



# CHAIRMAN'S STATEMENT

Dear Shareholders,

## IN PERSPECTIVE

The Year 2010 saw economic recovery but unfortunately it was not uniform across the globe and robust enough to provide positive stimulus. The Asian economies recovered strongly, propelled by the robust financial market and self sustainability. However, the western economies were struggling, undermined by the worsening debt woes in Europe and slow employment recovery in the US. The Malaysian economy emerged strongly and was on track to achieve the targeted growth rate of 7%. Despite the positive note in those regions that the Group was operating in, its performance had been affected by the global economy being fragile and vulnerable to the looming uncertainties elsewhere in the world.

## OPERATING LANDSCAPE

The Group operated in the same landscape as the previous year except for the embarkation on a liner shipping business sometime in March 2010. The Group continued to operate in the following four geographical areas which principal businesses were:

- Malaysia - Card & Payment Services, Printing and Shipping.
- South Pacific Islands
  - Papua New Guinea ("PNG") - Automotive and Agriculture.
  - Fiji - Retail & Wholesale, Automotive & Property.
- East Asia - Factoring Services and Manufacturing.
- United States of America - Property Investment.

The Group's Malaysian businesses, particularly, the Card & Payment Services faced intense competition from the bank backed card issuers and as with the other issuers, was not spared from the high card attrition consequent to the annual government service tax imposed on the credit cards. The PNG operations started off slow but gained momentum subsequently propelled by its booming economy due to the oil, gas and mining industries. In Fiji, the Group continued to operate in a flat economy, which during the year grew only 0.1%. The Group's operation in East Asia, especially China improved in tandem with the country's economy. Lastly, in the USA, the occupancy rate of our Atlanta Apartment averaged 90% consistently throughout the year, an improvement over 2010's of 86%.

## FINANCIAL AND OPERATING PERFORMANCE

The Group's 2010 revenue totalled RM2.04 billion representing a 8.35% (or RM157.80 million) increase over the RM1.89 billion recorded in 2009. The improvement was due primarily to the operations in PNG which revenue increased by RM159.60 million (or 28.6% better than its previous year's) contributed by the automotive, coconut oil mill and retail divisions. The newly commenced shipping business generated sales of RM52.67 million with the printing business and lift manufacturing operation in China raking in higher combined revenue of RM23.50 million. The Group's revenue was adversely affected by its operations in Fiji which revenue was lower by RM65.41 million (2.9% lower than 2009's of RM675.13 million) due to the lower contributions from the automotive and retail operations.

For the year 2010, the Group's profit before tax was RM85.82 million, about 37.5% lower than the previous year's of RM137.24 million. Included in the profit before tax were non-recurring items amounting to RM30.93 million in 2010 and RM42.28 million for 2009. The current year's non-recurring items comprised mainly of the net increase in fair value of investment properties (RM24.18 million) and write-back of provision for commitments no longer required (RM17.07 million) whereas those in the previous year were the write-back of accruals consequent to the

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settlement arrangement with MBf Leasing Sdn Bhd (RM61.26 million) set off by the provision for liabilities (RM10.34 million). Excluding the non-recurring items, the operating profit before tax for the year ended 31 December 2010 was RM54.89 million versus previous year of RM94.96 million. The adverse performance was principally due to the initial start up costs for the shipping business and the losses suffered by the retail operation in Fiji.

## SIGNIFICANT DEVELOPMENTS

### a) New Businesses

During the year, the Group expanded its shipping activities to include the liner business plying the East Asia – Australasia – South Pacific route. This new venture was undertaken primarily for group synergies to transport containerised and bulk cargoes in and out of the South Pacific companies and to capitalise on the booming economy in PNG which is a net importing country.

### b) Incorporation of Subsidiaries

In facilitation of the Group's venture into the liner shipping business and as preparation for the possible venture into the prepaid card/telco business, the following wholly-owned subsidiaries were incorporated during the year:-

Subsidiary	Place of incorporation	Principal activity
MBf Carpenters Shipping Limited	Federal Territory of Labuan, Malaysia	Liner shipping
Carpenters Trading International Limited	Republic of Vanuatu	General trading
MBf Carpenters Shipping (NZ) Limited	New Zealand	Shipping management services and agency
MBf Carpenters Shipping Agency Pty Ltd	Australia	Shipping agency
Frezhasia Telecoms Sdn Bhd	Malaysia	Telecommunication
Frezhtalkz Mobile Sdn Bhd	Malaysia	Telecommunication

### c) Proposed Privatisation Exercise by Major Shareholders

The Company had in October 2009 breached the public shareholding spread requirement and the major shareholders, namely, Tor Pte Ltd, Nadin Holdings Sdn Bhd, Impact Action Sdn Bhd and Market Share Investments Ltd which are wholly-owned by Tan Sri Datuk Dr. Ninian Mogan Lourdenadin ("Tan Sri Mogan") proposed to undertake a privatisation exercise by way of a selective capital reduction and repayment exercise under Section 64 of the Companies Act, 1965 ("Proposed SCR"). In conjunction with the Proposed SCR, the major shareholders also proposed the acceleration and cancellation of MBfH's warrants ("Proposed WAC") which was conditional upon the Proposed SCR being approved. The Proposed SCR managed to procure 67% of the votes of the shareholders in the Extraordinary General Meeting ("EGM") held on 27 April 2010, falling short of the required approval of 75%. Accordingly, the Special Resolution to approve the Proposed SCR was not carried and that for the Proposed WAC was not tabled at the warrant holders' meeting held immediately after the EGM.



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## d) Public Shareholding Spread

The Company's public shareholding spread as at 16 May 2011 was 16.31% and Bursa Malaysia Securities Berhad ("Bursa Securities") had granted further extension of time of three (3) months until 31 May 2011 for the Company to comply with the minimum public shareholding spread.

The Company's share has yet to trade above its par value of RM1.00 since its re-listing on Bursa Securities upon the completion of its Restructuring Scheme in mid 2003. Rectification of the public shareholding spread by the issuance of new shares at a discount is deemed not viable as such an exercise requires the shareholders' approval and thereafter the confirmation of the Court. Hence, the most practical option for the Company to increase its public shareholding spread is for Tan Sri Mogan to privately pare down his stake.

The Company had been informed by Tan Sri Mogan that his discussion with various parties to place out his stake, are still in the preliminary stages. To rectify the public shareholding spread of the Company, Tan Sri Mogan has to sell down his stake in the Company by approximately 9%, equivalent to about 50 million shares. The Company has written in to Bursa Securities on 9 May 2011 for an extension of time until 31 December 2011 to enable the Company to rectify the shareholding spread.

## PROSPECTS

With the recovery in the developed economies remaining slow, the global growth in 2010 was primarily driven by emerging and developing economies, particularly in Asia. The International Monetary Fund had reported the world gross domestic product ("GDP") growth to be 4.6%. The Malaysian economy emerged strongly to achieve a GDP growth of 6.8%.

Despite the strong economic fundamentals, the outlook for 2011 will be challenging with downside risks to global trade and investment following the weaknesses in the Euro area, the tightening of monetary policies in several emerging Asian economies to prevent the asset bubbles and contain inflationary pressures and now, the aftermath of the tsunami in Japan. All these negativities are hindering regional trade and investment flows, thus impacting Malaysia adversely. The outlook and prospects for the Malaysian economy is expected to be moderate, expected to expand by 5.2%, supported by strengthening domestic demand, particularly private consumption, and an improving external demand. The services sector which registered higher growth of 4.9% in 2010, will remain the key contributor to overall GDP growth.

Prospects of the PNG economy for the next one year are expected to be moderate, induced by the impact of the uncertain global economic climate, a significant depreciation of the Kina exchange rate; high import inflation; excessive Government expenditure and additional domestic demand pressures.

Fiji's growth outlook for 2011 remains stagnant against a backdrop of the uncertain global performance. Prospects are however expected to be moderate, underpinned by higher commodity prices, particularly of oil, in the coming months as the global economy picks up; as well as higher prices of goods.

Looking forward, the overall prospects of the Group's operations are expected to remain challenging this year in light of the stiffer competitive environment in the card and payment services segment, the start-up shipping business and the non-performing economy in Fiji. However, the PNG operations are expected to deliver good results. Despite the challenges of the operating environment locally and globally, the Group will continue to persevere in managing and growing its businesses, while being innovative and pre-emptive in its efforts and initiatives to remain competitive. Continued efforts will be made to upgrade operating infrastructure, improve cost structures and quality of resources in readiness to scale greater heights when the economies improve so that the Group is able to deliver and fulfill stakeholders' expectations.



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## ACKNOWLEDGEMENTS

As the Board had mentioned in the past, the Group will not be where it is today had it not been for the support of our valued customers, bankers, business associates and partners. The Board of Directors of the Group would like to record its appreciation to all of you for your continued support and confidence in the Group.

We also wish to thank the management and staff for their commitment, dedication and loyalty which have contributed to the growth and success of the Group.

Last but not least, the Board wishes to place on record its sincere appreciation and gratitude to all our shareholders for their continued support and faith in the Group.

To all our stakeholders, our deepest appreciation to all of you as you have in no small way, played a role in helping us build and grow the MBf brand.

**Lee Chaing Huat**

Chairman

6 June 2011