



Daibochi Plastic And Packaging  
Industry Bhd. (12994-W)

annual report  
2012

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# Notice Of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fortieth Annual General Meeting ("AGM") of the Company will be held at Bunga Melati Room, Level 7, Ramada Plaza Melaka, Jalan Bendahara, 75100 Melaka on Thursday, May 23, 2013 at 11.30 a.m. for the following purposes:

## AS ORDINARY BUSINESS:

1. To receive the audited financial statements for the year ended December 31, 2012 together with the Reports of the Directors and Auditors thereon. (Please refer to Explanatory Note on Agenda 1)
2. To approve Directors' fees for the year ended December 31, 2012 amounting to RM113,000 (2011: RM96,000). (Resolution 1)
3. To re-elect Mr Low Chan Tian who is retiring under Article 103 of the Company's Articles of Association. (Resolution 2)
4. To re-elect Datuk Wong Soon Lim who is retiring under Article 103 of the Company's Articles of Association. (Resolution 3)
5. To re-elect Ms Caroline Ang Choo Bee who is retiring under Article 94 of the Company's Articles of Association. (Resolution 4)
6. To appoint retiring Auditors, Messrs SJ Grant Thornton as Auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 5)

## AS SPECIAL BUSINESS:

To consider and, if thought fit, to pass the following resolutions:

### 7. Ordinary Resolution

#### Retention of Mr P. James Edwin A/L Louis Pushparatnam as Independent Director

"THAT Mr P. James Edwin A/L Louis Pushparatnam be and is hereby retained as an Independent Non-Executive Director of the Company and to hold office until the conclusion of the next AGM pursuant to the Malaysian Code on Corporate Governance 2012." (Resolution 6)

### 8. Ordinary Resolution

#### Authority to Issue and Allot Shares Pursuant to Section 132D of the Companies Act, 1965

"THAT, subject to the provisions of Section 132D of the Companies Act 1965, and the approval of the relevant authorities, the Directors be and are hereby authorised from time to time to issue and allot ordinary shares in the Company upon such terms and conditions and at such times as may be determined by the Directors to be in the interest of the Company provided always that the aggregate number of shares to be issued pursuant to this resolution shall not exceed ten percent (10%) of the issued share capital for the time being of the Company." (Resolution 7)

### 9. Ordinary Resolution

#### Proposed Renewal of Share Buy-Back Authority

"THAT, subject always to the Companies Act 1965 ("the Act"), rules, regulations and orders made pursuant to the Act, provisions of the Company's Memorandum and Articles of Association and the requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and any other relevant authority, the Company be and is hereby authorised to purchase such amount of ordinary shares of RM1 each in the Company as may be determined by the Directors of the Company from time to time through Bursa Malaysia upon such terms and conditions as the Directors may deem fit, necessary and expedient in the interest of the Company PROVIDED THAT:

- (a) the total aggregate number of ordinary shares of RM1 each in the Company which may be purchased and/or held by the Company shall not exceed ten percent (10%) of the total issued and paid-up share capital of the Company as quoted on Bursa Malaysia as at the point of purchase, subject to a restriction that the issued and paid-up share capital of the Company does not fall below the applicable minimum share capital requirement of the Listing Requirements of Bursa Malaysia;
- (b) the maximum funds to be allocated by the Company for the purpose of purchasing the shares shall not exceed the Company's latest audited retained earnings and/or share premium account;
- (c) the authority conferred by this resolution will commence immediately upon passing of this ordinary resolution and will continue to be in force until:
  - (i) the conclusion of the next AGM at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or
  - (ii) the expiration of the period within which the next AGM after that date is required by law to be held; or
  - (iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting;

whichever occurs first;

AND THAT, the Directors of the Company be and are hereby authorised to cancel all the shares or any part thereof so purchased or to retain all the shares so purchased as treasury shares (of which may be distributed as dividends to shareholders and/or resold on Bursa Malaysia and/or subsequently cancelled), or to retain part of the shares so purchased as treasury shares and cancel the remainder, and in any other manner as prescribed by the Act, rules, regulations and orders made pursuant to the Act, the Listing Requirements of Bursa Malaysia and any other relevant authorities for the time being in force.

AND THAT, the Directors of the Company be and are hereby authorised to take all such steps as are necessary or expedient to implement, finalise or to effect the aforesaid share buy-back with full powers to assent to any conditions, modifications, variations and/or amendments, as may be required or imposed by the relevant authorities and to do all such acts and things (including executing all documents) as the Directors may deem fit and expedient in the best interest of the Company.”

(Resolution 8)

10. To transact any other business for which due notice shall have been given.

By order of the Board

**Ms Tan Gaik Hong, MIA 4621**

Secretary

Melaka

Dated: April 30, 2013

**NOTES:**

1. For the purpose of determining a member who shall be entitled to attend this 40th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 67(b) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at May 15, 2013. Only a depositor whose name appears on the Record of Depositors as at May 15, 2013 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.
2. A member entitled to attend and vote at the meeting is entitled to appoint up to two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two (2) proxies, he/she shall specify the proportion of his/her shareholdings to be represented by each proxy.
4. A member of the Company who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
5. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds.
6. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing. If the appointor is a corporation, the Form of Proxy must be executed under its Common Seal or under the hand of its officer or duly authorised attorney.
7. The instrument appointing a proxy must be deposited at the Registered Office of the Company, Kompleks Daibochi Plastic, Lot 3 & 7 Air Keroh Industrial Estate, Phase IV, 75450 Melaka not less than forty-eight (48) hours before the time appointed for holding the meeting.

**EXPLANATORY NOTES ON AGENDA 1**

This Agenda is meant for discussion only as the provision of Section 169(1) of the Companies Act does not require a formal approval of shareholders for the Audited Financial Statements and hence, Agenda 1 is not put forward for voting.

**EXPLANATORY NOTES ON SPECIAL BUSINESS****(i) Resolution 6**

The proposed ordinary resolution 6, if passed, will allow Mr P. James Edwin A/L Louis Pushparatnam to be retained and to continue acting as an Independent Non-Executive Director of the Company and to hold office until the conclusion of the next AGM of the Company in line with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012. The justifications to recommend the retention of Mr P. James Edwin A/L Louis Pushparatnam as an Independent Director are set out on page 12 of the Board's Corporate Governance Statement in the 2012 Annual Report.

**(ii) Resolution 7**

The proposed Resolution 7, if passed, will give a renewed mandate to the Directors of the Company, from the date of the forthcoming AGM, to allot and issue ordinary shares from the unissued capital of the Company pursuant to Section 132D of the Companies Act, 1965.

As at the date of the Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last AGM held on June 11, 2012 which will lapse at the conclusion of the forthcoming AGM.

The Board continues to consider opportunities to broaden the operating base and earnings potential of the Company. If any of the expansion proposals involves the issuance of new shares, the Directors would have to convene a general meeting to approve the issuance of new shares.

In order to avoid any delay and costs involved in convening a general meeting to approve such issuance of shares, it is considered appropriate that the Directors be empowered, as proposed in Resolution 7, to allot and issue shares in the Company, up to an amount not exceeding in aggregate ten percent (10%) of the issued share capital of the Company for the time being. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

**(iii) Resolution 8**

The proposed Ordinary Resolution 8, if passed, will empower the Company to purchase and/or hold up to ten per centum (10%) of the issued and paid-up share capital of the Company. This authority unless revoked or varied by the Company at a General Meeting will expire at the next AGM. Please refer to the Statement to Shareholders dated April 30, 2013 for further information.

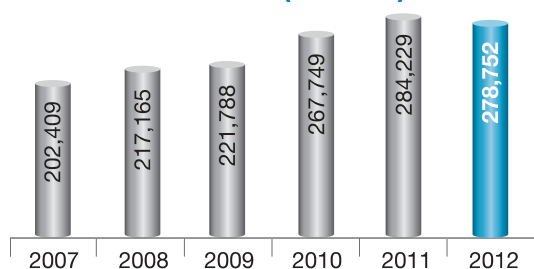
## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(pursuant to Paragraph 8.27(2) of the Listing Requirements of Bursa Malaysia)

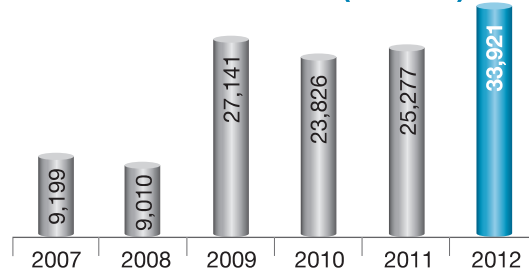
As at the date of this notice, there are no individuals who are standing for election as Directors (excluding the above Directors who are standing for re-election) at this forthcoming AGM.

# Financial Highlights

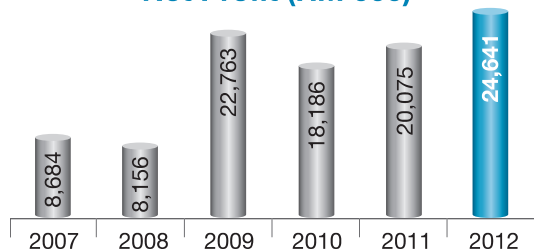
**Turnover (RM'000)**



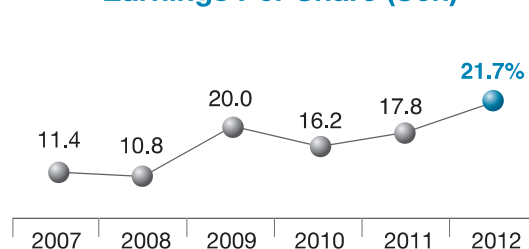
**Profit Before Tax (RM'000)**



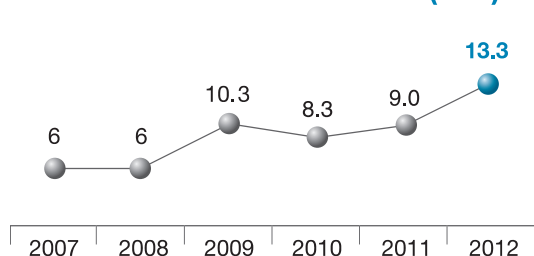
**Net Profit (RM'000)**



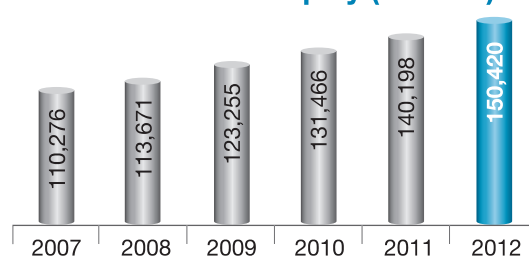
**Earnings Per Share (Sen)\***



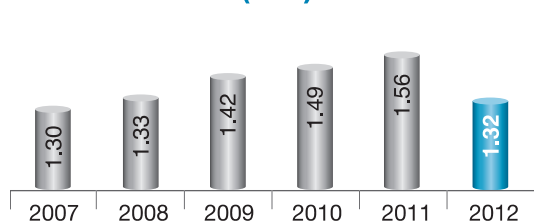
**Gross Dividend Per Share (Sen)\***



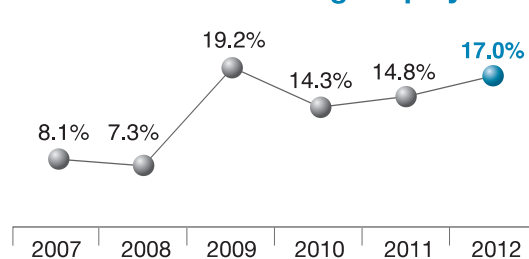
**Shareholders' Equity (RM'000)**



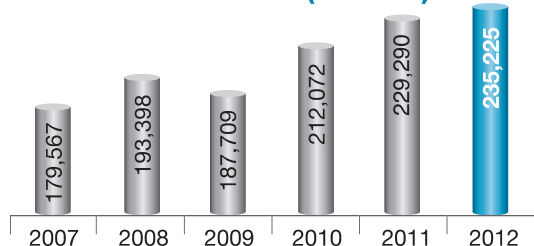
**Net Tangible Assets Per Share (Sen)\***



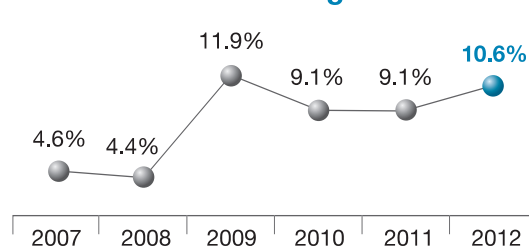
**Return on Average Equity**



**Total Assets (RM'000)**



**Return on Average Assets**



\* The comparative figures have been adjusted to take into account the issuance of 1-for-2 bonus issue in the financial year ended December 31, 2012.

## BOARD OF DIRECTORS

P. James Edwin A/L Louis Pushparatnam  
Chairman and Independent Non-Executive Director

Lim Soo Koon  
Managing Director

Y.Bhg. Datuk Wong Soon Lim  
Executive Director

Low Chan Tian  
Executive Director

Low Geoff Jin Wei  
Executive Director

Heng Fu Joe  
Independent Non-Executive Director

Caroline Ang Choo Bee  
Independent Non-Executive Director

## COMPANY SECRETARY

Ms Tan Gaik Hong, MIA 4621

## WEBSITE

[www.daibochiplastic.com](http://www.daibochiplastic.com)

## CERTIFICATES

ISO 9001:2008  
EN ISO 9001:2008  
BS EN ISO 9001:2008  
MS ISO 9001:2008  
ISO 14001:2004  
EN ISO 14001:2004  
BS EN ISO 14001:2004  
MS ISO 14001:2004  
HACCP Principles of Codex Alimentarius

## REGISTERED OFFICE

Kompleks Daibochi Plastic  
Lot 3 & 7, Air Keroh Industrial Estate  
Phase IV, 75450 Melaka  
Tel No. : 06-2312746  
Fax No. : 06-2328988

## REGISTRARS

Tricor Investor Services Sdn Bhd  
Level 17, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel No. : 03-22643883  
Fax No. : 03-22821886

## AUDITORS

SJ GRANT THORNTON  
Level 11, Sheraton Imperial Court  
Jalan Sultan Ismail, 50250 Kuala Lumpur  
Wilayah Persekutuan  
Tel No. : 03-26924022  
Fax No. : 03-26915229

## PRINCIPAL BANKERS

AmBank (M) Berhad  
CIMB Bank Berhad  
Hong Leong Bank Berhad  
HSBC Bank Malaysia Berhad  
Malayan Banking Berhad  
OCBC Bank (Malaysia) Berhad  
Public Bank Berhad  
United Overseas Bank (Malaysia) Bhd

## STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad  
Main Market  
Sector : Industrial Products  
Stock Name : Daiboci  
Stock Code : 8125

## Profile Of Directors

**P. James Edwin A/L Louis Pushparatnam**, Malaysian, aged 57 was appointed to the Board of Daibochi on February 20, 2003. He is an Independent Non-Executive Director and Chairman of the Board. He is also the Chairman of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr James Edwin holds a degree in Bachelor of Science (Honours) in Civil Engineering from Leeds University, England and has worked as a civil engineer in the Government. He later practised as a consultant engineer before joining a reputable housing development company in Kuala Lumpur. He also holds a Bachelor of Law (Honours) degree from the University of London. He was called to the English Bar at Lincoln's Inn in 1990 and the Malaysian Bar in 1991. In that same year, he started his own practice as an advocate & solicitor of the High Court of Malaya. He is a past president of the Malaysian Institute of Arbitrators and sits on the panel of the Malaysian Mediation Centre.

He has no family relationship with any Directors/substantial shareholders of Daibochi. He is deemed interested in the transactions entered by the Company with James Edwin & Co. as disclosed in this Annual Report. Save for these transactions, he has no conflict of interest with the Company. He has not been convicted of any offence in the past ten (10) years.

Mr James Edwin has attended all the six (6) Board of Directors' meetings held during the financial year ended December 31, 2012.

**Lim Soo Koon**, Malaysian, aged 51 was appointed to the position of Managing Director on February 1, 2005. He is also a member of the Remuneration Committee.

He holds a degree in Bachelor of Science Industrial Engineering and Management from Oklahoma State University. He also holds a Master of Business Administration degree from Oklahoma State University. He joined the Company in 1995 and was the General Manager of the Company from 1999 before his appointment as Managing Director in February 2005. He has a wide range of experience in management, finance, marketing and business development.

Mr Lim has no family relationship with any Directors/substantial shareholders of Daibochi and has no conflict of interest with the Company. He has not been convicted of any offence in the past ten (10) years.

He attended all the six (6) Board of Directors' meetings held during the financial year ended December 31, 2012.

**Y. Bhg. Datuk Wong Soon Lim**, Malaysian, aged 59 was appointed to the Board of Daibochi on October 16, 1981. He is an Executive Director.

He is an accountant by training and is a member of the Malaysian Association of the Institute of Chartered Secretaries and Administrators. He has extensive experience and knowledge in the field of accounting, finance, consultancy, corporate finance, manufacturing and property development.

Datuk Wong has no family relationship with any Directors/substantial shareholders of Daibochi. He is deemed interested in the transactions entered by the Company with Mitsupac Sdn. Bhd. as disclosed in this Annual Report. Save for the aforesaid transactions, he has no conflict of interest with the Company. In the past ten (10) years, he has not been convicted of any offence.

He attended all the six (6) Board of Directors' meetings held during the financial year ended December 31, 2012.

**Low Chan Tian**, Malaysian, aged 57 was appointed to the Board of Daibochi on July 26, 1995 as an Alternate Director to the late Datuk Low Kiok Boo, a founder shareholder of Daibochi until March 28, 1998 when the late Datuk Low Kiok Boo retired from the Board. Mr Low Chan Tian rejoined the Board when he was appointed as an Executive Director on March 30, 1999.

He graduated from the University of Western Australia with a Bachelor of Engineering degree. He has wide experience in manufacturing, property development, business and finance.

Mr Low is the father of Mr Low Geoff Jin Wei who is an Executive Director of Daibochi. He is deemed interested in the transactions entered by the Company with Mitsupac Sdn. Bhd. as disclosed in this Annual Report. Save for these aforesaid transactions, he has no conflict of interest with the Company. He has not been convicted of any offence in the past ten (10) years.

He attended all the six (6) Board of Directors' meetings held during the financial year ended December 31, 2012.

**Low Geoff Jin Wei**, Australian, aged 30 was appointed to the Board of Daibochi on October 5, 2010 as an Executive Director.

He graduated from the University of Sydney, NSW, Australia with a Bachelor of Commerce (Major in Finance & Marketing). Prior to this, Mr Low was the Managing Director/Project Director of GlassKote (Malaysia) Sdn Bhd from 2005 to September 2010.

Mr Low is the son of Mr Low Chan Tian who is an Executive Director and a substantial shareholder of the Company. He has no conflict of interest with the Company. He has not been convicted of any offence in the past ten (10) years.

He attended all the six (6) Board of Directors' meetings held during the financial year ended December 31, 2012.

**Heng Fu Joe**, Malaysian, aged 32 was appointed to the Board of Daibochi on August 2, 2010. He is an Independent Non-Executive Director. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

He is a Chartered Accountant of the Malaysian Institute of Accountants, a member of the Institute of Chartered Accountants Australia, a professional member of the Institute of Internal Auditors Malaysia, a CPA and an Approved Auditor with the Kampuchea Institute of Certified Public Accountants and Auditors, Cambodia. His past experience includes being the Manager of RSM Bird Cameron in Australia and a Finance Analyst of Goldman Sachs International in London, United Kingdom. He is currently a Partner of Baker Tilly Monteiro Heng, in Kuala Lumpur, Malaysia.

He has no family relationship with any Directors/substantial shareholders of Daibochi and has no conflict of interest with the Company. In the past ten (10) years, he has not been convicted of any offence.

He attended all the six (6) Board of Directors' meetings held during the financial year ended December 31, 2012.

**Caroline Ang Choo Bee**, Malaysian, aged 44 was appointed to the Board of Daibochi on July 16, 2012. She is an Independent Non-Executive Director and also a member of the Audit Committee.

She is a Chartered Accountant of the Malaysian Institute of Accountants, a Fellow of The Association of Chartered Certified Accountants, United Kingdom and an associate member of The Malaysian Institute of Chartered Secretaries and Administrators.

After obtaining the ACCA qualification, she gained extensive experience while being attached to the Audit and Corporate Recovery and Insolvency departments of Ernst & Young, Kuala Lumpur. She gained further experience in finance and business while holding the position of Accountant in Honeywell Engineering Sdn Bhd, a fully owned subsidiary of Honeywell Inc., a Fortune 100 Public Listed Company in the USA.

Ms Caroline Ang also gained experience in the global shared services sector when she held the position of Senior Accountant in the Global Credit and Treasury Services Department of Honeywell Inc., based in Malaysia. She is currently a partner of CW Integrated Consultancy Services, a management firm in Kuala Lumpur.

She has no family relationship with any Directors/substantial shareholders of Daibochi and has no conflict of interest with the Company. She has not been convicted of any offence in the past ten (10) years.

Since her appointment, Ms Caroline Ang has attended all of the Board of Directors' meetings held during the financial year ended December 31, 2012.

# Corporate Governance Statement

The Board of Directors of Daibochi Plastic and Packaging Industry Bhd ("the Board") fully appreciates the importance of adopting high standards of corporate governance within the Group to enhance business efficacy and corporate accountability with the objective of realizing long-term value for all shareholders and stakeholders. Towards achieving this, the Board ensures that the highest levels of business integrity, professionalism and ethical conduct are observed and practised throughout the Group.

The Board is fully committed towards achieving compliance with the principles and recommendations of the Malaysian Code on Corporate Governance 2012 ("the Code") and Bursa Malaysia's Main Market Listing Requirements ("MMLR"). The Board is pleased to report that it had continued to practice good corporate governance by upholding the principles of integrity, professionalism, transparency and accountability in its management of the affairs of the Group during the financial year ended December 31, 2012.

## 1. The Board of Directors

The Company is steered by an experienced, dynamic and well balanced Board comprising of competent professionals with diverse expertise and skills from a wide range of business, financial, engineering, legal and property development backgrounds that add value to the Group. The Board provides effective leadership by setting appropriate values and strategic directions to ensure that the objectives of the Group are achieved.

## 2. Roles and Responsibilities of the Board

2.1 The Board has established clear roles and responsibilities in discharging its fiduciary and leadership functions to ensure that it acts in the best interest of the Group. In this regard, the Board has defined matters reserved for the Board's decision, whilst those not specifically reserved for the Board and which are necessary for the day to day management of the Company are delegated to the Managing Director and the Senior Management team. Key matters reserved for the Board's approval include the overall strategic direction of the Group, annual operating and capital expenditure budget, dividend policy, expansion of core business, structure and capital e.g. issuance of new securities and ensuring that there is a sound system of internal control and risk management in place.

2.2 The roles and responsibilities of the Board are as follows:-

- (a) Reviewing and adopting a strategic plan for the Company which covers the core business of the Group;
- (b) Overseeing the conduct of the Company's business to determine whether the business is being properly managed;
- (c) Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures;
- (d) Maintaining an effective communications policy that enables both the Board and Management to communicate effectively with shareholders and the general public to ensure that timely and equal dissemination of relevant information are provided to them;
- (e) Succession planning to ensure that candidates of sufficient calibre are appointed, taking into account the current and future needs of the Company; and
- (f) Reviewing the adequacy and integrity of the Group's internal control and management information systems for compliance with applicable laws, regulations, rules, directives and guidelines.

- 2.3 The Board has established three (3) Board Committees namely, the Audit Committee, Nomination Committee and Remuneration Committee, all of which operate within clearly defined terms of reference to assist the Board in the execution of its duties and responsibilities. These Committees deliberate on particular issues and report their findings and recommendations to the Board. The ultimate responsibility for all decisions lies with the entire Board.

### 3. Board Charter

The Company has a Board Charter which sets out the Board's strategic intent and outlines the Board's roles and responsibilities. The Board Charter serves as a source of reference and primary induction literature to facilitate the effective discharge of the Board's duties in ensuring that the Company's strategic intent and mission of being the "Preferred Supplier Of Our Customers" and vision to achieve superiority in services and supplies of flexible packaging materials are achieved.

### 4. Code of Ethics and Code of Conduct

The Directors observe ethical values based on a Code of Ethics which is in accordance with the Company Directors' Code of Ethics established by the Companies Commission of Malaysia. The Company's Code of Conduct governs the standards of ethics and good conduct expected of Directors and employees respectively.

### 5. Board composition and balance

- 5.1 The Company is steered and controlled by an effective Board comprising of members with calibre and integrity from diverse professional backgrounds, skills and experience. Collectively, the Directors bring insightful depth, maturity and diversity of perspectives to the leadership and management of the Group. The current Board has seven (7) members, comprising four (4) Executive Directors and three (3) Independent Non-Executive Directors (including the Chairman). A brief profile of each Director is presented on pages 7 to 9.
- 5.2 The Nomination Committee is responsible for the annual assessment of the effectiveness of the Board as a whole, the independence of the Independent Non-Executive Directors and the performance of each existing Director. The Board has implemented an annual evaluation process to carry out the required assessments.
- 5.3 Having considered the annual assessment undertaken by the Nomination Committee, the Board is satisfied that the current composition and size of the Board is appropriate, well balanced and commensurate with the scale of the Group's operations. The number of Board members is conducive for efficient deliberations at Board meetings and effective decision-making. The Board members' diverse academic qualifications, background, competence, expertise and experience enable them to provide clear and effective leadership in the discharge of their roles and responsibilities. The Board members also have devoted sufficient time to carry out their duties.
- 5.4 The balance in the Board is fortified by the presence of three (3) Independent Non-Executive Directors who bring strong independent judgment, knowledge, skills and experience to Board deliberations during the decision making process. The Independent Non-Executive Directors ensure that the interests of the minority shareholders and other stakeholders are given due consideration in the deliberations of the various issues and matters affecting the Group.

- 5.5 The three (3) Independent Non-Executive Directors make up more than one third of the membership of the Board. This is in compliance with Paragraph 15.02 of the MMLR that requires at least one third of the Board to comprise of independent directors. Having considered the Nomination Committee's annual assessment, the Board is satisfied that all the Independent Non-Executive Directors fulfill the criteria of independence, as defined in the MMLR; are not engaged in the day-to-day management of the Company or are involved in any other relationship with the Company (other than those permitted by the applicable regulations) and bring independent and objective judgment to Board deliberations.
- 5.6 Recommendation 3.3 of the Code provides that the Board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than 9 years. The shareholders may, in exceptional circumstances and subject to the assessment of the Nomination Committee, decide that an independent director can remain as an independent director after serving a cumulative term of 9 years. The Company is affected by this requirement in the Code as our Chairman's tenure as Independent Director has exceeded 9 years as he was appointed in February 2003.
- 5.7 In compliance with Recommendation 3.3, the Nomination Committee undertook the review and assessment and recommended to the Board to seek shareholders' approval for our Chairman, Mr P. James Edwin A/L Louis Pushparatnam ("Mr James Edwin") to be retained and to continue to act as an Independent Director of the Company at the Company's forthcoming Annual General Meeting based on the following justifications:-
- (a) Mr James Edwin fulfils the criteria under the definition of Independent Director as stated in the MMLR.
  - (b) He has devoted sufficient time and exercised due care and diligence during his tenure as an Independent Non-Executive Director of the Company and carried out his fiduciary duties in the interest of the Company and the shareholders.
  - (c) His vast experience and expertise in the legal field and his understanding of the main drivers of the Company's business would enable him to continue discharging his duties and responsibilities effectively.
  - (d) Mr James Edwin actively participates in Board discussions and provides constructive views during Board meetings.
  - (e) Mr James Edwin's long relationship with the other Board members has not compromised nor hindered his continued exercise of independent and objective judgment on all Board deliberations.
- 5.8 Having considered the Nomination Committee's evaluation and Mr James Edwin's own confirmation of independence pursuant to the MMLR, the Board is confident and firmly believes that Mr James Edwin can be tasked to discharge his duties and responsibilities independently and objectively notwithstanding his tenure on the Board. Accordingly, the Board strongly recommends retaining Mr James Edwin as an Independent Non-Executive Director of the Company and will be tabling an Ordinary Resolution to the shareholders at the forthcoming Annual General Meeting for the said purpose.
- 5.9 The position of Chairman and the Managing Director are held by two individuals. There is a clear division of responsibilities between the Chairman and the Managing Director which ensures a balance of power and authority. This separation of responsibilities is further reinforced as the Chairman is not someone who has previously served as the Chief Executive Officer of the Company. The Chairman who is a non-executive member of the Board is primarily responsible for the orderly conduct and working of the Board. The Chairman promotes an open culture which allows for debate and constructive challenge during Board meetings. The Managing Director is responsible for implementing the policies and decisions of the Board, overseeing the operations as well as coordinating the development and implementation of business and corporate strategies.

- 5.10 The Board's succession planning is focused on ensuring the right mix of skills and experience for the Board with due regard to the benefits of diversity. In this regard, the Board will establish measures to formalise its approach to diversity in the Boardroom.
- 5.11 The Board recognises the importance of gender diversity and appointed Ms Caroline Ang Choo Bee as an Independent Non-Executive Director to the Board on July 16, 2012. The Nomination Committee will continue to review the composition of the Board in a manner that promotes gender diversity by identifying and seeking for female candidates with the requisite knowledge, skills and experience to support the representation of women on the Board.

## 6. Directors' Training

- 6.1 The Board believes that continuous training for the Directors is essential to enable them to discharge their duties effectively. The Company Secretary works closely with the Board to evaluate and determine the training needs of the Directors. Directors are encouraged to attend relevant seminars and courses to keep themselves abreast of the various issues facing the changing business environment, regulatory and corporate governance developments to enhance their professionalism, skills and knowledge to effectively discharge their duties and obligations.
- 6.2 A familiarization programme is conducted for new directors. This includes a presentation of the Group's operations, meetings with senior management and site visits, where appropriate, to facilitate their understanding of the Group.
- 6.3 For the year under review, the Directors attended courses on corporate governance and regulatory updates organized by Bursa Malaysia, common offences committed by directors under the Companies Act 1965, technical updates on the Malaysian Financial Reporting Standards 2012, 2013 budget and tax, finance and boardroom effectiveness and performance.
- 6.4 Ms Caroline Ang Choo Bee who was appointed as a Director on July 16, 2012 has attended and successfully completed the Mandatory Accreditation Programme pursuant to the requirements of Bursa Malaysia. The rest of the Board members have also attended and successfully completed the Mandatory Accreditation Programme.
- 6.5 The Company Secretary maintains a complete record of the training received or attended by the Directors.

## 7. Appointments to the Board

- 7.1 The Nomination Committee, which was set up on December 14, 2000, is responsible for assessing and recommending the right candidate for appointment to the Board or Board Committees. The terms of reference of the Nomination Committee have been approved by the Board and comply with the recommendations of the Code.
- 7.2 The members of the Nomination Committee which comprise exclusively of Independent Non-Executive Directors are as follows:  
Mr P. James Edwin A/L Louis Pushparatnam (Chairman)  
Mr Heng Fu Joe
- 7.3 The Nomination Committee adheres to a formal and transparent procedure for the appointment of new Directors before submitting its recommendation for the Board's decision. The Nomination Committee seeks for suitable candidates from diverse professional and business backgrounds who have the character, experience, integrity, competence and time to effectively discharge his/her role as a director. The Nomination Committee also ensures that potential candidates comply with the provisions of the MMLR and the Code. In the case of an Independent Director, the Nomination Committee will also assess the suitability of the candidate based on the definition of independence in the MMLR and whether the candidate can bring independent and objective judgment to Board deliberations. Upon completion of the assessment, the Nomination Committee will submit its recommendation to the Board for approval.

## 8. Re-election of Directors

- 8.1 In accordance with the Company's Articles of Association, all newly appointed Directors are subject to re-election by the shareholders at the first Annual General Meeting after their appointment.
- 8.2 In accordance with the Company's Articles of Association, one third of the existing Directors including the Managing Director are required to retire by rotation at the Annual General Meeting.
- 8.3 A Director who is over seventy years (70) old is required to submit himself for re-appointment annually in accordance with Section 129 (6) of the Companies Act 1965. Currently, there are no Directors in the Company who have reached the above stipulated age.
- 8.4 The performance of the Directors who are subject to re-election and re-appointment at the Annual General Meeting of the Company will be reviewed and assessed by the Nomination Committee. The Nomination Committee will then submit its recommendations on the proposed re-election and re-appointment to the Board for approval before tabling the proposals to the shareholders of the Company at the Annual General Meeting.
- 8.5 Having considered the review by the Nomination Committee, the Board is satisfied that Datuk Wong Soon Lim, Mr Low Chan Tian and Ms Caroline Ang Choo Bee who are due for re-election at the forthcoming Annual General Meeting have met the Board's expectations and exemplified their commitment as reflected by their professional conduct and valuable contribution to Board deliberations.

## 9. Directors' remuneration

- 9.1 The Remuneration Committee which was formed on December 14, 2000 is responsible for setting the framework and making recommendations to the Board on matters concerning the remuneration of Executive Directors. The terms of reference of the Remuneration Committee have been approved by the Board and comply with the recommendations of the Code.
- 9.2 The members of the Remuneration Committee which comprise mainly of Independent Non-Executive Directors are as follows:  
  
Mr P. James Edwin A/L Louis Pushparatnam (Chairman)  
Mr Lim Soo Koon  
Mr Heng Fu Joe
- 9.3 The Remuneration Committee and the Board ensure that the Company's remuneration package is fair and sufficiently attractive to attract, motivate and retain high calibre individuals taking into consideration the capability, experience, technical expertise, skills, knowledge and competency of the Director concerned, the prevailing market pay and employment conditions within the industry.
- 9.4 The Remuneration Committee recommends to the Board the remuneration of the Executive Directors, in all forms. The determination of the remuneration of the Non-Executive Directors as well as the Executive Directors will be a matter to be determined by the Board as a whole with the Director concerned abstaining from deliberations and voting on the decisions regarding his/her individual remuneration.

- 9.5 The Directors' remuneration is reviewed annually by the Remuneration Committee to ensure that it is reflective of the contribution and responsibilities of the Director concerned for the year in line with the Company's strategy and objectives. The remuneration comprises components to cover rewards linking corporate performance and individual contribution towards the overall results, in the case of Executive Directors. Reasonable allowances and fees are paid to the Non-Executive Directors to commensurate with their experience and skills. Directors' fees are tabled to the shareholders for approval at the Annual General Meeting.
- 9.6 The details of the remuneration of Directors of the Company from the Group for the year ended December 31, 2012 by category and in bands of RM50,000 are as follows:

	<u>Fees</u> RM'000	<u>Salaries, bonus and other emoluments</u> RM'000	<u>Benefits- in-kind</u> RM'000	<u>Total</u> RM'000
Executive Directors	-	3,045	39	3,084
Non-Executive Directors	113	139	7	259

<u>Range of remuneration</u>	<u>Executive Directors</u>	<u>Non-Executive Directors</u>
Up to RM50,000	-	2
RM50,001- RM100,000	-	1
RM150,001- RM200,000	-	1
RM550,001- RM600,000	2	-
RM600,001- RM650,000	1	-
RM1,250,001- RM1,300,000	1	-

- 9.7 The Board is of the opinion that it is inappropriate to disclose the remuneration of individual Directors and has opted not to do so.
- 9.8 During the year, the Remuneration Committee reviewed and recommended the remuneration for Executive Directors of the Group.

## 10. Company Secretary

The Directors have access to the advice and services of an experienced and competent Company Secretary to enable them to discharge their duties effectively. The Board acknowledges the fact that the Chairman is entitled to the positive support of the Company Secretary in ensuring the effective functioning of the Board. The Company Secretary ensures that all necessary information is obtained from Directors, both for the Company's own records and for the purposes of meeting statutory as well as MMLR obligations arising from the MMLR and other regulatory requirements. The appointment and removal of the Company Secretary are within the purview of the Board.

## 11. Board meetings and supply of information

- 11.1 The Board held six (6) board meetings during the financial year. All Directors fulfilled the requirement stipulated by Bursa Malaysia in relation to their attendance at Board meetings. The frequency of Directors' attendance at these meetings is set out in the Profile of Directors on pages 7 to 9.

- 11.2 Board meetings for the ensuing calendar year are scheduled in advance before the end of each year to enable the Directors to plan ahead and fit the meetings into their respective schedules. Board meetings are structured with a pre-set agenda. The agenda and the Board papers are circulated to Directors in time to ensure that they are fully apprised of matters arising to enable them to effectively discharge their responsibilities. Any additional information requested by Directors is readily available. Monthly reports on the performance of the Company are also circulated to the Directors for their views and comments. The Board also has a formal schedule of matters reserved to it for deliberation and decision such as the approval of annual and interim results, major capital expenditure and investments, budgets, strategic issues affecting the business of the Group, corporate policies and procedures and corporate plans.
- 11.3 In addition, on important matters which require the Board's decisions, prior briefings, if necessary, are provided or conveyed by Executive Directors to other Board members to ensure full knowledge and understanding, thus enhancing the members' comprehension of Board papers before deliberations.
- 11.4 The Board is also notified of any corporate announcements to be released to Bursa Malaysia and is kept informed of updates issued by the various regulatory authorities.
- 11.5 All proceedings of the Board meetings are minuted and signed by the Chairman of the meeting in accordance with the provision of Section 156 of the Companies Act 1965.
- 11.6 In the furtherance of their duties, Directors have access to all information pertaining to the Group as well as to seek clarification from the management, Company Secretary and independent professional advisors at the Company's expense, if necessary.

## **12. Sustainability**

The Board is responsible for and ensures that the Company's strategies and policies promote sustainability by providing innovative products for its customers and keeping up with ethical, ecological, economic and social concerns. Please refer to the Group's Corporate Social Responsibility Statement on pages 21 to 22 for details of the Group's sustainability activities for the year under review.

## **13. Uphold Integrity in Financial Reporting**

### **13.1 Audit Committee**

The primary objective of the Audit Committee is to assist the Board to review the adequacy and integrity of the Group's internal control systems and to ensure that the financial statements comply with applicable financial reporting standards before their submission to the Board for approval. The Audit Committee also ensures that the independence of the external auditors is not impaired by the provision of non-audit services to the Company in accordance with the Audit Committee's Policy on the Suitability and Independence of External Auditors.

The composition, details of meetings attended and terms of reference of the Audit Committee together with its report are presented on pages 26 to 28 of the Annual Report.

### **13.2 Financial Reporting**

In presenting the Group's annual financial statements and quarterly results to the shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Audit Committee and the Board review the information to be disclosed before the release to Bursa Malaysia.

#### 14. Recognise and Manage Risks: Internal Control

- 14.1 The Directors recognise their ultimate responsibility for the Group's system of internal controls and the need to review the adequacy and the integrity of the internal control systems. The Directors also take cognizance of the importance of identifying principal risks and having an appropriate risk management system. Information on the Group's internal controls is presented in the Statement on Risk Management and Internal Control as set out on pages 23 to 25.
- 14.2 The Group has an Internal Audit Function, which reports directly to the Audit Committee and assists the Board in the monitoring and managing of risks and internal controls.

#### 15. Relationship with the Auditors

The Company has established an appropriate and transparent relationship with its external and internal auditors through the Audit Committee. The role of the Audit Committee in relation to the external and internal auditors is set out in the Audit Committee Report on pages 26 to 28 of the Annual Report.

#### 16. Relationship with shareholders and investors

- 16.1 The Board values its dialogue with both institutional shareholders and private investors and ensures that timely and equal dissemination of relevant information is provided to them. In this regard, the Company has established a Corporate Disclosure Policy to provide guidance to the Board, Management team and employees to ensure accurate, timely, consistent, high quality and fair disclosure of corporate information to enable shareholders and investors to make well informed investment decisions.
- 16.2 The Company has leveraged on information technology by maintaining a corporate website at [www.daibochiplastic.com](http://www.daibochiplastic.com) as an additional channel of communication with shareholders and investors. This website is updated from time to time and incorporates an Investor Relations section which includes the Company's business, corporate, management, financial and corporate governance information. The Company's financial calendar, share price information, all announcements and circulars made by the Company to Bursa Malaysia, corporate presentations (investor briefings), annual reports and press releases are also available on the website for the benefit of shareholders and investors.
- 16.3 During the year, the Managing Director and the Executive Directors also met with analysts, fund managers, institutional shareholders and investors to provide updates on the performance as well as new developments of the Group. Investor briefings were held in each quarter in 2012 in conjunction with the Group's quarterly financial results. The briefings, presented by the Managing Director included operational highlights, financial highlights and review, industry insights, prospects and plans of the Group.
- 16.4 The Board encourages shareholders' active participation at the Company's Annual General Meeting. The Annual General Meeting remains the principal forum for dialogue with shareholders where it provides an opportunity for the shareholders to seek clarifications on the Group's operations. The Chairman and members of the Board will undertake to provide the shareholder with a written answer to any significant question that cannot be readily answered. The external auditors will also be present to provide their professional and independent clarification on issues and concerns raised by the shareholders, if any.

- 16.5 The Company sends out the Notice of the Annual General Meeting and Annual Reports to shareholders at least twenty one (21) days before the date of the meeting. The Board ensures that each item of special business included in the Notice of the Annual General Meeting or Extraordinary General Meeting is accompanied by an explanation of the effects of the proposed resolution. The results of all the resolutions set out in the Notice of the General Meeting are announced on the same day via Bursa Link for the benefit of shareholders and investors.
- 16.6 The Board will encourage poll voting in the event there are substantive resolutions put to vote at the Company's General Meetings.
- 16.7 The Board has identified the Chairman, Mr P. James Edwin A/L Louis Pushparatnam as the Senior Independent Non-Executive Director to whom concerns of shareholders and other stakeholders may be conveyed. He may be contacted via his email address at [jamesedwin@daibochiplastic.com](mailto:jamesedwin@daibochiplastic.com).

## 17. Statement of Directors' responsibility for preparing the financial statements

- 17.1 The Directors are required by the Companies Act 1965 to prepare financial statements for each financial year. The financial statements have been made out in accordance with the Financial Reporting Standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and Company for the financial year.
- 17.2 In preparing the financial statements, the Directors have:
- selected suitable accounting policies and applied them consistently;
  - made judgements and estimates that are reasonable and prudent;
  - ensured that all Financial Reporting Standards have been followed; and
  - prepared the financial statements on a going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.
- 17.3 The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure that the financial statements comply with the Companies Act 1965.
- 17.4 The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

This Corporate Governance Statement is made in accordance with the resolution of the Board of Directors dated April 4, 2013.

## Additional Compliance Information

### a) Utilisation of proceeds

The Company did not implement any fund raising exercise during the financial year.

### b) Share buy-back

During the financial year, the Company repurchased 913,400 of its own shares from the open market of Bursa Securities for a total consideration of RM2,369,595. The shares are being held as treasury shares and none was cancelled.

The details of the shares repurchased during the financial year are as follows:

Monthly breakdown 2012	Number of shares bought back	Purchase price per share		Total cost* (RM)	Average price paid (RM)
		Lowest (RM)	Highest (RM)		
January	50,300	2.69	2.85	140,286	2.789
February	39,400	2.80	2.85	111,697	2.835
March	139,000	2.73	2.88	387,843	2.790
April	59,800	2.79	2.89	170,043	2.844
May	32,100	2.76	2.82	89,810	2.798
June	8,000	2.79	2.80	22,550	2.819
September	168,800	2.18	2.36	395,740	2.344
October	102,800	2.47	2.54	260,256	2.532
November	266,500	2.36	2.60	673,866	2.529
December	46,700	2.45	2.55	117,504	2.516
<b>Total</b>	<b>913,400</b>	<b>2.18</b>	<b>2.89</b>	<b>2,369,595</b>	<b>2.594</b>

The details of shares re-sold during the financial year are as follows:

Monthly breakdown 2012	Number of shares sold	Resale price per share		Total consideration received* (RM)	Average price (RM)
		Lowest (RM)	Highest (RM)		
February	260,000	2.950	2.950	765,036	2.942
May	1,244,000	2.800	2.800	3,471,674	2.791
June	64,000	2.860	2.860	182,252	2.848
July	36,300	3.150	3.150	113,853	3.136
October	168,500	2.650	2.670	446,548	2.650
<b>Total</b>	<b>1,772,800</b>	<b>2.650</b>	<b>3.150</b>	<b>4,979,363</b>	<b>2.809</b>

\* inclusive of transaction costs

During the financial year, all the shares purchased by the Company were retained as treasury shares. 1,772,800 treasury shares were resold during the financial year. As at December 31, 2012, a total of 416,300 ordinary shares were held as treasury shares.

**c) Options, warrants or convertible securities**

The Company did not issue any options, warrants or convertible securities during the financial year.

**d) American Depositary Receipts (“ADR”) or Global Depositary Receipts (“GDR”)**

During the financial year, the Company did not sponsor any ADR or GDR program.

**e) Imposition of sanctions/penalties**

There were no sanctions/penalties imposed on the Group, Directors or management by the relevant regulatory bodies.

**f) Non-audit fees**

Non-audit fees paid by the Group to external auditors during the financial year amounted to RM55,000.

**g) Variation in results**

There is no variance between the results for the financial year and the unaudited results previously announced by the Company.

**h) Profit guarantee**

The Company did not issue any profit guarantee for the financial year.

**i) Material contracts involving Directors and substantial shareholders' interests**

Other than the related party transactions disclosed in this Annual Report, there were no material contracts entered into by the Company or its subsidiaries during the financial year which involved the interests of Directors or substantial shareholders.

# Corporate Social Responsibility

The Group is committed to building a sustainable business and is mindful of our corporate social responsibility (“CSR”) towards key stakeholders when carrying out our business activities. As a responsible corporate citizen, CSR is an integral part of our business. Therefore, we strive to maintain a balance between increasing shareholders' wealth and being responsible towards our human capital, society, the environment and marketplace.

The Board of Directors ensures that the Company's strategies and policies promote sustainability by providing innovative products for our customers and addressing ethical, ecological, economic and social concerns.

Our CSR activities focus on 4 core areas: Employee Welfare, Community Welfare, Environmental Awareness and the Marketplace. The key CSR initiatives undertaken in 2012 are as follows:

## Employee Welfare

Our employees are our most important asset and they play a pivotal role in the growth, success and sustainability of the Group's business. We have created an inclusive working environment for our employees by continuing to encourage their personal development, rewarding their achievements, enhancing their career advancement, harnessing their capabilities and caring for their well-being. Employees are provided with constant training and are encouraged to attend training programmes to realise their potential and improve their skills to meet the changing needs of the industry.

The Group provides a healthy and safe working environment for all its employees. This includes providing medical and healthcare insurance for employees and their immediate family members commensurate with their rank and level of employment.

The Company has established a Health and Safety Committee (“the H&S Committee”) entrusted with cultivating safe working practices and behaviour at the workplace. The H&S Committee ensures that the Company's Occupational Safety and Health policies are actively and effectively implemented to advocate key values of occupational safety and health to all employees. Training, counselling and accident-prevention programmes are regularly held to ensure a high level of awareness of safety requirements for the respective employees. Protective gear has been issued to all concerned workers, while preventive action such as fire drill is carried out annually in collaboration with the local fire department to prepare our employees for speedy evacuation in the event of fire emergencies.

The Company also organized a “Safe at Work and Save the Earth 2012” campaign which included health checks and talks to encourage employees to lead a healthy and balanced lifestyle.

The Company encourages its employees to have a work life balance and financially supports sports and recreational activities organized by our in-house Sports and Recreational Club to build a healthy workforce. Social and recreational activities such as team building, annual dinner and various sports and games are organized to encourage physical wellbeing, inculcate good working relationships, foster greater employee interaction and camaraderie spirit among the employees based on the motto: “We Care, We Share, We Learn”.

Furthermore, the Company paid tribute to employees who had served us for more than 20 years and extended financial aid to needy and deserving staff in conjunction with our 40th anniversary annual dinner celebrations held on March 31, 2012.

## Community Welfare

As a caring corporate citizen, the Company strives to make a positive impact on the community by encouraging and supporting employees' participation in various community activities.

During the year, the Company organised a blood donation campaign with the Blood Bank of the Melaka General Hospital.

The Group continues to collaborate with a non-profit organization in respect of an assembly project to provide the poor and marginalized community in Melaka with supplementary work and income. The Company also extended financial aid to a school in Melaka in conjunction with our 40th anniversary annual dinner celebrations.

Furthermore, each year, the Company recruits students from colleges, technical schools and universities for its internship programme for industrial and practical training in the Company's operations. Students are provided with comprehensive training to equip them with the necessary skills needed. There were 32 trainees attached to the Company for their industrial training during the financial year.

### Environmental Awareness

The Group recognizes the importance of conserving the environment and our sustainability agenda focuses on eco-friendly environmental practices to reduce the impact of our operational carbon footprint.

The Company adheres to its "Environment Care Policy" to ensure that materials and energy resources are used efficiently to minimise waste. This includes monitoring energy and water consumption, waste management, restricting the use of hazardous substances and efficient use of raw materials.

The Company continues to explore innovative avenues by constantly reviewing and upgrading our production processes whilst products are improved to meet changing legal requirements. During the year, the Group was not penalised for any instance of non-compliance with environmental laws and regulations.

Employees regularly participate in recycling activities through our "Green Day" campaign every Tuesday and Friday, where they are encouraged to bring segregated waste of plastic, paper, tin or used clothing from their respective homes to be sent to the Tzu Chi recycling centre. In addition to this, polystyrene packaging of food is banned in the Company premises and all employees have been provided recyclable plastic food containers. Employees are encouraged to practise the 5 R's - 'Refuse, Reuse, Reduce, Repair and Recycle' in their daily activities for purposes of establishing a socially responsible workforce.

The Company has engaged the services of licensed contractors for scheduled waste disposal in compliance with the relevant regulations as part of its waste management programme. Certain discarded raw materials are recycled to reduce waste, while non-reusable waste materials are sold to waste collectors. The Company provides facilities e.g. dedicated bins where cardboards, paper, aluminium cans and other discarded materials are collected for recycling purposes.

The Company has also been accredited with the ISO 14001 certification, an environmental management system accreditation signifying our commitment to minimise the impact on the environment and conserving natural resources.

### Marketplace

The Company is committed in ensuring adherence to high standards of ethical values by upholding the principles of integrity, honesty and professionalism in the Company's dealings and/or relationship with our customers, suppliers and shareholders.

The Company ensures that our products comply with the standards required for food safety and we have been accredited with the HACCP certification for food safety system.

The Group will continue its efforts to ensure fulfilment of its obligations as a socially responsible corporate citizen.

# Statement on Risk Management and Internal Control

The Board of Directors (“the Board”) is fully committed to maintain a sound system of internal control and risk management in accordance with Principle 6 of the Malaysian Code on Corporate Governance 2012 to safeguard shareholders' investments, the Group's assets and the interests of other stakeholders. The Board is pleased to present the Statement on Risk Management and Internal Control which outlines the Group's internal control framework and risk management system for the financial year ended 31 December 2012 pursuant to Paragraph 15.26(b) of Bursa Malaysia's Main Market Listing Requirements (“MMLR”) and the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers.

## 1. Responsibility

The Board has overall responsibility for the Group's risk management and system of internal controls and for reviewing its adequacy and effectiveness. Management is responsible for implementing the processes for identifying, assessing, monitoring and reporting of risks and internal control to the Board. Management's duties include taking appropriate and timely corrective actions as needed to mitigate and control these risks and providing assurance to the Board that the processes for identifying, evaluating and managing significant risks have been carried out.

## 2. Internal Control and Risk Management Framework

- 2.1 The Board confirms that there is a sound internal control framework and ongoing process for identifying, evaluating, monitoring and managing the significant risks faced by the Group in the achievement of its objectives and strategies. The Board reviews the process, taking into account changes in the regulatory and business environment to ensure the adequacy and effectiveness of the system of risk management and internal controls. The framework and ongoing process have been in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report.
- 2.2 The Board recognises that the system of internal control and risk management is designed to manage and minimize the risk of failure rather than eliminate the risks involved. Therefore, the Board is cognizant that the systems implemented can provide only reasonable and not absolute assurance against the occurrence of any material misstatement and loss.

## 3. Internal Audit Function

- 3.1 The Group's internal audit function has been outsourced to an independent party which assists the Audit Committee and the Board in discharging their responsibilities. The internal audit function provides independent, objective assurance and advisory services that add value and improve the operations by:
  - ensuring the existence of processes to monitor the effectiveness and efficiency of operations and the achievement of business objectives;
  - ensuring the adequacy and effectiveness of internal control and management information systems for safeguarding of assets and providing consistent, accurate financial and operational data;
  - promoting risk awareness and the value and nature of an effective internal control system;
  - ensuring compliance with laws, regulations, corporate policies and procedures;
  - assisting management in accomplishing its objectives by adopting a systematic and disciplined audit approach in evaluating and improving the effectiveness of risk management, control and governance processes within the Group's operations; and
  - testing the effectiveness and efficiency of the internal controls systems periodically to ensure that they are effective and viable.

- 3.2 The internal audit function reports directly to the Audit Committee and focuses on high priority activities determined by risk assessment in accordance with the Audit Planning Memorandum approved by the Audit Committee. Please refer to the Audit Committee Report on pages 26 to 28.

#### 4. Internal Control Systems and Risk Management

The main features of the Group's internal control system and risk management are described below:

- Organisation structure with clearly defined delegation of responsibilities to the Audit Committee which comprises wholly of Independent Non-Executive Directors;
- Regular meetings are held at operational and management levels to identify and resolve business, financial, operational and management issues;
- The Company was accredited with ISO 9001:2008 in 2000 and ISO 14001:2004 in 2011. Documented internal procedures and standard operating procedures have been put in place and a yearly surveillance audit is conducted by assessors of the ISO certification body to ensure that systems are adequately implemented;
- Regular internal audit visits commissioned by the Audit Committee to monitor compliance with procedures and assess the integrity of financial information provided;
- Regular information is provided by the management to the Board on financial performance and key business indicators;
- Monthly monitoring of results by the management through financial reports such as monthly management accounts and cash flow;
- Budgeting and forecasting system governed by the Group's policy;
- Regular meetings between the Audit Committee and the management on the actions taken on internal control issues identified through reports prepared by the internal auditors, external auditors and/or management;
- Proper approval by the management on capital expenditure up to RM1 million and by the Board on capital expenditure exceeding RM1 million;
- Proper approval and review by the Board on new ventures/business diversification;
- Reporting of the Group's acceptable risk appetite and tolerance by the Managing Director to the Board on a half yearly basis; and
- Formalised internal policies, procedures, manuals and codes are in place to ensure compliance with internal controls and relevant rules and regulations to provide guidance and direction for the proper management and governance of the operations and business activities within the Group.

#### 5. Review of the Statement by the External Auditors

This Statement has been reviewed by the External Auditors for inclusion in the Annual Report 2012 in accordance with Paragraph 15.23 of the MMLR. The External Auditors have reported to the Board that nothing has come to their attention that caused them to believe that this Statement is inconsistent with their understanding of the processes adopted by the Board in reviewing the adequacy and effectiveness of the risk management and internal control system of the Group.

## 6. Conclusion by the Board

- 6.1 The Board, through the Audit Committee has reviewed the adequacy and effectiveness of the risk management and internal control system based on the information:-
- (i) provided by key management in the Company delegated with the responsibility for the development and maintenance of the internal control and risk management framework and processes;
  - (ii) from the Internal Auditors, who submit regular reports to the Audit Committee which include their independent and objective opinion on the adequacy and effectiveness of the Company's systems of risk management and internal control together with recommendations for improvement;
  - (iii) provided by the External Auditors.
- 6.2 The Board has received assurance from the Managing Director and the General Manager: Corporate and Finance that the Group's risk management and internal control systems are operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.
- 6.3 The corporate risk scorecard for the Group was presented by management at the Board meeting on a half yearly basis. There were no significant risks identified in the corporate risk scorecard.
- 6.4 The Group's risk management and internal control system does not apply to the associate company as the Board does not have control over its operations. Notwithstanding, the Group's interests are served through representation on the board of the associate company. The Board also obtains a written confirmation from the associate's management on a quarterly basis on factors/events that may adversely affect the associate's performance. Collectively, these provide the Board with timely information and decision making in relation to the investment in its associate company.
- 6.5 No material losses were incurred during the financial year under review as a result of weaknesses in risk management and the internal control system. The Board and management will continue to take adequate measures to strengthen the control environment in which the Group operates.
- 6.6 The Board is satisfied that the risk management and internal control systems in place for the financial year ended December 31, 2012 are adequate and effective to safeguard shareholders' investments, the Group's assets and the interests of other stakeholders.

This Statement is made in accordance with the resolution of the Board dated April 4, 2013.

## Audit Committee Report

The Board is pleased to present the Audit Committee Report for the financial year ended December 31, 2012.

The Audit Committee was established on August 28, 1993.

### Members and meetings

The Audit Committee ("Committee") comprises the following members and the details of attendance of each member at the Committee meetings held during the financial year ended December 31, 2012 are as follows:

NAME	STATUS OF DIRECTORSHIP	INDEPENDENT	ATTENDANCE OF MEETINGS
P. James Edwin A/L Louis Pushparatnam	Non-Executive Chairman	Yes	Attended five (5) out of five (5) meetings
Heng Fu Joe	Non-Executive Director	Yes	Attended five (5) out of five (5) meetings
Caroline Ang Choo Bee (appointed on July 16, 2012)	Non-Executive Director	Yes	Attended two (2) out of two (2) meetings held after her appointment

In accordance with the Bursa Malaysia Listing Requirements, all the members of the Committee must be non-executive Directors, with a majority of the members being Independent Directors and at least one member of the Committee must be a member of the Malaysian Institute of Accountants.

If a member of the Audit Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board of Directors shall, within three (3) months of that event appoint such number of new members as may be required to make up the minimum number of three (3) members.

### 1. TERMS OF REFERENCE

#### Frequency of meetings

Meetings will be held at least four (4) times a year and the quorum shall be two (2) with the majority of members present being Independent Directors. At least twice a year, the Committee shall meet with the external auditors in the absence of the Executive Directors.

#### Reporting to the Board

The Chairman of the Committee reports the results of the deliberations of the Committee to the Board after each Committee meeting.

#### Authority

The Committee is authorised by the Board to investigate any matter within its terms of reference. It is authorised to have full and unrestricted access to any information and be able to obtain independent professional advice.

## Functions and Duties

The duties of the Committee are:

- To review all financial statements before their submission to the Board for approval and/or release to shareholders or third parties, focusing particularly on:
  - a) any changes in accounting policies and practices;
  - b) major judgmental areas affecting the financial statements;
  - c) significant adjustments arising from the audit;
  - d) the going concern assumption;
  - e) compliance with Financial Reporting Standards; and
  - f) compliance with stock exchange and other legal requirements.
- To assess the impact of significant regulatory accounting or reporting changes and developments;
- To consider any related party transaction that may arise within the Company or the Group, assess its impact on the financial results and its reporting in the financial statements;
- To review all non-financial information that is of importance in assessing the Company's or Group's performance, including customer satisfaction, product and service quality, market share, market reaction, environmental issues and such other items, when dealing with any item on the Audit Committee agenda;
- To consider the appointment of external auditors, fix their remuneration and any changes thereto;
- To discuss with the external auditors their audit plan and ensure co-ordination where more than one audit firm is involved;
- To discuss problems and reservations arising from the external audits, and any matter the auditors may wish to discuss (in the absence of management where necessary);
- To review the external auditors' management letter and management's response;
- To review with the external auditors their evaluation of the system of internal controls;
- To review with the external auditors their audit report;
- To meet with the external auditors, without executive Board members present at least once a year;
- To identify principal risks and ensure the implementation of appropriate systems to manage these risks;
- To review the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines;
- In relation to the Internal Audit Function:
  - To set up an Internal Audit Function;
  - Approve any appointment or termination of senior staff members of the Internal Audit Function;
  - Review and approve the internal audit plan and results of the internal audit work and consider adequacy of management's action taken on audit recommendations;
  - Review any appraisal or assessment of the performance of the internal audit function;
  - To consider the major findings of internal investigations and management's response; and
  - To ensure co-ordination between the internal and external auditors.

## 2. SUMMARY OF ACTIVITIES UNDERTAKEN BY THE COMMITTEE

The following activities were carried out by the Committee during the financial year under review:

- (a) Reviewed the unaudited quarterly financial statements before recommending to the Board for approval;
- (b) Discussed and reviewed the Group's audited year end financial statements with the external auditors in relation to the significant matters noted in the course of the audit of the Group's financial statements as well as new developments on accounting standards and regulatory requirements before recommending to the Board for approval;
- (c) Reviewed with the external auditors their audit plan prior to the commencement of audit;
- (d) Considered the appointment of external auditors and their audit fees before recommending to the Board for approval;
- (e) Considered the related party transactions that had arisen within the Company or the Group before recommending to the Board for approval;
- (f) Reviewed the audit reports submitted by the Internal Auditors;
- (g) Reviewed and approved the Internal Audit Plan for the year and the monitoring of the implementation of the approved audit plan;
- (h) Reviewed the Statement on risk management and Internal Control before recommending to the Board for approval;
- (i) Reviewed the Audit Committee Report before recommending to the Board for approval;
- (j) Reviewed the proposed changes to the Company's Credit Control Policy before recommending to the Board for approval;
- (k) Reviewed the proposed amendments to the Audit Committee Charter before recommending to the Board for approval;
- (l) Considered the acquisition of additional shares in Daibochi Australia Pty Ltd, a subsidiary of the Company, before recommending to the Board for approval; and
- (m) Met twice with the external auditors without executive Board members present.

## 3. INTERNAL AUDIT FUNCTION

The Group set up an Internal Audit Function in 1995. The terms of reference of the Internal Audit Function are contained in the Internal Audit Charter.

The Internal Audit Function, which has been outsourced to an Audit Firm, reports to the Committee and prepares and tables an Annual Internal Audit Plan for the consideration and approval of the Committee. The Internal Audit Function adopts a risk-based approach in preparing its audit strategy and annual plan based on the risk profiles of the business operations. The scope of the internal audit is based on the audit plan. The Internal Auditor reports to the Committee on a quarterly basis and provides the Committee with independent views on the adequacy, integrity and effectiveness of the system of internal control after its reviews.

For the financial year ended December 31, 2012, the cost incurred in maintaining the outsourced Internal Audit Function amounted to RM60,000.

# Chairman's Statement

Fellow Shareholders,

The previous year was largely shaped by the unfolding economic crises in the Eurozone and the United States, resulting in the cautious stance adopted by both consumers and corporates alike in their spending and investment decisions.

Nonetheless, the Malaysian economy remained in robust health with Gross Domestic Product (GDP) expanding by 5.6% in 2012 compared to 5.1% in the previous year, propelled mainly by resilient domestic demand and private sector investments.

For Daibochi Plastic And Packaging Industry Berhad (Daibochi), the financial year ended December 31, 2012 (FY2012) was a year of breakthroughs.

For one thing, we reported our best-ever performance with record-high net profit in FY2012.

Furthermore, we also successfully enlarged our clientele in the year under review to include medical glove and electronics manufacturers. These are certainly the first fruits of our "new sector" customer expansion initiatives that started two years ago, and we view these developments positively in our quest to continually broaden the breadth of our operations.

In effect, these accomplishments cap an illustrious 40-year history for Daibochi, since our humble beginnings in 1972.

On that note, it gives me great pleasure in presenting to you, on behalf of the Board of Directors, the Annual Report and audited financial statements of the Group and Company for FY2012.

## Operations Highlights

From a wider perspective, raw material prices were relatively stable in the year under review, supported by increased global resin output and fewer speculative activities in the commodities market.

At the same time, as part of the Group's ongoing commitment to enhancing our operations, we adopted a holistic approach in improving our internal processes in FY2012 via a multi-pronged strategy.

Firstly, we acquired state of the art machinery to upgrade our production capabilities, including our printing, laminating and metallizing functions and optimised the capacities of our manufacturing plant in Ayer Keroh, Melaka. The Group invested a total of RM19.8 million in capital expenditure in the year under review and we believe that this would facilitate the Group's future growth.

Secondly, we also undertook further process improvements to meet the stringent requirements of customers in the Food and Beverage (F&B) sector. Among the notable measures implemented was to incorporate clean room capabilities in our bagging processes in the year under review.

Thirdly, our Research and Development team made remarkable headway in product innovation, primarily in developing our in-house two-layer packaging film that provides similar barrier functions as the conventional four-layer film. Thus far, we have received positive feedback from customers for this downgauged film, and are optimistic of its widespread adoption in the near future.



Lastly, we implemented a skills development programme for our workforce, geared towards paying greater attention to minimizing wastage and enhancing productivity. We also strived to facilitate better communication across all levels. Employees are encouraged to be proactive in ensuring that the product quality is maintained.

Overall, we are pleased to report that these measures have begun to bear fruit in the year under review.

### Financial Performance

Daibochi attained RM278.8 million group revenue in FY2012, versus RM284.2 million previously.

The Group's core packaging segment retained its upward trajectory, with revenue expanding to RM275.8 million in FY2012 from RM267.9 million in the previous year. This demonstrates the Group's ability to effectively serve the needs of more multinational corporations (MNCs) and participate in the success of key customers in the F&B and Fast Moving Consumer Goods (FMCG) sectors.

The property development segment, meanwhile, reported RM3.0 million revenue in FY2012, compared to RM16.3 million a year ago. The declining contribution from this segment is aligned to the Group's intention to focus its resources on growing the packaging business from hereon.

The favourable product mix, improved wastage control and stable raw material prices, resulted in Group profit before tax increasing 34.2% to RM33.9 million from RM25.3 million previously. Likewise, Group net profit attributable to shareholders expanded 22.7% to RM24.6 million, compared to RM20.1 million a year ago.

With this, Group revenue expanded 6.6% on compounded annual growth basis over the last five years, while net profit achieved a higher growth rate of 23.2% in the same timeframe.

Shareholders' equity rose to RM150.4 million at the end of 2012 versus RM140.2 million at the previous year-end, while total borrowings reduced to RM30.1 million from RM35.5 million previously.

I am pleased to note that the Group continued to maintain a low net gearing of 0.15 times as at end-2012, compared to 0.18 times at end-2011. The strong financial position of the Group renders us a good foundation for our future expansion plans.

Alongside this, the investing community has also taken note of the Group's financial performance and growth prospects, which has translated in increased market capitalization and interest amongst local and foreign institutional investors in the year under review.

Indeed, Daibochi's market capitalization has grown from RM201.6 million in end-2011 to RM290.4 million in end-2012. We are grateful for this vote of confidence from investors.

### Corporate Exercise

To improve the marketability and trading liquidity of Daibochi shares, the Company undertook a bonus issue of up to 37,950,695 shares of RM1 each, on the basis of one bonus share for every two existing shares.

Approved by shareholders on July 26, 2012 and effected on September 10, 2012, the 1-for-2 bonus issue effectively increased the Group's share capital to RM113.9 million consisting of 113,852,496 shares of RM1 each from RM75.9 million consisting of 75,901,801 shares previously.