the order fulfilment process along with proper inventory management, reduction in back orders amongst other initiatives were undertaken during the year.



The Indonesian market holds much potential and given our investment in our listed entity PT Millennium Pharmacon International Tbk, we saw an improved revenue contribution to the Division. Noteworthy efforts were achieved particularly in operational efficiency and enhanced customer satisfaction due to the implementation of a quality management system in Indonesia. This resulted in significant operational and quality improvements at our warehouses and branches.

To demonstrate our confidence that Indonesia holds much potential, all our 29 branches have upgraded their chill storage facilities to comply with local regulations. To complement this, several branches have been relocated to new premises with larger warehouse capacity with a view to providing more storage space while creating a conducive working environment for our staff. In full compliance with the Indonesian Government's Cara Distribusi Obat Yang Baik specifications, a host of upgrades were completed at all our branches.

## pharmaceutical division



### Manufacturing

Our manufacturing arm experienced tremendous improvements as a result of refurbishments undertaken at our facilities. During the year we completed the installation of the automatic and integrated blistering and cartoning machinery which resulted in an increase in total installed output of oral solid dosage (OSD). This led to the cessation of most outsource OSD manufacturing.

We undertook the total refurbishment of the sterile injectable Cephalosporin antibiotic manufacturing line at our Bangi plant. At the Seri Iskandar plant, commercial production of sterile injectable penicillin is targeted for 2014. The fill-and-finish parenteral facility at our Puchong plant is close to obtaining European Union (EU)



certification. These efforts have strengthened our pole position as a leading Malaysian manufacturer in the pharmaceutical sector.

As we operate in a highly regulated sector, and rightly so due to the nature of our products, we worked with the National Pharmaceutical Control Bureau (NPCB) to ensure that bio-equivalent studies are performed for all immediate release OSD drugs. To date we have 42 products which have achieved bio-equivalent status. Apart from this, 16 products are pending evaluation by the NPCB and 12 are in the process of an on-going bio-equivalent study.

### Research and Development

We are conscious that research and development is the cornerstone for us to drive our next wave of growth. To this end, we registered 13 new products for the Malaysian market and successfully ensured that five of these were approved for commercialisation. On the drawing board are numerous products that are at various stages of completion with a view for registration. These products range from galenical to solid and injectables.

We maintain that the traditional complementary medicine market, particularly in Asia and more so in Malaysia, holds much potential for future business growth. In line with the Government's National Key Economic Area Entry Point Projects, collaborative research between the clinical affairs team and the Government continues to progress. We are confident that developing and commercialising local herbs, particularly Kacip Fatimah and Patawali, will add value to our product portfolio in the long run.



## Outlook

The healthcare sector bodes well for our business prospects. We will strengthen and explore new efforts to add value to the CA. Already in the pipeline there are plans to implement the pharmacy information system which will serve as an important tool in reducing medication errors and improving the overall healthcare delivery at hospitals and clinics. This will allow us to accept contract manufacturing projects of sterile injectables from EU multinational companies.

We expect the year ahead to be a positive one for the Division as we have laid strong foundational stones that will drive growth while we strive to sharpen our business processes.

Our focus on Indonesia is to open new branches as well as facilities improvements. We anticipate that with these improvements, we will be able to escalate our product offerings to a vast market network of hospitals, pharmacies and drugstores in Indonesia.

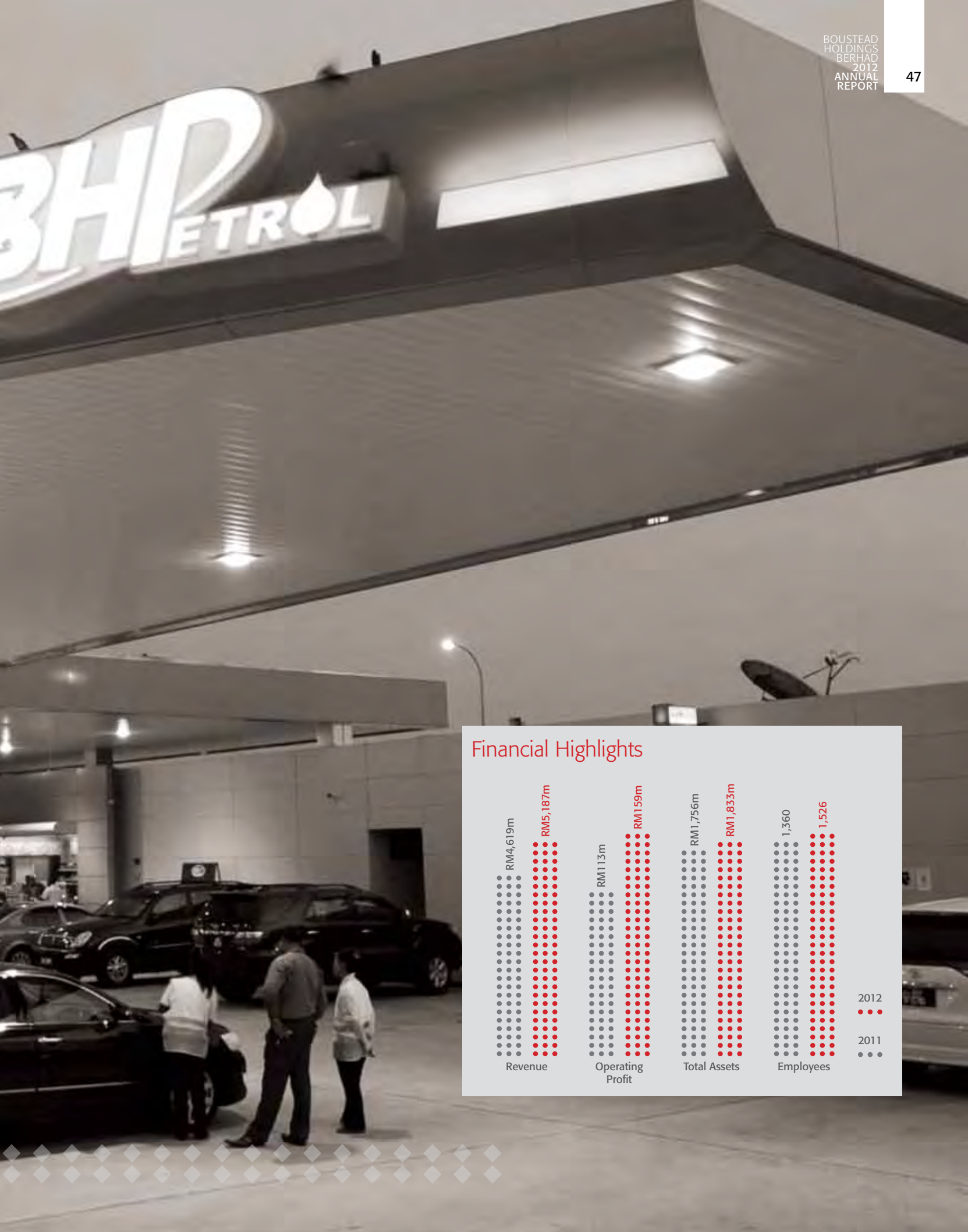




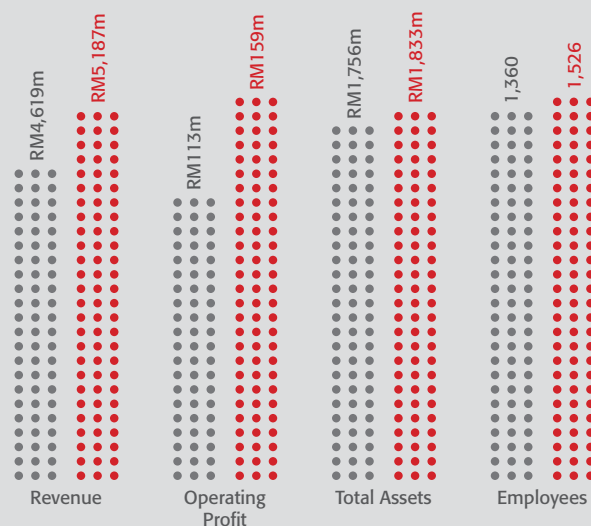
The Division performed exceptionally well, reporting a record profit of RM159 million compared with RM113 million last year, representing a 40% jump. The single largest contributor to profitability was Boustead Petroleum Marketing Sdn Bhd followed by some of the other business units.

## trading & manufacturing division





## Financial Highlights





## trading & manufacturing division



**Boustead Petroleum Marketing Sdn Bhd (BHPetrol)** achieved steady growth with a profit of RM148 million compared with RM95 million in the previous year. These solid results have set a new benchmark for the business, with a robust performance achieved in spite of intense competition in the downstream petroleum industry.

Profit for the year was also supported by a gain of RM40 million due to a divestment exercise for the disposal of two properties. The first was in relation to the Government's Mass Rapid Transit project, while the second capitalised on an opportunity to unlock asset value.

Operationally, the achievements for the year would not have been possible without BHPetrol's well planned three-pronged strategy. This entailed our relentless focus on product leadership, which resulted in strong brand building efforts and successful consumer loyalty programmes.





## CHIEF EXECUTIVE'S REVIEW



BHPetrol achieved steady growth with a profit of RM148 million compared with RM95 million in the previous year.



One of the milestones for the year in terms of product leadership was the introduction of the fully-synthetic SynGard 8000 lubricant with the latest American Petroleum Institute SN certification. This product offers five times the wear protection required by this important industry certification, positioning it far ahead of all products in this category.

Accompanied by our success in the lubricant market, our INFINITI petrol, which was first launched in 2006, has undergone further product enhancements over the years and is clearly recognised as the premium fuel in the Malaysian market. Our second strategy was to roll out effective marketing programmes, with the intention of increasing traffic throughput to our stations in order to expand our customer base.

To complete this three-pronged strategy, we undertook a disciplined network expansion programme which resulted in the opening of 12 new service stations coupled with the upgrading of five existing ones. As part of this programme, we also launched 12 new BHPetromart convenience stores which were a hit with motorists and consumers alike.



## trading & manufacturing division



**UAC Berhad** recorded a profit of RM20 million (2011: RM14 million), registering an increase of 43%. Though there was strong demand for our products in the domestic and overseas markets, as the year progressed this was dampened by global economic conditions as well as an insufficient workforce in the building industry. With 50% of our total output being exported, the stability of foreign currencies such as the US Dollar and the Pound Sterling aided in generating income from export sales.

Meanwhile, the UCO SolidWall System has been widely accepted domestically, with a number of commercial and industrial projects utilising the system. The innovative system has also been introduced to overseas markets. A new panel system is also in the pipeline to overcome the present day challenges faced by the construction industry due to a shortage of skilled labour.

**Boustead Travel Services Sdn Bhd (BTS)** registered an increase in profit, driven by its three operating offices and a small dedicated workforce. It offers best in class travel services, booking assistance and optimised transaction processing in its key business activities of corporate ticketing, incentive travel and outbound holiday travel.

Corporate ticketing continues to be its main business segment as it works closely with its key clientele. BTS has maintained its position as one of the top travel management companies in Malaysia.

**Boustead Shipping Agencies Sdn Bhd** was adversely affected by new sanctions imposed on a Middle East carrier vessel represented by the company, leading to a termination of this contract, which affected its bottom line.

