



ANNUAL REPORT **2017**

Realising
Our
Potentials





Realising **Our** Potentials

Despite the many challenges we have been facing, we remain steadfast and dedicated in continuing our performance at optimum levels at all times. Our approach to sustainability involves streamlining our operations and applying best practices in everything we do.

Our aim to achieve long term growth will include various strategies and methodologies to boost our performance in the workplace, improve our corporate positioning in the marketplace, fostering closer ties with the community in which we operate and encourage efficient stewardship of natural resources in order to preserve the environment. We are actively seeking opportunities for expansion geographically in identified new markets.

We are geared towards fulfilling the mission of the Group – to increase our growth potential via strategic partnerships with clients and tapping into vast opportunities in our core business sectors.

INSIDE THIS REPORT

P10

EXECUTIVE CHAIRMAN'S STATEMENT

P13

MANAGEMENT DISCUSSION AND ANALYSIS

P18

SUSTAINABILITY REPORT

P48

FINANCIAL STATEMENTS

Corporate Structure	2	Other Compliance Information	39
Corporate Information	3	Audit Committee Report	40
Board of Directors	4	Statement on Risk Management and Internal Control	43
Board of Directors' Profile	5	List of Properties	47
Profile of Key Senior Management	8	Financial Statements	48
Executive Chairman's Statement	10	Analysis of Shareholdings	135
Management Discussion and Analysis	13	Notice of Annual General Meeting	139
Sustainability Report	18	Proxy Form	•
Calendar of Events 2017	22		
Corporate Governance Overview Statement	25		

10th Annual General Meeting

HANDAL RESOURCES BERHAD

Date : Wednesday, 23 May 2018
Time : 10.00 a.m
Venue : Lot PT 7358
Kawasan Perindustrian Teluk Kalong
Mukim Teluk Kalong
24007 Kemaman
Terengganu Darul Iman

Corporate Structure

HANDAL

Handal Resources Berhad
(816839-X)

100%

**Handal Offshore
Services Sdn Bhd**
(556861-H)

100%

**Handal Engineering
Sdn Bhd**
(134854-K)

99.82%

Handrill Sdn Bhd
(802490-W)

51%

**Handal Simflexi
Sdn Bhd**
(Formerly known as
Simflexi Sdn Bhd)
(1220368-U)

BOARD OF DIRECTORS

DATO' MOHSIN ABDUL HALIM

Executive Chairman

MALLEK RIZAL BIN MOHSIN

Group Managing Director and
Chief Executive Officer

JOEL EMANUEL HEANEY

Group Advisor and
Deputy Managing Director

ZAHARI BIN HAMZAH

Chief Operating Officer and
Executive Director

MUHAMMAD 'ASRI BIN MOHD RAFA'I

Senior Independent Non-Executive
Director

CHAU SIK CHEONG

Independent Non-Executive Director

LOKMAN RAZANI BIN ABDUL RAZAK

Independent Non-Executive Director

DATO' MOHAMMAD MEDAN ABDULLAH

Independent Non-Executive Director

AUDIT COMMITTEE

CHAU SIK CHEONG (Chairman)

LOKMAN RAZANI BIN ABDUL RAZAK

MUHAMMAD 'ASRI BIN MOHD RAFA'I

DATO' MOHAMMAD MEDAN ABDULLAH

NOMINATION COMMITTEE

LOKMAN RAZANI BIN ABDUL RAZAK
(Chairman)

CHAU SIK CHEONG

MUHAMMAD 'ASRI BIN MOHD RAFA'I

DATO' MOHAMMAD MEDAN ABDULLAH

REMUNERATION COMMITTEE

CHAU SIK CHEONG (Chairman)

MUHAMMAD 'ASRI BIN MOHD RAFA'I

LOKMAN RAZANI BIN ABDUL RAZAK

DATO' MOHAMMAD MEDAN ABDULLAH

RISK MANAGEMENT COMMITTEE

MUHAMMAD 'ASRI BIN MOHD RAFA'I
(Chairman)

DATO' MOHAMMAD MEDAN ABDULLAH

MALLEK RIZAL BIN MOHSIN

JOEL EMANUEL HEANEY

RAZMI YAACOB

COMPANY SECRETARIES

PAULINE LYE YOKE YING

(MAICSA 0798723)

LEONG OI WAH

(MAICSA 7023802)

REGISTERED OFFICE

25-6, Jalan PJU 1/42A

Dataran Prima

47301 Petaling Jaya

Selangor Darul Ehsan

Tel : +603 7803 8216 / 8185

Fax : +603 7803 3502

SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd

Level 6, Symphony House

Pusat Dagangan Dana 1

Jalan PJU 1A/46

47301 Petaling Jaya

Selangor Darul Ehsan

Tel : +603 7841 8000

Fax : +603 7841 8151 / 8152

CORPORATE OFFICE

Unit 13.01, 13th Floor

Menara Yayasan Selangor

No. 18A, Jalan Persiaran Barat

46000 Petaling Jaya

Selangor Darul Ehsan

Tel : +603 7773 7070

Fax : +603 7773 7071

AUDITORS

MESSRS FOLKS DFK & CO

(Firm No. AF 0502)

12th Floor

Wisma Tun Sambanthan

No. 2, Jalan Sultan Sulaiman

50000 Kuala Lumpur

ADVOCATES & SOLICITORS

Ainul Azam & Co

PRINCIPAL BANKERS

AmBank (M) Berhad

RHB Bank Berhad

Hong Leong Bank Berhad

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad

Main Market

Board of Directors



Mallek Rizal bin Mohsin
Group Managing Director and Chief Executive Officer

Joel Emanuel Heaney
Group Advisor and Deputy Managing Director

Zahari bin Hamzah
Chief Operating Officer and Executive Director

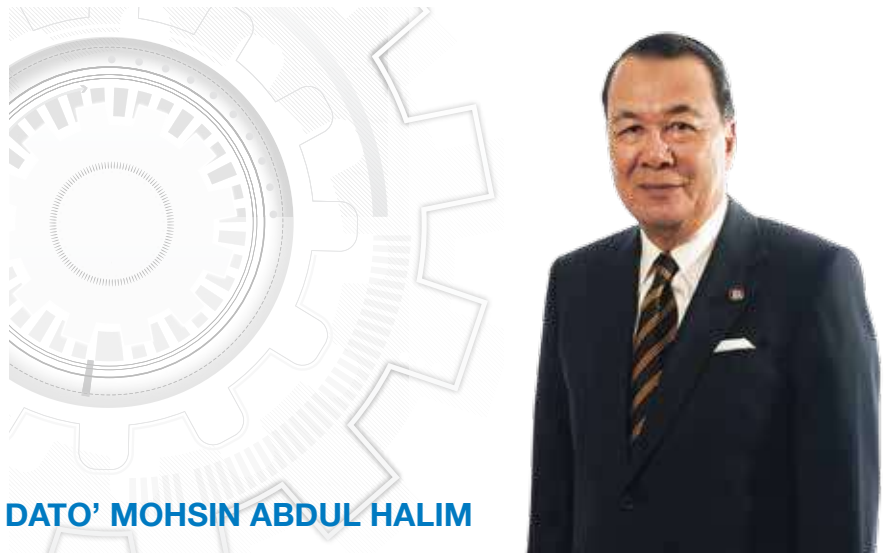
Dato' Mohsin Abdul Halim
Executive Chairman

Muhammad 'Asri bin Mohd Rafa'i
Senior Independent Non-Executive Director

Chau Sik Cheong
Independent Non-Executive Director

Lokman Razani bin Abdul Razak
Independent Non-Executive Director

Dato' Mohammad Medan Abdullah
Independent Non-Executive Director



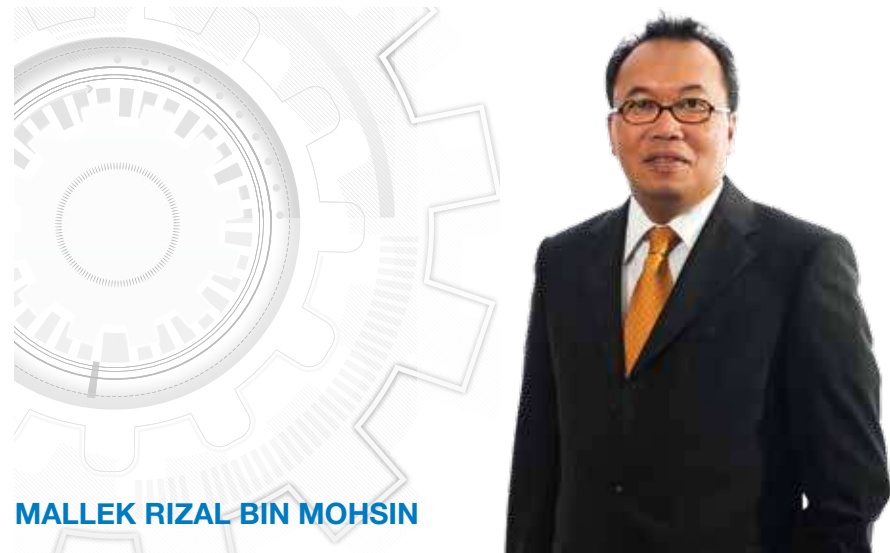
DATO' MOHSIN ABDUL HALIM

Executive Chairman, aged 75, Malaysian

Dato' Mohsin Abdul Halim is the founder and Executive Chairman of the Group. He was appointed to the Board on 7 May 2009.

Dato' Mohsin is a Director of Handal Offshore Services Sdn Bhd, Handal Engineering Sdn Bhd and Handrill Sdn Bhd.

He holds a Teaching Diploma and started his career as a teacher before joining the Kelantan Civil Service in 1966. During his tenure as a civil servant, he had assumed several positions; as an Assistant District Officer, Assistant State Secretary and finally as Private Secretary to Duli Yang Maha Mulia the Sultan of Kelantan cum Comptroller of the Kelantan Royal Household. Subsequently, he was seconded to the Malaysian Civil Service and served as the Personal Secretary to the Sixth Duli Yang Maha Mulia Seri Paduka Baginda Yang Dipertuan Agong.



MALLEK RIZAL BIN MOHSIN

Group Managing Director and Chief Executive Officer, aged 52, Malaysian

Encik Mallek Rizal bin Mohsin was appointed to the Board on 7 May 2009.

He is also a Director of Handal Offshore Services Sdn Bhd, Handal Engineering Sdn Bhd, Handrill Sdn Bhd, Handal Simflexi Sdn Bhd and a member of Risk Management Committee of Handal Resources Berhad.

An astute Chartered Accountant, he is a member of the Malaysian Institute of Accountants (MIA) and the Institute of Chartered Accountants New Zealand (ICANZ). Also, he holds a Bachelor of Management Studies Degree from the University of Waikato, New Zealand. His extensive working experience at major corporations prior to joining Handal include being an Auditor for PricewaterhouseCoopers (formerly known as Price Waterhouse), Assistant Manager of Corporate Finance at Amanah Merchant Bank Berhad, Corporate Services Manager for MTD ACPI Engineering Berhad (formerly known as ACP Industries Berhad), Special Assistant Corporate Finance of the President's Office for Malaysian Resources Corporation Berhad and Chief Financial Officer for Putera Capital Berhad.

Board of Directors' Profile



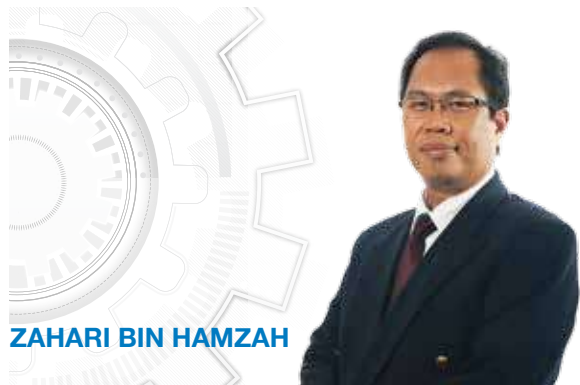
**JOEL EMANUEL
HEANEY**

*Group Advisor and Deputy Managing Director
aged 55, American*

Mr Joel Emanuel Heaney was appointed to the Board on 7 May 2009. He is also a Director of Handal Offshore Services Sdn Bhd, Handal Engineering Sdn Bhd and Handrill Sdn Bhd and a member of Risk Management Committee of Handal Resources Berhad.

He completed his education in Marrero, Louisiana in 1981. In 1984, he created Kennedy services, a business related to synthetic materials. At the same time he completed his courses and obtained certification in live design and Dale Carnegie's Business Dynamics. In 1986 he sold Kennedy Services and moved into offshore crane in the oil and gas industry. Subsequently, he joined Applied Hydraulic Systems Inc, the manufacturer of Nautilus Offshore Crane product line. In 1994, he joined Weatherford International Ltd, the manufacturer of American Aero Crane product line, leading the international operations. Later in 1995, he joined Handal Engineering and successfully guided the company into the offshore crane manufacturing and service industry.

To date, he has more than 30 years of experience in the offshore crane industry and a successful track record in company building. With a strong entrepreneurial background, he plays an important role in leading Handal Group's operations and performance.



ZAHARI BIN HAMZAH

*Chief Operating Officer and Executive Director
aged 56, Malaysian*

Encik Zahari bin Hamzah was appointed to the Board on 7 May 2009. He is also a Director of Handal Offshore Services Sdn Bhd, Handal Engineering Sdn Bhd, Handrill Sdn Bhd and Handal SimFlexi Sdn Bhd.

He graduated with a Diploma in Mechanical Engineering from Universiti Teknologi Mara in 1984. He began his career at Matsushita Electric Company (M) Sdn Bhd as one of the pioneer batch of Technical Management Executives. Subsequently, he was employed by George Kent (M) Bhd, as Technical/Sales Executive where his responsibilities included tendering, executing and managing, commissioning and servicing of various oil and gas, petrochemical, oleo and water supply projects. In 1988, he joined Handal as Sales Manager and progressed to become General Sales Manager of the Oil and Gas Division. His duties, amongst others, included managing projects/tenders of offshore cranes, watermakers, heaters, process system, tankage system, heat exchangers, flares, process system and material handling activities of Handal Engineering Sdn Bhd. Subsequently, in 2001, he was promoted to the General Manager of the Company and was offered equity stake in Handal.

He was responsible for the restructuring of the Crane Division into an integrated crane services company under Handal Offshore Services Sdn Bhd, as well as managing its overall business and operations of the company as a one-stop crane manufacturing and service centre.



**MUHAMMAD 'ASRI
MOHD RAFA'I**

*Senior Independent Non-Executive Director
aged 52, Malaysian*

Encik Muhammad 'Asri bin Mohd Rafa'i was appointed to the Board on 24 August 2010 as Senior Independent Non-Executive Director. He is a member of the Audit Committee, Nomination Committee, Remuneration Committee and the Chairman of Risk Management Committee of Handal Resources Berhad.

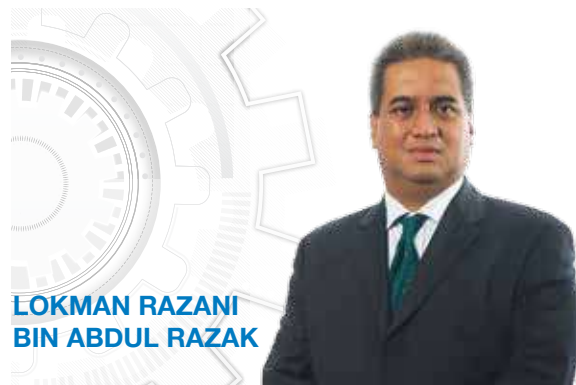
He is a Chartered Accountant and a member of the Malaysian Institute of Accountant (MIA), The Chartered Institute of Management Accountants (CIMA) and Chartered Global Management Accountant (CGMA). He holds a BSc (Hons) in Finance and Accounting from University of Salford, United Kingdom. His working experience is in various industries including hospitality, IT, defence, manufacturing, pharmaceuticals and bio fertiliser.



CHAU SIK CHEONG
*Independent Non-Executive Director
aged 65, Malaysian*

Mr Chau Sik Cheong was appointed to the Board on 11 May 2009 as Independent Non-Executive Director. He is the Chairman of the Audit Committee and the Remuneration Committee of Handal Resources Berhad and also a member of the Nomination Committee of the Company.

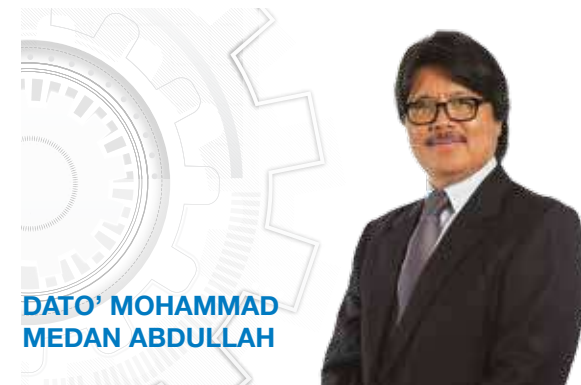
He is a Chartered Accountant and a member of the Malaysian Institute of Certified Public Accountant (MICPA) and the Malaysian Institute of Accountants (MIA). He began his career with Coopers & Lybrand (now known as PricewaterhouseCoopers) in April 1974 and subsequently joined SCM Perunding Sdn Bhd as Finance Manager in October 1980. In June 1982, he joined Cycle and Carriage Bintang Bhd as Senior Accountant and subsequently promoted to Finance Director. He retired from Cycle and Carriage Bintang Bhd in 2004.



**LOKMAN RAZANI
BIN ABDUL RAZAK**
*Independent Non-Executive Director
aged 52, Malaysian*

Encik Lokman Razani bin Abdul Razak was appointed to the Board on 11 May 2009 as Independent Non-Executive Director. He is the Chairman of the Nomination Committee of Handal Resources Berhad and also a member of the Audit Committee and Remuneration Committee of the Company.

He graduated with a degree in Law (LL.B (Hons)) from the University of Sheffield, United Kingdom in 1990. He started his career in the financial industry as a Legal Counsel to a leading merchant bank in Malaysia. He has more than twenty (20) years experience in the area of management, strategic planning and mergers and acquisitions. His current involvement includes the area of information & communications technology with the provision of telecommunication services to a major telecommunications group, the marine and property sectors.



**DATO' MOHAMMAD
MEDAN ABDULLAH**
*Independent Non-Executive Director
aged 60, Malaysian*

Dato' Mohammad Medan bin Abdullah was appointed to the Board on 19 December 2016 as Independent Non-Executive Director. He is a member of Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee of Handal Resources Berhad.

Dato' Medan has more than 30 years of well-rounded hands on experience spanning the oil and gas industry value chain, from the upstream, downstream and marketing & trading, both at national and global level.

He started his career as a Trainee legal Officer in 1982 and rose through the ranks to the top management positions in the industry.

For more than three decades, he was with PetroliaM Nasional Berhad (PETRONAS) and had contributed tirelessly towards upholding PETRONAS' overall profitability and growth. He was among the top personnel at PETRONAS, Malaysia's only global Fortune 500 Corporation.

In 2013, he was appointed as the Managing Director/ President, Asia Pacific for Gazprom Marketing & Trading Pte Ltd based in Singapore until the end of 2016.

Notes:

- (i) Dato' Mohsin Abdul Halim is the father of Encik Mallek Rizal bin Mohsin. Other than the above, none of the Directors has any family relationship with each other and with any substantial shareholders of the Company.
- (ii) None of the Directors has any conviction for offences, other than traffic offences, within the past 10 years.
- (iii) Other than the related party transactions disclosed in Note 26 of the Financial Statements and the Circular to Shareholders dated 25 April 2018, none of the Directors has conflict of interest with the Company.
- (iv) The Directors' holdings in shares of the Company are disclosed in the Analysis of Shareholdings section of the Annual Report.

Profile of Key Senior Management

LEE SWEE ANN

CHIEF FINANCIAL OFFICER

He holds a professional accountancy qualification from the Association of Chartered Certified Accountants and is a member of the Malaysian Institute of Accountants.

Prior to joining Handal, he worked, amongst others, as an Accountant with DK Leather Corporations Bhd, as a Finance Manager of a subsidiary of DRB Hicom Bhd and as a Financial Controller of Yokohama Industries Bhd.

Lee Swee Ann joined Handal Offshore Services Sdn Bhd as Senior Manager Finance and Administration in April 2009, i.e prior to the listing of Handal Resources Berhad. In June 2014, he was re-designated to the position of Chief Financial Officer of Handal Group of Companies and responsible for all financial and accounting matters of the Group.

RAZMI YAACOB

CHIEF RISK OFFICER

Razmi Yaacob is a Quantity Surveyor by training. He graduated with a BSc Degree from Robert Gordon University in Aberdeen, Scotland and immediately after completing his studies, begins his career with a PQS firm in Kent, England.

Upon returning to Malaysia he worked as a Senior Quantity Surveyor with BiWater Shellbear, undertaking the Malaysian Rural Water Supply Scheme Project. Following the project completion, Razmi joined a leading PQS firm in Petaling Jaya where he eventually became one of the associates.

Subsequent years saw his involvement in major infrastructure works, i.e. the Sprint Highway and Ampang-Kuala Lumpur Elevated Highway with the likes of Gamuda and Percon-Leighton-MMC JV.

He then briefly joined MRCB as the Senior Manager (Contracts) and before joining Handal in January 2010, he was the Group Senior Manager (Contracts and Commercial) as well as the General Manager of one of the operating subsidiaries of Putera Capital Berhad. Razmi joined Handal Resources Berhad as Group Senior Manager, Contracts and Commercial on 1 February 2010. He has been re-designated to the position of Chief Risk Officer of Handal Group of Companies on 1 June 2014.

ISMAIL ABDUL HAMID

GROUP SENIOR MANAGER
BUSINESS DEVELOPMENT

Ismail Abdul Hamid is a graduate of Universiti Tenaga Nasional where he obtained his bachelor degree in Mechanical Engineering. Ismail started his career in Oil and Gas when he joined Handal Offshore Services Sdn Bhd as Project Engineer in July 2002.

Following years saw him realising his potential and rising up in Handal and this is proven as he received several promotions throughout his career. He was promoted to Contract Coordinator in January 2006. Later on when the company involved in crane maintenance contract in Indonesia, he was reassigned as the Project Manager. Upon completion of the Indonesia project and him returning to Malaysia, he was re-designated to Sales and Marketing Manager in February 2011.

His 12 years of vast and varied experience in the Oil and Gas industry has put him in good stead to be the current Group Business Development Manager of the Handal Group of Companies since June 2016.

He is also instrumental in recognising potentials in the emerging new technology and initiating new business directions related to it.

HARTINI MAHAMOOD

GROUP SENIOR MANAGER
HUMAN RESOURCE & CORPORATE SERVICES

Hartini Mahamood holds a Bachelor of Economics Degree from University of Malaya. She began her career with United Malayan Banking Corporation Berhad (now known as RHB Bank Berhad) in 1984 as a Bank Executive.

Then after, she joined ACP Industries Berhad (now known as MTD ACPI Engineering Berhad) as the Manager, Human Resource and Administration. In January 2009, prior to the listing of Handal Resources Berhad, Hartini joined Handal Offshore Services Sdn Bhd as Senior Manager of Human Resource. In June 2014, she has been re-designated to the position of Group Senior Manager, Human Resource and Corporate Services of Handal Group of Companies, responsible for all human resource and corporate services matters of the Group.

STEVEN MATTHEW PELLEGAL

GENERAL MANAGER
HANDAL OFFSHORE SERVICES SDN BHD

After successfully completing his education in Marrero, Louisiana, USA with machinist certificate, he started out his career in the Oil and Gas industry as a Machinist.

In 1998, he started working in the electrical sector, during which he passed the Louisiana Electrical Board examination and earns his Louisiana Electrical License. Thereafter, he returned to the Oil and Gas sector as the Rig Mechanic/Electrician.

In 2008, Handal Offshore Services Sdn Bhd offered him the position as Crane Specialist to be responsible for Crane Maintenance and Services activities of the Company.

During his tenure with Handal, Steven received several promotions i.e as Project Manager in January 2010 and subsequently, as Senior Manager in charge of several departments namely; Project, New Cranes and Engineering, in February 2011. His vast experience of more than 20 years in the Oil and Gas industry, supported by his sound technical expertise and commendable performance throughout his career has placed him well to helm his current position as the General Manager of Handal Offshore Services Sdn Bhd since November 2016.

Note: Mr. Steven Matthew Pellegal is the half brother of Mr. Joel Emanuel Heaney.

TERMAN WEE ENG SENG

GENERAL MANAGER
HANDAL ENGINEERING SDN BHD

Terman Wee earns his BSc. Hons Degree in Mechanical Engineering from University College of Swansea. After graduation, he worked at Malaysia Shipyard and Engineering Pasir Gudang for 8 years in ship repair, yard facilities, ship building and platform construction before joining Jebsen and Jessen Engineering (M) Sdn Bhd in June 1988 as Sales and Application Engineer. He was promoted to the position of Assistant Sales Manager in June 1992 and later in June 1994, to the Sales Manager.

Subsequently in June 2001, he was reassigned to Handal Engineering Sdn Bhd - Oil and Gas Division, as the Manager. The following 20 years saw him covering both upstream and downstream trading and services of the company.

In 2009, he was promoted to Senior Manager to head the Oil and Gas Division of Handal Engineering Sdn Bhd. Subsequently in February 2011, he was again promoted to his current position as the General Manager and head of the company. Handal Engineering Sdn Bhd under his stewardship continues steadfastly on downstream Oil and Gas and other related onshore construction activities.

Executive Chairman's Statement



DATO' MOHSIN ABDUL HALIM
Executive Chairman

Dear valued shareholders,

On behalf of the Board of Directors of Handal Resources Berhad (Handal or the Group), I am pleased to present to you the audited financial statements and Annual Report for the financial year ended 31 December 2017 (FY2017).

Against the backdrop of global economic growth and strengthening crude oil prices, the Group successfully delivered significant improvement in financial performance in FY2017. This was mainly attributed to better operating efficiency, in addition to improved business conditions in the oil and gas (O&G) industry.

2017 ECONOMIC AND SECTOR REVIEW

During the year under review, the global economy noted encouraging indications of activity with key countries reporting an increase in gross domestic product (GDP). Global growth was led by developed and developing countries such as the United States, the Eurozone, and China.

Meanwhile, crude oil prices posted a convincing rebound, with Brent crude hovering above USD60 per barrel in end December 2017, significantly higher from the USD50 per barrel range in the same period last year. The strengthened crude oil prices also contributed a significant part to Malaysia's GDP expansion of 5.9% in 2017, up from 4.2% in 2016.

In tandem with the encouraging economic growth and recovery in oil prices, the Malaysian Ringgit also strengthened against the US Dollar to emerge among the best performing currencies in Asia in 2017. Consumer spending also increased during the year, in line with the higher GDP and improved consumer sentiment.

HANDAL'S HIGHLIGHTS

In the last 30 years since inception, we at Handal have withstood the vagaries of numerous economic cycles, and adapted our business model accordingly while honing our expertise in our core business. This dynamic and proactive stance has been our guiding principle in weathering the storms, and helped us prove our mettle in the tumultuous year under review.

This proactive approach served us well in FY2017, as we relentlessly pursued opportunities to carve a new niche and reinforce our position in the oil and gas sector, in addition to ongoing cost-containment measures and embarking on performance-enhancing efficiency drive across the Group.

These initiatives bore good fruit for the Group, demonstrated by the establishment of a strategic collaboration with globally-renowned value-added partners, as well as the Group's uptrending financial performance at the close of FY2017.

	2015	2016	2017
	RM'000		
Revenue	114,620	83,109	63,636
Net profit/(loss) for the year	5,542	(13,567)	(2,433)
Basic earnings/(loss) per share (sen)	3.47	(8.45)	(1.52)
Total equity	112,392	98,778	96,319
Total assets	176,287	137,141	134,537

I am heartened to report on Handal's display of strong resilience and commitment in improving its financial performance, accompanied with a successful return to profitability in the fourth quarter of FY2017. Overall, the Group registered significantly narrower net loss of RM2.4 million in FY2017 against net loss of RM13.6 million in FY2016, while topline also saw slower reduction to RM63.6 million in FY2017 from RM83.1 million previously.

Specifically, our key segment of integrated crane services recorded encouraging uptake in demand in light of oil majors' increased activity in the fourth quarter of FY2017, indicating the criticality of our services in ensuring continued operability of their fleet. Meanwhile, our crane fabrication segment continued its steady progress, delivering two cranes in the year under review in support of customers' drilling activities.

We are encouraged by this positive progress, and intend to build on and accelerate our efforts to bring Handal towards a sustainable growth path going forward.

Simultaneously, the intended route to return the Group to profitability would effectively enable Handal to create shareholders value, in terms of generating positive returns on equity and assets, resuming the practice of distributing dividends, and providing capital appreciation opportunity.

2018 OUTLOOK

The International Monetary Fund forecasted for the world's economy to grow by 3.9% in 2018, citing more stable financial conditions, expected increase in commodity prices, and stronger demand in general.

However, the Group is also mindful and vigilant on overall growth expectations as trade remains volatile, with potential policy changes, as well as tightening monetary and fiscal policies worldwide.

Specifically in the O&G sector, the International Energy Agency is forecasting continued demand uptrend in 2018, which is expected to help sustain crude oil prices going forward. The outlook however comes along with rising output by various producers, which could outweigh the higher consumption and unfavourably tip the equilibrium in buyers' favour.

Overall, Handal managed to deliver significant progress in strengthening our business to bag new contracts from major O&G players in Malaysia such as Petronas Carigali, ExxonMobil, and various other oil majors. This not only demonstrates the resilience of our business, but also our technical capabilities to meet the maintenance and upkeep requirements of key industry players.

Executive Chairman's Statement

The Group had also in January 2018 announced the proposed acquisition of a controlling stake in Simflexi Sdn Bhd (now known as Handal Simflexi Sdn Bhd), which is involved in the research and development of technological innovations to decrease operating costs for O&G players. Such innovations include a patented crude oil storage technology.

The acquisition, upon its expected completion in the first quarter of 2018, would allow Handal to engage in more research and development of high-value technologies going forward. In the long term, Handal aspires to become a market leader in the provision of technological innovation and cost efficient solutions for the O&G and related sectors, setting the stage for us to achieve new milestones in the O&G industry.

APPRECIATION

On behalf of the Board, I wish to extend my appreciation to my fellow Directors, key management team and all employees for their contributions in steering Handal to record commendable performance improvements to date. I hope everyone would continue to provide their best to help Handal realise our potential.

My sincere gratitude also goes to our shareholders, business associates and customers for staying with us during both the good and challenging times.

DATO' MOHSIN ABDUL HALIM
Executive Chairman



OPERATIONAL ANALYSIS

Handal Resources Berhad (Handal, or the Group) is primarily in the business of providing maintenance and services for the oil and gas sector. The Group posted significant improvements in several key business segments in the year under review, on a backdrop of stable business environment and rising crude oil prices.

- **Integrated crane services**

The Group provides integrated crane services through its wholly-owned subsidiary, Handal Offshore Services Sdn Bhd (HOSSB), with its principal activities consisting of fabrication, maintenance, refurbishment and overhaul of offshore pedestal cranes, offshore crane rental, workover projects, and other services such as supply of manpower and parts of all models of API 2C-monogrammed cranes. HOSSB has one API 2C accredited fabrication yard in Malaysia, which is counted among the 38 accredited yards worldwide to date.

For its offshore crane rental business, HOSSB owns and leases a fleet of 16 API 2C-monogrammed offshore pedestal cranes for deployment at oil rigs of multinational O&G players.

The integrated crane services segment recorded lower revenue of RM55.6 million in FY2017 compared to RM66.6 million in FY2016, primarily attributed to the segment's reduced activity in the first three quarters of 2017.

That said, improved conditions in the oil and gas (O&G) sector led to a rebound in volume of services rendered to our clients, especially in the fourth quarter of 2017. This resulted in a stronger segment topline with better profit margins and improved profitability during the quarter.

Overall, the segment posted gross profit of RM27.6 million in FY2017, a slight decrease from RM29.4 million a year ago. Notwithstanding the reduced gross profit, gross margin improved to 50% for FY2017 compared to 44% in FY2016. The improvement is attributed to the Group's strict adherence to efficiency enhancement and cost controls.

- **Fabrication of cranes**

The Group's crane fabrication segment posted revenue of RM4.5 million in FY2017, declining from RM11.9 million in FY2016 mainly due to slower capital expenditure by our customers amidst challenges in the O&G sector.

Despite the lower revenue, the segment saw gross profit improve significantly to RM0.5 million in FY2017 compared to a gross loss of RM0.1 million previously.

Notably, gross profit margin for the segment improved to 12% versus -1% in FY2016 due to cheaper imports of crane parts attributed to the strengthening Ringgit Malaysia versus the USD Dollar during the second half of the year, as well as lower outsourcing fabrication cost incurred. The Group also successfully delivered 2 cranes to customers in FY2017.



- ***Workover projects business***

There was no workover project during the current period compared to RM3.7 million in revenue recognized in FY2016, primarily due to slower well maintenance activities by major oil operators.

- ***Supply, fabrication and servicing of industrial equipment and tank systems***

The segment saw revenue expand to RM3.6 million in FY2017 from RM1.0 million in FY2016. The segment also saw significantly improved profitability to record a gross profit of RM0.7 million in FY2017, compared to gross profit of RM0.3 million previously on the back of the enlarged revenue.

The segment's gross profit margin stood at 18% in FY2017 compared to 25% in FY2016, mainly due to our competitive strategy in response to the pressing market condition.

In FY2017, Handal also secured several contracts for various O&G majors, namely ExxonMobil Exploration and Production Malaysia Inc and SapuraKencana Energy Peninsula Malaysia Inc. These contracts were mainly for the provision of crane maintenance services.

Meanwhile, the Group's potential order book stood at RM91.6 million as at end-FY2017, to be recognized until 2020.

FINANCIAL REVIEW

Handal recorded revenue of RM63.7 million in FY2017, compared to RM83.1 million a year ago. The decline was mainly due to reduced revenue contribution from integrated crane services and crane fabrication.

That said, the lower revenue contribution was mitigated by strong improvements in profitability across various segments, with group gross profit maintaining at RM28.7 million in FY2017, reducing only slightly from RM32.2 million previously.

The Group also recorded lower impairment loss for the modular workover rig amounting to RM0.6 million in FY2017 compared to RM14.7 million previously. The lower impairment loss recorded, in addition to the better operating performance, contributed towards a significant improvement in group profitability.

Handal recorded a profit before tax of RM0.06 million in FY2017, compared to a loss before tax of RM11.4 million previously. The Group also recorded significantly narrower net loss of RM2.4 million in FY2017, improving vastly from the net loss of RM13.6 million last year. The Group recorded basic loss per share of 1.52 sen in FY2017, improving from loss per share of 8.45 sen previously.

The Group also continued to maintain a healthy financial position in FY2017. Group shareholders' equity stood at RM96.3 million in FY2017, largely unchanged from RM98.8 million in FY2016. Total assets reduced slightly to RM134.5 million in FY2017 compared to RM137.1 million previously.

Total borrowings was largely unchanged at RM27.5 million from RM27.6 million within the same timeframe. Group gearing therefore was maintained at 0.28x, similar to that of FY2017.

The Group also recorded an increase in trade receivables to RM49.7 million in FY2017 from RM28.9 million in FY2016, mainly due to higher amount receivable from our customers and higher accrued revenue.



RISK MANAGEMENT

While the Group's trade receivables and payables are primarily transacted in MYR, we may from time to time conduct business in other currencies such as USD, EUR, AUD and SGD to cater to requirements of customers or local businesses. As such, the Group may hold a moderate amount of cash and cash equivalents in foreign currencies for working capital purposes.

GROWTH STRATEGIES

Handal is committed to enhancing all its business segments and delivering sustainable growth to our shareholders. The Group's continued ability to fulfil our jobs and improve our financial performance, in addition to securing new contracts from major O&G players, speaks volumes of our competitive strengths.

The Group would continue to adapt our business model and improve our operations to serve our clientele better. We are also committed in ensuring long term business sustainability, and would strive to implement the following key strategies:



- ***Growing our order book***

Handal would continuously strive to secure new orders to replenish our existing order book. Towards this end, we would participate in more tenders for crane maintenance services and crane fabrication contracts. As at end-FY2017, the Group is bidding for various contracts with a total estimated value of RM36.9 million.

To date, the Group has amassed a clientele comprising major names in the O&G industry, signifying not only our technical competency, but also our respectable track record in quality, safety, and timely delivery. Leveraging on this, we are confident of expanding our market share in the O&G industry.

- ***Improving operational capabilities and efficiency***

Handal continuously evaluates its operating capacity and processes to ensure optimal efficiency in job execution. Efforts in this regard may include investing into new machinery, equipment replacement and upgrades, as well as training programmes for our employees to enhance their skillset.

The Group also has planned capital expenditure of RM2.5 million in FY2018 to be utilized for the reconditioning of two units of rental cranes, which would strengthen our operating capabilities.

- ***Development of high-value technologies***

While Handal has established a strong track record of serving major O&G players, the Group is also targeting the next stage of growth through new and high-potential opportunities in the broader O&G sector.

Towards this end, the Group had inked agreements with several players involved in developing innovative technologies such as in materials development and O&G storage solutions.

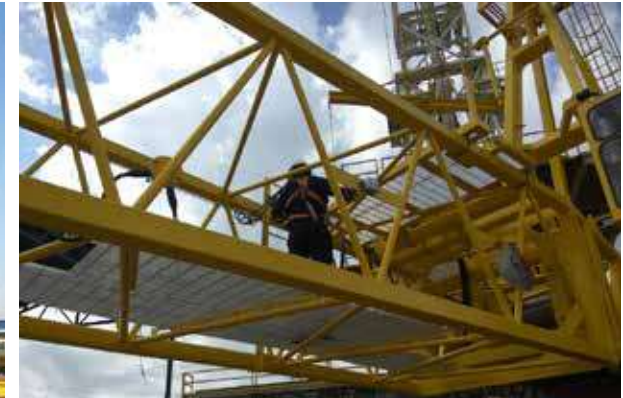
On 28 November 2017, Handal entered into a collaboration agreement with Harbin Jingwei Advanced Composite Material and Engineering Corporation, a company involved in the business of development and supply of advanced high-performance composite materials, to jointly develop and market innovative solutions to the regional O&G market.

Handal had also on 22 January 2018 entered into a share sale agreement to acquire a 51% stake in Simflexi Sdn Bhd (now known as Handal Simflexi Sdn. Bhd) for RM5.1 million. Simflexi is principally engaged in pipeline engineering, supply of composite material and pipeline connector, as well as in research and development and supply of flexible tanks. The acquisition was completed in the first quarter of 2018.

- **Diversification of services**

With the acquisition of 51% of Simflexi Sdn Bhd (now known as Handal Simflexi Sdn. Bhd), the Group is looking to expand the services to pipeline engineering, advance composite material, pipeline connectors, sub-sea flexible tank system, as well as research and development for the O&G industry moving forward.

The expanded services provided in our portfolio will allow us to not only take on more projects, but also increase the variation of works we can provide to the O&G majors. Going forward, we aim to play a bigger role in the growth of the O&G industry in the region.



Overall, these growth initiatives consist of not only organic growth and improving operational performance, but also significant investments into high-potential businesses. Handal is optimistic that these initiatives would pay off in the longer term through strengthened capabilities and increased earnings contribution.

The Group is well-equipped and poised to capture growth opportunities in the O&G sector, and looking forward to extend our brand presence as a prominent O&G provider in Malaysia and regionally.



Sustainability Report

The sustainability report outlines the Group's initiatives to achieve long term and sustainable business growth, and continuously bring a positive impact to the larger community we live in.

The report also covers the Group's efforts to ensure greater accountability with our stakeholders, namely our employees, shareholders, customers, business partners and associates, and the community.

The report consists of the following aspects:

- Business Sustainability and Operational Efficiency
- Workplace Health, Safety, and the Environment
- Employee Engagement and Development
- Stakeholder Relations
- Community Development and Charitable Contributions

BUSINESS SUSTAINABILITY AND OPERATIONAL EFFICIENCY

Annual Business Summit 2017

Handal held its seventh (7th) Annual Business Summit which was attended by key management and divisional heads. The summit, taking course over a two-day period, included situation analysis and presentations of business performance of all business units. All attendees also collectively established new targets for the next financial year, aligning their goals with all other business units to ensure the Group moves forward as a cohesive unit with greater efficiency.

Since it was first convened in 2011, the Annual Business Summit has played an important role in the strategic planning process of the Group and enhanced overall communication among top management and division heads. The Group would strive to continue holding the summit annually, as well as optimize the programme further to foster enhanced performance and productivity.



Delivering Sustainable Growth

Handal always looks towards delivering sustainable and long-term growth in our business. We constantly strive to strengthen our competitive edge and technical capabilities, a drive that has allowed us to maintain our position as one of the leading players in the industry.

We are also continuously on the lookout for opportunities in forming strategic partnerships with industry peers in order to set industry benchmarks in the comprehensiveness and quality of the customised solutions we provide. This in the end, will allow us to deliver better value and service to our clientele.

The Group also seeks opportunities in diversifying our revenue base beyond Malaysia into other high potential markets. Key target markets include countries in the ASEAN region, such as Indonesia, Thailand, and Vietnam, where we can leverage on our vast experience with major oil and gas players.



Providing Solution Through Innovation

Handal proactively adopts innovative new technology and solutions to enhance its services and capabilities to better provide its clients with greater cost efficiency and operational edge.

To that end, Handal had in 2017 made new strides by entering into a collaboration agreement with Harbin Jingwei Advanced Composite Material and Engineering Corporation. This was further reinforced in 2018, where Handal acquired a majority stake in Simflexi Sdn Bhd (now known as Handal Simflexi Sdn Bhd). The details of these corporate developments are outlined in the Management Discussion and Analysis section of this Annual Report.

These initiatives give Handal a compelling competitive advantage in the market as it enables us to offer our clients a more comprehensive and innovative cost efficient solutions. These would also play a role in improving our operations and cost efficiency towards achieving sustainable long-term growth.

Improving Operational Efficiency

Handal undertakes a regular, rigorous and encompassing monitoring programme to continuously review the efficiency of our operations, identify performance gaps, and implement the necessary improvements to workflow processes or skill requirements to ensure optimal productivity. This is in line with our credo to ensure zero compromises on quality and safety.

Better Risk Management

To understand and better manage the risks faced by the Group in its normal course of business, the Group formed a Risk Management Committee (RMC). The committee is tasked to enforce the rules and guidelines that have been put in place for all business functions, and to ensure each have clear guidelines on responsibility and traceability.

We also employ a Control Self-Assessment (CSA) for all subsidiaries and operating units that consists of a formal risk management process. The RMC and key management are updated on risk profiles of all subsidiaries, and efforts are placed on mitigating key operational risks.



Sustainability Report

Additionally, we employ third party professionals to conduct internal audits of our operations to gain an objective and independent view of the strengths and weaknesses of our internal control systems. Various aspects of our operations are considered, such as project management, purchasing cycle, inventory management, billing and credit control, human resource management and payroll, and recurrent related party transactions, amongst others. Improvements suggested by the consultants are then taken into consideration, and corrective measures are put in place.

AWARENESS ON HEALTH, SAFETY, AND THE ENVIRONMENT

Handal places utmost priority on upholding the safety of our employees, and has set up stringent operational safety standards. We also implement environmental best practices to ensure compliance with all regulations and strong environmental stewardship. These guidelines are outlined in our Company's policies and procedures which are followed strictly by all employees.

We continuously educate all employees on safety practices and behaviours through seminars and in-house safety trainings. A periodical Safety Stand Down is also set up between employees and key management whereby everyone gains insights of various occupational hazards and effective methods of resolution and prevention. To date, we have achieved zero Loss Time Injury (LTI) / Loss Time Accident (LTA) on all our offshore activities.



As testament to our stringent adherence to safety practices, the Group was presented the 2017 Chairman's Safety Award by ExxonMobil Exploration And Production Malaysia Inc. We intend to maintain the high standards we have set for ourselves and strengthen our recognition for service quality among our clientele.

In addition to workplace safety, we do our best to provide a comfortable working environment to all employees, both onshore and offshore, as we recognise them as being the backbone of the company. Also, in the event any of our employee is beset by misfortune, illness, or injury on the job, we have an extensive set up and team to help them resume normalcy and return to work confidently.

We also place high priority on environmental friendliness and safety, in addition to setting up policies to reduce wastage and our carbon footprint. Some of the steps we have taken in this regard is to increase digitalisation in documentation to reduce paper usage, as well as opting for the use of teleconferencing for meetings and conferences to reduce carbon emissions from commuting.

EMPLOYEES ENGAGEMENT AND DEVELOPMENT

Handal fosters an environment where employees are able to flourish in their career. We achieve this by making available rewarding opportunities that allow for career growth within the Group.

We also provide significant training opportunities, conducted internally and through external parties, to allow employees to not only improve themselves but also to keep abreast with latest industry practices and standards.

Additionally, Handal has in place a dedicated career progression programme, where employees are aided in managing their career paths. Assistance is provided towards education, training support, performance feedback and reviews, amongst others.

Besides this, the Group has also established a whistle-blowing policy, whereby employees have a safe channel to report improper activities and breaches of regulation within the Group. The Company's Whistle-blowing Policy is available on the Company's website, www.handalresources.com.

STAKEHOLDER RELATIONS

The Group values the relationship between the Board, shareholders, regulators, investors, and the public. Information such as key corporate developments, financial performance as well as other important information are provided to all the relevant parties as soon as possible. These material information, contained within our Annual Report, Annual Financial Report, and communications from the Board, are disseminated on a timely basis to Bursa Malaysia Securities Berhad.

COMMUNITY DEVELOPMENT AND CHARITABLE CONTRIBUTIONS

Handal has always believed in contributing back to the safeguarding and wellbeing of the community, to help protect and ensure the economic welfare and livelihood of those around us.

Through Tabung Kebajikan Handal (Handal Charity Fund), we have regularly provided assistance, either in financial form or in kind, in an effort to enhance the lives of the people around us through charitable bodies, schools and non-profit organisations.

In 2017, the Handal Charity Fund donated a total of RM50,980 for education assistance, orphanages, schools, charitable bodies as well as non-profit organisations. The donations were inclusive of scholarships amounting to RM11,700 awarded to 9 deserving students for secondary school education. We would continue to provide support to future generations in their education pursuits.

Further to that, Handal is actively involved in improving the lives of the local community in Kemaman where our operations are sited. The assistance we provide include employment and skill development opportunities for deserving talents, and providing support to local businesses and community groups.



Calendar of Events 2017



▲ In-house Training Programmes.

▲ Factory Acceptance Crane Test conducted with clients.

▲ Safety Stand Down with client & Safety Award Presentation.



▲ 9th Annual General Meeting at Teluk Kalong Office in Kemaman, Terengganu.



▲ Majlis Berbuka Puasa with Anak-anak Yatim.



▲ Business Plan Summit at Kelab Golf Negara Subang, Selangor.



◀ Handal Resources Berhad Golf Tournament 2017 at Sungai Long Golf Country Club, Selangor.

Calendar of
Events 2017

Teluk Kalong Factory Visits
by Clients.



Visit to witness design proving and
verification of subsea storage system
by Handal team together with client
at Harbin Institute of Technology
Research Centre, China.

SHE Awareness Programmes.

Staff recreational games and activities.