

JOINT CHAIRMAN AND GROUP CEO'S STATEMENT

Dear Shareholders,

Despite the many challenges faced in 2010, Wah Seong Corporation Berhad still recorded modest results and with the encouraging first quarter results announced recently, we are confident that we will see a better performance in the upcoming financial year. On this note, we are pleased to present our annual review of the performance of the Company and its subsidiaries ("Group") for the financial year ended 31 December 2010.

OVERALL FINANCIAL REVIEW

Wah Seong Corporation Berhad ("WSC") recorded a net profit of RM55.98 million, a reduction of 53.9% from that achieved in the previous year. The Group registered a decrease of 50.8% in earnings before interest, tax, depreciation and amortisation (EBITDA) to RM167.35 million from RM340.35 million achieved in 2009. However, our net gearing level continues to be at manageable level of 0.28 times as at 31 December 2010 compared with 0.32 times in the preceding year. Overall, our balance sheet continues to improve and strengthen due to sound and prudent financial management.

Segmentally, the Pipe Coating and Pipe Manufacturing Divisions contributed RM107.43 million and RM25.48 million respectively to the Group's EBITDA and RM284.42 million and RM250.30 million respectively to the Group's revenue. Whilst the Engineering Division's revenue contribution was RM212.89 million, the Trading Division achieved revenue of RM465.99 million and the Renewable Energy Division generated revenue of RM183.65 million during the year.

Although the tail-end of the economic and financial turbulence of 2008/2009 continues to impact unfavorably on the oil & gas industry in the early part of FY2010, our order book has picked up towards the end of FY2010 and currently stands at RM1.2 billion. This mainly comprises of RM456 million from Pipe Coating Division and RM360 million from the Engineering Division. With the improving outlook for the oil & gas industry, the Group expects a steady increase in requests for tenders in the coming months, which will impact favorably on our order book and financial performance in FY2011.

DIVIDEND

The Board had declared and paid the following dividends in respect of the financial year ended 31 December 2010:-

- (a) On 25 August 2010, the Directors declared a first interim Malaysian tax exempt cash dividend of 2.0 sen per share amounting to RM14,477,925, and this was paid on 1 October 2010.
- (b) On 17 February 2011, the Directors declared a second interim Malaysian tax exempt cash dividend of 2.5 sen per share amounting to RM18,421,927, and this was paid on 1 April 2011.

SUSTAINABILITY AMIDST ADVERSITY

Despite an adverse and challenging operating environment, the Group managed to record a modest profit for the year under review, due to prudent and stringent cost management. In FY2010, the core of the Group business activities centred on the commencement of work on the US\$162.90 million Gorgon pipe coating project (which is undertaken by a JV between Chevron, Exxon Mobil and Shell in Australia) involving the coating of approximately 850 km of line-pipes. The execution of this contract will be of utmost priority this year. To date, we have completed about 43% of the project, full completion of which is targeted to be completed by the first quarter of 2012. Currently our coating plants are operating at a capacity utilisation rate of up to 70%.

The Engineering Division experienced a setback last year as most of their orders were at the tail-end of completion. New orders received were not sufficient to generate significant revenue for FY2010. However, the significant increase in order book towards the end of FY2010 is expected to have a positive impact and improve the performance of the division in FY2011. The largest project being carried out by the division at the moment is the Teekay Petrojarl contract, which involves the supply of various process modules and compressor modules for "FPSO Petrojarl Cidade de Itajai". This project, estimated at US\$46 million is expected to be completed by the end of FY2011. Other ongoing projects such as rental for gas compressor packages will continue to contribute positively towards the Engineering Division's revenue.

The Trading Division performed well in FY2010, having achieved revenue of RM465.99 million, an increase of 18% from FY2009. This is mainly attributed to an increase in construction activities and higher raw material prices during the year. This trend is expected to continue well into FY2011 and beyond as the Government and private sectors roll out many new infrastructure projects in the country.

Revenue from the Renewable Energy Division was lower in FY2010 at RM183.65 million compared with RM225.03 million achieved in FY2009, mainly due to the postponement of certain projects. Some of these projects have since come back on stream and will contribute positively to the Renewable Energy Division's results in FY2011. With palm oil prices remaining strong and the increasing demand for vegetable oil in 2011, the Renewable Energy Division should expect an overall positive improvement in operating result in FY2011.

We expect the global economy to continue its recovery in 2011. With firmer oil prices and return of financial liquidity to the oil & gas industry, we are likely to see a steady rise in capital expenditure in the oil & gas industry. The Group is currently focusing on potential projects in Asia as well as Australia, where we have a solid track record, and where many industry operators have been able to achieve positive findings in their exploration programmes. We will continue to be actively involved in tendering projects and with increasing enquiries received throughout the year, we are confident that the demand for our products and services should continue to improve in the current financial year. In this regard, the Group's improved operating and financial results for the first quarter announced recently should provide some optimism in the current year outlook.

FUTURE GROWTH

The Group has been constantly reviewing all possible strategic options to ensure focused and sustainable long term growth while enhancing shareholders' value.

Amongst all these possibilities, the Board is now actively evaluating the de-merger proposal of the oil & gas businesses (Pipe Coating, Engineering and E&P Services) currently held through its wholly-owned subsidiary, Wasco Energy Ltd (WEL) with a view that it will eventually operate as a separate fast growing listed oil & gas entity. Under this scenario, WSC will continue

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to remain as a public listed company, principally engaged in industrial services activities such as trading, renewable energy and pipe manufacturing. The de-merger will enable both entities to have a better focus on their respective businesses and growth opportunities as well as improving competencies and deployment of resources. It will also enable the respective entities to have more focused talent management and people development programmes.

Irrespective of whatever strategic option chosen, it is pertinent to articulate some business strategies for both the Oil & Gas, and Industrial Services Groups going forward:-

OIL & GAS GROUP

- Greater focus on gas projects as gas production in Malaysia is expected to increase by 60% over the next decade whilst oil production will remain relatively flat. WEL will be looking actively for opportunities in gas projects in Malaysia and globally especially in Australia where many major gas infrastructure projects are expected to be implemented. Gas is expected to play an increasingly significant role in the global energy equation, being the cleanest source of energy and the cheapest in terms of thermal efficiency. The recent nuclear disaster in Japan will also prompt many countries to review their nuclear energy policies which may result in greater inclination towards the use of gas for energy generation over other less environmentally friendly sources.
- For our long term growth and sustainability, we are looking to invest in pipeline infrastructure that will enable us to generate recurring income, particularly in the gas sector. This will enable the Group to diversify its earning base which is largely dependent on projects.
- WEL will continue to realign its business strategies with the new Petronas Exploration and Production Policies which place greater emphasis on development of oil & gas reserves in Malaysia and countries where they currently operate in. Malaysia's oilfields are maturing and the production of oil & gas is limited to deepwater exploration and the revival of marginal oilfields. What used to be easy oil extraction has now evolved into complex environments requiring innovative and high technology solutions. We are now looking at operations taking place in challenging circumstances involving extremely high pressure, high temperature and/or deepwater subsea terrain. With our strong track record and our deepwater insulation coatings technology, we are well positioned to take on these challenges. Moreover, the outlook for Malaysia's oil & gas industry has become more promising with Petronas stepping up project awards based on enhanced oil recovery (EOR), small fields' development and pipeline replacement. Petronas is also looking at the intensification of their exploration activities as well as unlocking stranded resources via EOR. Rejuvenation projects such as the Tapis EOR, due to kick off in 2013, will see operators committing capital expenditure spending estimated to be worth over US\$1 billion.
- WEL will seek to expand its pipe coating, corrosion protection and compression engineering services into new growth areas, such as the Gulf of Mexico, the Americas and Europe. Recently, the Group entered into a joint venture agreement with Insituform Technology Inc of USA, which will not only provide us a platform to enter the deepwater pipe coating markets in the Gulf of Mexico, Central America, and the Caribbeans, but it will also allow the Group to venture further into the maintenance and rehabilitation of pipes in Asia and Australia.

INDUSTRIAL SERVICES GROUP

WSC's Industrial Services Group will undertake a major growth transformation strategy in the next five years in order to enhance the shareholders' value:-

- The Renewable Energy Division which is currently focusing on the regional palm oil sector seeks to transform itself from process equipment manufacturing and servicing to become a major player in design and manufacturing of mill and biomass / biofuel plants on a turnkey basis. The division is looking at integration into the greater palm oil sector, through investment in biomass and bio-energy power generation sector which offers great potential as alternative clean energy and recurring income for the Group. Further integration into oil palm plantation and other agriculture crops will be actively pursued, given the extremely bright future in the palm oil and agro-food sector.
- Our Trading Division, which is currently involved in the trading of building materials within the Malaysian construction industry has regional expansion plans that will give them stronger presence within the ASEAN region, higher margins in its products and services and strategic expansion into complimentary services in the logistic sector. Ultimately, it seeks to develop itself into a major trading and logistics group or distribution power house in the fast growing region of ASEAN.

- WSC has been involved in the manufacturing of water and structural pipes for the Malaysian and regional needs through its wholly owned subsidiary. With rapid population growth (estimated global population of 9 billion by 2050) and increasing rate of urbanisation and environmental degradation, water treatment and supply of clean water will become a sector that offers tremendous business potential. The Group is evaluating opportunities to broaden its business into the water industry, which may eventually include water treatment, engineering and technology as well as owning water assets to provide a more recurring income base in the long term.

We will continue to focus on internal growth, and supplement our expansion via merger and acquisitions along the strategic framework highlighted above for both the Oil & Gas and Industrial Services Groups.

ACKNOWLEDGEMENT

Finally, on behalf of the Board of Directors, we would like to express our utmost appreciation to the management and employees for working tirelessly and giving their full commitment to WSC Group throughout the year.

We would also like to sincerely thank the Board of Directors for their invaluable guidance and direction, and to all stakeholders, government authorities, bankers, clients, partners, suppliers and other business associates for their dedicated support and cooperation.

Robert Tan Chung Meng

Chairman

Chan Cheu Leong

Managing Director / Group Chief Executive Officer



POTENTIAL PROGRESS PERFORMANCE

