Innoprise Plantations

Innoprise Plantations Berhad

(Company No.285072-M)

# ANNUAL REPORT 2016

# AT A GLANCE:

Turnover 19%

**RM136.349 million**

2015: RM115.045 million

Pretax Profit 55%

**RM41.387 million**

2015: RM26.763 million

Net Assets 27%

**RM316.802 million**

2015: RM249.460 million

Operating Profit 42%

**RM45.187 million**

2015: RM31.858 million

Timber Segment (wood log) 33%

**131,721 $m^3$**

2015: 195,987 $m^3$

Total mature area

**9,542 hectares**

as of 31 December 2016

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# CORPORATE INFORMATION

## DIRECTORS

**DATUK HJ. MAJIN HJ. AJING**
*Independent Non-Executive Chairman*

**DATUK (DR.) KELVIN TAN AIK PEN**
*Managing Director*

**DATUK SAM MANNAN @ SHAM MANNAN**
*Non-Independent Non-Executive Director*

**DATUK JASWANT SINGH KLER**
*Independent Non-Executive Director*

**PUAN AINAHWATI BINTI ABD SANI**
*Non-Independent Non-Executive Director*

**DATUK HJ. OTHMAN BIN WALAT**
*Non-Independent Non-Executive Director*

**LIM FOOK HIN**
*Executive Director*

**TAN AIK KIONG**
*Alternate Director to Datuk (Dr.) Kelvin Tan Aik Pen*

## SECRETARIES

Dorothy Luk Wei Kam
(MAICSA 7000414)

Chan Ai Hoon
(LS 0000393)

## AUDIT COMMITTEE

Datuk Hj. Majin Hj. Ajing
Datuk Jaswant Singh Kler
Puan Ainahwati Binti Abd Sani

## NOMINATION COMMITTEE

Datuk Hj. Majin Hj. Ajing
Datuk Jaswant Singh Kler

## REMUNERATION COMMITTEE

Datuk Hj. Majin Hj. Ajing
Datuk (Dr.) Kelvin Tan Aik Pen
Datuk Jaswant Singh Kler

## EXECUTIVES' SHARE OPTION SCHEME ("ESOS") COMMITTEE

Datuk Hj. Majin Hj. Ajing
Datuk (Dr.) Kelvin Tan Aik Pen
Datuk Jaswant Singh Kler
Lim Fook Hin

## RISK MANAGEMENT COMMITTEE

Puan Ainahwati Binti Abd Sani
Lim Fook Hin
Liew Pei Kiong

## AUDITORS

**ERNST & YOUNG**
MPT 4604, Lot 17-28,
3rd Floor, Block B,
Bandaran Baru, Jalan Baru,
91000 Tawau, Sabah.

Tel: 089-774 233
Fax: 089-762 950

## PRINCIPAL BANKERS

**UNITED OVERSEAS BANK (M) BERHAD**

**MALAYAN BANKING BERHAD**

**AMBANK (M) BERHAD**

## REGISTERED OFFICE

6th Floor, Menara Tun Mustapha,
Likas Bay, 88400 Kota Kinabalu,
Sabah.

Tel: 088-326 415
Fax: 088-432 104

## REGISTRAR

**SYMPHONY SHARE REGISTRARS SDN. BHD.**
Level 6, Symphony House,
Block D13, Pusat Dagangan Dana 1,
Jalan PJU 1A/46,
47301 Petaling Jaya,
Selangor Darul Ehsan.
Tel: 03-7841 8000/
03-7849 0777 (Helpdesk)
Fax: 03-7841 8151/ 8152

## STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
(Main Market)

## WEBSITE

www.innoprise.com.my

# PROFILE OF DIRECTORS

## DATUK HJ. MAJIN HJ. AJING

Chairman, Independent Non-Executive Director
(Age: 68 / Gender: Male / Nationality: Malaysian)

Datuk Hj. Majin Hj. Ajing was appointed as an Independent Non-Executive Director on 1 May 2005. He serves as a Chairman of the Audit Committee, Nomination Committee, Remuneration Committee and ESOS Committee. He graduated with Bachelor of Arts from University of Malaya in 1974. He served with the Sabah State Government from 1974 to 1999 before starting his own business. During his tenure in the State civil service, he held various senior posts amongst others Secretary of Internal Affairs and Security (1982 – 1984), Permanent Secretary to the Ministry of Industrial Development (1984 – 1994), General Manager of Sabah State Railway (1994 – 1999) and Director of Sabah Archives (1999). He was Director of Gold Coin Malaysia Bhd ("GCM"), Chairman of Sarawak Flour Mill Sdn Bhd (subsidiary of GCM), Director of Sabah Gas Industries Sdn Bhd, Director of Sabah Economic Development Corporation and Sabah Forest Industries Sdn Bhd.

He has no family relationship with any of the directors or substantial shareholders of the Company. He has no directorship in any other public listed company. He has no conflict of interest with the Company and has no convictions for offences within the past five (5) years.

## DATUK (DR.) KELVIN TAN AIK PEN

Managing Director
(Age: 59 / Gender: Male / Nationality: Malaysian)

Datuk (Dr.) Kelvin Tan Aik Pen is the Managing Director of Innoprise Plantations Berhad and serves as a member of the Remuneration Committee and ESOS Committee. He was appointed to the Board of Directors of the Company on 7 December 2006. He is also the Chairman of TSH Resources Berhad and Ekowood International Berhad. He sits on the board of a list of private companies.

Datuk (Dr.) Kelvin Tan has more than thirty (30) years experience in resource based industry, which includes extensive working knowledge in international trade practices. He was the Chairman of the Malaysian Cocoa Board for 8 consecutive years from 1997 – 2004 and trustee of the Borneo Conservation Trust Sabah, from 2010 to 2013. He serves as Honorary Director of Sabah Chinese High School. As recognition for the many contributions to environmental conservation and forestry, Datuk (Dr.) Kelvin Tan was conferred Honorary Doctorate in Philosophy (Agroforestry) by Universiti Malaysia Sabah on 3 September 2006.

He is the brother of Tan Aik Kiong. Other than the deemed interest as disclosed in the Circular to Shareholders on recurrent related party transactions, he has no other conflict of interest with the Company and has no convictions for offences within the past five (5) years.

# PROFILE OF DIRECTORS

## DATUK SAM MANNAN @ SHAM MANNAN

Non-Independent Non-Executive Director
(Age: 59 / Gender: Male / Nationality: Malaysian)

Datuk Sam Mannan @ Sham Mannan was appointed as a Non-Independent Non-Executive Director of the Company on 10 August 2005. He graduated with a Bachelor of Forestry Science from University of Canterbury, New Zealand in 1979. He joined the Forestry Department, Sabah since 1980 and held various senior positions in the Forestry Department. He was appointed as the Chief Conservator of Forests in 2004.

He has no family relationship with any of the directors or substantial shareholders of the Company. He has no directorship in any other public listed company. Other than the deemed interest as disclosed in the Circular to Shareholders on recurrent related party transactions, he has no other conflict of interest with the Company and has no convictions for offences within the past five (5) years.

## PUAN AINAHWATI BINTI ABD SANI

Non-Independent Non-Executive Director
(Age: 43 / Gender: Female / Nationality: Malaysian)

Puan Ainahwati Binti Abd Sani was appointed as a Non-Independent Non-Executive Director on 3 November 2008. She serves as a member of the Audit Committee and Risk Management Committee. She graduated from International Islamic University Malaysia and holds MBA (International Business) from Universiti Malaysia Sabah. She joined the Sabah Foundation in 1997 as a Senior Audit Officer and in 2006 she is appointed as Group Company Secretary.

She has no family relationship with any of the directors or substantial shareholders of the Company. She has no directorship in any other public listed company. Other than the deemed interest as disclosed in the Circular to Shareholders on recurrent related party transactions, she has no other conflict of interest with the Company and has no convictions for offences within the past five (5) years.

# PROFILE OF DIRECTORS

## DATUK JASWANT SINGH KLER

Independent Non-Executive Director
(Age: 76 / Gender: Male / Nationality: Malaysian)

Datuk Jaswant Singh Kler was appointed as an Independent Non-Executive Director on 7 December 2006. He serves as a member of Audit Committee, Nomination Committee, Remuneration Committee and ESOS Committee. He is an Associate member of the Incorporated Society of Planters and continues to play active role as senior member of the planting fraternity in Malaysia and sits on the Board of TSH Resources Berhad. He also holds directorship positions in various subsidiary companies of TSH Group.

Notably, he was the chairman of the East Malaysia Planters' Association from 1985 to 2000. He was an Independent Non-Executive Director of Kwantas Corporation Berhad and an Executive Director of Bena Plantation Sdn. Bhd. when he left in 2006 and 1984 respectively. He now manages his own plantation consultancy business under Agri Cek Sdn. Bhd.

He participates actively as a committee member of Malaysian International Chamber of Commerce & Industry of Sabah Branch. He is a member of the Institute Development Studies (Sabah) and also a life member of Agricultural Institute of Malaysia.

He does not have any family relationship with any other directors and or other major shareholders of the Company. He has no conflict of interest with the Company and has no convictions for offences within the past five (5) years.

## DATUK HJ. OTHMAN BIN WALAT

Non-Independent Non-Executive Director
(Age: 67 / Gender: Male / Nationality: Malaysian)

Datuk Hj. Othman Bin Walat was appointed as a Non-Independent Non-Executive Director on 7 December 2006. He graduated with a Diploma in Agriculture from University Pertanian Malaysia in 1970. He started with Federal Land Development Authority (FELDA) in 1972 as Assistant Manager and was promoted to Project Manager in 1973.

He joined Kumpulan Guthrie Berhad as Estate Manager in 1974, and held various senior positions of the Group (1983-2004), and as Group Controller in 1996. He became Group Director Plantation (2003-2004). He served as Chief Executive Officer of Sabah Softwoods Berhad from 2004 to 2008. He is now the Group Managing Director to Sawit Kinabalu Group since 2008.

He has no family relationship with any of the directors or substantial shareholders of the Company. He has no conflict of interest with the Company and has no convictions for offences within the past five (5) years.

# PROFILE OF DIRECTORS

## LIM FOOK HIN

Executive Director
(Age: 67 / Gender: Male / Nationality: Malaysian)

Lim Fook Hin was appointed as an Executive Director on 7 December 2006. He serves as a member of the Risk Management Committee and ESOS Committee. He is currently a Non-Independent Non-Executive Director of TSH Resources Berhad and Ekowood International Berhad. He also sits on the board of some subsidiary companies within the TSH Group and also holds directorship in other private limited companies. He is a member of the Malaysian Institute of Certified Public Accountants. After qualifying as a member of the ICAEW, he joined Coopers & Lybrand as an Audit Senior in 1976 and was transferred to Coopers' Management Consultancy Services in 1977. He joined the Commonwealth Development Corporation in 1978 and was seconded to Sarawak Oil Palm Sdn. Bhd. as the Company Secretary.

He joined BAL Plantation Sdn. Bhd. in 1981 as the Financial Controller until 1993. His main responsibility included financial management, merger and acquisition and commodity marketing. He was the Chief Executive of United Palm Oil Industries PLC ('UPOIC'), a company listed on the Stock Exchange of Thailand before joining TSH Resources Berhad in 1997.

He does not have any family relationship with any other directors and/or other major shareholders of the Company. Other than the deemed interest as disclosed in the Circular to Shareholders on recurrent related party transactions, he has no other conflict of interest with the Company and has no convictions for offences within the past five (5) years.

## TAN AIK KIONG

Alternate Director to Datuk (Dr.) Kelvin Tan Aik Pen
(Age: 57 / Gender: Male / Nationality: Malaysian)

Tan Aik Kiong was appointed as an Alternate Director to Datuk (Dr.) Kelvin Tan Aik Pen on 16 December 2014. He is the Group Executive Director of TSH Resources Bhd. He also sits on the board of various subsidiary companies of TSH and also holds directorship in other private limited companies. He obtained a Masters degree in Civil Engineering, majoring in Construction Management, from the University of Oklahoma, United States of America in 1986. Prior to joining TSH Resources Berhad in 1987, he worked with Prudential Bache Ltd., an established brokerage and commission house in 1986 and subsequently with Ameroid Services Pte. Ltd., an independent warehousing company in Singapore.

He is the brother of Datuk (Dr.) Kelvin Tan Aik Pen. Other than the deemed interest as disclosed in the Circular to Shareholders on recurrent related party transactions, he has no other conflict of interest with the Company and has no convictions for offences within the past five (5) years.

# KEY SENIOR MANAGEMENT PROFILE

**JOHN BIN SINDIN**

General Manager

**Age:** 50
**Gender:** Male
**Nationality:** Malaysian
**Date Appointed as General Manager:** 2015
**Qualification:** Member of Incorporated Society of Planters

**Working Experience:**

BAL Plantation Sdn Bhd
1986 -1989: Cadet Planter in Government Trainee
1990 -1994: Junior Assistant Manager
1995 -1997: Assistant Manager

Kamabong Sdn Bhd
1997 - 2002: Estate Manager

TSH Resources Berhad
2002 - 2006: Estate Manager
2006 - 2009: Senior Estate Manager
2009 - 2015: Assistant General Manager

Innoprise Plantations Berhad
2015 - Present: General Manager

Save as disclosed, John Bin Sindin has no directorships in the Company and any other public companies. He has no family relationship with any Director/major shareholder of the Company. He has no conflict of interest with the Company and has no conviction for offences within the past five (5) years.

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I have the pleasure to present the Annual Report and Audited Financial Statements of the Company and the Group for the financial year ended 31 December 2016.

**DATUK HJ. MAJIN HJ. AJING**
Chairman

▲ 19%

Turnover

**RM136.349** million

2015: RM115.045 million

▲ 55%

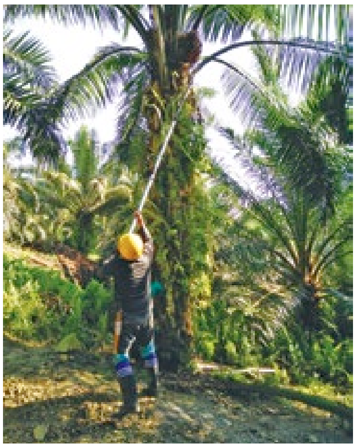
Pretax Profit

**RM41.387** million

2015: RM26.763 million

# CHAIRMAN'S STATEMENT

The Group registered a turnover of RM136.349 million for the period under review compared to the preceding year of RM115.045 million. Profit before tax surged 55% to RM41.387 million against RM26.763 million for the preceding year primary due to higher contribution from Oil Palm Plantation segment. Contribution from Log Extraction segment was lower as operation ceased in June 2016.



## FINANCIAL PERFORMANCE

Turnover from Oil Palm Plantation segment was 37% higher due to improved palm product prices and higher fresh fruit bunches (FFB) production which increased 10% to 159,435 MT from 145,316 MT for the preceding year with improving palm maturity profile and more area coming into harvesting. Operating profit for this segment improved to RM39.393 million compared to RM23.238 million in the preceding year. Improved profitability can be primarily attributed to higher FFB crop and outstanding average oil extraction rate (OER) of 24.63% for the year. Arising from the above factors, unit cost per tonne had been reduced materially.

Management will focus on further labour productivity improvement through process improvement and in ensuring higher efficacy of fertilizer input and weeding. Despite the current high OER of above 24.50%, management will endeavor to further improve harvesting standard and FFB crop quality.

Performance of the timber segment was satisfactory with 131,721 $m^3$ of log extracted against 195,987 $m^3$ for 2015. This segment contributed operating profit of RM5.794 million compared to RM8.620 million in the preceding year. The reduced contribution from this segment is primarily due to the cessation of operation when the Log Extraction Contract expired on 4 June 2016.

## CORPORATE AND BUSINESS DEVELOPMENT

The proposals to sub-divide the Company's share capital to par value of RM0.50 per ordinary share (split shares) from RM1.00 per ordinary share and a subsequent two call rights issue on the basis of one new renounceable rights share for every four existing shares (after share split) proceeded accordingly as planned. The rights issued which raised a total of RM36.335 million was completed with the listing of the additional shares on Bursa Malaysia on 4 March 2016. The additional fund raised has strengthened the Group's financial position significantly with a consequent reduction in borrowings, gearing and improvement in working capital.

For the year 2016, management's focus was to continue with the effort to consolidate previous years' plantings involving supplying of vacant points and infilling at dry valleys to improve palm stand per hectare. A systematic removal of unproductive palms and runts has also been started and will be a continuing exercise for the next 2 – 3 years. These measures will enhance future productivity and efficiency. As at 31 December 2016, total matured area was 9,542 hectares and immature planting was 2,363 hectares. A further 1,160 hectares will be deemed to have reached maturity stage during 2017 bringing total mature hectarage to 10,702 hectares for 2017.

# CHAIRMAN'S STATEMENT

## SUSTAINABILITY OVERVIEW

The Group has over the years made every reasonable endeavour to ensure that our operations are carried out in an environmentally friendly manner and to ensure long term sustainability.

Our initiatives include:-

- Eco-logging using the Reduced Impact Logging System implemented in 2011.
- Continued strict observance of riparian reserve and non-development of land above 20 degree slope for bio-diversity.
- No hunting or culling of protected wild life species.
- Soil conservation measures to prevent soil erosion.
- Develop human capital through in-house staff training and external courses.
- Provide good housing and amenities for staff and workers.
- Integrated pest management adopted to reduce chemical usage.
- Undertaken a methane gas emission capture and utilization project to reduce methane gas emission from palm oil mill effluent.
- Yearly target of undertaking silvicultural treatment on 500 hectares of degraded forest.
- Enrichment planting as a method used for forest rehabilitation.

The Group is a registered member of the Roundtable on Sustainable Palm Oil (RSPO) and a team and consultants have been appointed to undertake the RSPO project which will lead to certification in 2017/2018.

## PROSPECT

Another 1,160 hectares of the Group's oil palm are deemed to be matured during 2017 bringing total mature area to 10,702 hectares. A further 610 hectares will come into scout harvesting during the year. Despite the possible lingering adverse impact of the 2015/16 El Nino weather pattern on FFB yield in the early part of 2017, your Board is confident that Oil Palm Plantation segment contribution will improve further in 2017 with higher FFB crop. The young age profile of the Group's plantation will ensure that FFB production will continue to grow by double digit percentage point for the next few years.

Crude palm oil (CPO) price has undergone some corrections from the highs reached in the early part of 2017. This is on expectation CPO production will recover from the 2015/16 El Nino impact from the second quarter onward. There is also ample supply of soy oil, a major competing vegetable oil for CPO, due to a favourable yield and high planted hectarage in USA in 2016. Nonetheless there is ground for some optimism average CPO price for 2017 will continue to be remunerative.

On the global front there is now greater uncertainty as political changes in Europe and in particular USA seem to favour a trend towards trade protection.

Another 1,160 hectares of the Group's oil palm are deemed to be matured during 2017 bringing total mature area to 10,702 hectares.

In the long term this will not auger well for global economy especially emerging market economy and commodity prices.

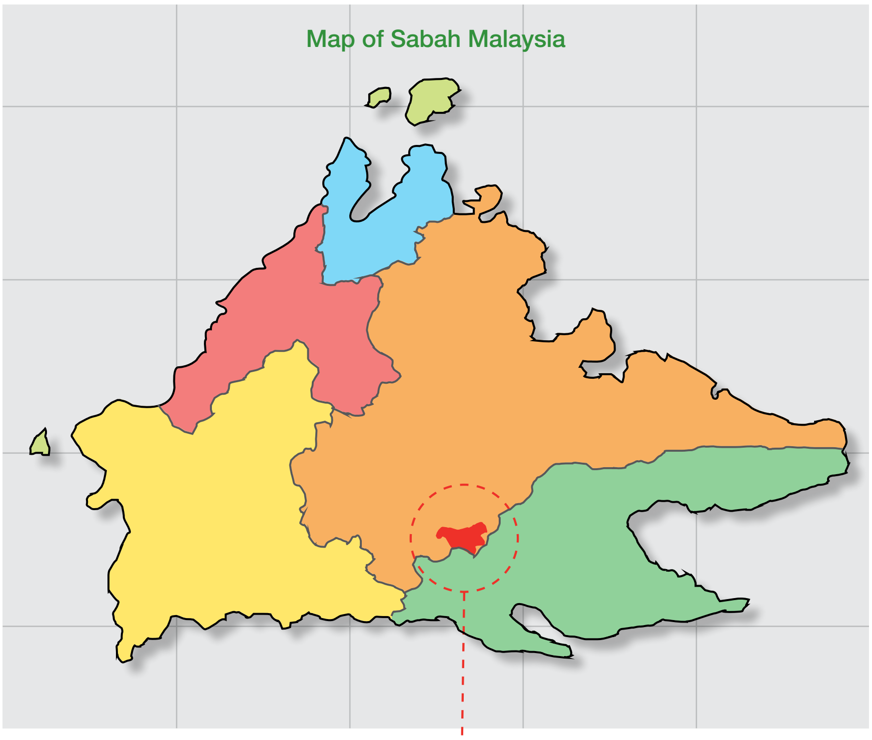
Your Board remains optimistic on the long term prospect of palm oil due to its high oil yield per hectare, cost competitiveness and the many healthy nutrients of palm oil.

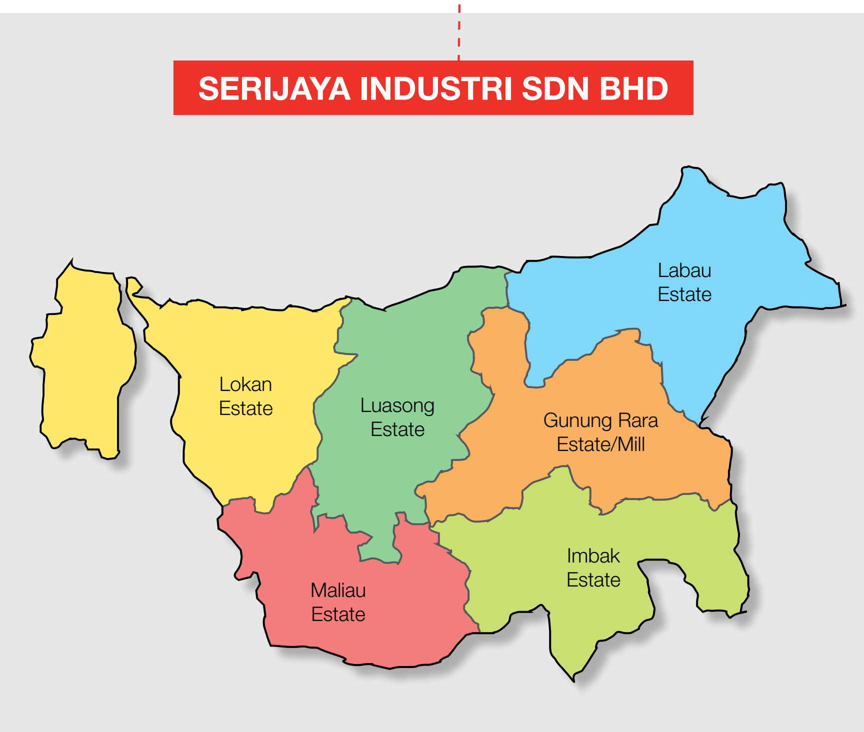
## APPRECIATION

On behalf of the Board of Directors, I would like to thank our shareholders, business associates, bankers and Government agencies for their continuing support and confidence in the Group.

I also wish to express my sincere appreciation to fellow directors, management and staff of the Group for their dedication, commitment and hard work for the past year.

# MANAGEMENT DISCUSSION & ANALYSIS




Map of IPB Estates and Mill

## BUSINESS OVERVIEW

The Group is principally involved in cultivation of oil palm, processing of FFB to produce crude palm oil (CPO) and palm kernel (PK), and contract timber logging. The Group is presently undertaking planting and development on 22,763 hectares of land of which approximately 13,000 hectares are suitable for oil palm planting. Plantation operation is organised under six (6) estates, namely Imbak, Gunung Rara, Labau, Maliau, Lokan and Luasong estates and one (1) palm oil mill with capacity of 60/90 MT FFB per hour. All are located in the locality of Gunung Rara/Kalabakan, Sabah.

The Group is working towards certification by the Roundtable for Sustainable Palm Oil (RSPO) and is committed to becoming an environmental and community friendly organization.

# MANAGEMENT DISCUSSION & ANALYSIS

## FINANCIAL RESULTS

Key Financial Performance

The purpose of this review is to provide an overview of key financial performance at Group Level.

| | | 2016 | 2015 |
|---|---|---|---|
| Revenue | RM'000 | 136,349 | 115,045 |
| Profit before interest & taxation | RM'000 | 45,187 | 31,858 |
| Pre-tax profit | RM'000 | 41,387 | 26,763 |
| Net profit after tax | RM'000 | 31,358 | 20,459 |
| Return on average equity (ROE) | % | 9.90 | 8.20 |
| Net cash generated from operating activities | RM'000 | 34,708 | 21,769 |
| Net gearing | % | 15 | 31 |
| Total Shareholder's fund | RM'000 | 316,802 | 249,460 |

Segmental contributions to operating profit.

| | 2016 RM'000 | 2015 RM'000 | Change% |
|---|---|---|---|
| Plantation | 39,393 | 23,238 | 70% |
| Contract Timber Logging | 5,794 | 8,620 | (33%) |
| Total Operating Profit | 45,187 | 31,858 | 42% |

- Plantation segment's contribution increased by 70% to RM39.393 million due to higher FFB production and higher CPO and PK prices.
- Contract Timber Logging segment's contribution reduced by 33% to RM5.794 million due to lower volume of timber logged as the logging contract expired on 4 June 2016 and was not renewed.
- Pre-tax profit increased 55% to RM41.387 million compared to the previous financial year due to reasons as explained above and also on account of lower interest expenses.
- Net profit attributable to shareholders increased to RM31.358 million with Earning per Share at 6.71 cent.
- ROE improved to 9.90% compared to 8.20% for the previous financial year.
- Consequent to the Rights Issue and cash flow generated from operations, the Group's net gearing has been reduced to 0.15 and Net Interest Covered improved to 12 times (2015: 6 times).
- The Group generated Operating Cash Flow of RM34.708 million against RM21.769 million in the preceding year.

Financial Assets and Financial Liabilities

For the financial year 2016, the Group spent RM9.915 million for the acquisition of vehicles and field/mill equipment as well as the construction of housing, staff and workers' quarters and stores for fertiliser and chemicals. The Group also spent RM8.635 million on oil palm plantation development.

The Group's shareholders' equity as at 31 December 2016 stood at RM316.802 million, an increase of RM67.342 million as compared to FY2015. The increase was mainly due to net profit for the year of RM31.358 million and proceeds from the issuance of right shares of RM36.335 million. The proceeds raised from the right shares have been utilised for the repayment of bank borrowings, plantation development expenditure, capital expenditure and working capital.

As at 31 December 2016, the Group's borrowings stood at RM53.837 million as compared to RM91.913 million for FY2015. The Group has fully repaid invoice financing and revolving credit facilities amounted to RM3.643 million and RM21.000 million respectively. The Group also repaid RM13.500 million term loan during the financial year.

# MANAGEMENT DISCUSSION & ANALYSIS

## BUSINESS REVIEW

Plantation Operations

Out of a total land bank of 22,763 hectares, it is estimated that 12,801 hectares are plantable. At the end of the financial year, total area planted is 11,905 hectares of which 9,542 hectares are matured. A further 1,160 hectares will come into maturity during 2017. We expect to complete our planting programme by 2017. The area statement is as shown below:

| | 2016 Ha | 2015 Ha |
|---|---|---|
| Matured | 9,542 | 8,080 |
| Immature | 2,363 | 3,570 |
| **Total Planted** | **11,905** | **11,650** |
| Plantable | 896 | 1,105 |
| Unplantable | 9,962 | 10,008 |
| **Total Area** | **22,763** | **22,763** |

As can be discerned from the area statement, the Group's plantations operate under rather challenging environment as most of the area is undulating to hilly. On the other hand, generally favourable rainfall pattern is a positive factor. Nonetheless management is confident that above average yield can be achieved with hands-on management and dedication to details. Yield achievable is further augmented through planting of TSH's Wakuba high yielding clonal palms. Critically, the Group is able to tap on the management expertise of TSH Resources Bhd on agronomic and agricultural husbandry practices.

Despite the adverse impact of the 2015/16 El Nino phenomenon, the Group is able to produce 159,435 MT of FFB in 2016 which represents an increase of 10% against FY2015. The increase is principally due to higher hectarage under harvesting and improving age profile of the plantings. However yield per mature hectare fell to 16.71 MT per hectare in 2016 from 17.98 MT per hectare in 2015 due to the adverse effect of the 2015/16 El Nino weather condition.

The Group's oil palm ages are between 1 to 10 years with about 20% being immature palms. About 65% are young mature palms (4-7 years) with an increasing yield trend in coming years and 15% of the total palms are of prime mature (8-10 years). As such there will be no necessity for replanting for the next 15 years.

| | Imbak Ha | Labau Ha | Maliau Ha | Lokan Ha | Luasong Ha | Gunung Rara Ha | Total Ha |
|---|---|---|---|---|---|---|---|
| Immature | 141 | 92 | 208 | 924 | 837 | 161 | 2,363 |
| Young Mature | 510 | 1,721 | 1,748 | 1,168 | 1,342 | 1,302 | 7,791 |
| Prime Mature | 1,150 | 432 | 169 | - | - | - | 1,751 |
| **Total** | **1,801** | **2,245** | **2,125** | **2,092** | **2,179** | **1,463** | **11,905** |

The Group recognises the importance of quality planting materials as the primary building block for long term competitiveness and sustainability. Towards this end more new area will be planted with TSH Wakuba clonal oil palm materials which have proven to produce high oil yield per hectare and at the same time stringent culling, best nursery upkeep practices and field planting standard will be observed.

While many factors, including weather conditions influence yield, management has to focus on controllable factors, be hands on and pay attention to details in order to achieve high productivity and cost efficiency. Quality Management Team has been established at each estate to ensure all aspects of operation comply with Standard Operating Procedures.

The Group is firmly committed to sustainability and has been a member of Roundtable on Sustainable Oil Palm (RSPO) since 2014. Certification process is in progress and the Group targets to have the mill and one (1) estate certified in 2017.

# MANAGEMENT DISCUSSION & ANALYSIS

## BUSINESS REVIEW (CONT'D)

Milling Operations

The Group operates a 60/90 MT FFB per hour palm oil mill which commenced commercial operation on 17 December 2014. In FY2016, total FFB processed was 158,909 MT which is 13,593 MT higher than the preceding financial year. The mill recorded total production of 39,135 MT (2015: 35,656 MT) of CPO and 5,411 MT (2015: 4,990 MT) of PK. The Group achieved outstanding OER of 24.63% for CPO (2015: 24.54%). The sustaining favourable OER is driven by The Group's commitment to KPI oriented process and procedures in oil palm cultivation, harvesting and milling operations.

Mill processing statistics are as shown below:-

| | 2016 | 2015 | Change% |
|---|---|---|---|
| FFB Processed (MT) | 158,909 | 145,316 | 9.35% |
| Mill Production (MT) | | | |
| • CPO | 39,135 | 35,656 | 9.76% |
| • PK | 5,411 | 4,990 | 8.44% |
| Oil Extraction Rate (%) | | | |
| • CPO | 24.63 | 24.54 | - |
| • PK | 3.41 | 3.43 | - |
| Average Selling Price (RM/MT): | | | |
| • CPO | 2,580 | 2,122 | 21.58% |
| • PK | 2,482 | 1,563 | 58.80% |
| Sales Volume (MT) | | | |
| • CPO | 39,246 | 36,300 | 8.12% |
| • PK | 5,464 | 5,003 | 9.21% |

Timber Logging Operation

The Group has an Eco-logging extraction contract with Rakyat Berjaya Sdn. Bhd., which expired on the 4 June 2016 and was not renewed. Profits generated from the operation over a decade from 2006 had contributed to partial funding of the Group's development and planting of oil palm.

# MANAGEMENT DISCUSSION & ANALYSIS

## BUSINESS REVIEW (CONT'D)

Timber Logging Operation (Cont'd)

Timber segment contributed RM5.794 million profit to the Group's revenue for FY2016 as compared with RM8.620 million for FY2015. The decrease was mainly due to lower logs extraction volume as the logging contract expired on 4 June 2016. For FY2016, the volume of timber logged was 131,721 $m^3$ compared to 195,987 $m^3$ for the preceding year. The profit contribution from the logging operation to Group's profit for the past 2 years is summarised below:

| | FY2016 | FY2015 |
|---|---|---|
| Profit from Eco-Logging Operation (RM'000) | 5,794 | 8,620 |
| Group's Profit Before Taxation (RM'000) | 41,387 | 26,763 |
| Profit Contribution to The Group's Profit Before Taxation (%) | 14.00 | 32.20 |

## OUTLOOK AND PROSPECT

For the forth coming year, we expect that the El Nino which abated by first quarter of 2016 in Sabah will continue to have a lingering impact on FFB production due to the sex differentiation phase impact 18-24 months later. Nonetheless production should recover from the 2016 level. In the case of the Group, production should also be boosted by the better age profile as more area comes into higher yielding age and with additional area coming into maturity and harvesting.

On the global front, there will be more economic uncertainties brought about by political changes in Europe and USA with the latter posing a risk of trade war which could dampen world trade and economic growth. CPO price for 2017 will be governed by the extent of FFB yield recovery, supply of oilseed crop from USA/South America and demand from India and People's Republic of China. Nonetheless CPO price is expected to be reasonably remunerative for 2017 although prices have corrected from the high of RM3,200 pmt reached in January 2017.

For the longer term the Group is optimistic about the prospects of palm oil industry due to population growth propelling increased demand, higher per capital income and the many health qualities of palm oil.

To enhance long term sustainability management will continue its relentless drive for productivity and efficiency improvement to reduce unit cost of production.

## DIVIDEND

The Board has recommended a First and Final Dividend of 2 sen per share for the year ended 2016 subject to shareholder's approval at the Annual General Meeting to be held on 23 May 2017.

With the majority of the Group's plantation already mature and on an ascending yield curve phase and as much of the supporting infrastructural facilities, offices, stores, staff and labour quarters and workers' amenities having been completed, future capital expenditure will be substantially reduced.

In the light of the above, your Board will in 2017 be formulating a dividend policy to distribute a substantial level of surplus cash to shareholders by way of dividends.

This statement is made in accordance with a resolution of the Board of Directors passed on 17 April 2017.

# STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of Innoprise Plantations Berhad ("IPB") ("Board") recognizes that exercise of good corporate governance in conducting the business and affairs of the Company with integrity, transparency and professionalism are key components for the Company's continued progress and success. These will not only safeguard and enhance shareholders' investment and value but will at the same time ensure that the interests of other stakeholders are protected.

The Board is therefore committed to high standards of corporate governance and business practices. Accordingly, the Board has adopted IPB Corporate Governance Guidelines to assist the Board in the exercise of its responsibilities. These guidelines, along with the terms of reference of the Board and Board Committees provide the framework for corporate governance at IPB.

This Corporate Governance Statement provides information about IPB's corporate governance practices for 2016, including the manner in which the Company has applied the Principles and the extent of compliance with the Recommendations as set out in the Malaysian Code of Corporate Governance 2012 ("Code").

## 1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

### 1.1 Clear Functions of the Board and Management

There is a clear distinction between the roles and responsibilities of the Board, Chairman and Managing Director which are set out in the IPB Corporate Governance Guidelines.

The Board retains full and effective control of the Company. Matters specifically referred to the Board for approval include, inter-alia reviewing and approving corporate proposals, plans and annual budgets, acquisitions and disposals of undertakings and properties of a substantial value, major investments and financial decisions and changes to the management and control structure within the Group, including key policies and procedures and delegated authority limits.

The Board delegates some of its function to the Committees of the Board which operate within clearly defined terms of reference with a view to assist in the fulfillment of its responsibilities. Chairman of the various Committees report to the Board with a recommendation on all matters considered at its meeting. In addition, minutes of each Board Committee meeting iscirculated to all Board members in order to keep the Board abreast of the actions and decisions taken by each Board Committee.

The responsibilities delegated by the Board to the senior management through the Managing Director include:

- Managing day-to-day operations in accordance with the standards for social and ethical practices which have been set out in the Staff Handbook.
- Managing the financial affairs of the Company in accordance with the delegations of authority and budgets approved by the Board.
- Developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives.

Each member of the senior management team is subject to an annual performance review which is conducted by the Managing Director. The Managing Director is accountable to the Board for the achievement of the Group's corporate objectives which include performance against targets and long-term goals of the business, organizational effectiveness as well as implementation of Board policies and decisions.

The balance of responsibilities between the Board and Managing Director will be reviewed on a regular basis so as to ensure that the division of functions remains appropriate to the needs of the Company.

# STATEMENT ON CORPORATE GOVERNANCE

## 1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

### 1.1 Clear Functions of the Board and Management (cont'd)

During 2016, the Board reviewed, amongst others, the Group's operation in particular comparison of actual results with budget and comparison of current quarter performance with preceding corresponding quarter and preceding quarter as well as comparison of current year to date with preceding year to date. Where deemed necessary, explanations for variances were sought from management. Proposals submitted by management were extensively reviewed and debated; in particular the Board had deliberated at length the followings:

(i) Arbitration case against Asiatic Lumber Industries Sdn. Bhd.

(ii) Progress of RSPO certification.

(iii) Risk profile and risk management.

(iv) Planting and estate operation activities focusing on Key Result Area.

(v) Annual Budget and Comparison Analysis with actual.

(vi) Recurrent Related Party transactions.

### 1.2 Clear Roles and Responsibilities

The Board takes full responsibility for the overall performance of the Company and the Group. The main responsibilities of the Board comprise the following:-

**(a) Reviewing and adopting the Group's strategic plan**

The Board plays an active role in the development of the Group's strategic plan with a view to maximizing shareholder value and promoting sustainability. This includes review, comment and provide final approval of the Group's strategic plan prepared by management. In conjunction with this, the Board also reviews and approves the annual budget for the ensuing year and monitors management's implementation of and performance with respect to that agreed strategic plan.

**(b) Overseeing the conduct of the Group's business**

The Board carries out periodic review of the achievements by the various operating divisions against their respective business targets. The General Manager for plantations presents to the Board a comprehensive operational report to the Board on quarterly basis, while the Finance Manager presents financial data and analysis.

**(c) Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures**

The Board maintains a sound system of internal control to safeguard shareholders' investment and the Company's assets. The Board through the Risk Management Committee and Audit Committee reviews the effectiveness of the Enterprise Risk Management system within the Group and assures that material risks are identified and appropriate risk management processes are in place, including the formulation and subsequent updating of appropriate Group policies.

Risk Management Committee ensures that policy to identify and evaluate the Company's and Group's risks is implemented and that controls in place are adequate and functioning properly to address the risks. In that relation, the Chairman of Risk Management Committee is required to brief the Audit Committee with information on the risk and control environment.

Details of the Group's Enterprise Risk Management system are set out in the Statement on Risk Management and Internal Control of this Annual Report.

# STATEMENT ON CORPORATE GOVERNANCE

## 1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

### 1.2 Clear Roles and Responsibilities (cont'd)

**(d) Succession planning**

The Board has entrusted the Nomination Committee with the responsibility for reviewing the Board's succession plans, proposing new nominees to the Board and recommending Directors to fill the seats on the Board Committees.

The Board continues with its role to review and monitor the appointment and dismissal of senior management of the Company while the Group Managing Director is responsible for the senior management succession plan. The senior management succession plan involves building a talent-rich organization by attracting and developing talented and skilled people who fit in the Company's culture and business strategy as well as identifying successors for senior management positions. All newly appointed senior management are required to undergo a management training programme called "One Approach" before reporting to their assigned positions with the purpose of providing them the right framework in executing their work.

**(e) Overseeing the development and implementation of a shareholder communications policy**

IPB values the dialogue with shareholders and appreciates the keen interest of shareholders on the Group's performance. In this regard, Lim Fook Hin has been appointed as the person responsible for communication with shareholders and other stakeholders of the Company.

The Company has a Corporate Disclosure Policy and Procedures that outlines the policies and processes for communications with shareholders, analysts and investors to ensure that the communications are effective and comply with the applicable laws, rules and regulations.

**(f) Reviewing the adequacy and the integrity of the management information and internal controls system**

The Board is responsible for the adequacy and integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. Details pertaining to the Company's internal control system and the review of its effectiveness are set out in the Statement on Risk Management and Internal Control of this Annual Report.

### 1.3 Formalise Ethical Standards through a Code of Conduct

**(a) Code of Conduct and Ethics**

The Company has adopted a code of conduct and ethics which applies to Directors, officers and employees of the Group and is available on the Company's website.

The Board continues to adhere to the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia ("Code of Ethics").

# STATEMENT ON CORPORATE GOVERNANCE

## 1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

### 1.3 Formalise Ethical Standards through a Code of Conduct (cont'd)

#### (a) Code of Conduct and Ethics (Cont'd)

The Board is ultimately responsible for the implementation of this Code of Ethics. The Board has delegated to the Nomination Committee the responsibility to administer this Code of Ethics. Directors who learn of or suspect that a violation of the Code of Ethics has occurred or is likely to occur must immediately report the violation to the Chairman of the Nomination Committee, or to any other member of the Nomination Committee. In the case of issues regarding the Company's financial statements, financial reporting, accounting, auditing matters or internal accounting controls the report will be to the Chairman of the Audit Committee. If a Director is unsure whether a violation should be reported to the Nomination or the Audit Committee, he or she is encouraged to report to both Committees. Directors who report violations or suspected violations in good faith will not be subject to retaliation of any kind. Reported violations will be treated confidentially to the extent possible.

Alleged violations of the Code of Ethics shall be investigated by the Nomination Committee and may result in discipline and other action at the discretion of the Board upon recommendation of the Nomination Committee, including, where appropriate, removal from the Board. The Board is ultimately responsible for the investigation and resolution of all issues that may arise under this Code of Ethics.

#### (b) Whistle-Blowing Policy

As part of best practices in good corporate governance, a Whistle-Blowing Policy has been established by the Board that outlines the principles underpinning the policy and grievance procedures. This policy provides an avenue for employees to report genuine concerns about malpractices, unethical behavior or misconduct within the Group without fear of reprisal. Identity of the employee will not be disclosed without prior consent. Any concerns raised will be investigated and outcome of such investigation will be reported to the Board and appropriate action will be taken to resolve the issue.

Details of whistle-blowing channel are available on the Company's website at www.innoprise.com.my.

### 1.4 Strategies Promoting Sustainability

The Board places great importance on corporate responsibility and business sustainability. The Company's activities on environment, social and governance for the year under review are disclosed in the ensuing pages of this Annual Report.

### 1.5 Supply and Access to Information and Advice

The Directors have access to all information within the Company, whether as a full board or in their individual capacity, to the extent that the information required is pertinent to the discharge of their duties as Directors.

All Directors are provided with an agenda and a set of Board papers containing information relevant to the business of the meeting, including information on financial, operational and corporate matters prior to Board meetings. The Board papers are issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be properly briefed before the meetings. Time is allocated for Directors to raise other matters not covered by the formal agenda.

The Board has also put into place a procedure for Directors, whether as a full Board or in their individual capacity, to take independent professional advice at the Company's expense, if necessary. Details of procedures are disclosed in the IPB Corporate Governance Guidelines.

Management will make all information readily available to the professional advisers and must make themselves available to such advisers in order to facilitate the effective solution of the Director's concerns. The findings of the advisers will need to be put before the Board for determination of any action that may be required by the Company.

# STATEMENT ON CORPORATE GOVERNANCE

## 1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

### 1.6 Company Secretaries

The Board is supported by two (2) qualified Company Secretaries, of which one (1) is a member of professional body and one (1) is licensed by the Registrar, who both undertake the role jointly.

All Directors have direct access to the Company Secretaries and the appointment and removal of Company Secretaries will be subject to Board approval.

The Company Secretaries are responsible for amongst others, the co-ordination of all Board and Board Committee meetings including agendas, board papers, minutes and communication with the stock exchange and other regulatory agencies as well as statutory filings.

The Company Secretaries also play significant role in the following:

- assisting professional development of Directors;
- regularly updating the Board on new changes to the statutory and regulatory requirements and the resultant implications to the Company and the Board in discharging their duties and responsibilities;
- notifying Directors and principal officers on the closed periods for dealing in the Company's securities; and
- advising and supporting the Chairman and the Board and its Board Committees to manage the day to day governance framework of the Company.

### 1.7 Board Charter

The Board has adopted a Board Charter which serves as a source of reference and primary induction literature, providing insights to prospective Board members and senior management. The Board Charter will be periodically reviewed and updated in accordance with the needs of the Company and any new regulations that may have an impact on the discharge of the Board's responsibilities.

Details of the Board Charter are available for reference on IPB's website.

## 2. STRENGTHEN COMPOSITION

During the financial year, the Board comprised seven (7) members and one (1) alternate director of which two (2) is Independent Non-Executive Directors, three (3) Non-Independent Directors, one (1) Executive Director, one (1) Managing Director. The Chairman is an Independent Non-Executive Director. Currently one of the Non-Independent Non-Executive Director is a lady who also serves on the Audit Committee. The Board's composition represents a mix of knowledge, skills and expertise relevant to the diversified activities of the Group.

### 2.1 Nomination Committee

The Board has established a Nomination Committee which currently comprises entirely Independent Non-Executive Directors as follows:

- Datuk Hj. Majin Hj. Ajing
- Datuk Jaswant Singh Kler

The Chair of the Committee is held by the Non-Executive Chairman.

# STATEMENT ON CORPORATE GOVERNANCE

## 2. STRENGTHEN COMPOSITION (CONT'D)

### 2.1 Nomination Committee (cont'd)

The Nomination Committee is responsible for reviewing the Board's succession plans, training for Directors and assessing the effectiveness of the Board and Board Committees. Details of its terms of reference are available on IPB's website.

### 2.2 Develop, Maintain and Review Criteria for Recruitment and Annual Assessment of Directors

**(a) Appointment of Directors**

The Nomination Committee is responsible for proposing and assessing new nominee(s) to the Board and Board Committee membership and thereupon submitting their recommendation to the Board for decision. Decision is made by the Board based on an annual review conducted by the Nomination Committee on the Board's required mix of skills and experiences, taking into account the current and future needs of the Company. This review should be matched against the current composition of Directors to identify any gaps.

In making its recommendations, the Nomination Committee will not be guided solely by gender and ethnicity but rather the candidates' skills, knowledge, expertise and experience, professionalism, integrity and in the case of candidates for the position of Independent Non-Executive Directors, the Nomination Committee will also evaluate the candidates' ability to discharge such responsibilities/functions as expected from Independent Directors.

As part of the appointment process, the potential candidate must disclose his existing directorships as well as any other commitments so as to determine whether he has adequate time to perform his duties. The Company Secretaries shall ensure that all appointments are properly made and all necessary information is obtained, both for the Company's own records and for the purposes of meeting statutory obligations, as well as obligations arising from the regulatory requirements.

As far as boardroom diversity is concerned, the Board does not have a specific policy on setting targets for women candidates and ethnicity as the Board believes that it is of utmost importance that the Company has an effective composition of the Board to discharge their duties effectively in the best interest of the Company and shareholders. Nevertheless, the Nomination Committee will evaluate and match the criteria of future potential nominees to the Board as well as considering the boardroom diversity.

The Board also believes in having a healthy mix of age and experience and therefore does not prescribe a minimum or maximum age limit for its Board members.

**(b) Annual Assessment**

The performance of those Directors who are subject to re-appointment and re-election at the next Annual General Meeting ("AGM") are assessed by the Nomination Committee whereupon recommendations are submitted to the Board for decision on the tabling of the proposed re-appointment and re-election of the Directors concerned for shareholders' approval. In accordance with the Company's Constitution, all Directors shall retire from office once at least in each three (3) years, but shall be eligible for re-election.

At the 22nd Annual General Meeting of the Company held on 24 May 2016, Datuk Jaswant Singh Kler who is above the age of 70, was re-appointed pursuant to Section 129(6) of the Companies Act, 1965 to hold office until the conclusion of the 23rd Annual General Meeting, where he will be subject to re-appointment by the members.

The Directors who are due for retirement and re-election pursuant to Article 90 of the Company's Constitution are Datuk Hj. Majin Hj. Ajing and Datuk Sam Mannan @ Sham Mannan.

# STATEMENT ON CORPORATE GOVERNANCE

## 2. STRENGTHEN COMPOSITION (CONT'D)

### 2.2 Develop, Maintain and Review Criteria for Recruitment and Annual Assessment of Directors (cont'd)

**(b) Annual Assessment (cont'd)**

The Board has adopted a formal process to be carried out by the Nomination Committee for reviewing its own effectiveness and that of its individual Directors and Board Committees and assessing the independence of its Independent Directors.The process will also take into account the fulfillment of the respective terms of reference of the Board and Board Committees.

Each member of the Nomination Committee receives the Board performance evaluation questionnaires and separate Committee performance evaluation forms. The assessment of the Nomination Committee's performance shall be carried out by individual members of the Nomination Committee. All Board members are required to assess their own performance by completing the Director's performance evaluation form. The Company Secretaries shall compile the results for submission to the Nomination Committee for review and assessment. The Chairman of the Nomination Committee shall then report the findings and/or recommendations to the Board. All assessments and evaluations carried out by the Nomination Committee in the discharge of all its functions are properly documented and kept confidential.

During the year, the Nomination Committee reviewed the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board and was of the view that all Non-Executive Directors have extensive experience in managing substantial business entities covering the core business of the Group as well as knowledge and experience in finance and investment decision analysis with independent judgement. The Nomination Committee also evaluated the effectiveness of the Board as a whole, the various Committees and assessing the contribution of each individual Director. Good and effective communications were established among Board members and Board Committee members on official and unofficial basis and major policies and corporate proposals are vigorously debated and scrutinised before putting to a vote. All members of the Board and the Committees have been diligent and exercised due reasonable care in discharging their duties and responsibilities. All Directors are firmly committed to ensure that the corporate governance standards are adhered to. An assessment of independence of the Independent Directors was conducted whereby the Nomination Committee reviewed and was satisfied that the Independent Directors continued to exercise independent and objective judgement and acted in the interest of the Company and its stakeholders.

In February 2017, the Nomination Committee reviewed and made recommendations to the Board for the retention of Datuk Hj. Majin Hj. Ajing and Datuk Jaswant Singh Kler as Independent Non-Executive Directors and re-election and re-appointment of those retiring Directors at the forthcoming AGM for shareholders' approval.

### 2.3 Remuneration Committee

The Board has established a Remuneration Committee on 26 June 2001 and currently comprises two (2) Independent Non-Executive Directors and one (1) Executive Director as follows:

- Datuk Hj. Majin Hj. Ajing
- Datuk Jaswant Singh Kler
- Datuk (Dr.) Kelvin Tan Aik Pen

The Remuneration Committee's primary responsibility is to recommend to the Board the remuneration of the Executive Directors and senior management staff at director level in all its forms, drawing from outside advice as necessary.

# STATEMENT ON CORPORATE GOVERNANCE

## 2. STRENGTHEN COMPOSITION (CONT'D)

### 2.3 Remuneration Committee (cont'd)

The Remuneration Committee assists the Board in developing a policy on remuneration of Directors to attract and retain Directors and ensure that rewards and remuneration packages are commensurate with each of their expected responsibilities and contribution to growth and profitability of the Company.

The remuneration of the Executive Directors is structured on the basis of linking rewards to corporate and individual performance. The Executive Directors play no part in deciding their own remuneration and the Directors concerned shall abstain from all discussion pertaining to their remuneration.

The level of remuneration for Non-Executive Directors reflects the experience and level of responsibilities. The Board as a whole determines the remuneration package of Non-Executive Directors. The annual Directors' fees payable to certain Non-Executive Directors are subject to shareholders' approval at the AGM based on the recommendation of the Board. Additional allowances are paid to certain Non-Executive Directors in accordance with the number of meetings attended during the financial year.

Details of the remuneration of the Directors of the Group and of the Company for the financial year under review are as follows:-

**(a) Aggregate remuneration of the Directors categorised into appropriate components:-**

| | Total per annum for the financial year ended 31 December 2016 | | | |
|---|---|---|---|---|
| | Company | | Group | |
| Remuneration Packages | Executive Directors RM'000 | Non-Executive Directors RM'000 | Executive Directors RM'000 | Non-Executive RM'000 |
| Directors' Fees | - | 120 | - | 264 |
| Salaries & other emoluments | - | - | 837 | - |
| Bonuses | - | - | 240 | - |
| Allowance | 2 | 7 | 1 | 7 |
| Benefits-in-kind | - | - | - | - |
| Share option granted under ESOS | - | 25 | - | 43 |
| **TOTAL** | **2** | **152** | **1,077** | **314** |

**(b) The number of Directors whose total remuneration fall within the following bands:-**

| | Number of Directors | |
|---|---|---|
| | Company | |
| Range of Remuneration | Executive Directors | Non-Executive Directors |
| RM50,000 and below | - | 4 |
| RM100,001 – RM150,000 | - | 1 |
| RM300,001 – RM350,000 | - | - |
| RM500,001 – RM550,000 | 2 | - |

# STATEMENT ON CORPORATE GOVERNANCE

## 3. REINFORCE INDEPENDENCE

### 3.1 Annual Assessment of Independent Directors

In line with the Code, the Board has incorporated additional responsibility into the Nomination Committee's terms of reference, namely to undertake annual assessment of independence of the Independent Directors.

All Independent Directors are required to assess their level of independence annually by completing the form of annual assessment of independence of independent directors for submission to the Nomination Committee for review and assessment. The Chairman of the Nomination Committee shall then report the findings and/or recommendations to the Board.

For the financial year ended 31 December 2016, each of the Independent Non-Executive Directors had provided an annual confirmation of his independence to the Board based on its policy on criteria of assessing independence in line with the definition of "independence directors" prescribed by the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("MMLR"). The Nomination Committee and the Board had assessed the Independent Non-Executive Directors of the Company, namely Datuk Hj. Majin Hj. Ajing and Datuk Jaswant Singh Kler were satisfied with the level of independence demonstrated by all the Independent Directors and their ability to act in the best interest of the Company.

### 3.2 Tenure of Independent Director

Considering the recommendation of the Code on the tenure of an independent director should not exceed a cumulative term of nine (9) years, the Board holds the view that the ability of an independent director to exercise independent judgement is not affected by the length of his service as an independent director. The suitability and ability of independent director to carry out his roles and responsibilities effectively are very much a function of his caliber, experience and personal qualities. Restriction on tenure may cause loss of experience and expertise that are important contributors to the efficient working of the Board.

The Board is fully satisfied that Datuk Hj. Majin Hj. Ajing and Datuk Jaswant Singh Kler, who have served as Independent Non-Executive Directors for more than nine (9) years, are both still independent and continues to bring valuable business expertise, knowledge and professionalism to the Board for its efficient and effective functioning. Both have actively participated in Board deliberations and provided objectivity in decision making. The Board is of the opinion that both Datuk Hj. Majin Hj. Ajing and Datuk Jaswant Singh Kler continue to bring independent views of the Company's affairs to the Board notwithstanding their length of service. The Board believes that the in-depth knowledge of the Group's businesses and the extensive experience and expertise of both Independepent Non-Executive Directors will continue to provide invaluable contribution to the Board.

### 3.3 Shareholders' Approval for Re-Appointment as Independent Non-Executive Director after a tenure of nine (9) years

At the preceding AGM held on 24 May 2016, the shareholders had approved the retention of Datuk Hj. Majin Hj. Ajing as an Independent Non-Executive Director.

The Company intends to seek shareholders' approval at the forthcoming AGM to retain both Datuk Hj. Majin Hj. Ajing and Datuk Jaswant Singh Kler as Independent Non-Executive Directors for the ensuing year.

### 3.4 Separation of Positions of the Chairman and Managing Director

The positions of Chairman, who is an Independent Non-Executive Director and Managing Director are individually held by two (2) persons to ensure a balance of power and authority.

# STATEMENT ON CORPORATE GOVERNANCE

## 3. REINFORCE INDEPENDENCE (CONT'D)

### 3.4 Separation of Positions of the Chairman and Managing Director (cont'd)

The role of Chairman include, amongst others, overseeing the orderly conduct and effectiveness of the Board by ensuring a cohesive working relationship between members of the Board. He is also responsible to ensure that quality information to facilitate decision-making is delivered to Board members on a timely basis and encourage all Directors to play an active role in Board activities.

The Managing Director manages the business and operations of the Group and implements the Board's policies and decisions.

### 3.5 Board must comprise a majority of Independent Directors where the Chairman is not an Independent Director

The Chairman of the Company is an Independent Non-Executive Director and the Company meets the Code recommendation, the Board formed the view that it is able to exercise objective judgment on business and corporate affairs, independent from management because of active participation and engagement of the Independent Directors during the Board and Board Committee meetings.

## 4. FOSTER COMMITMENT

### 4.1 Time Commitment

In line with the Code, the Board has adopted a policy whereby all its Board members are required to notify the Chairman of the Board before accepting any new directorship and to indicate the time expected to be spent on the new appointment.

A schedule of Board and Board Committee meetings set for a whole financial year is prepared in advance and tabled to the Board for approval before the commencement of a new financial year to enable the Directors to plan ahead and allocate time in their respective schedules.

The Board meets regularly at least four (4) times a year with due notice of issues to be discussed and records its deliberations and conclusions in discharging its duties and responsibilities. Additional meetings will be convened as and when required. In the intervals between Board meetings, for exceptional matters requiring urgent Board decision, Board approvals are sought via circular resolutions, which are supported with sufficient information required to make an informed decision.

During the financial year, the Board met four (4) times, whereat it deliberated and considered various matters including the Group's financial results, major investment and strategic decisions, business plan and direction of the Group. Details of attendance of each Board member are as follows:

| Name | 23/02/16 | 24/05/16 | 23/08/16 | 22/11/16 | Total |
|---|---|---|---|---|---|
| Datuk Hj. Majin Hj. Ajing | √ | √ | √ | √ | 4/4 |
| Datuk (Dr.) Kelvin Tan Aik Pen | √ | √ | √ | √ | 4/4 |
| Datuk Sam Mannan @ Sham Mannan | √ | √ | X | √ | 3/4 |
| Datuk Jaswant Singh Kler | √ | √ | √ | √ | 4/4 |
| Datuk Hj. Othman Bin Walat | √ | X | √ | √ | 3/4 |
| Puan Ainahwati Binti Abd Sani | X | √ | X | √ | 2/4 |
| Lim Fook Hin | √ | √ | √ | √ | 4/4 |

All directors attended the requisite number of Board Meetings as stipulated in Bursa's continuing listing requirement.

# STATEMENT ON CORPORATE GOVERNANCE

## 4. FOSTER COMMITMENT (CONT'D)

### 4.2 Directors' Training

All Directors receive full and appropriate briefing on first appointment, with subsequent updating as necessary. They were also provided with a Directors' manual containing amongst others, the background information on IPB Group, IPB Corporate Governance Guidelines and other relevant policies for their reference.

The Board, through the Nomination Committee had undertaken an assessment of the training needs of each Director for the financial year under review and concluded that all Board members have vast experience and extensive knowledge in managing the core business of the Group. Nonetheless, the Directors are encouraged to attend various training programmes to ensure they keep abreast on various issues facing the changing business environment within which the Group operates to effectively discharge their duties as Directors.

Details of training attended by the Directors during the year, collectively or individually are as follows:

| Title of training | Type of training | No. of days spent |
|---|---|---|
| • Heart of Borneo International Conference | Conference | 2 days |
| • Plantation Sustainability Reporting Workshop | Workshop | 1 day |
| • Audit Committee Seminar for Public and Private Sector 2016 – Improving Audit Effectiveness | Seminar | 2 days |
| • Seminar dan Pameran Pemindahan Teknologi MPOB 2016 | Seminar | 1 day |
| • IGEM 2016 (International Greentech & Eco Products Exhibition & Conference Malaysia) | Conference | 3 days |
| • Palm & Lauric Oils, Price Outlook Conference & Exhibition (POC 2016) | Conference | 3 days |
| • PORAM Annual Forum 2016 | Forum | 1 day |
| • Improving Board Risk Oversight Effectiveness | Seminar | 1 day |
| • Sabah International Business Luncheon Talk 2016 | Talk | 1 day |
| • Independent Directors Programme – The Essence of Independence | Seminar | 1 day |
| • 12$^{th}$ Natsem 2016 – Factors Impacting the Competitiveness of the Palm Oil Industry | Conference | 3 days |
| • EMPA Seminar 2016 – Sustainability Plantations Profitability Through Productivity | Seminar | 1 day |
| • UOB Global Markets Corporate Seminar 2016 | Seminar | 1 day |
| • Tax Briefing on 2017 Malaysian Budget Updates | Seminar | 1 day |

# STATEMENT ON CORPORATE GOVERNANCE

## 5. UPHOLD INTEGRITY IN FINANCIAL REPORTING

### 5.1 Compliance with Applicable Financial Reporting Standards

The Company's financial statements are prepared in accordance with the provisions of the Companies Act, 1965 and applicable financial reporting standards in Malaysia. The Board is responsible to ensure that the financial statements give a true and fair view and balanced and understandable assessment of the state of affairs of the Company and of the Group. The Statement of Directors' Responsibilities in respect of the preparation of the annual audited financial statements is set out in the ensuing pages of this Annual Report.

The Audit Committee assists the Board to review the adequacy and integrity of the Group's financial administration and reporting, internal control and risk management systems.

The Audit Committee currently comprises three (3) members, all of whom are Independent Non-Executive Directors. The terms of reference of the Audit Committee is made available on the Company's website at www.innoprise.com.my and its report is set out in the ensuing pages of this Annual Report. The Audit Committee is authorised by the Board to investigate any matter within its terms of reference and to have the resources in order to perform its duties and responsibilities as set out in its terms of reference.

During the year under review, the Audit Committee reviewed the Company's quarterly results and annual financial statements prior to recommending them for the Board's approval and release to public through Bursa LINK.

Lim Fook Hin, the Executive Director who is also the CFO formally presented the Company's quarter-to-quarter and year-to-date financial performance against budget as well as performance of each business segment. He also provided assurance to the Audit Committee that adequate processes and controls were in place for an effective and efficient financial statement close process, that appropriate accounting policies had been adopted and applied consistently and that the relevant financial statements gave a true and fair view of the state of affairs of the Group.

In addition, the Internal Auditors also undertook independent assessment of the system of internal control and assured the Audit Committee that no material issue or major deficiency had been noted which posed a high risk to the overall system of internal control under review.

### 5.2 Assessment of Suitability and Independence of External Auditors

The Board through the Audit Committee maintains a formal and transparent relationship with the Company's external auditors. The external auditors are invited to attend the Audit Committee meetings and AGMs and are available to answer shareholders' questions on the conduct of the statutory audit and the preparation and content of their audit report.

The Audit Committee is responsible to review the performance of the external auditors on an annual basis based on the following four (4) key areas after completion of the year-end audit:

(i) quality of service;

(ii) sufficiency of resources;

(iii) communication with management; and

(iv) independence, objectivity and professionalism

The Audit Committee may request the Managing Director and/or CFO to join the assessment.

# STATEMENT ON CORPORATE GOVERNANCE

## 5. UPHOLD INTEGRITY IN FINANCIAL REPORTING (CONT'D)

### 5.2 Assessment of Suitability and Independence of External Auditors (cont'd)

The Audit Committee is also responsible to review all the non-audit services provided by the external auditors and the aggregate amount of fees paid to them based on the policy and procedures on provision of non-audit services established by the Board. This policy is regularly reviewed and states that the Company will only use the appointed external auditors for non-audit services in cases where these services do not conflict with the auditor's independence.

The Audit Committee accepts that certain work of a non-audit nature is best undertaken by the external auditors and appointments are made taking into consideration of their expertise and cost.

Written confirmations of independence have been provided by the external auditors to the Audit Committee before the commencement of and after the completion of the year-end audit for 2016 that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

The Audit Committee is satisfied that the provision of the non-audit services was not in conflict with the role of the external auditors or their independence. Details of the amounts paid to the external auditors for non-audit services performed during the year are set out in the Additional Compliance Information of this Annual Report. The Audit Committee concluded that the relevant independence of Ernst & Young continued to be met. Accordingly, the Audit Committee unanimously recommended to the Board that a resolution for the appointment of Ernst & Young as the Company's auditors be proposed to shareholders for approval at the forthcoming AGM and the Board has accepted and endorsed this recommendation.

## 6. RECOGNISE AND MANAGE RISKS

### 6.1 Sound Framework to Manage Risks

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets. The Company has effected several systems of internal control covering financial controls, operational and compliance controls and risk management. Some of the systems have been in place over the years and will continue to be reviewed, added on or updated in line with the changes in the operating environment. The Board seeks regular assurance on the continuity and effectiveness of the internal control system through independent appraisals by the internal and external auditors. Information on the Group's internal control and risk management are presented in the Statement on Risk Management and Internal Control.

During the year, one Risk Management Committee Meeting was held and the following activities were carried out:-

(i) Review of operational and regulatory risks and their compliances;

(ii) Review of top operational for the Group;

(iii) Review of Risk Consequence Rating and

(iv) Review of Risk Profile Summary.

### 6.2 Internal Audit Function

The Company has established an internal audit team which reports directly to the Audit Committee. The internal audit department communicates regularly with the members of the Audit Committee and the Head of Internal Audit is invited to attend meetings of the Audit Committee. Internal audit activities, all of which are risk-based, are performed by a team of appropriate, qualified and experienced employees. Further information on internal audit function is set out in the Audit Committee Report.

# STATEMENT ON CORPORATE GOVERNANCE

## 6. RECOGNISE AND MANAGE RISKS (CONT'D)

### 6.2 Internal Audit Function (cont'd)

Additionally, the Internal Audit Team of Yayasan Sabah Group undertakes a yearly internal audit of the Company covering both financial and operation aspects of management and control. Its internal audit report is also tabled at the Audit Committee Meeting for review.

## 7. ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

### 7.1 Corporate Disclosure Policy

The Company's Corporate Disclosure Policy is designed to ensure the timely release of material price-sensitive information to the market. This policy establishes procedures to ensure that Directors and employees are aware of the Company's disclosure obligations and procedures, and have accountability for the Company's compliance with those obligations.

The Company has also put in place the precautions to be observed in order to keep the information completely confidential. The Board is mindful that information which is expected to be material must be announced immediately.

### 7.2 Leverage on Information Technology

IPB website provides all relevant information on IPB and is accessible by the public. IPB has dedicated a section on the website to its investors where media releases, credit ratings, quarterly and annual financial statements, announcements, annual reports and circular to shareholders are made available for review.

The announcement of the quarterly reports is made via Bursa LINK immediately after the Board's approval between 12.30 pm and 1.30 pm or after 5.00 pm on the same day to ensure equal and fair access to information by the investing public.

In order to ensure effective dissemination of information, the Company has established a direct link to Bursa Securities' website so that all announcements made by the Company to Bursa Securities can be retrieved concurrently from both websites.

The Board has also established a dedicated section for corporate governance on the Company's website where information on the Board Charter, shareholders' rights, code of ethics and conducts and whistle blowing may be accessed.

## 8. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

### 8.1 Encourage Shareholder Participation at General Meetings

IPB recognises the importance of establishing a direct line of communication with shareholders and investors through timely dissemination of information on the Group's performance and major development via appropriate channels of communication.

Dissemination of information includes distribution of Annual Report and relevant circulars, issuance of press releases, quarterly financial performance of the Company and IPB Group to Bursa Securities, Securities Commission and the public as well as by press conference.

The Board has appointed Datuk Jaswant Singh Kler as Senior Independent Non-Executive Director to whom concerns may be conveyed. At all times, shareholders may contact the Company Secretary for information on the Company.

# STATEMENT ON CORPORATE GOVERNANCE

## 8. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS (CONT'D)

### 8.1 Encourage Shareholder Participation at General Meetings (cont'd)

In addition, the Company maintains a website at www.innoprise.com.my for shareholders and the public to access information on amongst others, the Company's background, business activities and products, annual reports, corporate responsibility, shareholders' rights, updates on its various news and events and financial performance.

The Chairman and the Board encourage shareholders to attend and participate in the AGM and any general meetings of the shareholders. Notice of meeting and a copy of the Company's annual report are sent out to shareholders at least twenty one (21) days before the AGM. The shareholders are given the opportunity to seek clarification on the Company's accounts and other items for adoption at the meeting before putting a resolution to vote. Members of the Board as well as the external auditors and representatives from the share registrars of the Company are present to answer questions raised at the meeting. Resolutions tabled and passed at the meeting are released to Bursa Securities on the same day to enable the public to know the outcome.

### 8.2 Poll Voting

With effect from 1 July 2016 and pursuant to paragraph 8.29A(1) of the MMLR, all resolutions set out in the notice of general meetings of the Company will be put to vote by poll.

### 8.3 Proactive Engagement

At the 22nd Annual General Meeting of the Company, six of the Directors were present in person to engage with the shareholders. During the proceeding of the meeting, shareholders were invited to raise questions pertaining to the Company's financial statements and other items for adoption at the meeting. The Directors, Management and External Auditors responded to queries raised by shareholders.

## COMPLIANCE INFORMATION

### 1. Utilisation of Proceeds

Proceeds raised from Rights Issue had been utilised in the following manners which is broadly in line with utilisation set out in the prospectus:-

| Utilisation | Amount RM |
|---|---|
| Bank borrowings | 18,500,000 |
| Plantation development expenditure | 5,000,000 |
| Capital expenditure | 4,000,000 |
| Working capital | 8,438,000 |
| Expenses for corporate exercise | 457,000 |

### 2. Audit/Non-Audit Fees

| Fees Paid | Group RM | Company RM |
|---|---|---|
| Audit | 86,000 | 44,000 |
| Non-audit | 3,000 | - |

# STATEMENT ON CORPORATE GOVERNANCE

## COMPLIANCE INFORMATION (CONT'D)

### 3. Material Contracts

During the financial year under review, save as disclosed in the sections under Recurrent Related Party Transactions set out in the ensuing pages of this Annual Report, there were no material contracts entered into by the Company and/or its subsidiaries involving Directors' and major shareholders' interests which were still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

### 4. Employee Share Scheme

The Company currently has one (1) Executives' Share Option Scheme ("ESOS") in existence and only directors and executive employees of the Innoprise Group are eligible to participate in the Scheme. The ESOS expired on 25 May 2020. The details of ESOS are as follows:-

| Total ESOS outstanding as at 1 January 2016 | Total number of ESOS granted during the year | Total number of ESOS exercised/ lapsed* during the financial year | Sub-division | Total ESOS outstanding as at 31 December 2016 |
|---|---|---|---|---|
| 1,275,000 | - | (108,000) | 1,275,000 | 2,442,000 |

* 108,000 Lapsed due to resignation.

| Aggregate ESOS granted to directors | Aggregate ESOS exercised by directors/lapsed | Sub-division | Aggregate ESOS outstanding as at 31 December 2016 |
|---|---|---|---|
| 3,200,000 | (2,975,000) | 225,000 | 450,000 |

* 800,000 Lapsed due to resignation.

| | Aggregate maximum allocation (%) | Actual percentage granted (%) Since commencement of the Scheme | During the financial year |
|---|---|---|---|
| Directors and Senior Management | 40 | 23.43 | - |

### 5. Recurrent Related Party Transactions of a revenue or trading nature

At the last AGM of the Company held on 24 May 2016, the Company had obtained a mandate from its shareholders ("Shareholders Mandate") to allow the Company and/or its subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature ("Recurrent Transactions"). In accordance with Paragraph 10.09(2)(b) of the MMLR, details of the Recurrent Transactions conducted during the financial year ended 31 December 2016 pursuant to the Shareholders' Mandate are as follows:

# STATEMENT ON CORPORATE GOVERNANCE

## COMPLIANCE INFORMATION (CONT'D)

### 5. Recurrent Related Party Transactions of a revenue or trading nature (Cont'd)

| Name of Companies | Related parties | Class of related party | Nature of Recurrent Transactions | Aggregate value of transactions made during the financial year (RM) |
|---|---|---|---|---|
| **Serijaya Industri Sdn. Bhd. (Log Extraction Contractor)** | Rakyat Berjaya Sdn. Bhd. ("RBJ") (Concession Owner) | RBJ is a 98.04% owned subsidiary of Innoprise Corporation Sdn Bhd ("ICSB"), a major shareholder. | Log extraction contract fees. | 20,284,991 |
| **Serijaya Industri Sdn. Bhd. (Seller)** | TSH Plantation Management Sdn. Bhd. ("TSHPM") (Buyer) | TSHPM is 24% owned by TSH Resources Berhad ("TSHR") and 76% owned by TSH Plantation Sdn. Bhd. ("TSHP") which in turn is a wholly-owned subsidiary of TSHR, a major shareholder of the Company. | Sale of oil palm fresh fruit bunches. | 185,999 |
| **Serijaya Industri Sdn. Bhd. (Seller)** | TSHPM (Buyer) | Same as disclosed above. | Sale of Empty Fruit Bunches, Fibre and Shell | Nil |
| **Serijaya Industri Sdn. Bhd. (Buyer)** | TSHPM (Seller) | Same as disclosed above. | Purchase of organic fertiliser. | Nil |
| **Serijaya Industri Sdn. Bhd. (Seller)** | Regional Harvest Sdn. Bhd. ("RHSB") (Buyer) | RHSB is 51% owned by SSB, which is in turn a 70% owned subsidiary of ICSB, a major shareholder of the Company. Yayasan Sabah ("YS") is a person connected to the Board of Trustees of YS which owned 97.78% of ICSB. | Sale of oil palm fresh fruit bunches. | Nil |
| **Serijaya Industri Sdn. Bhd. (Seller)** | Benta Wawasan Sdn. Bhd. ("BWSB") (Buyer) | BWSB is a wholly owned subsidiary of ICSB, a major shareholder of the Company. | Sale of oil palm fresh fruit bunches. | Nil |

# STATEMENT ON CORPORATE GOVERNANCE

## COMPLIANCE INFORMATION (CONT'D)

### 5. Recurrent Related Party Transactions of a revenue or trading nature (Cont'd)

| Name of Companies | Related parties | Class of related party | Nature of Recurrent Transactions | Aggregate value of transactions made during the financial year (RM) |
|---|---|---|---|---|
| **Serijaya Industri Sdn. Bhd. (Buyer)** | Benta Wawasan Sdn. Bhd. ("BWSB") (Seller) | BWSB is a wholly owned subsidiary of ICSB, a major shareholder of the Company. | Purchase of oil palm fresh fruit bunches. | Nil |
| **Serijaya Industri Sdn. Bhd. (Seller)** | TSH Plantation Sdn. Bhd. ("TSHP") (Buyer) | TSHP is a wholly owned subsidiary of TSHR, a major shareholder of the Company. | Sale of oil palm fresh fruit bunches. | Nil |
| **Serijaya Industri Sdn. Bhd. (Buyer)** | TSHP (Seller) | Same as disclosed above. | Purchase of organic fertiliser. | Nil |
| **Serijaya Industri Sdn. Bhd. (Seller)** | TSH-Wilmar Sdn. Bhd. ("TSHW") (Buyer) | TSHW is 50% owned by TSHR, a major shareholder of the Company. | Sale of crude palm oil. | 102,316,624 |
| **Serijaya Industri Sdn. Bhd. (Seller)** | TSHW | Same as disclosed above | Sale of palm kernel. | 13,561,410 |
| **Serijaya Industri Sdn. Bhd. (Seller)** | Rinukut Plantations Sdn. Bhd. ("RPSB") (Buyer) | RPSB is 60% owned by Rinukut Sdn. Bhd. ("RSB") and 40% owned by RBJ. RSB is 70% owned by TSH Ventures Sdn. Bhd. which is in turn 99.99% owned by Datuk (Dr.) Kelvin Tan Aik Pen, a director and a substantial shareholder of TSHR, a major shareholder of the Company. | Sale of seedlings. | Nil |

# STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

"IPB continues to be committed to Corporate Social Responsibility ("CSR") through various CSR initiatives, which has been an integral part of our way of doing business. The Board of Directors strongly believes that social and environment performance will help to create business sustainability and enhance value for all its stakeholders."

## COMMUNITY

The Group steps forward and serves the community in which it operates and strives to make positive contribution to the community particularly in helping the underprivileged and the less fortunate.

The Board of Directors strongly believes that in playing their role as a socially responsible corporate citizen, the Group creates business sustainability and enhances value for all its stakeholders.

IPB continues to take care for the community by giving donations throughout the year, to those who have suffered from natural disasters.

## ENVIRONMENT

The Group is committed to safeguarding the environment as part of our way of doing business.

### (a) Waste Management

The Group continues to ensure that economic and social development is always balanced and in harmony with the environment. It is our obligation to keep the earth as natural and as clean as possible, as a legacy for the future. Taking cognizance of the environmental impact of the palm oil industry, IPB continues to take various initiatives to mitigate its impact.

Our palm bio-integration approach taps the huge commercial potential of bio waste of the palm oil industry through a fully integrated bio-integration complex complete with biomass power plant which are:

- Sources of sustainable energy supply where Bio Energy resources are renewable in nature.
- Environmentally friendly i.e. conversion of agro industrial wastes into energy as part of the waste management process reduces emission of greenhouse gases, which is a key source of global warming and climate change.

### (b) Environment Commitment

Apart from creating value for our Company and shareholders, we are directly contributing towards our environment, the health of our nation and its citizens. Environment is conserved and endangered wildlife species are protected by adopting to responsible policies and procedures in oil palm development operations. Energy from biomass power and biogas power are green energy. The use of green energy contributes to environmental protection for the present and future generations by reducing our carbon footprint.

# STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

## ENVIRONMENT (CONT'D)

### (b) Environment Commitment (Cont'd)

Our other environmental commitments include the following:

- Eco-logging using the Reduced Impact Logging System.
- Strict observance of riparian reserve and non-development of land above 20 degree slope.
- Soil conservation measures to prevent soil erosion.
- Silvicultural treatment and enrichment planting on degraded forest and riparian reserves.
- Integrated Pest Management emphasizing on census and detection and biological control through planting of beneficial plants.
- Hunting is prohibited and to prevent damages by mammalian pests, electric fencing and protective collars are set up especially near the jungle fringes.
- Land development in a responsible manner to comply with the Environmental conditions and avoid biodiversity impairment.
- RSPO membership and certification activities are in progress.

## SUSTAINABILITY

The Group has taken a step further with the assigning of a manager, to focus on management of the sustainability issues concerning our Group's oil palm activities in particular attention to the principles and criteria of the mandatory requirements under the Roundtable on Sustainable Palm Oil ("RSPO").

## WORKPLACE

### (a) Sports and Recreational Facilities

Sports activities encourage healthy life style, bonding and cohesion between employees at all levels. In this connection, the Company helped in funding of employee's activities on a regular basis and also organised inter-estate tournaments. Selected employees are also sponsored to participate in inter-group tournament outside of workplace.

# STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

## WORKPLACE (CONT'D)

### (b) Welfare and Charity

As part of our endeavours to foster relationship of employees, various activities such as Annual Dinner, Buka Puasa Dinner with Chairman and Family Day celebrations were organised.

The Company donated cattle to the Muslim employees for their Aidilfitri celebration. The Company also provided financial assistance to employees encountering hardship due to unfortunate events.

### (c) Human Resources Development

In IPB Group, our employees' contributions, executions and efforts brought much successes to our operations and business as a whole. We continuously develop our people to the highest level achievable year on year.

We believe in a systematic management where operating procedures and computerized systems will support our manpower and acts as tools to help them excel in their daily work which will result in rapid growth to the Group's business and profitability.

We build and nurture a conductive learning culture for our employees regardless of ethnicity, age or gender and emphasis on imparting knowledge and adaptive skills to equip our employees well to overcome challenges faced in our industry.

# STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

## WORKPLACE (CONT'D)

### (c) Human Resources Development (Cont'd)

We have an all encompassing Group Terms and Condition of Service to guide our employees pertaining to benefits, rules and regulations and policies sanctioned by us. Our employees are our most valuable assets in ensuring our Group's business objectives and operational plans are met successfully. Therefore, we value and measure our people through consistent training and advisory support.

### (d) Workforce Diversity

The Company is aware of the diversity in terms of gender, ethnicity and age in the Group. When appointing an employee, the Company through the Board of Directors and/or its management personnel will always evaluate and match the criteria of employees based on experience, expertise, professionalism, technical skills, competency, specialist knowledge, time commitment, character, integrity, potential contribution and perceived ability to work cohesively with other employees.

Equal opportunities are given to all employees and candidates regardless of gender, ethnicity or age and due consideration will also be given for expertise, knowledge and experience diversity in line with the Group's strategy.

### (e) Occupational Safety and Health

IPB is committed to maintain high safety and health standards at the workplace. To achieve this objective, each operation unit has established or in the process of establishing a Health and Safety Committee, under the guidance of Yayasan Sabah's ("YS") Occupational Safety and Health main committee, which is entrusted with the functions on cultivating safe working practices and behavior at work place. A series of in-house training programs on safety and health have been conducted with the assistance of committee members. Committee members have also participated in safety and health trainings programs organised by the YS Occupational Safety and Health main committee.

## COMMUNITY

The group actively promotes better understanding with the local community through dialogue. The plantation provides business opportunities to villagers whereby they are invited to set up stores in the estates during the weekly "*Pasar Day*".

The Company had also donated money to help fire victims at Merotai, Tawau.

## MARKETPLACE

We continue to be committed to provide high quality products and services to our customers through our valuable human capital and other resources. IPB also aims for continuous improvement towards building long term relationships with all its stakeholders. IPB's website provides easy access to the latest information on the Group's financials and operations as well as the direction of the Group. The website also allows the email link for stakeholders to provide feedback or enquiries in order for the Group to satisfy all its stakeholders' needs as well as to improve on its products and services.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors is pleased to provide the following Statement on Risk Management and Internal Control pursuant to paragraph 15.26(b) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements ("Main Market Listing Requirements").

Set out below is the Board's Statement on Risk Management and Internal Control which outlines the nature and scope on risk management and internal control of the Group during the year.

## BOARD RESPONSIBILITIES

The Board acknowledges its responsibility to ensure that the Group has a sound system of internal control and risk management practices for good corporate governance as well as periodically reviewing its adequacy and integrity to safeguard shareholders' investments, customers' interests and Group assets. A good control system will assist the Company to achieve its corporate objectives. As there are limitations inherent in any system of internal control, the Group's internal control is designed to manage, rather than eliminate the risk of failure to achieve the business objectives. The system can only be relied on to provide reasonable but not absolute assurance against material misstatement of financial information and against any mismanagement or fraud resulting financial losses. The concept of reasonable assurance also recognises that the cost of control procedures should not exceed the expected benefits.

## CONTROL ENVIRONMENT AND ACTIVITIES

### 1. Risk Management Framework

The Board recognises risk management as an integral part of business operation. It is vital to have risk management and control system in place which will identify and analyse the significant risks of the Group. Appropriate controls can then be implemented to analyse and mitigate such risks or other risk facing the Group.

The Board confirms that there is a process for identifying, evaluating and managing significant risks faced by the Group, and the same has been in place for the financial year under review and up to the date of this Annual Report and financial statements.

Consequently, the Group has also undertaken the following to enhance its risk management practices:

(a) Set up a Risk Management Committee which evaluates business risk profile and formulates action plans.

(b) Formalisation of the Group's risk management policy and procedures and adopted a structured approach towards identifying, measuring and managing significant risks faced by the Group.

(c) Each operating business unit within the Group will evaluate the risks facing them. Specifically, to adopt a risk management process that identifies key risks of each operating unit, assessing the likelihood and impact of material exposures and puts in place adequate controls to mitigate the risks identified.

(d) Regular monitoring reports will be given by operating units to Risk Management Committee who will review and submit recommendations to the Board for action to ensure adequacy of the system of control.

(e) Standard operating procedures that cover key aspects of the Group's various processes are formalised. These procedures are subjected to review on periodic basis to cater for process changes and changing risks.

### 2. Board Meeting

The Board meets at least quarterly and has formal agenda on matters for discussion. The Managing Director leads the presentation of board papers and provides explanations on pertinent issues. In arriving at any decision, on remmendation by the Management, a thorough deliberation and discusson by the Board is a prerequisite. In addition, the Board is kept updated on the Group's activities and operations on a timely and regular basis.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## CONTROL ENVIRONMENT AND ACTIVITIES (CONT'D)

### 3. Performance Management Framework

Management reports are generated on a regular and consistent basis to facilitate the Board and the Group's Management in performing financial and operating reviews on the various operating units. The reviews encompass areas such as financial and non-financial key performance indicators, variances between budget and operating results and compliance with laws and regulations.

The Group has in place a well-defined budgeting process that provides a responsible accounting framework.

### 4. Operational Policies and Procedures

Documented policies and procedures from an integral part of the internal control systems to safeguard shareholders' investment and the Group's assets against material losses and ensure complete and accurate financial information. The documents consist of circulars, the Standard Operating Procedures that are continuously being revised and updated to meet operational needs.

### 5. Internal Control System

The Audit Committee was established to review and monitor the effectiveness of the entire Group's system of internal control. The Audit Committee reviews and approves the Annual Internal Audit Plan which outlines the scope of audit activities on the area of concerns. The Audit Committee reports to the Board on the findings and makes recommendations on possible action plans to improve and tighten the internal controls of the Group. The necessary measures are taken to strengthen the control environment after evaluating the changes of the external and internal environment. There were no material losses incurred during the financial year under review as a result of any weakness in the internal control.

A Group Internal Audit function is established to assist in providing assurance on the effectiveness of the internal control system within the Group. Internal auditors conduct regular visits to the operating units to provide independent assessment on the adequacy, efficiency and effectiveness of the internal control. The internal audit report prepared will include suggestions and recommendation on improving the internal control system. The findings and recommendation are discussed with Management and Audit Committee for remedial actions.

The internal audit function adopts a risk-based approach and prepares its audit plan based on the risk profiles of the key business units of the Group after taking into consideration input of Senior Management and the Audit Committee. The Internal audit department also conducts subsequent follow up review to ensure Management has dealt with audit recommendations and taken appropriate actions satisfactorily.

### 6. Other Key Elements of Internal Control

Apart from the above, the other key elements of the Group's system of internal control include the following:

- Organisational structure with defined reporting line;
- Formally defined lines of Authority Limits in management and organisation structure;
- Documented Tender and Purchasing Procedures;
- Guidelines for General Terms and Conditions of Services for employees;
- Annual Budget and results are compared, monitored and reviewed;
- Meetings to discuss/deliberate on findings and recommendation for improvement; and
- Strategic planning on business operation.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have performed limited assurance procedure on the Statement pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised), Guidance for Auditors on Engagements to report on the Statement included in the Annual Report issued by the Malaysia Institute of Accountants ("MIA") for inclusion on the Annual Report of the Group for the year ended 31 December 2016, and reported to the Board that nothing has come to their attention that causes them to believe the Statement intended to be included in the Annual Report is not prepared, in all material aspects, in accordance with the disclosures required by paragraphs 41 and 42 of the Guidelines, nor is the Statement factually inaccurate.

RPG 5 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Directors and management thereon. The report from the external auditors was made solely for, and directed solely to the Board of Directors in connection with their compliance with the Listing Requirements of Bursa Malaysia Securities Berhad and for no other purposes or parties. The external auditors do not assume responsibility to any person other than the Board of Directors in respect of any aspect of this report.

## CONCLUSION

The Board has reviewed the adequacy and effectiveness of the risk management and internal control system through the above activities and is not aware of any significant weaknesses or deficiencies in the Group's risk management and internal control practices for the year under review and to the date of this report. The Board has also obtained assurance from the Executive Director and the Head of Finance that the risk management and internal control system is in place and operating effectively.
This statement has been reviewed and approved by the Board of Directors on 17 April 2017.

# AUDIT COMMITTEE REPORT

The Board is pleased to present the following report on the Audit Committee and its activities for the financial year ended 31 December 2016.

## AUDIT COMMITTEE COMPOSITION AND MEETINGS

The Audit Committee is made up from the following members:

Datuk Hj. Majin Hj. Ajing – Chairman, Independent Non-Executive Director
Datuk Jaswant Singh Kler – Member, Independent Non-Executive Director
Puan Ainahwati Binti Abd Sani – Member, Non-Independent Non-Executive Director

As at the date of this report, the Audit Committee comprises three (3) members, comprising of two (2) Independent Non-Executive Directors and one of the Non-Independent Non-Executive Director. Puan Ainahwati Binti Abd Sani is a member of Malaysian Institute of Accountants and satisfies the requirements of Paragraph 15.09(1)(c)(i) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements ("MMLR").

The Audit Committee met five (5) times during the year to discharge its duties and responsibilities. Attendance of members of the Audit Committee during 2016 is shown in the table below.

| Name | 26/02/16 | 07/04/16 | 24/05/16 | 23/08/16 | 22/11/16 | Total |
|---|---|---|---|---|---|---|
| Datuk Hj. Majin Hj. Ajing | √ | √ | √ | √ | √ | 5/5 |
| Datuk Jaswant Singh Kler | √ | √ | √ | √ | √ | 5/5 |
| Puan Ainahwati Binti Abd Sani | X | √ | √ | X | √ | 3/5 |

At the invitation of the Audit Committee, the Executive Director and Internal Auditor attended all the Audit Committee meetings and presented their reports on audit findings and management's responses thereto and other matters for consideration and approval. The Audit Committee Chairman then reports to the Board on matters of significant concern as and when raised by the internal and external auditors and present the Audit Committee's recommendations to the Board for approval.

## TERMS OF REFERENCE

The Audit Committee is responsible amongst others, to review and monitor the system of internal control and audit process and to ensure that the Company's financial statements comply with applicable financial reporting standards as this is integral to the reliability of financial statements. The terms of reference of the Audit Committee will be periodically reviewed and updated and is made available on the Company's website at **www.innoprise.com.my**.

## TRAINING

During the year, all members of the Audit Committee attended the following briefing, forum, summit, conference and seminar either individually or collectively:

- Audit Committee Seminar for Public and Private Sector 2016 – Improving Audit Effectiveness
- Improving Board Risk Oversight Effectiveness
- Sabah International Business Luncheon Talk 2016
- Independent Directors Programme – The Essence of Independence
- 12th Natsem 2016 – Factors Impacting the Competitiveness of the Palm Oil Industry
- EMPA Seminar 2016 – Sustainability Plantations Profitability Through Productivity

# AUDIT COMMITTEE REPORT

## SUMMARY OF WORK

During the financial year, the Audit Committee discharged its functions and carried out its duties as set out in its terms of reference. Summary of key activities undertaken by the Audit Committee during the financial year encompassed the following:

### 1. Financial Reporting and Compliance

The Audit Committee reviewed the unaudited quarterly financial statements and annual audited consolidated financial statements to ensure compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act, 1965 and Paragraph 9.22, including Appendix 9B of the MMLR, focusing particularly on changes in or implementation of major accounting policy changes, significant and unusual events and significant adjustments resulting from the audit.

The Audit Committee's recommendations were presented at the respective Board meetings held subsequently for approval.

The Audit Committee was satisfied with the assurance given by the Executive Director that adequate processes and controls were in place for an effective and efficient financial statement close process, that appropriate accounting policies had been adopted and applied consistently that the relevant financial statements gave a true and fair view of the state of affairs of the Group and the going concern basis applied in the financial statements are appropriate.

### 2. External Audit

The external auditors were present at two (2) Audit Committee meetings held during the financial year where matters relating to the audit of the statutory accounts were discussed.

The Audit Committee also met with the external auditors on two (2) occasions without the presence of the Executive Directors, management or internal auditors to discuss the audit findings and any other observations they may have during the audit process.

During the year, the Audit Committee reviewed with the external auditors, their evaluation of the Statement on Risk Management and Internal Control and audit report as well as management's response thereto. In addition, the Audit Committee reviewed the external auditors' 2016 Annual Planning Memorandum outlining their scope of work, approach and proposed fees for the statutory audit and review of the Statement on Risk Management and Internal Control.

The Audit Committee also reviewed the non-audit services provided by the external auditors and the aggregate amount of fees paid to them taking into consideration of the process and requirements including fee threshold established under the policy and was satisfied that they were not likely to create any conflicts of interest nor impair the independence and objectivity of the external auditors.

The external auditors had provided written confirmations of their independence to the Audit Committee that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

The Audit Committee evaluated the performance of the external auditors based on 4 key areas, namely quality of service, sufficiency of resources, communication with management and independence, objectivity and professionalism and was satisfied with their performance. Thus, the Audit Committee recommended for the Board's approval the re-appointment of the external auditors, Ernst & Young for the financial year ending 31 December 2017.

### 3. Internal Audit

The internal audit team conducted the audit activities as set out in Audit Plan. During the year, the Internal Audit attended the Audit Committee meetings and presented on inter-alia, summaries of the audit reports issued, audit recommendations provided by the internal auditors and management's response thereto and corrective actions taken by management on audit issues raised by the internal auditors.

The Audit Committee reviewed the annual audit plan for to ensure adequate coverage of the activities of the Group and approved the key position appointment in audit.

# AUDIT COMMITTEE REPORT

## SUMMARY OF WORK (CONT'D)

### 3. Internal Audit (Cont'd)

The Audit Committee reviewed and evaluated the internal audit report presented by internal auditor on their major findings and recommendations and provided input to the board of directors.

The Audit Committee also reviewed the performance appraisal of the internal auditor members and was generally satisfied with the performance of the internal audit function.

### 4. Recurrent Related Party Transactions

All recurrent related party transactions entered into by the Group were reviewed by the Audit Committee to ensure that they were conducted on an arm's length commercial term and rate. Reporting system and procedures were also reviewed to ascertain that the established guidelines and procedures have been complied with.

### 5. Other matters

The Statement on Risk Management and Internal Control and the Audit Committee Report for inclusion in this Annual Report were reviewed by the Audit Committee prior to Board approval.

The Audit Committee reviewed the Executive Director's briefing relating to risk and control environment of the Group and was satisfied that controls in place are adequate and functioning properly to address the risks. The Audit Committee was also satisfied with the assurance provided by the Head of Internal Auditor that no material issue or major deficiency had been noted which posed a high risk to the overall system of internal control under review.

## INTERNAL AUDIT FUNCTION

The Company established an Internal Audit Department during 2016 which report directly to the Audit Committee on a quarterly basis. The Internal Audit Department assists the Audit Committee in the discharge of its duties and responsibilities. Its key role is to provide independent and objective assurance designed to add value and assist the Group in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

An Internal Audit Charter serves as a guide to the Internal Audit Department in the performance of its duties. The internal audit activities, all of which are risk-based were established after taken into consideration of the key business segments of the Group and input from senior management and the Audit Committee members.

The Internal Audit Department submits a report on their audit findings and recommendations to the Audit Committee for its review and deliberation. The Internal Auditor attends these meetings to present the internal audit findings and makes appropriate recommendations on areas of concern within the Company and the Group.

For the year under review, the activities undertaken by internal audit were as follows:

1. Conducted a review and assessment of the risk profile of the Group and the significance or otherwise of the risk so identified.
2. Provided independent assessment and objective assurance over the adequacy and effectiveness of risk management and internal control processes via structured reviews of units and operations identified in the annual audit plan.
3. Provided independent and objective reviews of the adequacy and relevance of internal controls enforced to mitigate the risk exposures.
4. Ascertained the level of compliance with established policies and procedures of the Company.
5. Recommended improvements and enhancements to the existing system of internal controls and work procedures/processes.

# AUDIT COMMITTEE REPORT

## INTERNAL AUDIT FUNCTION (CONT'D)

In addition, the Internal Audit Team of the Company's holding company, undertook an internal audit of the main operating subsidiary of the Company. The audit report and management's response were tabled and discussed at Audit Committee Meeting.

The total cost incurred in managing the Internal Audit Department in 2016 was about RM60,000.

## STATEMENT BY AUDIT COMMITTEE ON THE COMPANY'S ESOS

The Audit Committee has reviewed and is of the view that the criteria for allocation of the Company's ESOS for the financial year under review:

(a) has been made known to all eligible employees; and

(b) the allocation of the options is made in compliance as set out in the By-Laws of the Company's ESOS.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The Board of Directors is required under Paragraph 15.26 (a) of the Listing Requirements of Bursa Securities to issue a statement explaining its responsibility for preparing the annual audited financial statements.

The Directors are required by the Companies Act, 1965 ("the Act") to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year and the results and cash flow of the Group and of the Company for that financial year.

The Directors consider that, in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2016 set out on pages 55 to 110 of this Annual Report, the Group and the Company have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates. The Directors also consider that all applicable approved accounting standards in Malaysia have been followed and confirm that the financial statements have been prepared on a going concern basis.

The Directors are responsible for ensuring that the Company and its subsidiaries keep accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the Company and which enable them to ensure that the financial statements comply with the provision of the Act.

The Directors are also responsible for the assets of the Group and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board has also ensured that the quarterly and annual financial statements of the Group and of the Company are released to the Bursa Malaysia in a timely manner in order to keep our investing public informed of the Group's latest development.

# DIRECTORS' REPORT

## DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services to subsidiaries.The principal activities of the subsidiaries are stated in Note 16 to the financial statements.

Other information relating to the subsidiaries are disclosed in Note 16 to the financial statements.

## RESULTS

| | Group RM | Company RM |
|---|---|---|
| Profit/(loss) net of tax | 31,358,476 | (161,603) |

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

## DIVIDENDS

At the forthcoming Annual General Meeting, a first and final tax exempt (single-tier) dividend in respect of the financial year ended 31 December 2016, of 2% on ordinary shares, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2017.

## DIRECTORS

The names of the directors of the Company in office since the beginning of the financial year to the date of this report are:

Datuk Hj. Majin Hj. Ajing
Datuk (Dr.) Kelvin Tan Aik Pen
Datuk Sam Mannan @ Sham Mannan
Datuk Jaswant Singh Kler
Puan Ainahwati Binti Abd Sani
Datuk Hj. Othman Bin Walat
Lim Fook Hin

## ALTERNATE DIRECTOR

Tan Aik Kiong (Alternate to Datuk (Dr.) Kelvin Tan Aik Pen)

The names of the directors of the subsidiaries of the Company in office since the beginning of the financial year to the date of this report (not including those directors listed above) are:

Gregory Mosigil (Resigned on 1.1.2017)
Saharuddin Bin Salleh

# DIRECTORS' REPORT

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted under the employer share option plan.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 11 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except as disclosed in Note 30 to the financial statements.

## DIRECTORS' INTEREST

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Company during the financial year were as follows:

| | Number of ordinary shares of RM1.00/RM0.50 each | | | | | |
|---|---|---|---|---|---|---|
| | **1.1.2016*** | **Sub-division+** | **Rights issue** | **Acquired** | **Sold** | **31.12.2016** |
| Direct interest: | | | | | | |
| Datuk Hj. Majin Hj. Ajing | 150,000 | 150,000 | 75,000 | - | (300,000) | 75,000 |
| Datuk (Dr.) Kelvin Tan Aik Pen | 1,150,000 | 1,150,000 | 575,000 | 300,000 | - | 3,175,000 |
| Datuk Hj. Othman Bin Walat | 173,900 | 173,900 | 86,950 | - | - | 434,750 |
| Lim Fook Hin | 670,000 | 670,000 | 335,000 | 500,000 | - | 2,175,000 |
| Tan Aik Kiong (Alternate director to Datuk (Dr.) Kelvin Tan Aik Pen) | 300,000 | 300,000 | 150,000 | - | - | 750,000 |

| | Number of options over ordinary shares of RM1.00/RM0.50 each | | | | | |
|---|---|---|---|---|---|---|
| | **1.1.2016*** | **Sub-division+** | **Granted** | **Exercised** | **Lapsed** | **31.12.2016** |
| Datuk Jaswant Singh Kler | 225,000 | 225,000 | - | - | - | 450,000 |

* Shares at par value of RM1.00 each/options over ordinary shares of RM1.00 each.
+ Sub-division of ordinary share of RM1.00 each into two ordinary shares of RM0.50 each.

None of the other directors in office at the end of the financial year had any interest in shares and options over shares in the Company or its related corporations during the financial year.

# DIRECTORS' REPORT

## ISSUE OF SHARES

(a) Share split

During the financial year, the authorised share capital of the Company of RM500,000,000 comprising ordinary shares of RM1.00 each was altered to 1,000,000,000 ordinary shares of RM0.50 each.

During the financial year, the issued and paid-up share capital of the Company of RM191,237,300 comprising 191,237,300 ordinary shares of RM1.00 each were subdivided into 382,474,600 ordinary shares of RM0.50 each.

(b) Rights issue

During the financial year, the Company increased its issued and paid-up share capital from RM191,237,300 to RM239,046,625 by way of the issuance of 95,618,650 ordinary shares of RM0.50 each on the basis one Rights share for every four ordinary shares held at an issue price of RM0.50 per Rights share, of which the first call of RM0.38 per Rights share was payable in cash and the second call of RM0.12 was capitalised from the Company's share premium and retained earnings account.

The new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company.

## EMPLOYEE SHARE OPTION PLANS

At an Extraordinary General Meeting held on 30 October 2009, shareholders approved the Executive' Share Option Scheme ("ESOS") for the granting of up to five percent (5%) of the issued and paid up share capital, to eligible senior executives.

The salient features and other terms of the ESOS are disclosed in Note 27 to the financial statements.

During the financial year, the Company subdivided existing 1,275,000 share options over ordinary shares of RM1.00 each into 2,550,000 share options over ordinary shares of RM0.50 each pursuant to the share split.

Details of options granted to directors are disclosed in the section on Directors' Interests in this report.

## OTHER STATUTORY INFORMATION

(a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

   (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and

   (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

   (i) it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and

   (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

# DIRECTORS' REPORT

## OTHER STATUTORY INFORMATION (CONT'D)

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

## AUDITORS AND AUDITORS' REMUNERATION

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 9 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 17 April 2017.

**Datuk (Dr.) Kelvin Tan Aik Pen**

**Lim Fook Hin**

# STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, **Datuk (Dr.) Kelvin Tan Aik Pen** and **Lim Fook Hin**, being two of the directors of **Innoprise Plantations Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 55 to 109 give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of their financial performance and cash flows for the year then ended in accordance with Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The information set out in Note 37 to the financial statements have been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 17 April 2017.

**Datuk (Dr.) Kelvin Tan Aik Pen**

**Lim Fook Hin**

# STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT, 2016

I, **Lim Fook Hin**, being the director primarily responsible for the financial management of **Innoprise Plantations Berhad**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 55 to 110 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed **Lim Fook Hin** at
Kuala Lumpur in the Federal Territory
on 17 April 2017

**Lim Fook Hin**

Before me,

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF INNOPRISE PLANTATIONS BERHAD (INCORPORATED IN MALAYSIA)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

*Opinion*

We have audited the financial statements of Innoprise Plantations Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 55 to 109.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and cash flows for the year then ended in accordance with Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

*Basis for opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence and other ethical responsibilities*

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

***Biological assets – capitalisation of costs***

Refer to Note 2.7 and Note 15 to the financial statements.

During the current financial year ended 31 December 2016, the Group capitalised a total of pre-cropping expenditure of RM9.7 million as part of its biological assets. Due to the significance of the expenditure incurred, we consider this to be an area requiring audit focus. Specifically, we focused our audit efforts to determine whether the capitalisation of pre-cropping expenditure was made in accordance with the Group's policy and whether any expenditure incurred ought to be expensed to the profit or loss.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF INNOPRISE PLANTATIONS BERHAD (INCORPORATED IN MALAYSIA)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

***Biological assets – capitalisation of costs (Cont'd)***

Our audit procedures to address this area of focus included amongst others:

(a) testing the effectiveness of the internal controls at estate level in respect of recording and categorization of pre-cropping expenditure. We inspected documents to support the expenditure incurred such as land clearing, seedling, labour and manuring costs;

(b) testing the allocation of expenditure by fields categorised by matured and immature fields; and

(c) testing whether the expenditure incurred on matured fields were appropriately expensed to the profit or loss.

*Information other than the financial statements and auditors' report thereon*

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Annual Report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

*Responsibilities of the directors for the financial statements*

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF INNOPRISE PLANTATIONS BERHAD (INCORPORATED IN MALAYSIA)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF INNOPRISE PLANTATIONS BERHAD (INCORPORATED IN MALAYSIA)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 37 on page 110 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Kwan Bitt Jing @ Winnie Kwan
3257/05/18(J)
Chartered Accountant

Tawau, Malaysia
17 April 2017

# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016** | **2015** | **2016** | **2015** |
| | **Note** | **RM** | **RM** | **RM** | **RM** |
| **Revenue** | 4 | 136,349,023 | 115,044,679 | 396,000 | 11,046,000 |
| Cost of sales | 5 | (75,528,590) | (72,546,760) | (154,463) | (146,507) |
| **Gross profit** | | 60,820,433 | 42,497,919 | 241,537 | 10,899,493 |
| **Other items of income** | | | | | |
| Interest income | 6 | 95,746 | 47,120 | - | 1,587 |
| Other income | 7 | 552,633 | 423,522 | 69,251 | 16,980 |
| **Other items of expense** | | | | | |
| Selling expenses | | (10,485,529) | (8,397,066) | - | - |
| Administrative expenses | | (3,307,861) | (2,580,793) | (472,391) | (596,832) |
| Other expenses | | (2,393,043) | (85,772) | - | - |
| Finance costs | 8 | (3,895,434) | (5,142,427) | - | - |
| **Profit/(loss) before tax** | 9 | 41,386,945 | 26,762,503 | (161,603) | 10,321,228 |
| Income tax expense | 12 | (10,028,469) | (6,303,504) | - | - |
| **Profit/(loss) net of tax, representing total comprehensive income/(loss) for the year** | | 31,358,476 | 20,458,999 | (161,603) | 10,321,228 |
| **Earnings per share attributable to owners of the Company (sen):** | | | | | |
| Basic | 13 | 6.71 | 4.91 | | |
| Diluted | 13 | 6.70 | 4.91 | | |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

| | Note | Group 2016 RM | Group 2015 RM | Company 2016 RM | Company 2015 RM |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 14 | 157,540,034 | 155,468,278 | 79,306 | 98,957 |
| Biological assets | 15 | 225,104,560 | 215,369,436 | - | - |
| Investments in subsidiaries | 16 | - | - | 245,818,273 | 210,217,478 |
| Other receivables | 19 | 5,055,404 | - | - | - |
| | | 387,699,998 | 370,837,714 | 245,897,579 | 210,316,435 |
| **Current assets** | | | | | |
| Inventories | 17 | 7,720,093 | 8,526,580 | - | - |
| Trade and other receivables | 19 | 9,141,535 | 6,075,447 | 682,867 | 730,226 |
| Income tax refundable | | 408,441 | 102,750 | - | - |
| Cash and bank balances | 20 | 14,281,631 | 1,774,013 | 194,146 | 50,831 |
| | | 31,551,700 | 16,478,790 | 877,013 | 781,057 |
| **Total assets** | | 419,251,698 | 387,316,504 | 246,774,592 | 211,097,492 |
| **Equity and liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Loans and borrowings | 21 | 17,975,264 | 37,981,785 | - | - |
| Trade and other payables | 22 | 15,752,307 | 23,999,465 | 197,457 | 342,541 |
| Derivatives | 18 | 904,668 | - | - | - |
| Income tax payable | | - | 39,683 | - | - |
| | | 34,632,239 | 62,020,933 | 197,457 | 342,541 |
| **Net current (liabilities)/assets** | | (3,080,539) | (45,542,143) | 679,556 | 438,516 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 23 | 31,955,404 | 21,905,108 | - | - |
| Loans and borrowings | 21 | 35,862,204 | 53,930,875 | - | - |
| | | 67,817,608 | 75,835,983 | - | - |
| **Total liabilities** | | 102,449,847 | 137,856,916 | 197,457 | 342,541 |
| **Net assets** | | 316,801,851 | 249,459,588 | 246,577,135 | 210,754,951 |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 24 | 239,046,625 | 191,237,300 | 239,046,625 | 191,237,300 |
| Share premium | 24 | - | 1,097,552 | - | 1,097,552 |
| Other reserves | 25 | 1,034,263 | 908,505 | 1,034,263 | 908,505 |
| Retained earnings | 26 | 76,720,963 | 56,216,231 | 6,496,247 | 17,511,594 |
| **Total equity** | | 316,801,851 | 249,459,588 | 246,577,135 | 210,754,951 |
| **Total equity and liabilities** | | 419,251,698 | 387,316,504 | 246,774,592 | 211,097,492 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Non-distributable | | | Distributable | |
| | **Share capital RM** | **Share premium RM** | **Other reserves RM** | **Retained earnings RM** | **Total equity RM** |
| **Group** | | | | | |
| **At 1 January 2016** | 191,237,300 | 1,097,552 | 908,505 | 56,216,231 | 249,459,588 |
| **Profit net of tax, representing total comprehensive income** | - | - | - | 31,358,476 | 31,358,476 |
| **Transactions with owners** | | | | | |
| Share options granted under ESOS: | | | | | |
| Recognised in profit or loss | - | - | 24,963 | - | 24,963 |
| Included in investment in subsidiary | - | - | 100,795 | - | 100,795 |
| Issue of rights shares | 47,809,325 | (1,097,552) | - | (10,376,686) | 36,335,087 |
| Share issuance expenses | - | - | - | (477,058) | (477,058) |
| **At 31 December 2016** | 239,046,625 | - | 1,034,263 | 76,720,963 | 316,801,851 |
| **At 1 January 2015** | 191,237,300 | 1,097,552 | 806,205 | 35,757,232 | 228,898,289 |
| **Profit net of tax, representing total comprehensive income** | - | - | - | 20,458,999 | 20,458,999 |
| **Transactions with owners** | | | | | |
| Share options granted under ESOS: | | | | | |
| Recognised in profit or loss | - | - | 19,007 | - | 19,007 |
| Included in investment in subsidiary | - | - | 83,293 | - | 83,293 |
| **At 31 December 2015** | 191,237,300 | 1,097,552 | 908,505 | 56,216,231 | 249,459,588 |
| **Company** | | | | | |
| **At 1 January 2016** | 191,237,300 | 1,097,552 | 908,505 | 17,511,594 | 210,754,951 |
| **Loss net of tax, representing total comprehensive loss** | - | - | - | (161,603) | (161,603) |
| **Transactions with owners** | | | | | |
| Share options granted under ESOS: | | | | | |
| Recognised in profit or loss | - | - | 24,963 | - | 24,963 |
| Included in investment in subsidiary | - | - | 100,795 | - | 100,795 |
| Issue of right shares share option | 47,809,325 | (1,097,552) | - | (10,376,686) | 36,335,087 |
| Share issuance expenses | - | - | - | (477,058) | (477,058) |
| **At 31 December 2016** | 239,046,625 | - | 1,034,263 | 6,496,247 | 246,577,135 |
| **At 1 January 2015** | 191,237,300 | 1,097,552 | 806,205 | 7,190,366 | 200,331,423 |
| **Profit net of tax, representing total comprehensive income** | - | - | - | 10,321,228 | 10,321,228 |
| **Transactions with owners** | | | | | |
| Share options granted under ESOS: | | | | | |
| Recognised in profit or loss | - | - | 19,007 | - | 19,007 |
| Included in investment in subsidiary | - | - | 83,293 | - | 83,293 |
| **At 31 December 2015** | 191,237,300 | 1,097,552 | 908,505 | 17,511,594 | 210,754,951 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM** | **RM** | **RM** | **RM** |
| **Operating activities** | | | | |
| Profit/(loss) before tax | 41,386,945 | 26,762,503 | (161,603) | 10,321,228 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 8,453,765 | 5,702,864 | 19,651 | 20,067 |
| Gain on disposal of plant and equipment | (11,023) | (4,208) | - | (16,980) |
| Dividend income | (64,823) | - | (64,823) | (10,650,000) |
| Inventories written down | 655,451 | - | - | - |
| Inventories written off | 60,446 | - | - | - |
| Interest income | (95,746) | (47,120) | - | (1,587) |
| Finance costs | 3,895,434 | 5,142,427 | - | - |
| Property, plant and equipment written off | 108,623 | 69,344 | - | - |
| Share options granted under ESOS | 24,963 | 19,007 | 24,963 | 19,007 |
| Net fair value gain on investment securities | (4,428) | - | (4,428) | - |
| Unrealised loss on commodity future contracts | 904,668 | - | - | - |
| Total adjustments | 13,927,330 | 10,882,314 | (24,637) | (10,629,493) |
| **Operating cash flows before changes in working capital** | 55,314,275 | 37,644,817 | (186,240) | (308,265) |
| Changes in working capital: | | | | |
| Decrease in inventories | 90,590 | 4,129,053 | - | - |
| Increase in receivables | (8,121,492) | (2,753,232) | (21,285) | (2,994) |
| (Decrease)/increase in payables | (8,146,363) | (11,180,956) | (145,084) | 123,724 |
| Decrease/(Increase) in amounts due from subsidiaries | - | - | 68,644 | (289,841) |
| Total changes in working capital | (16,177,265) | (9,805,135) | (97,725) | (169,111) |
| **Cash flow from/(used in) operations** | 39,137,010 | 27,839,682 | (283,965) | (477,376) |
| Interest received | 95,746 | 47,120 | - | 1,587 |
| Interest paid | (4,201,061) | (6,015,346) | - | - |
| Income tax paid | (323,547) | (102,750) | - | - |
| **Net cash flows from/(used in) operating activities** | 34,708,148 | 21,768,706 | (283,965) | (475,789) |

# STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM** | **2015 RM** | **2016 RM** | **2015 RM** |
| **Investing activities** | | | | |
| Withdrawal of money market deposits | - | 507,257 | - | 507,257 |
| Placement of pledge fixed deposits | (17,497) | (12,854) | - | - |
| Purchase of property, plant and equipment | (9,914,808) | (10,917,818) | - | (300) |
| Proceeds from disposal of property and equipment | 63,899 | 236,981 | - | 16,981 |
| Plantation development expenditure | (8,634,509) | (11,666,481) | - | - |
| Purchase of investment securities | (18,999,878) | - | (18,999,878) | - |
| Proceeds from disposal of investment securities | 19,004,306 | - | 19,004,306 | - |
| Additional investment in subsidiary | - | - | (35,500,000) | (10,650,000) |
| Dividend received | 64,823 | - | 64,823 | 10,650,000 |
| **Net cash (used in)/from investing activities** | (18,433,664) | (21,852,915) | (35,430,749) | 523,938 |
| **Financing activities** | | | | |
| Net (repayment)/drawdown of revolving credits | (21,000,657) | 7,000,000 | - | - |
| Net (repayment)/drawdown of invoice financing | (3,643,129) | 7,504 | - | - |
| Repayment of term loans | (13,500,000) | (6,000,000) | - | - |
| Repayment of hire purchase payables | (1,498,606) | (797,408) | - | - |
| Share issuance expense | (477,058) | - | (477,058) | - |
| Proceeds from issuance of right shares | 36,335,087 | - | 36,335,087 | - |
| **Net cash flows (used in)/from financing activities** | (3,784,363) | 210,096 | 35,858,029 | - |
| **Net increase in cash and cash equivalents** | 12,490,121 | 125,887 | 143,315 | 48,149 |
| **Cash and cash equivalents at beginning of year** | 1,297,200 | 1,171,313 | 50,831 | 2,682 |
| **Cash and cash equivalents at end of year (Note 20)** | 13,787,321 | 1,297,200 | 194,146 | 50,831 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of the Bursa Malaysia Securities Berhad. The registered office and principal place of business of the Company is located at 6th Floor, Menara Tun Mustapha, Likas Bay, 88000 Kota Kinabalu, Sabah.

The principal activities of the Company are investment holding and provision of management services to subsidiaries. The principal activities of the subsidiaries are stated in Note 16 to the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards ("FRS") and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM).

### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as discussed below.

In the current financial year, the Group and the Company adopted all the Standards and Interpretations which are effective for annual financial periods beginning on or after 1 January 2016.

| Description | Effective for annual periods beginning or after |
|---|---|
| Annual Improvements to FRSs 2012 - 2014 Cycle | 1 January 2016 |
| Amendments to MFRS 116 and FRS 138: | |
| Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to FRS 11: Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 |
| Amendments to FRS 127: Equity Method in Separate Financial Statements | 1 January 2016 |
| Amendments to FRS 101: Disclosure Initiatives | 1 January 2016 |
| Amendments to FRS 10, FRS 12 and FRS 128: | |
| Investment Entities: Applying the Consolidation Exception | 1 January 2016 |
| FRS 14: Regulatory Deferral Accounts | 1 January 2016 |

The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Group and the Company.

### 2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.3 Standards issued but not yet effective (Cont'd)

| Description | Effective for annual periods beginning or after |
|---|---|
| Amendments to FRS 107: Disclosures Initiatives | 1 January 2017 |
| Amendments to FRS 112: Recognition of Deferred Tax for Unrealised Losses | 1 January 2017 |
| Annual Improvements to FRS Standards 2014-2016 Cycle: | |
| Amendments to FRS 12: Disclosure of Interests in Other Entities | 1 January 2017 |
| Amendments to FRS 10 and FRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred |

The directors expect that the adoption of the above standards will have no material impact on the financial statements in the period of initial application except as discussed below:

**Amendments to FRS 107: Disclosures Initiatives**

The amendments to FRS 107 Statement of Cash Flows requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by the Group and the Company.

**Amendments to FRS 112: Recognition of Deferred Tax for Unrealised Losses**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies this amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group and the Company.

### 2.4 Malaysian Financial Reporting Standards (MFRS Framework)

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all entities other than private entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including their parent, significant investor and venturer (herein called 'Transitioning Entities').

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.4 Malaysian Financial Reporting Standards (MFRS Framework) (Cont'd)

Transitioning Entities are allowed to defer adoption of the new MFRS Framework and continue to use the existing Financial Reporting Standards framework until the MFRS Framework is mandated by the MASB. According to an announcement made by the MASB on 28 October 2015, all Transitioning Entities shall adopt the MFRS framework and prepare their first MFRS financial statements for annual periods beginning on or after 1 January 2018.

The Company falls within the scope definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2018. In presenting its first MFRS financial statements, the Company will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained earnings.

At the date of these financial statements, the Company has not completed its quantification of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework due to the ongoing assessment by the project team. Accordingly, the financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2016 could be different if prepared under the MFRS Framework.

The Company expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2018.

### 2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Company controls an investee if and only if the Company has all the following:

(i) Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);
(ii) Exposure, or rights, to variable returns from its investment with the investee; and
(iii) The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

(i) The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
(ii) Potential voting rights held by the Company, other vote holders or other parties;
(iii) Rights arising from other contractual arrangements; and
(iv) Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.5 Basis of consolidation (Cont'd)

Subsidiaries are consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

**Business combinations**

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of FRS 139, it is measured in accordance with the appropriate FRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.6 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| - Buildings | 2 - 10% |
| - Plantation infrastructure | 2% |
| - Plant and machinery | 10% |
| - Motor vehicles | 10% |
| - Equipment, furniture and fittings | 10% |

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

### 2.7 Biological assets

All direct expenses incurred in land preparation, planting, estate administrative and maintenance of plantation up to maturity are capitalised as plantation development expenditure. Maintenance expenditure subsequent to maturity is recognised in profit or loss as and when incurred. General charges are apportioned based on proportion of matured and immature areas.

Plantation development expenditure are not amortised and are measure at cost less accumulated impairment losses. Palm trees are considered mature upon reaching 36 months after planting.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalue amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

### 2.9 Current versus non-current classification

The Group presents assets and liabilities in statements of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.10 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### (a) Financial assets

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**Subsequent measurement**

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial investments

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by FRS 139. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.10 Financial instruments – initial recognition and subsequent measurement (Cont'd)

#### (a) Financial assets (Cont'd)

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 19.

**Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2016 and 2015.

**Available-for-sale (AFS) financial investments**

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.10 Financial instruments – initial recognition and subsequent measurement (Cont'd)

#### (a) Financial assets (Cont'd)

**Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### (b) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.10 Financial instruments – initial recognition and subsequent measurement (Cont'd)

#### (b) Impairment of financial assets (Cont'd)

**Financial assets carried at amortised cost (Cont'd)**

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

**Available-for-sale (AFS) financial investments**

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

#### (c) Financial liabilities

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.10 Financial instruments – initial recognition and subsequent measurement (Cont'd)

#### (c) Financial liabilities (Cont'd)

**Initial recognition and measurement (Cont'd)**

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

**Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in FRS 139 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information refer Note 21.

**Financial guarantee contracts**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.10 Financial instruments – initial recognition and subsequent measurement (Cont'd)

#### (c) Financial liabilities (Cont'd)

**Financial guarantee contracts (Cont'd)**

As at reporting date, no values are placed on corporate guarantees provided by the Company to secure bank loans and other banking facilities granted to its subsidiaries where such loans and banking facilities are fully collateralised by fixed and floating charges over the property, plant and equipment and other assets of the subsidiaries and where the directors regard the value of the credit enhancement provided by the corporate guarantees as minimal.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

#### (d) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### 2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Palm oil products : cost of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity.
- Consumable stores : purchase costs and expenses in bringing them into store on a weighted average cost method.
- Oil palm nurseries : purchase costs and upkeep expenses on a weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

### 2.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.13 Provisions (Cont'd)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.14 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

### 2.15 Employee benefits

#### (a) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

#### (b) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Group make contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

#### (c) Employee share options plans

Employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in profit or loss, with a corresponding increase in the employee share option reserve over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.15 Employee benefits (Cont'd)

#### (c) Employee share options plans (Cont'd)

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. The employee share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the employee share option reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares.

### 2.16 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

#### (a) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### (b) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

### 2.17 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

#### (a) Revenue from log extraction services

Revenue from contract income is recognised when services are performed.

#### (b) Sale of goods

Revenue from sale of goods is recognised net of sales taxes and upon the transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.17 Revenue (Cont'd)

**(c) Interest income**

Interest is recognised on an accrual basis using the effective interest method.

**(d) Management fees**

Management fees are recognised when services are rendered.

**(e) Dividend income**

Dividend income is recognised when the Group's right to receive payment is established.

### 2.18 Taxes

**(a) Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

**(b) Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.18 Taxes (Cont'd)

#### (b) Deferred tax (Cont'd)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### (c) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the amount of GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

### 2.19 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment manager report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 34, including the factors used to identify the reportable segments and the measurement basis of segment information.

### 2.20 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.20 Share capital and share issuance expenses (Cont'd)

Ordinary shares are recorded at the proceeds received. Ordinary shares are classified as equity. Incremental transaction costs directly attributable to the issuance of ordinary shares are recognised as a deduction from equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

### 2.21 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

### 3.1 Judgements made in applying accounting policies

There are no critical judgements made by the management in the process of applying the Group's accounting policies on the amounts recognised in the financial statements.

### 3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### (a) Useful lives of plant and equipment

The cost of plant and equipment is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant and equipment to be within 10-50 years. These are common life expectancies applied in the palm oil industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Company's plant and equipment at the reporting date is disclosed in Note 14.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

### 3.2 Key sources of estimation uncertainty (Cont'd)

#### (b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital and agriculture allowances to the extent that it is probable that taxable profit will be available against which the losses, capital and agriculture allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volume, operating costs, capital expenditure, dividends and other capital management transactions. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statements of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

The total carrying value of deferred tax assets of the Group at 31 December 2016 was RM44,211,723 (2015: RM50,770,119) and recognised tax losses, unabsorbed capital and agriculture allowances at 31 December 2016 was RM184,215,513 (2015: RM211,542,163).

#### (c) Employee share options

Employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in profit or loss, with a corresponding increase in the employee share option reserve over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. The employee share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the employee share option reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 4. REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Dividend income | - | - | - | 10,650,000 |
| Management fees from subsidiary | - | - | 396,000 | 396,000 |
| Log extraction contract fees | 20,284,991 | 30,181,947 | - | - |
| Sale of oil palm fresh fruit bunches | 185,999 | 1,569 | - | - |
| Sale of crude palm oil | 102,316,623 | 77,040,590 | - | - |
| Sale of palm kernel | 13,561,410 | 7,820,573 | - | - |
| | 136,349,023 | 115,044,679 | 396,000 | 11,046,000 |

## 5. COST OF SALES

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Contract fees | 14,491,479 | 21,561,834 | - | - |
| Cost of inventories sold | 61,037,111 | 50,984,926 | - | - |
| Cost of services rendered | - | - | 154,463 | 146,507 |
| | 75,528,590 | 72,546,760 | 154,463 | 146,507 |

## 6. INTEREST INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Interest income from money market deposits | 78,249 | 34,266 | - | 1,587 |
| Interest income from deposits | 17,497 | 12,854 | - | - |
| | 95,746 | 47,120 | - | 1,587 |

## 7. OTHER INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Dividend income from investment securities | 64,823 | - | 64,823 | - |
| Rental income | 1,800 | 1,950 | - | - |
| Miscellaneous income | 78,722 | 111,531 | - | - |
| Gain on disposal of plant and equipment | 11,023 | 4,208 | - | 16,980 |
| Gain on commodity future contracts | - | 113,200 | - | - |
| Gain on sale of consumable goods | 391,837 | 185,161 | - | - |
| Sale of empty shell | - | 7,472 | - | - |
| Net fair value gain on investment securities | 4,428 | - | 4,428 | - |
| | 552,633 | 423,522 | 69,251 | 16,980 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 8. FINANCE COSTS

| | Group 2016 RM | Group 2015 RM | Company 2016 RM | Company 2015 RM |
|---|---|---|---|---|
| Interest expense on: | | | | |
| Hire purchase | 195,714 | 108,495 | - | - |
| Trade advances | 35,983 | 651,124 | - | - |
| Term loan | 3,231,819 | 4,055,761 | - | - |
| Invoice financing | 96,976 | 170,918 | - | - |
| Revolving credits | 640,569 | 1,029,048 | - | - |
| | 4,201,061 | 6,015,346 | - | - |
| Less: Interest expense capitalised in biological assets (Note 15) | (305,627) | (872,919) | - | - |
| | 3,895,434 | 5,142,427 | - | - |

## 9. PROFIT/(LOSS) BEFORE TAX

The following amounts have been included in arriving at profit/(loss) before tax:

| | Group 2016 RM | Group 2015 RM | Company 2016 RM | Company 2015 RM |
|---|---|---|---|---|
| Employee benefits expense (Note 10) | 23,280,262 | 21,569,492 | - | - |
| Non-executive directors' remuneration (Note 11) | 314,487 | 304,790 | 152,463 | 146,007 |
| Auditors' remuneration: | | | | |
| - Statutory audits: | | | | |
| - current year | 81,000 | 78,000 | 40,000 | 36,000 |
| - under provision in respect of previous year | 5,000 | 500 | 4,000 | 4,000 |
| - Other services | 3,000 | 16,600 | - | 5,600 |
| Depreciation of property, plant and equipment (Note 14) | 8,453,765 | 5,702,864 | 19,651 | 20,067 |
| Inventories written down | 655,451 | - | - | - |
| Inventories written off | 60,446 | - | - | - |
| Property, plant and equipment written off (Note 14) | 108,623 | 69,334 | - | - |
| Rental of premises | 122,943 | 149,234 | 42,750 | 77,234 |
| Realised loss on commodity future contracts | 1,063,256 | - | - | - |
| Unrealised loss on commodity future contracts | 904,668 | - | - | - |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 10. EMPLOYEE BENEFITS EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Wages and salaries | 25,444,028 | 25,464,572 | - | - |
| Contributions to defined contribution plan | 693,286 | 842,799 | - | - |
| Social security contributions | 172,868 | 65,474 | - | - |
| Share options granted under ESOS | 100,795 | 83,293 | - | - |
| | 26,410,977 | 26,456,138 | - | - |
| Less: Amount capitalised in plantation development expenditure | (3,130,715) | (4,886,646) | - | - |
| | 23,280,262 | 21,569,492 | - | - |

Included in employee benefits expense of the Group is executive directors' remuneration amounting to RM1,077,200 (2015: RM772,700) as further disclosed in Note 11.

## 11. DIRECTORS' REMUNERATION

The details of remuneration receivable by directors of the Company during the year are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Executive directors' remuneration (Note 10): | | | | |
| - Salaries and other emoluments | 1,077,200 | 772,700 | 2,000 | 500 |
| Non-executive directors' remuneration (Note 9): | | | | |
| - Fees | 271,500 | 271,000 | 127,500 | 127,000 |
| - Share option granted under ESOS | 42,987 | 33,790 | 24,963 | 19,007 |
| | 314,487 | 304,790 | 152,463 | 146,007 |
| Total directors' remuneration | 1,391,687 | 1,077,490 | 154,463 | 146,507 |

The number of directors of the Company whose total remuneration during the year fell within the following bands is analysed below:

| | Number of directors | |
|---|---|---|
| | 2016 | 2015 |
| Executive directors: | | |
| RM300,001 - RM350,000 | - | 1 |
| RM350,001 - RM400,000 | - | 1 |
| RM400,001 - RM450,000 | - | - |
| RM450,001 - RM500,000 | - | - |
| RM500,001 - RM550,000 | 2 | - |
| Non-executive directors: | | |
| RM50,000 and below | 4 | 4 |
| RM50,001 - RM100,000 | - | - |
| RM100,001 - RM150,000 | 1 | 1 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 12. INCOME TAX EXPENSE

### Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM** | **2015 RM** | **2016 RM** | **2015 RM** |
| **Statement of comprehensive income** | | | | |
| Income tax: | | | | |
| Current year | 6,473 | 39,683 | - | - |
| Over provision in respect of previous year | (28,300) | - | - | - |
| | (21,827) | 39,683 | - | - |
| Deferred tax (Note 23): | | | | |
| Relating to origination and reversal of temporary differences | 9,554,359 | 6,514,949 | - | - |
| Relating to changes in tax rate | - | (251,128) | - | - |
| Under provision in respect of previous year | 495,937 | - | - | - |
| | 10,050,296 | 6,263,821 | - | - |
| Income tax expense recognised in profit or loss | 10,028,469 | 6,303,504 | - | - |

### Reconciliation between tax expense and accounting profit/(loss)

The reconciliation between tax expense and the product of accounting profit/(loss) multiplied by the applicable corporate tax rate for the years ended 31 December 2016 and 2015 are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM** | **2015 RM** | **2016 RM** | **2015 RM** |
| Accounting profit/(loss) before tax | 41,386,945 | 26,762,503 | (161,603) | 10,321,228 |
| Tax at Malaysian statutory tax rate of 24% (2015: 25%) | 9,932,867 | 6,690,626 | (38,785) | 2,580,307 |
| Adjustments: | | | | |
| Effect of expenses not deductible for tax purposes | 322,130 | 281,735 | 73,525 | 93,809 |
| Effect of changes in tax rate on deferred tax | - | (251,128) | - | - |
| Income not subject to tax | - | - | - | (2,662,500) |
| Effect of exemption from pioneer profits# | (595,387) | (102,007) | - | - |
| Utilisation of previously unrecognised tax losses | (34,740) | (13,197) | (34,740) | (13,197) |
| Deferred tax assets not recognised | - | 1,581 | - | 1,581 |
| Deferred tax liabilities not recognised | (64,038) | (304,106) | - | - |
| Under provision of deferred tax in respect of previous year | 495,937 | - | - | - |
| Over provision of income tax in respect of previous years | (28,300) | - | - | - |
| Income tax expense recognised in profit or loss | 10,028,469 | 6,303,504 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 12. INCOME TAX EXPENSE (CONT'D)

**Reconciliation between tax expense and accounting profit/(loss) (Cont')**

Income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

# A subsidiary, IPB Bio Energy Sdn. Bhd., has been granted Pioneer Status under Section 127 of the Income Tax Act, 1967, with 100% tax exemption on the subsidiary's statutory income from the operation of biomass plant for a period of 10 years, commencing from 31 December 2014.

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Tax savings during the financial year arising from: | | | | |
| Utilisation of previously unrecognised tax losses | 34,740 | 13,197 | 34,740 | 13,197 |

## 13. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share amounts are calculated by dividing profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflect the profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

| | Group | |
|---|---|---|
| | 2016 RM | 2015 RM |
| Profit net of tax attributable to owners of the Company used in the computation of basic earnings per share | 31,358,476 | 20,458,999 |

| | Number of shares | Number of shares |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share computation | 467,625,352 | 416,298,884 |
| Effects of dilution: | | |
| - Share options | 482,622 | 652,820 |
| Weighted average number of ordinary shares for diluted earnings per share computation | 468,107,974 | 416,951,704 |

The comparative basic and diluted earnings per share have been restated to take into account the effects of the share split and Rights issue as indicated in Note 24.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 14. PROPERTY, PLANT AND EQUIPMENT

| Group | Buildings RM | Plantation infrastructure RM | Motor vehicles RM | Equipment, furniture and fittings RM | Plant and machinery RM | Capital work-in-progress RM | Total RM |
|---|---|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | | | |
| **Cost** | | | | | | | |
| At 1 January 2016 | 62,488,021 | 47,031,383 | 14,886,387 | 2,247,136 | 40,024,021 | 7,817,423 | 174,494,371 |
| Additions | 250,210 | 1,522,639 | 1,661,801 | 119,591 | 415,571 | 7,512,196 | 11,482,008 |
| Reclassifications | 4,139,972 | 222,040 | - | 160 | 5,609,675 | (9,971,847) | - |
| Disposals | - | - | (47,000) | - | (35,000) | - | (82,000) |
| Write off | (116,434) | - | - | (1,150) | - | - | (117,584) |
| At 31 December 2016 | 66,761,769 | 48,776,062 | 16,501,188 | 2,365,737 | 46,014,267 | 5,357,772 | 185,776,795 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2016 | 5,006,132 | 375,734 | 7,689,090 | 1,010,344 | 4,944,793 | - | 19,026,093 |
| Depreciation charge for the year | 1,356,539 | 2,249,242 | 1,331,627 | 157,014 | 4,154,331 | - | 9,248,753 |
| Recognised in profit or loss | 1,221,590 | 1,839,372 | 1,145,232 | 139,815 | 4,107,756 | - | 8,453,765 |
| Capitalised in biological assets | 134,949 | 409,870 | 186,395 | 17,199 | 46,575 | - | 794,988 |
| Disposals | - | - | (1,173) | - | (27,951) | - | (29,124) |
| Write off | (8,150) | - | - | (811) | - | - | (8,961) |
| At 31 December 2016 | 6,354,521 | 2,624,976 | 9,019,544 | 1,166,547 | 9,071,173 | - | 28,236,761 |
| **Net carrying amount** | | | | | | | |
| At 31 December 2016 | 60,407,248 | 46,151,086 | 7,481,644 | 1,199,190 | 36,943,094 | 5,357,772 | 157,540,034 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 14. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| Group | Buildings RM | Plantation infrastructure RM | Motor vehicles RM | Equipment, furniture and fittings RM | Plant and machinery RM | Capital work-in-progress RM | Total RM |
|---|---|---|---|---|---|---|---|
| **At 31 December 2015** | | | | | | | |
| **Cost** | | | | | | | |
| At 1 January 2015 | 60,518,210 | 44,352,633 | 11,454,978 | 2,101,956 | 37,722,170 | 4,625,541 | 160,775,488 |
| Additions | 2,058,040 | 2,678,750 | 3,476,409 | 148,282 | 2,560,472 | 3,204,458 | 14,126,411 |
| Reclassifications | 12,576 | - | - | - | - | (12,576) | - |
| Disposals | - | - | (45,000) | - | (258,621) | - | (303,621) |
| Write off | (100,805) | - | - | (3,102) | - | - | (103,907) |
| At 31 December 2015 | 62,488,021 | 47,031,383 | 14,886,387 | 2,247,136 | 40,024,021 | 7,817,423 | 174,494,371 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2015 | 3,718,707 | - | 6,548,233 | 856,219 | 1,128,477 | - | 12,251,636 |
| Depreciation charge for the year | 1,320,074 | 375,734 | 1,185,856 | 156,039 | 3,842,165 | - | 6,879,868 |
| Recognised in profit or loss | 1,001,705 | 201,880 | 650,277 | 106,890 | 3,742,112 | - | 5,702,864 |
| Capitalised in biological assets | 318,369 | 173,854 | 535,579 | 49,149 | 100,053 | - | 1,177,004 |
| Disposals | - | - | (44,999) | - | (25,849) | - | (70,848) |
| Write off | (32,649) | - | - | (1,914) | - | - | (34,563) |
| At 31 December 2015 | 5,006,132 | 375,734 | 7,689,090 | 1,010,344 | 4,944,793 | - | 19,026,093 |
| **Net carrying amount** | | | | | | | |
| At 31 December 2015 | 57,481,889 | 46,655,649 | 7,197,297 | 1,236,792 | 35,079,228 | 7,817,423 | 155,468,278 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 14. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| | Motor vehicles RM | Equipment, furniture and fittings RM | Total RM |
|---|---|---|---|
| **Company** | | | |
| **At 31 December 2016** | | | |
| **Cost** | | | |
| At 1 January 2016 and 31 December 2016 | 282,605 | 177,871 | 460,476 |
| **Accumulated depreciation** | | | |
| At 1 January 2016 | 195,321 | 166,198 | 361,519 |
| Depreciation charge for the year | 17,455 | 2,196 | 19,651 |
| At 31 December 2016 | 212,776 | 168,394 | 381,170 |
| **Net carrying amount** | | | |
| At 31 December 2016 | 69,829 | 9,477 | 79,306 |
| **At 31 December 2015** | | | |
| **Cost** | | | |
| At 1 January 2015 | 327,605 | 177,571 | 505,176 |
| Addition | - | 300 | 300 |
| Disposal | (45,000) | - | (45,000) |
| At 31 December 2015 | 282,605 | 177,871 | 460,476 |
| **Accumulated depreciation** | | | |
| At 1 January 2015 | 222,866 | 163,585 | 386,451 |
| Depreciation charge for the year | 17,454 | 2,613 | 20,067 |
| Disposal | (44,999) | - | (44,999) |
| At 31 December 2015 | 195,321 | 166,198 | 361,519 |
| **Net carrying amount** | | | |
| At 31 December 2015 | 87,284 | 11,673 | 98,957 |

Assets held under finance leases

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM1,567,200 (2015: RM3,208,593) by means of hire purchase arrangements. The cash outflow on acquisition of property, plant and equipment amounted to RM9,914,808 (2015: RM10,917,818).

The carrying amount of property, plant and equipment held under finance leases at the reporting date was RM5,085,433 (2015: RM4,029,328).

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 15. BIOLOGICAL ASSETS

| | Group | |
|---|---|---|
| | 2016 RM | 2015 RM |
| **Plantation development expenditure:** | | |
| At 1 January | 215,369,436 | 201,653,032 |
| Additions during the year | 9,735,124 | 13,716,404 |
| At 31 December | 225,104,560 | 215,369,436 |

Included in plantation development expenditure incurred during the financial year are:

| | Group | |
|---|---|---|
| | 2016 RM | 2015 RM |
| Interest expense (Note 8) | 305,627 | 872,919 |
| Depreciation (Note 14) | 794,988 | 1,177,004 |
| Employee benefits expenses (Note 10) | 3,130,715 | 4,886,646 |

The oil palm plantation of the Group is developed on a parcel of land measuring approximately 22,763 hectares situated in the locality of Gunung Rara/Kalabakan, Sabah, pursuant to the Agreement for Oil Palm Plantation dated 18 November 2005 entered between the subsidiary, Serijaya Industri Sdn. Bhd., and Benta Wawasan Sdn. Bhd., the licensee of the said land.

Pursuant to the agreement, Serijaya Industri Sdn. Bhd. is granted the permission to develop the said land into an oil palm plantation for a period of 30 years. On 29 August 2013, the tenure for the permission to develop the said land into oil palm plantation has been extended to 60 years.

Plantation development expenditure of the Group is pledged to bank for borrowings granted to its subsidiary as stated in Note 21.

## 16. INVESTMENT IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2016 RM | 2015 RM |
| Unquoted shares, at cost | | |
| - Ordinary shares | 2,050,000 | 2,050,000 |
| - Redeemable convertible non-cumulative preference shares | 242,650,000 | 207,150,000 |
| | 244,700,000 | 209,200,000 |
| ESOS granted to employees of subsidiaries | 1,118,273 | 1,017,478 |
| | 245,818,273 | 210,217,478 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 16. INVESTMENT IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

| Name of subsidiaries | Country of incorporation/ principal place of business | Principal activities | Proportion of ownership interest held by the Group* 2016 % | 2015 % |
|---|---|---|---|---|
| Serijaya Industri Sdn. Bhd. | Malaysia | Log extraction contractor, operation of oil palm plantations and palm oil mill | 100 | 100 |
| IPB Bio Energy Sdn. Bhd. | Malaysia | Producer and supplier of renewable energy | 100 | 100 |

* Equals to the proportion of voting rights held.

## 17. INVENTORIES

| | Group 2016 RM | Group 2015 RM | Company 2016 RM | Company 2015 RM |
|---|---|---|---|---|
| **Cost** | | | | |
| Oil palm nursery | 3,623,557 | 4,613,530 | - | - |
| Stores and supplies | 2,579,124 | 2,889,246 | - | - |
| Crude palm oil | 395,448 | 823,508 | - | - |
| Palm kernel | 102,097 | 200,296 | - | - |
| | 6,700,226 | 8,526,580 | - | - |
| **Net realisable value** | | | | |
| Oil palm nursery | 1,019,867 | - | - | - |
| | 7,720,093 | 8,526,580 | - | - |

## 18. DERIVATIVES

| | Group Contract/ Notional amount RM | Group Assets RM | Group Liabilities RM |
|---|---|---|---|
| **2016** | | | |
| **Non-hedging derivatives:** | | | |
| **Current:** | | | |
| Commodity future contracts | 6,778,407 | - | 904,668 |
| **2015** | | | |
| **Non-hedging derivatives:** | | | |
| **Current:** | | | |
| Commodity future contracts | - | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 19. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| **Current** | | | | |
| **Trade receivables** | | | | |
| Third parties | 3,189,129 | 3,189,129 | - | - |
| Related parties | 3,797,915 | 3,740,096 | - | - |
| | 6,987,044 | 6,929,225 | - | - |
| Less: Allowance for impairment third parties | (3,189,129) | (3,189,129) | - | - |
| Trade receivables, net | 3,797,915 | 3,740,096 | - | - |
| **Other receivables** | | | | |
| Amounts due from subsidiaries | - | - | 648,321 | 716,965 |
| Amounts due from related parties | - | 35,975 | - | - |
| Deposits | 3,423,554 | 1,122,604 | 7,074 | 7,074 |
| Prepayments | 186,665 | 96,472 | - | - |
| Sundry receivables | 1,733,401 | 1,080,300 | 27,472 | 6,187 |
| | 5,343,620 | 2,335,351 | 682,867 | 730,226 |
| | 9,141,535 | 6,075,447 | 682,867 | 730,226 |
| **Non-current** | | | | |
| **Other receivables** | | | | |
| Sundry receivables | 5,055,404 | - | - | - |
| Total trade and other receivables | 14,196,939 | 6,075,447 | 682,867 | 730,226 |
| Add : Cash and bank balances | 14,281,631 | 1,774,013 | 194,146 | 50,831 |
| Less : Prepayments | (186,665) | (96,472) | - | - |
| Total loans and receivables | 28,291,905 | 7,752,988 | 877,013 | 781,057 |

**(a) Trade receivables**

Trade receivables are non-interest bearing and generally on 30 days terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Related parties represent amounts due from:

| | 2016 RM | 2015 RM |
|---|---|---|
| A company related to Innoprise Corporation Sdn. Bhd. | - | 1,575,400 |
| A company related to TSH Resources Berhad | 3,797,915 | 2,164,696 |
| | 3,797,915 | 3,740,096 |

Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:

| | Group | |
|---|---|---|
| | 2016 RM | 2015 RM |
| Neither past due nor impaired | 3,797,915 | 3,740,096 |
| Impaired | 3,189,129 | 3,189,129 |
| | 6,987,044 | 6,929,225 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 19. TRADE AND OTHER RECEIVABLES (CONT'D)

### (a) Trade receivables (Cont'd)

Trade receivables are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are credit worthy debtors with good payment records with the Group.

None of the Group's trade receivables have been renegotiated during the financial year.

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

| | **Individually impaired** | |
|---|---|---|
| | **2016 RM** | **2015 RM** |
| Trade receivables - nominal amounts | 3,189,129 | 3,189,129 |
| Less: Allowance for impairment | (3,189,129) | (3,189,129) |
| | - | - |

Movement in allowance accounts:

| | **Group** | |
|---|---|---|
| | **2016 RM** | **2015 RM** |
| At 1 January | 3,189,129 | 3,189,129 |
| Charge for the year | - | - |
| At 31 December | 3,189,129 | 3,189,129 |

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

### (b) Amounts due from subsidiaries

Amounts due from subsidiaries are unsecured, non-interest bearing and are repayable upon demand.

### (c) Amounts due from related parties

| | **Group** | |
|---|---|---|
| | **2016 RM** | **2015 RM** |
| Companies related to TSH Resources Berhad | 74,497 | 35,975 |

### (d) Other receivables (non-current)

This represents advance payments to suppliers who provide services to the Group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 20. CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Cash on hand and at banks | 13,787,321 | 1,297,200 | 194,146 | 50,831 |
| Deposits with a licensed bank | 494,310 | 476,813 | - | - |
| | 14,281,631 | 1,774,013 | 194,146 | 50,831 |
| Less: Deposits with maturity more than 3 months | (494,310) | (476,813) | - | - |
| Cash and cash equivalents | 13,787,321 | 1,297,200 | 194,146 | 50,831 |

Deposits with a licensed bank of the Group amounting to RM494,310 (2015: RM476,813) are pledged as securities for banking facilities granted to the Group.

Deposits are make for a period of 12 months (2015: 12 months). The weighted average effective interest rate of deposits with a licensed bank of the Group as at the reporting date was 3.00% (2015: 3.30%).

## 21. LOANS AND BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| **Current** | | | | |
| Secured: | | | | |
| Hire purchase payables | 1,475,264 | 1,089,832 | - | - |
| Invoice financing | - | 3,643,129 | - | - |
| Term loans | 16,500,000 | 12,248,167 | - | - |
| Revolving credits | - | 21,000,657 | - | - |
| | 17,975,264 | 37,981,785 | - | - |
| **Non-current** | | | | |
| Secured: | | | | |
| Hire purchase payables | 1,862,194 | 2,179,032 | - | - |
| Term loans | 34,000,010 | 51,751,843 | - | - |
| | 35,862,204 | 53,930,875 | - | - |
| **Total loans and borrowings** | | | | |
| Hire purchase payables | 3,337,458 | 3,268,864 | - | - |
| Invoice financing | - | 3,643,129 | - | - |
| Term loans | 50,500,010 | 64,000,010 | - | - |
| Revolving credits | - | 21,000,657 | - | - |
| | 53,837,468 | 91,912,660 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 21. LOANS AND BORROWINGS (CONT'D)

The remaining maturities of the loans and borrowings, excluding hire purchase payables, as at 31 December 2016 were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM** | **RM** | **RM** | **RM** |
| On demand or within one year | 16,500,000 | 36,891,953 | - | - |
| More than 1 year and less than 2 years | 21,500,000 | 15,530,214 | - | - |
| More than 2 years and less than 5 years | 12,500,010 | 36,221,629 | - | - |
| | 50,500,010 | 88,643,796 | - | - |

The weighted average effective interest rates at the reporting date for borrowings, excluding hire purchase payables, were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **%** | **%** | **%** | **%** |
| Invoice financing | - | 5.01 | - | - |
| Term loans | 5.17 | 5.52 | - | - |
| Revolving credits | - | 5.64 | - | - |

Loans and borrowings of the Group are secured by the following:

(i) Corporate guarantee given by the Company.

(ii) Assignment of rights, title and interest including but not limited to the right to occupy and develop a parcel of land (Note 15).

(iii) All monies debenture and power of attorney over all of the existing and future assets of a subsidiary.

(iv) Pledge of deposits with licensed bank (Note 20).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 22. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| **Trade payables** | | | | |
| Third parties | 5,630,083 | 8,394,963 | - | - |
| Related party | 402,327 | 424,927 | - | - |
| | 6,032,410 | 8,819,890 | - | - |
| **Other payables** | | | | |
| Accruals | 3,384,427 | 2,711,220 | 168,521 | 160,959 |
| Retention sum for contract work | 983,649 | 2,277,489 | - | - |
| Sundry payables | 5,351,821 | 6,049,000 | 28,936 | 181,582 |
| FFB trade advances | - | 4,141,866 | - | - |
| | 9,719,897 | 15,179,575 | 197,457 | 342,541 |
| Total trade and other payables | 15,752,307 | 23,999,465 | 197,457 | 342,541 |
| Add: Loans and borrowings (Note 21) | 53,837,468 | 91,912,660 | - | - |
| Total financial liabilities carried at amortised cost | 69,589,775 | 115,912,125 | 197,457 | 342,541 |

**(a) Trade payables**

Trade payables are non-interest bearing and the normal credit terms granted to the Group range from one month to three months.

Related party represents amount due to Benta Wawasan Sdn. Bhd., a company related to Innoprise Corporation Sdn. Bhd., a corporate shareholder of the Company.

**(b) Sundry payables**

These amounts are non-interest bearing. Sundry payables are normally settled on 60 day terms.

Included in sundry payables is an amount of RM92,608 (2015: RM484,665) due to TSH Resources Berhad, a corporate shareholder of the Company.

**(c) FFB trade advances**

This represented FFB trade advances received from TSH Plantation Management Sdn. Bhd., a company related to TSH Resources Berhad. This amount bore interest at BLR+1.5% per annum and was to be offset against future FFB sale proceeds.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 23. DEFERRED TAX

| | As at 1 January 2015 RM | Recognised in profit or loss RM | As at 31 December 2015 RM | Recognised in profit or loss RM | As at 31 December 2016 RM |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Deferred tax liabilities:** | | | | | |
| Property, plant and equipment | 8,737,117 | 876,798 | 9,613,915 | 13,247,602 | 22,861,517 |
| Biological assets | 58,463,340 | 4,597,972 | 63,061,312 | (9,538,582) | 53,522,730 |
| | 67,200,457 | 5,474,770 | 72,675,227 | 3,709,020 | 76,384,247 |
| **Deferred tax assets:** | | | | | |
| Derivatives | - | - | - | (217,120) | (217,120) |
| Unutilised tax losses | (25,098,108) | 2,065,795 | (23,032,313) | 1,390,443 | (21,641,870) |
| Unabsorbed capital and agriculture allowances | (26,461,062) | (1,276,744) | (27,737,806) | 5,167,953 | (22,569,853) |
| | (51,559,170) | 789,051 | (50,770,119) | 6,341,276 | (44,428,843) |
| | 15,641,287 | 6,263,821 | 21,905,108 | 10,050,296 | 31,955,404 |

The unutilised tax losses and unabsorbed allowances are available for offsetting against future taxable profits of the Group under the Income Tax Act, 1967 and guidelines issued by the tax authority.

## 24. SHARE CAPITAL AND SHARE PREMIUM

| | Number of ordinary shares of RM1.00 each Share capital (Issued and fully paid) | ← Amount → Share capital (Issued and fully paid) RM | Share premium RM | Total share capital and share premium RM |
|---|---|---|---|---|
| At 1 January 2015 and 31 December 2015 | 191,237,300 | 191,237,300 | 1,097,552 | 192,334,852 |

| | Number of ordinary shares of RM0.50 each Share capital (Issued and fully paid) | ← Amount → Share capital (Issued and fully paid) RM | Share premium RM | Total share capital and share premium RM |
|---|---|---|---|---|
| At 1 January 2016 | 191,237,300* | 191,237,300 | 1,097,552 | 192,334,852 |
| Issued pursuant to: | | | | |
| Sub-division of shares | 191,237,300 | - | - | - |
| Rights issue | 95,618,650 | 47,809,325 | (1,097,552) | 46,711,773 |
| At 31 December 2016 | 478,093,250 | 239,046,625 | - | 239,046,625 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 24. SHARE CAPITAL AND SHARE PREMIUM (CONT'D)

| | Number of ordinary shares of RM0.50 each 2016 | Number of ordinary shares of RM1.00 each 2015 | Amount 2016 RM | Amount 2015 RM |
|---|---|---|---|---|
| **Authorised share capital** | | | | |
| At beginning of year | 500,000,000* | 500,000,000 | 500,000,000 | 500,000,000 |
| Sub-division of shares | 500,000,000 | - | - | - |
| At end of year | 1,000,000,000 | 500,000,000 | 500,000,000 | 500,000,000 |

* This indicates the number of ordinary shares at RM1.00 each prior to the subdivision of ordinary shares to RM1.00 each into two ordinary shares of RM0.50 each.

(a) Share split

During the financial year, the authorised share capital of the Company of RM500,000,000 comprising ordinary shares of RM1.00 each was altered to 1,000,000,000 ordinary shares of RM0.50 each.

During the financial year, the issued and paid-up share capital of the Company of RM191,237,300 comprising 191,237,300 ordinary shares of RM1.00 each were subdivided into 382,474,600 ordinary shares of RM0.50 each.

(b) Rights issue

During the financial year, the Company increased its issued and paid-up share capital from RM191,237,300 to RM239,046,625 by way of the issuance of 95,618,650 ordinary shares of RM0.50 each on the basis one Rights share for every four ordinary shares heldat an issue price of RM0.50 per Rights share, of which the first call of RM0.38 per Rights share was payable in cash and the second call of RM0.12 was capitalised from the Company's share premium and retained earnings account.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share and rank equally with regard to the Company's residual assets.

## 25. OTHER RESERVE

| | Group and Company 2016 RM | Group and Company 2015 RM |
|---|---|---|
| **Employee share option reserve** | | |
| At 1 January | 908,505 | 806,205 |
| **Transaction with owners** | | |
| Grant of equity-settled share option to employees | 125,758 | 102,300 |
| At 31 December | 1,034,263 | 908,505 |

Employee share option reserve represents the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduces by the expiry of exercise of the share options.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 26. RETAINED EARNINGS

The Company may distribute dividends out of its entire retained earnings as at 31 December 2016 and 31 December 2015 under the single tier system.

## 27. EMPLOYEE BENEFITS

### Employee share option plans

Executives' Share Options Scheme ("ESOS")

The Innoprise Plantations Berhad ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 30 October 2009. The ESOS was implemented on 25 May 2010 and is to be in force for a period of 10 years from the date of implementation.

The salient features of the ESOS are as follows:

(i) The ESOS Committee appointed by the Board of Directors to administer the ESOS, may from time to time grant options to eligible Executives of the Group to subscribe for new ordinary shares of RM1 each in the Company.

(ii) Subject to the discretion of the ESOS Committee, any Executives whose employment has been confirmed with at least one (1) year of continuous service before the date of offer and any directors on the date of offer in any company within the Group, shall be eligible to participate in the ESOS.

(iii) The total number of shares to be issued under the ESOS shall not exceed in aggregate 5% of the issued share capital of the Company at any point of time during the tenure of the ESOS.

(iv) The option price for each share shall be the weighted average of the market price as quoted in the Daily Official List issued by Bursa Securities for the 5 market days immediately preceding the date on which the option is granted less, if the ESOS Committee shall so determine at their discretion from time to time, a discount of not more than 10%. Notwithstanding this, the option price per share shall in no event be less than the nominal value of the share.

(v) All new ordinary shares issued upon exercise of the options granted under the ESOS will rank paripassu in all respects with the existing ordinary shares of the Company other than as may be specified in a resolution approving the distribution of dividends prior to their exercise dates.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 27. EMPLOYEE BENEFITS (CONT'D)

**Employee share option plans (Cont'd)**

Movement of share options during the financial year

| | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outstanding at 1 January* '000 | Sub-division+ '000 | Movement during the year: Granted '000 | Exercised '000 | Lapsed '000 | Outstanding at 31 December '000 | Exercisable at 31 December '000 |
| **2016** | | | | | | | |
| 2010 - Option 1 | 273 | 273 | - | - | (30) | 516 | 516 |
| 2011 - Option 2 | 18 | 18 | - | - | - | 36 | 36 |
| 2012 - Option 3 | 38 | 38 | - | - | - | 76 | 76 |
| - Option 4 | 247 | 247 | - | - | - | 494 | 494 |
| - Option 5 | 70 | 70 | - | - | - | 140 | 140 |
| 2013 - Option 6 | 23 | 23 | - | - | - | 46 | 30 |
| - Option 7 | 298 | 298 | - | - | (66) | 530 | 345 |
| 2014 - Option 8 | 139 | 139 | - | - | (12) | 266 | 93 |
| 2015 - Option 9 | 169 | 169 | - | - | - | 338 | 118 |
| | 1,275 | 1,275 | - | - | (108) | 2,442 | 1,848 |
| Weighted Average Exercise Price ("WAEP") (RM) | 1.22 | 0.61 | - | - | 0.63 | 0.61 | 0.57 |
| **2015** | | | | | | | |
| 2010 - Option 1 | 273 | - | - | - | - | 273 | 273 |
| 2011 - Option 2 | 18 | - | - | - | - | 18 | 18 |
| 2012 - Option 3 | 125 | - | - | - | (87) | 38 | 25 |
| - Option 4 | 247 | - | - | - | - | 247 | 161 |
| - Option 5 | 310 | - | - | - | (240) | 70 | 46 |
| 2013 - Option 6 | 132 | - | - | - | (109) | 23 | 8 |
| - Option 7 | 332 | - | - | - | (34) | 298 | 104 |
| 2014 - Option 8 | 152 | - | - | - | (13) | 139 | 21 |
| 2015 - Option 9 | - | - | 169 | - | - | 169 | - |
| | 1,589 | - | 169 | - | (483) | 1,275 | 656 |
| Weighted Average Exercise Price ("WAEP") (RM) | 1.21 | - | 1.41 | - | 1.31 | 1.22 | 1.10 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 27. EMPLOYEE BENEFITS (CONT'D)

**Employee share option plans (Cont'd)**

Movement of share options during the financial year (Cont'd)

* Share options over ordinary shares at par value of RM1.00 each.

+ Sub-division of share options over ordinary shares of RM1.00 each to share options over ordinary shares of RM0.50 each.

- The weighted average fair value of options granted during the financial year 2015 was RM0.63. There were no new share option granted during the financial year 2016.
- The range of exercise price for options outstanding at the reporting date was RM0.50 to RM0.85 (2015: RM1.00 to RM1.70). The weighted average remaining contractual life for these options is 4.00 (2015: 5.00) years.

Fair value of share options granted

The fair value of the share options granted under the ESOS is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the instruments were granted.

The following table lists the inputs to the option pricing models for the year ended 31 December 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Dividend yield (%) | - | 4.99 |
| Expected volatility (%) | - | 54.68 |
| Risk-free interest rate (% p.a.) | - | 3.62 |
| Expected life of option (years) | - | 5.00 |
| Weighted average share price (RM) | - | 1.35 |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

## 28. COMMITMENTS

**(a) Capital commitments**

| | Group | |
|---|---|---|
| | 2016 RM | 2015 RM |
| **Capital expenditure:** | | |
| Property, plant and equipment: | | |
| Approved and contracted for | 7,522,827 | 6,760,524 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 28. COMMITMENTS (CONT'D)

### (b) Operating lease commitments – as lessee

The Group has entered into an Agreement for Oil Palm Plantation with Benta Wawasan Sdn. Bhd. Pursuant to the agreement, the Group is granted the permission to develop a parcel of land into oil palm plantation for a period of 60 years. The Group shall pay the lessor an annual rent of RM50,000 for the first nine years and commencing the 10th year, the Group shall pay the lessor based on tonnage of fresh fruit bunches harvested from the land, subject to a minimum annual sum of RM50,000.

Future minimum rental payable under non-cancellable operating leases at the reporting date are as follows:

| | Group | |
|---|---|---|
| | 2016 RM | 2015 RM |
| Not later than 1 year | 50,000 | 50,000 |
| Later than 1 year but not later than 5 years | 200,000 | 200,000 |
| Later than 5 years | 2,600,000 | 2,650,000 |
| | 2,850,000 | 2,900,000 |

### (c) Finance lease commitments

The Group has finance leases for certain items of plant and equipment (Note 14). These leases do not have terms of renewal, but have purchase options at nominal values at the end of the lease term.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

| | Group | |
|---|---|---|
| | 2016 RM | 2015 RM |
| **Minimum lease payments** | | |
| Not later than 1 year | 1,668,150 | 1,237,128 |
| Later than 1 year not later than 2 years | 1,371,888 | 1,182,301 |
| Later than 2 years not later than 5 years | 741,240 | 1,289,476 |
| | 3,781,278 | 3,708,905 |
| Less: Future finance charges | (443,820) | (440,041) |
| Present value of minimum lease payments | 3,337,458 | 3,268,864 |
| **Present value of lease payments:** | | |
| Not later than 1 year | 1,475,264 | 1,089,832 |
| Later than 1 year not later than 2 years | 1,207,284 | 1,042,139 |
| Later than 2 years not later than 5 years | 654,910 | 1,136,893 |
| | 3,337,458 | 3,268,864 |
| **Analysed as:** | | |
| Due within 12 months | 1,475,264 | 1,089,832 |
| Due after 12 months | 1,862,194 | 2,179,032 |
| | 3,337,458 | 3,268,864 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 28. COMMITMENTS (CONT'D)

### (c) Finance lease commitments (Cont'd)

The effective interest rates of hire purchase payables of the Group at the reporting date were ranging from 5.30% to 7.21% (2015: 5.30% to 8.10%) per annum.

## 29. MATERIAL LITIGATION

On 3 June 2014, Serijaya Industri Sdn. Bhd. (SJI), a wholly-owned subsidiary of the Company, filed a notice of arbitration against Asiatic Lumber Industries Sdn. Bhd. (ALISB) for a claim approximately RM14,631,516 arising from a shortfall in guaranteed volume of log production under a Logging Sub-Contract agreement between SJI and ALISB.

Under the Logging Sub-Contract agreement, ALISB has undertaken to extract a minimum of 120,000 $m^3$ of logs per annum. The amount of RM14,631,516 was computed on the loss of profit from production shortfall.

On 1 July 2014, ALISB filed a counterclaim for alleged losses of RM47,638,833.

The Arbitrator had on 6 October 2016 awarded SJI the whole claim amounted to RM11,619,123 for shortfall from 2011 to 2013 with interest at 10% per annum.

ALISB has sought determination from the High Court on questions of law arising from the Arbitrator's Final Award and, on 4 April 2017, the High Court has delivered the ruling in favour of SJI. SJI is currently making application to register the Arbitrator's Final Award in the High Court of Kota Kinabalu.

## 30. RELATED PARTY TRANSACTIONS

### (a) Sale and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

**Group**

| | 2016 RM | 2015 RM |
|---|---|---|
| **Trade transactions** | | |
| Transaction with related parties: | | |
| Log extraction contract fee income from Rakyat Berjaya Sdn. Bhd.+ | 20,284,991 | 30,181,947 |
| Rental paid to TSH Resources Bhd.* | 101,429 | 91,200 |
| Sale of oil palm fresh fruit bunches to TSH Plantation Management Sdn. Bhd.++ | 185,999 | 1,569 |
| Interest charged by TSH Plantation Management Sdn. Bhd.++ | 39,697 | 411,619 |
| Sale of oil palm seedlings to Rinukut Plantations Sdn. Bhd.+++ | - | 691,513 |
| Purchase of property, plant and equipment from TSH Plantation Sdn. Bhd.++ | - | 24,000 |
| Purchase of property, plant and equipment from TSH Plantation Management Sdn. Bhd.++ | 87,000 | 158,000 |
| Repayment of FFB trade advances TSH Plantation Management Sdn. Bhd.++ | 4,141,866 | 1,000,000 |
| Sale of crude palm oil to TSH Wilmar Sdn. Bhd. ++ | 102,316,623 | 77,040,590 |
| Sale of palm kernel to TSH Wilmar Sdn. Bhd. ++ | 13,561,410 | 7,820,573 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 30. RELATED PARTY TRANSACTIONS (CONT'D)

### (a) Sale and purchase of goods and services (Cont'd)

**Company**

| | 2016<br>RM | 2015<br>RM |
|---|---|---|
| **Trade transaction** | | |
| Management fee charged to subsidiary | | |
| - Serijaya Industri Sdn. Bhd. | 360,000 | 360,000 |
| - IPB Bio Energy Sdn. Bhd. | 36,000 | 36,000 |
| | | |
| Transaction with related party: | | |
| Rental paid to Yayasan Sabah ** | 42,750 | 77,234 |

+ Companies related to Innoprise Corporation Sdn. Bhd., a corporate shareholder of the Company.

++ Companies related to TSH Resources Berhad, a corporate shareholder of the Company, a company in which a director of the Company has an interest.

+++ A company in which Tan Aik Kiong (director of the Company) is a director.

* A corporate shareholder of the Company.

** A holding entity of Innoprise Corporation Sdn. Bhd., a corporate shareholder of the Company.

Information regarding outstanding balances arising from related party transactions as at 31 December 2016 are disclosed in Note 19 and 22.

### (b) Compensation of key management personnel

| | Group | | Company | |
|---|---|---|---|---|
| | 2016<br>RM | 2015<br>RM | 2016<br>RM | 2015<br>RM |
| Short-term employee benefits | 1,348,700 | 1,043,700 | 129,500 | 127,500 |
| Share-based payments | 42,987 | 33,790 | 24,963 | 19,007 |
| | 1,391,687 | 1,077,490 | 154,463 | 146,507 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Determination of fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The followings are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

| | **Note** |
|---|---|
| Trade and other receivables | 19 |
| Trade and other payables | 22 |
| Loans and borrowings (current) | 21 |
| Loans and borrowings (non-current) | 21 |

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amounts of the current portion of loans and borrowings are reasonable approximation of fair values due to the insignificant impact of discounting.

Financial guarantees

Fair value is determined based on probability weighted discounted cash flow method. The probability has been estimated and assigned for the following key assumptions:

- The likelihood of the guaranteed party defaulting within the guaranteed period;
- The exposure on the portion that is not expected to be recovered due to the guaranteed party's default;
- The estimated loss exposure if the party guaranteed were to default.

The fair value of the financial guarantees is negligible as the probability of the financial guarantees being called is remote as the subsidiary will be able to meet its short term loans and borrowings obligations as and when they are due.

### (a) Fair value assets and liabilities

The Company categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

### (b) Assets and liabilities measured at fair value

The following table shows an analysis of assets and liabilities carried at fair value by level of fair value hierarchy:

| | Group | | | |
|---|---|---|---|---|
| | Quoted prices in active market for identical instruments (Level 1) RM | Significant observable inputs other than quoted prices (Level 2) RM | Significant unobservable inputs (Level 3) RM | Total RM |
| **Recurring fair value measurements** | | | | |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Derivatives - commodity future contracts | | | | |
| - 2016 | - | (904,668) | - | (904,668) |
| - 2015 | - | - | - | - |

**Derivatives**

Fair value of commodity future contracts are based on management's best estimate and are arrived at by reference to the market prices of another contract that is substantially similar.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and interest rate risk.

The Board of Directors reviews and agrees on policies and procedures for the management of these risks, which are executed by Executive Committee. The audit committee provides independent oversight to the effectiveness of the risk management process.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

### (a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities and cash and bank balances), the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (a) Credit risk (Cont'd)

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by:

- The carrying amount of each class of financial assets recognised in the statements of financial position.

- A nominal amount of RM90,000,000 (2015: RM90,000,000) relating to corporate guarantee provided by the Company to bankers on credit facilities granted to subsidiaries

Credit risk concentration profile

At the reporting date, 100% (2015: 100%) of the Group's trade receivables were due from one major related party.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 19. Deposits with banks that are neither past due nor impaired are placed with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 19.

### (b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

At the reporting date, approximately 33% (2015: 41%) of loans and borrowings will mature in less than one year based on the carrying amount reflected in the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (b) Liquidity risk (Cont'd)

| Group | 2016 On demand or within one year RM | 2016 One to five years RM | 2016 Over five years RM | 2016 Total RM | 2015 On demand or within one year RM | 2015 One to five years RM | 2015 Total RM |
|---|---|---|---|---|---|---|---|
| Trade and other receivables | 8,954,870 | 3,040,058 | 2,015,346 | 14,010,274 | 5,978,975 | - | 5,978,975 |
| Total cash and bank balances | 14,281,631 | - | - | 14,281,631 | 1,774,013 | - | 1,774,013 |
| Total undiscounted financial assets | 23,236,501 | 3,040,058 | 2,015,346 | 28,291,905 | 7,752,988 | - | 7,752,988 |
| **Financial liabilities:** | | | | | | | |
| Trade and other payables | 15,752,307 | - | - | 15,752,307 | 23,999,465 | - | 23,999,465 |
| Loans and borrowings | 20,407,406 | 37,595,193 | - | 58,002,599 | 41,820,480 | 59,102,070 | 100,922,550 |
| Derivatives | 904,668 | - | - | 904,668 | - | - | - |
| Total undiscounted financial liabilities | 37,064,381 | 37,595,193 | - | 74,659,574 | 65,819,945 | 59,102,070 | 124,922,015 |
| Total net undiscounted financial liabilities | (13,827,880) | (34,555,135) | 2,015,346 | (46,367,669) | (58,066,957) | (59,102,070) | (117,169,027) |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (b) Liquidity risk (Cont'd)

| | On demand or within one year | |
|---|---|---|
| | **2016** | **2015** |
| | **RM** | **RM** |
| **Company** | | |
| **Financial assets:** | | |
| Trade and other receivables | 682,867 | 730,226 |
| Total cash and bank balances | 194,146 | 50,831 |
| Total undiscounted financial assets | 877,013 | 781,057 |
| Financial liabilities: | | |
| Trade and other payables | 197,457 | 342,541 |
| Financial guarantee contracts * | 90,000,000 | 90,000,000 |
| Total undiscounted financial liabilities | 90,197,457 | 90,342,541 |
| Total net undiscounted financial liabilities | (89,320,444) | (89,561,484) |

* Based on the maximum amount that can be called for under the financial guarantee contract.

### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risk arises primarily from their loans and borrowings. The investment in financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

<u>Sensitivity analysis for interest rate risk</u>

At the reporting date, if interest rates had been 25 basis points lower/higher, with all other variables held constant, the Group's profit net of tax would have been RM177,514 (2015: RM198,293) higher/lower, arising mainly as a result of lower/higher interest expense on loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is base on the currently observable market environment.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 33. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio,which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 10% and 40%. The Group includes within net debts, loans and borrowings, trade and other payables, less cash and cash equivalents.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Loans and borrowings | 21 | 53,837,468 | 91,912,660 | - | - |
| Trade and other payables | 22 | 15,752,307 | 23,999,465 | 197,457 | 342,541 |
| Less: Cash and bank balances | 20 | (14,281,631) | (1,774,013) | 194,146 | 50,831 |
| Net debt | | 55,308,144 | 114,138,112 | 391,603 | 393,372 |
| Capital: | | | | | |
| Equity attributable to owners of the Company | | 316,801,851 | 249,459,588 | 246,577,135 | 210,754,951 |
| **Capital and net debt** | | 372,109,995 | 363,597,700 | 246,968,738 | 211,148,323 |
| **Gearing ratio** | | 15% | 31% | 1% | 1% |

## 34. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their product and services, and has two reportable operating segments as follows:

(i) Palm and bio-integration - Cultivation of oil palm, manufacture and sale of crude palm oil and palm kernel, and generation and supply of electricity from a biomass plant;

(ii) Timber - Log extraction services

(iii) Corporate - Group level corporate services and treasury functions

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 34. SEGMENT INFORMATION (CONT'D)

| | Palm and bio-integration | | Timber | | Corporate | | Adjustment and elimination | | Note | Per consolidated financial statements | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM | 2016 RM | 2015 RM | 2016 RM | 2015 RM | | 2016 RM | 2015 RM |
| **Revenue:** | | | | | | | | | | | |
| External customers | 121,592,813 | 89,574,384 | 20,284,991 | 30,181,947 | - | - | (5,528,781) | (4,711,652) | | 136,349,023 | 115,044,679 |
| **Results:** | | | | | | | | | | | |
| Depreciation and amortisation | 8,434,114 | 5,662,937 | - | 19,860 | 19,651 | 20,067 | - | - | | 8,453,765 | 5,702,864 |
| Dividend income | - | - | - | - | 64,823 | 10,650,000 | - | (10,650,000) | | 64,823 | - |
| Interest income | 95,746 | 45,533 | - | - | - | 1,587 | - | - | | 95,746 | 47,120 |
| Other non-cash expenses | 824,520 | 69,334 | - | - | 125,753 | 102,300 | - | - | A | 950,273 | 171,634 |
| Segment profit | 36,151,036 | 18,867,162 | 5,793,512 | 8,620,113 | (161,603) | (328,772) | (396,000) | (396,000) | B | 41,386,945 | 26,762,503 |
| **Assets:** | | | | | | | | | | | |
| Additions to non-current assets | 21,217,132 | 27,842,515 | - | - | - | 300 | - | - | C | 21,217,132 | 27,842,815 |
| Segment assets | 404,527,080 | 385,439,741 | - | - | 14,316,177 | 1,774,013 | 408,441 | 102,750 | D | 419,251,698 | 387,316,504 |
| **Segment liabilities** | 16,030,749 | 23,550,808 | 428,769 | - | 197,457 | 448,657 | 85,792,872 | 113,857,451 | E | 102,449,847 | 137,856,916 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 34. SEGMENT INFORMATION (CONT'D)

Note Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements

A Other material non-cash expenses consist of the following items as presented in the respective notes to the financial statements:

| | 2016 RM | 2015 RM |
|---|---|---|
| Property, plant and equipment written off | 108,623 | 69,334 |
| Share-based payments | 125,753 | 102,300 |
| Inventory written down | 655,451 | - |
| Inventory written off | 60,446 | - |
| | 950,273 | 171,634 |

B The following items are deducted from segment profit to arrive at profit before tax presented in the consolidated statement of comprehensive income:

| | 2016 RM | 2015 RM |
|---|---|---|
| Unallocated corporate expenses | (396,000) | (396,000) |

C Additions to non-current assets consist of:

| | 2016 RM | 2015 RM |
|---|---|---|
| Property, plant and equipment | 11,482,008 | 14,126,411 |
| Biological assets | 9,735,124 | 13,716,404 |
| | 21,217,132 | 27,842,815 |

D The following item is added to segment assets to arrive at total assets reported in the consolidated statement of financial position:

| | 2016 RM | 2015 RM |
|---|---|---|
| Income tax refundable | 408,441 | 102,750 |

E The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

| | 2016 RM | 2015 RM |
|---|---|---|
| Income tax payable | - | 39,683 |
| Deferred tax liabilities | 31,955,404 | 21,905,108 |
| Loans and borrowings | 53,837,468 | 91,912,660 |
| | 85,792,872 | 113,857,451 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 35. DIVIDENDS

At the forthcoming Annual General Meeting, a first and final tax exempt (single-tier) dividend in respect of the financial year ended 31 December 2016, of 2% on ordinary shares, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2017.

## 36. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 17 April 2017.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 37. SUPPLEMENTARY INFORMATION – BREAKDOWN OF RETAINED EARNINGS INTO REALISED AND UNREALISED

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2016 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

| | Group | | Company | |
|---|---|---|---|---|
| | 2016<br>RM | 2015<br>RM | 2016<br>RM | 2015<br>RM |
| Total retained earnings of the Company and its subsidiaries | | | | |
| - Realised | 111,916,367 | 81,397,339 | 6,496,247 | 17,511,594 |
| - Unrealised | (31,955,404) | (21,905,108) | - | - |
| | 79,960,963 | 59,492,231 | 6,496,247 | 17,511,594 |
| Less: Consolidation adjustments | (3,240,000) | (3,276,000) | - | - |
| Retained earnings as per financial statements | 76,720,963 | 56,216,231 | 6,496,247 | 17,511,594 |

# SHAREHOLDINGS STRUCTURE

AS AT 31 MARCH 2017

| | | |
|---|---|---|
| Authorised Share Capital | : | RM500,000,000 |
| Issued & Paid-up Capital | : | RM239,510,360 |
| Class of Shares | : | Ordinary shares of RM0.50 each |
| Voting Rights | : | One vote per ordinary share |

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | | | No. of holders | % | No. of shares | % |
|---|---|---|---|---|---|---|
| 1 | - | 99 | 16 | 0.44 | 465 | 0.00 |
| 100 | - | 1,000 | 1,593 | 43.79 | 1,553,047 | 0.32 |
| 1,001 | - | 10,000 | 1,660 | 45.63 | 6,234,475 | 1.30 |
| 10,001 | - | 100,000 | 288 | 7.92 | 8,744,589 | 1.83 |
| 100,001 | - | 23,942,896 (*) | 78 | 2.14 | 87,969,625 | 18.37 |
| 22,942,896 | - | and above (**) | 3 | 0.08 | 374,355,749 | 78.18 |
| TOTAL | | | 3,638 | 100.00 | 478,857,950 | 100.00 |

* - Less than 5% of issued holdings
** - 5% and above of issued holdings

## LIST OF TOP 30 SECURITIES ACCOUNT HOLDERS

| No. | Name | No. of shares held | % |
|---|---|---|---|
| 1. | Innoprise Corporation Sdn. Bhd. | 240,469,407 | 50.22 |
| 2. | TSH Resources Berhad | 105,060,592 | 21.94 |
| 3. | UOB Kay Hian Nominees (Asing) Sdn. Bhd.<br>Exempt AN for UOB Kay Hian Pte Ltd (A/C Clients) | 28,825,750 | 6.02 |
| 4. | Embun Yakin Sdn. Bhd. | 10,587,750 | 2.21 |
| 5. | Mutual Corridor Sdn. Bhd. | 10,004,000 | 2.09 |
| 6. | Tunas Lestari Sdn. Bhd. | 10,000,000 | 2.09 |
| 7. | Kenanga Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Ngai Chee Ping (009) | 5,214,625 | 1.09 |
| 8. | Angeline Wong Yu Ching | 5,210,000 | 1.09 |
| 9. | RHB Capital Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Salbiah Binti Shuib | 4,000,000 | 0.84 |
| 10. | Wong Chin Hor | 3,691,200 | 0.77 |
| 11. | Suresh A/L Thirugnanam | 3,018,750 | 0.63 |
| 12. | Amanahraya Trustee Berhad<br>PMB Shariah Aggressive Fund | 2,931,100 | 0.61 |

# SHAREHOLDINGS STRUCTURE

AS AT 31 MARCH 2017

## LIST OF TOP 30 SECURITIES ACCOUNT HOLDERS (CONT'D)

| No. | Name | No. of shares held | % |
|---|---|---|---|
| 13. | Kenanga Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Yap Pak Leong | 2,474,600 | 0.52 |
| 14. | AMSEC Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account – AmBank (M) Berhad for Tan Aik Pen (SMART) | 2,300,000 | 0.48 |
| 15. | Lim Fook Hin | 2,175,000 | 0.45 |
| 16. | CIMSEC Nominees (Tempatan) Sdn. Bhd.<br>CIMB Bank for Salbiah Binti Shuib (MM0641) | 1,971,000 | 0.41 |
| 17. | HLIB Nominees (Tempatan) Sdn. Bhd.<br>Hong Leong Bank Bhd for Teh Shiou Cherng | 1,930,300 | 0.40 |
| 18. | Alliance group Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Mohan A/L Ramalingam (8059306) | 1,500,000 | 0.31 |
| 19. | Alliance group Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Julie Mae Yeong (8052622) | 1,096,500 | 0.23 |
| 20. | CIMSEC Nominees (Tempatan) Sdn. Bhd.<br>CIMB for Yap Pak Leong (PB) | 1,000,000 | 0.21 |
| 21. | RHB Capital Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Tan Aik Pen | 875,000 | 0.18 |
| 22. | AMSEC Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Julie Mae Yeong | 869,875 | 0.18 |
| 23. | RHB Capital Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Chua Thear Ho (CEB) | 850,000 | 0.18 |
| 24. | Simfoni Bernas Sdn. Bhd. | 815,000 | 0.17 |
| 25. | Tan Aik Kiong | 750,000 | 0.16 |
| 26. | Embun Yakin Sdn. Bhd. | 643,250 | 0.13 |
| 27. | Citigroup Nominees (Tempatan) Sdn. Bhd.<br>Kumpulan Wang Persaraan (Diperbadankan) (MYBK AM SC E) | 600,000 | 0.13 |
| 28. | Ngai Chee Ping | 575,625 | 0.12 |
| 29. | Lok Yan Fong | 545,200 | 0.11 |
| 30. | Mohd Fazli Bin Mazlan | 538,700 | 0.11 |
| **TOTAL** | | 450,523,224 | 94.08 |

# SHAREHOLDINGS STRUCTURE
AS AT 31 MARCH 2017

## SUBSTANTIAL SHAREHOLDINGS

According to the register to be kept under Section 69L of the Companies Act, 1965, the following is the substantial shareholder of the Company having an interest of five percent (5%) or more of the aggregate of the amounts of all the voting shares of the Company:

| No. | Name | No. of shares held | % |
|---|---|---|---|
| 1. | Innoprise Corporation Sdn Bhd | 240,479,407 | 50.22 |
| 2. | TSH Resources Berhad | 105,060,592 | 21.94 |

## DIRECTORS' SHAREHOLDINGS

According to the register to be kept under Section 134 of the Companies Act, 1965, the directors' shareholdings in the Company are as follows:

| | | No. of shares held | | | |
|---|---|---|---|---|---|
| **No.** | **Name** | **Direct** | **%** | **Indirect** | **%** |
| 1. | Datuk Hj. Majin Hj. Ajing | 75,000 | 0.02 | - | - |
| 2. | Datuk (Dr.) Kelvin Tan Aik Pen | 3,175,000 | 0.66 | - | - |
| 3. | Datuk Hj. Othman Bin Walat | 434,750 | 0.09 | - | - |
| 4. | Lim Fook Hin | 2,175,000 | 0.45 | - | - |
| 5. | Tan Aik Kiong (Alternate Director to Datuk (Dr.) Kelvin Tan Aik Pen) | 750,000 | 0.16 | - | - |

Except for Datuk Hj. Majin Hj. Ajing, Datuk (Dr.) Kelvin Tan Aik Pen, Datuk Hj. Othman Bin Walat, Lim Fook Hin and Tan Aik Kiong, none of the other directors of the Company has any interest, direct or indirect, in the shares of the Company.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 23rd Annual General Meeting of the Company will be held at Belian Room, 7th Floor, Promenade Hotel, Eastern Plaza, Mile 1, Jalan Kuhara, 91000 Tawau, Sabah, on Tuesday, 23 May 2017 at 11:30 am to transact the following business:

## AGENDA

### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 and the Reports of the Directors and Auditors thereon. *Please refer to Explanatory Notes (a)*

2. To declare a first and final single tier dividend of 2 sen per ordinary share in respect of the financial year ended 31 December 2016. *Resolution 1*

3. To approve the payment of Directors' fees of RM120,000 for the financial year ended 31 December 2016. *Resolution 2*

4. To re-elect the following directors, retiring pursuant to Article No. 90 of the Company's Constitution:

   (a) Datuk Hj. Majin Hj. Ajing *Resolution 3*
   (b) Datuk Sam Mannan @ Sham Mannan *Resolution 4*

5. To re-appoint Datuk Jaswant Singh Kler as a director of the Company. *Resolution 5*

6. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. *Resolution 6*

### SPECIAL BUSINESS

7. To consider and if thought fit, to pass the following resolution:

   **ORDINARY RESOLUTION**

   **Proposed Retention of Datuk Hj. Majin Hj. Ajing as an Independent Non-Executive Director** *Resolution 7*

   "THAT subject to the passing of Resolution 3, Datuk Hj. Majin Hj. Ajing who had served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years to continue to act as an Independent Non-Executive Director of the Company until the next Annual General Meeting."

8. To consider and if thought fit, to pass the following resolution:

   **ORDINARY RESOLUTION**

   **Proposed Retention of Datuk Jaswant Singh Kler as an Independent Non-Executive Director** *Resolution 8*

   "THAT subject to the passing of Resolution 5, Datuk Jaswant Singh Kler who had served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years to continue to act as an Independent Non-Executive Director of the Company until the next Annual General Meeting."

# NOTICE OF ANNUAL GENERAL MEETING

9. To consider and if thought fit, to pass the following resolution:

**ORDINARY RESOLUTION**

**Authority to Issue Shares Pursuant to Section 76 of the Companies Act 2016** *Resolution 9*

"THAT subject always to the Companies Act 2016, Constitution of the Company and approvals from the relevant statutory and regulatory authorities, where such approvals are necessary, full authority be and is hereby given to the Directors pursuant to Section 76 of the Companies Act 2016, to issue shares in the Company from time to time at such price upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this Resolution does not exceed 10% of the total number of issued share in the Ordinary Share Capital of the Company for the time being and that the Directors be and are empowered to obtain the approvals from Bursa Malaysia Securities Berhad for the listing and quotation of the additional new ordinary shares to be issued and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

10. To consider and if thought fit, to pass the following resolution:

**ORDINARY RESOLUTION**

**Proposed Renewal of the Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature** *Resolution 10*

"THAT approval be and is hereby given, for the Renewal of the Existing Shareholders' Mandate for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.4.2 of the Circular to Shareholders dated 26 April 2017 with the related parties described therein provided such transactions are necessary for the day to day operations, carried out in the normal course of business, at arm's length, on normal commercial terms, not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders;

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next annual general meeting of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next annual general meeting of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(c) revoked or varied by a resolution passed by the shareholders in general meeting,

whichever is the earlier.

AND THAT the Directors be and are hereby authorised to complete and do such acts and things as may be required by the relevant authorities (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution."

11. To transact any other business of the Company of which due notice shall have been given to the Company in accordance with the Company's Constitution and the Act.

# NOTICE OF ANNUAL GENERAL MEETING

### GENERAL MEETING RECORD OF DEPOSITORS

**FURTHER NOTICE IS HEREBY GIVEN THAT** for the purpose of determining a member who shall be entitled to attend this 23rd Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd., in accordance with Article 62(3) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 16 May 2017. Only a depositor whose name appears on the Record of Depositors as at 16 May 2017 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his behalf.

### NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

**NOTICE IS ALSO HEREBY GIVEN THAT** the first and final single tier dividend of 2 sen per ordinary shares for the financial year ended 31 December 2016, if approved by the shareholders at the forthcoming Annual General Meeting will be paid on 16 June 2017 to depositors registered in the Record of Depositors at the close of business on 25 May 2017.

A depositor shall qualify for entitlement only in respect of:-

(a) Shares transferred into the depositor's securities account before 4.00 pm on 25 May 2017 in respect of transfers; and

(b) Shares bought on the Bursa Securities on a cum entitlement basis according to the Rules of the Bursa Securities.

By Order of the Board

Dorothy Luk Wei Kam (MAICSA 7000414)
Chan Ai Hoon (LS 0000393)
Company Secretaries

Kota Kinabalu, Sabah
Dated: 26 April 2017

### NOTES

(a) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy.

(b) A member shall be entitled to appoint one (1) but not more than two (2) proxies to attend and vote at the same meeting and where a member appoints two (2) proxies to attend and vote instead of him at the same meeting, the appointment shall be invalid unless he specified the proportions of his holdings to be represented by each proxy.

(c) Where a member of the Company is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.

(d) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

(e) The instrument appointing a proxy shall be deposited at the Registered Office of the Company at 6th Floor, Menara Tun Mustapha, Likas Bay, 88400 Kota Kinabalu, Sabah, not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

### EXPLANATORY NOTES

**(a) Audited Financial Statements for Financial Year Ended 31 December 2016**

Agenda 1 is meant for discussion only as the provision of Section 340(1)(a) of the Companies Act 2016 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, it will not be put forward for voting.

# NOTICE OF ANNUAL GENERAL MEETING

**EXPLANATORY NOTES (CONT'D)**

**(b) Re-appointment of Director**

With the coming into force the Companies Act 2016 on 31 January 2017, there is no age limit for directors.

At the 22nd Annual General Meeting of the Company held on 24 May 2016, Datuk Jaswant Singh Kler who is above the age of 70, was re-appointed pursuant to Section 129(6) of the Companies Act, 1965 to hold office until the conclusion of the 23rd Annual General Meeting, where he will be subject to re-appointment by the members.

The proposed Resolution 5, if passed, will enable Datuk Jaswant Singh Kler to continue to act as Director of the Company and he shall subject to retirement at a later date.

**(c) Proposed Retention of Independent Non-Executive Director**

In relation to the proposed Resolution 7 and 8, the Nomination Committee has assessed the independence of Datuk Hj. Majin Hj. Ajing and Datuk Jaswant Singh Kler who had served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, and recommended that they continue to act as Independent Non-Executive Directors of the Company based on the following justifications:

(1) they have fulfilled the criteria under the definition of Independent Director pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad;
(2) they have ensured check and balance in the proceedings of the Board and the Board committees;
(3) they have actively participated in Board deliberations, provided objectivity in decision making and an independent voice to the Board;
(4) they have devoted sufficient time and attention to their responsibility as Independent Non-Executive Directors of the Company; and
(5) they have exercised due care in the interest of the Company and shareholders during their tenure as Independent Non-Executive Directors of the Company.

**(d) Authority to Issue Shares pursuant to Section 76 of the Companies Act 2016**

The proposed Resolution 9, if passed, shall give power to the Directors to issue ordinary shares in the capital of the Company up to an aggregate amount not exceeding 10% of the total number of issued share in the Share Capital of the Company for the time being. This authority unless revoked or varied at a general meeting will expire at the next Annual General Meeting.

The general mandate sought for issue of shares is a renewal of the mandate that was approved by the shareholders on 24 May 2016. The Company did not utilise the mandate that was approved last year. The renewal of the general mandate is to provide flexibility to the Company to issue new shares without the need to convene separate general meeting to obtain its shareholders' approval so as to avoid incurring additional cost and time. The purpose of this general mandate is for possible fund raising exercises including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital and/or acquisitions.

**(e) Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**

The proposed Resolution 10, if passed, will allow the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the mandated related parties provided that such transactions are necessary for the Group's day to day operations, carried out in the normal course of business, at arm's length, on commercial terms which are not more favourable to the related parties than those generally available to the public and not detrimental to the minority shareholders. Shareholders are directed to refer the Circular to Shareholders dated 26 April 2017 for more information.

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1. The Directors who are standing for re-election and re-appointment at the 23rd Annual General Meeting are:

   (a) Datuk Hj. Majin Hj. Ajing

   (b) Datuk Sam Mannan @ Sham Mannan

   (c) Datuk Jaswant Singh Kler

   The details of the abovementioned Directors who are standing for re-election and re-appointment are disclosed in the Directors' Profiles appearing on Pages 3 to 6 of the Annual Report and the shareholdings of the directors holdings shares in the Company are disclosed under "Directors' Shareholdings" on page 113 of the Annual Report.

2. A statement on the general mandate for issue of securities has been inserted under item (d) of the Explanatory Notes to the Notice of Annual General Meeting on page 117 of the Annual Report.

## INNOPRISE PLANTATIONS BERHAD

Company No. 285072-M
(Incorporated in Malaysia)

## PROXY FORM

I/We,..........................................................................................of.........................................................................................
..................................................................................................... being a Member/Members of INNOPRISE PLANTATIONS BERHAD hereby appoint..........................................................................................................................................
of...................................................................................................................................................................................
or failing him.................................................................................................................................................................
of...................................................................................................................................................................................
or failing him, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the 23rd Annual General Meeting of the Company, to be held at Belian Room, 7th Floor, Promenade Hotel, Eastern Plaza, Mile 1, Jalan Kuhara, 91000 Tawau, Sabah, on Tuesday, 23 May 2017 at 11:30 am or any adjournment thereof.

I/We direct my/our proxy to vote for or against the Resolutions to be proposed at the Meeting as hereinunder indicated.

| No. | Agenda | | | |
|---|---|---|---|---|
| 1. | To receive the Audited Financial Statements for the financial year ended 31 December 2016 and the Reports of the Directors and Auditors thereon. | | | |
| | | **Resolution** | **FOR** | **AGAINST** |
| 2. | To declare a first and final single tier dividend of 2 sen per ordinary share. | 1 | | |
| 3. | To approve the payment of Directors' fees of RM120,000 for the financial year ended 31 December 2016. | 2 | | |
| 4. | To re-elect Datuk Hj. Majin Hj. Ajing as Director. | 3 | | |
| 5. | To re-elect Datuk Sam Mannan @ Sham Mannan as Director. | 4 | | |
| 6. | To re-appoint Datuk Jaswant Singh Kler as Director. | 5 | | |
| 7. | To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. | 6 | | |
| 8. | To retain Datuk Hj. Majin Hj. Ajing as an Independent Non-Executive Director. | 7 | | |
| 9. | To retain Datuk Jaswant Singh Kler as an Independent Non-Executive Director. | 8 | | |
| 10. | Authority to issue shares pursuant to Section 76 of the Companies Act 2016. | 9 | | |
| 11. | Proposed Renewal of the Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | 10 | | |

(Please indicate with an "X" in the appropriate box against each resolution how you wish your proxy to vote. If this form of proxy is returned without any indication as to how the proxy shall vote, the proxy will vote or abstain as he thinks fit).

Dated this ............................. day of ............................. 2017

| **No. of Shares held** | |
|---|---|

..........................................................
Signature/Common Seal of Member(s)

**NOTES**

(a) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy.

(b) A member shall be entitled to appoint one (1) but not more than two (2) proxies to attend and vote at the same meeting and where a member appoints two (2) proxies to attend and vote instead of him at the same meeting, the appointment shall be invalid unless he specified the proportions of his holdings to be represented by each proxy.

(c) Where a member of the Company is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.

(d) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

(e) The instrument appointing a proxy shall be deposited at the Registered Office of the Company at 6th Floor, Menara Tun Mustapha, Likas Bay, 88400 Kota Kinabalu, Sabah, not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

Fold this for sealing

2nd fold here

Affix
Stamp

The Company Secretary
**INNOPRISE PLANTATIONS BERHAD** (COMPANY NO. 285072-M)
6th Floor, Menara Tun Mustapha,
Likas Bay, 88400 Kota Kinabalu, Sabah.
Tel : 088 - 326 415
Fax : 088 - 432 104

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**INNOPRISE PLANTATIONS BERHAD** **(COMPANY NO. 285072-M)**
6th Floor, Menara Tun Mustapha,
Likas Bay, 88400 Kota Kinabalu, Sabah.

PO Box 11623, 88817 Kota Kinabalu, Sabah.

**Tel:** 088- 326 415 **Fax:** 088-432 104