

# Corporate Social Responsibility Statement

Daibochi is committed to building a sustainable business and conducting our operations with integrity and in accordance to the highest ethical and professional standards. The Board holds the view that good Corporate Social Responsibility (“CSR”) practices are integral to long term business growth and therefore embeds socially responsible values throughout the Group. As a responsible corporate citizen, Daibochi strives to enhance our shareholders’ wealth through managing our business in an ethically, socially and environmentally responsible manner.

Our CSR framework focuses on 4 core areas: Employee Wellbeing, Environmental Awareness, Community Welfare and the Marketplace. The Board is pleased to present our key CSR initiatives and highlights in 2016 as follows:

## Employee Wellbeing

Our people are our principal asset and we believe that it is their commitment, enthusiasm and innovative ideas that propel Daibochi forward and to achieve long term business goals. In this regard, the Group facilitates an inclusive working environment that values all employees and fosters a culture of personal ownership and pursuit of excellence in their everyday work.

We encourage our employees’ personal development, reward both professional and personal achievement, enhance their career advancement, provide competitive benefits and care for their welfare. We do not practice any form of discrimination, treat our employees with dignity and respect, and provide them with equal employment opportunities based on merit. Daibochi recognizes that our success depends on the ability to leverage the skills, talent and experience of our workforce and we value diversity, including thought and perspective, age, gender, nationality and ethnicity as reflected in our *Workplace Diversity Policy*. Our selection criteria for employment, promotion, training or other benefits are based on the blend of competencies, qualifications, job-related skills, abilities and integrity, with due regard to age, ethnicity and gender diversity.

Employees are given opportunities to develop to their highest potential and are provided with various types of training in line with the nature/scope of their duties. These training programs help our workforce

## Team Building 2016



to stay abreast of evolving industry needs and promote their career development.

Our employees’ health and safety is crucial and we are committed to providing a healthy and safe working environment. The Health and Safety Committee (“H&S Committee”) is entrusted with cultivating safe workplace practices, including developing and administering safety policies,



## Chinese New Year And Hari Raya Aidilfitri 2016



conducting annual safety audits of our manufacturing sites and ensuring compliance with Occupational Safety and Health Administration standards. We regularly review safety performance results, occupational illness and injury, workplace hazards, incident mitigation and prevention measures. In 2016, the H&S Committee continued to provide regular training in relation to fire safety, chemical spills, machine safety and accident-prevention to ensure a high level of awareness towards safety requirements. Personal protective equipment are provided to all concerned workers, while preventive actions such as fire drills are carried out annually to prepare our employees for speedy evacuation in the event of fire emergencies. Serious accidents are reported at our monthly assemblies to create awareness and instill a safety culture amongst employees. There was a reduction in accident cases and no major occupational safety and fatality incidents e.g. death or disability in 2016.

## Daibochi Annual Dinner





## World Earth Day And Safety Health Week 2016



In 2016, the Company organized a “*World Earth Day, Safety & Health Week 2016*” campaign, which encompassed health screenings, talks to educate employees on best practices and habits to encourage a healthy and balanced lifestyle. A “*No Smoking Day*” campaign was also organized to create awareness of the hazards of smoking. The focus of these campaigns was to enhance safety awareness and encourage employees to make positive lifestyle changes.

The Company encourages its employees to adopt 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 and to facilitate networking and camaraderie among the employees. To promote a healthy lifestyle, the Company maintained our practice to distribute complimentary fresh fruits to employees twice weekly at the staff canteen. We also provide our employees with access to quality healthcare as well as medical and healthcare insurance for eligible employees and their immediate family members.

The Company helped to ease the burden of deserving employees with school going children by providing them with financial aid for the 2017 school session. Educational awards were also given to employees’ children to reward them for their outstanding academic performance.

### Environmental Awareness

The Group understands that our operations and activities have an environmental footprint and it is our responsibility to minimize these through continuous improvement and management of our manufacturing facilities. To this end, our sustainability agenda focuses on eco-friendly environmental management practices to reduce the impact of our carbon footprint.

Daibochi adheres to its *Environmental Cares Policy* to ensure that materials and energy resources are used efficiently to minimise waste. This includes monitoring energy and water consumption, materials planning, waste management and restricting the use of hazardous substances. The policy is based on the following principles:

## World Earth Day And Safety Health Week 2016



*“Consistently embarking on continuous improvement of environmental preservation activities to meet the current Environmental Quality Act 1974”.*

*“Adhering to established guidelines stipulated by governmental regulations and statutory requirements in the prevention of pollution, management and disposal of waste generated”.*

*“Recycling and utilizing materials which are recyclable and practising waste minimization concepts of reducing, reusing and recycling either internally or by outsourcing to third parties”.*

*“Enhancing and promoting awareness by educating our workforce through education, training and participation in environmental activities”.*

*“Setting and implementing company-wide objectives and targets to address significant environmental impacts arising from our business activities”.*

The Company continues to explore innovative avenues by constantly reviewing and upgrading our production processes, whilst products are

improved to meet evolving legal, business and technological requirements. Our R&D department remains dedicated to exploring environmentally friendly flexible packaging solutions, in line with growing preference for sustainable packaging amongst our customers and consumers. Our innovative two layer film utilizes significantly lesser raw materials than the conventional four layer film, while retaining barrier and strength functionality, therefore generating cost savings for our customers and reduces our carbon footprint.

Our manufacturing facilities adhere to strict regulations and procedures in relation to waste management and disposal. Waste performance is tracked on a regular basis and waste minimization awareness is continuously instilled amongst our employees. The Company has engaged the services of licensed contractors for scheduled waste disposal in compliance with the relevant regulations as part of the waste management programme. Various discarded raw materials are recycled to reduce waste, while non-reusable waste materials are sold to waste collectors. The Company provides facilities such as dedicated bins where cardboards, paper, aluminium cans and other discarded materials are collected for recycling purposes. Waste from our production processes is sent to a waste-to-energy incinerator facility, thus eliminating our use of landfills which typically releases more greenhouse gases such as methane.

In achieving efficient usage of electricity in our production facilities, we installed a total of 63 units of E-Savers in key production machineries across both manufacturing plants to optimise heat-management and reduce the amount of electricity used per machine. These efforts have led to reduced energy consumption and cost savings, in line with our carbon reduction strategy. Air emissions are continuously monitored to ensure compliance with regulatory obligations. Monitoring and improving water usage practices continues to be a priority.

We encourage green activities in the workplace and support environmental conservation efforts in the community. Employees regularly participate in recycling activities through our “Green Day” campaign every Tuesday and Thursday, where they are encouraged to bring segregated waste of plastic, paper, tin, discs, used batteries or clothing to be sent to the Tzu Chi recycling centre. The use of polystyrene food packaging is prohibited in Company’s premises and all employees are



provided recyclable food containers. Employees are encouraged to practise the 5R's – "Refuse, Reuse, Reduce, Repair and Recycle" in their daily activities. We also lead by example to encourage prudent electricity usage by switching off the lights in the office during scheduled breaks and encouraged employees to participate in the "Earth Hour" on March 19, 2016 from 8.30pm to 9.30pm by switching off lights and electrical equipment during that hour. Our "World Earth Day, Safety & Health Week 2016" campaign included a tree planting event by the senior Management team. 5S audits were also carried out in 2016 by the Company's 5S Committee in line with our commitment to sustain a productive working environment.

Our ISO 14001 environmental management certification signifies our commitment to minimise the impact on the environment and conserve natural resources. During the year, the Group was not penalized for any instance of non-compliance with environmental laws and regulations.

### Community Welfare

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

The Company provides the poor and marginalized community in Melaka with supplementary work and income by collaborating with a non-profit organization ("NPO") in respect of an assembly project. In 2016, we continued to engage the NPO to supply a portion of our fresh fruits requirements in the staff canteen.

Furthermore, each year, we recruit students from colleges, technical schools and universities for our internship programme. Students are provided with comprehensive hands-on training to equip them with the necessary knowledge and skills needed in future career pursuits. There were 31 trainees attached to the Company for their industrial training in 2016.

### Marketplace

The Board recognizes that high standards of business conduct are imperative to maintaining successful relationships with all stakeholders and building a sustainable business. In this regard, we are committed in ensuring that our business is conducted with the highest ethical standards by

upholding professionalism in our dealings and relationship with customers, suppliers and shareholders. These core principles are enshrined in our *Code of Conduct* ("Code") and observed by the Board, Management team and employees. The Code requires that we comply with all laws, rules and regulations, conduct our business with honesty and integrity and treat our employees with respect. It also prohibits the giving or receiving of gifts, benefits etc. during the course of employment, which may inappropriately influence employee judgment in their duties.

In line with this commitment, the Company also has a *Whistle-Blowing Policy* in place to provide an avenue for employees and stakeholders to report in good faith, genuine concerns about unethical behaviour and improper conduct within the Company without fear of reprisal.

At Daibochi, our mission is to be the "*Preferred Supplier of Our Customers*" and exceed customers' expectations in product quality, service and delivery. In achieving this, we have high standards of quality controls in place for our operational processes to ensure the quality and safety of our products. Our manufacturing facilities are equipped with state of the art machinery and in-house laboratory facilities to produce high-quality packaging solutions. We adhere to good manufacturing practices, hygiene practices, food safety management systems in our supply chain, manufacturing and delivery of products to our customers. Regular reviews and audits are undertaken based on established standards and criteria to ensure quality control in our manufacturing facilities.

Our commitment to excellence and continuous improvement in quality is further reflected in the *Quality & Food Safety Policy* and accreditations attained by the Company. The ISO 9001 certification underscores our commitment to deliver high quality products and services to our customers. The "FSSC 22000" accreditation (Food Safety System Certification) recognized by the Global Food Safety Initiative and supported by the Confederation of the Food and Drink Industries of the European Union emphasizes our Company's dedication to continuous improvement of quality and food safety. We ensure that there is a robust and effective quality management system in place to meet the requirements of regulators, customers and consumers.

# Statement On Risk Management And Internal Control

The Board of Directors (“the Board”) is fully committed towards maintaining a sound system of risk management and internal control to safeguard shareholders’ investments, the Group’s assets and the interest of other stakeholders. We seek to build a strong risk management and control culture by promoting governance, transparency and accountability throughout the Group.

The Board is pleased to present the Statement on Risk Management and Internal Control (“Statement”) which outlines the nature and scope of the Group’s risk management framework and internal control systems for the financial year ended December 31, 2016. This Statement is prepared pursuant to Paragraph 15.26(b) of Bursa Malaysia’s Listing Requirements (“the MMLR”) and Principle 6 of the Malaysian Code on Corporate Governance 2012 with guidance from the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

## 1. Responsibility and Accountability

- 1.1 The Board affirms its overall responsibility for the Group’s risk management and system of internal controls, including reviewing its adequacy and effectiveness in line with its business objectives. The Board confirms that there is a sound internal control system and risk management framework, including an ongoing process for identifying, evaluating, mitigating/managing and monitoring the significant risks faced by the Group in the achievement of its objectives and strategies. Processes are reviewed, taking into account changes in the regulatory and business environment to ensure the adequacy and effectiveness 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.
- 1.2 The Board is assisted by the Risk Management Committee (“RMC”) and Audit Committee (“AC”) in reviewing the effectiveness of the risk management and internal control systems. Management is responsible for implementing the processes for identifying, evaluating, monitoring and reporting of risks and internal controls, taking appropriate and timely corrective actions as needed to mitigate and control the risks. Management also provides assurance to the Board that these processes have been carried out accordingly.
- 1.3 The Board recognizes 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, loss and fraud.

## 2. Risk Management

- 2.1 Risk management is integrated into business processes across the entire organization as the Board believes that this is imperative for the Group’s sustainability and enhancement of shareholder value.
- 2.2 The Group has a structured process within its risk management framework for identifying, evaluating, mitigating and monitoring risks. Key business and operational risks faced by the Group are defined, highlighted, monitored and managed systematically to ensure prudent risk management.
  - Risk identification: risk owners (heads of each department/management) are primarily responsible in identifying risks that could adversely impact the achievement of the Group’s objectives in relation to their areas of supervision/control.
  - Risk evaluation: evaluation of the identified risks by risk owners to determine the possibility of occurrence and potential impact to the Group.
  - Risk mitigation: proposed action plan by risk owners to manage/mitigate the risks.
  - Risk monitoring: ongoing process of monitoring risks by Management to ensure that appropriate mitigation plans have been implemented and taking into account changes in the regulatory and business environment.

- 2.3 Significant risks representing challenges to the Group's business are classified into distinct categories i.e. Sales and Marketing, Markets: Competitors and Large Customers, Reputation and Quality Assurance, Operations, Human Resource, Finance, Management Information Systems and Technology.
- 2.4 The RMC supports the Board in terms of risk governance and assists with its responsibilities to identify, assess/evaluate, mitigate/manage and monitor key business risks. This is to ensure that there is a sound and robust risk management framework in place to enhance the Group's ability to achieve its strategic objectives and safeguard shareholders' investments and assets.
- 2.5 Meetings/discussions are held regularly by Management with the respective risk owners on significant risks, possibility of occurrence, impact, controls (preventive, detective, corrective) and action plans to manage these risks. This information is then consolidated in the respective department's risk register. Management's duties include presenting the risk register to the RMC, monitoring risk management activities, ensuring compliance and effective implementation of risk policies, identifying changes to risk or emerging risks and engaging with employees in promoting and inculcating a high risk awareness culture.
- 2.6 The risk register, including the Group's risk exposures, risk assessment, Management's views on acceptable/appropriate level of risks and action plans are deliberated at RMC meetings. Salient issues are then reported to the Board on a half yearly basis. This register is also reviewed regularly to reflect changes to the risk profile and to update the RMC and the Board on the relevant developments in relation thereto. The RMC met twice during the year on May 26, 2016 and December 8, 2016 to review and assess the Group's risks, approve risk focus areas recommended by Management to be deliberated in future cycles, to consider any other risk focus areas and deliberate the significant risks to be presented to the Board.

### 3. Internal Audit Function

- 3.1 The Group's internal audit function has been outsourced to an independent professional firm which assists the AC and the Board in discharging their responsibilities. The internal audit function provides independent, objective assurance and advisory services that add value and improve operations by:
  - evaluating and improving the adequacy and effectiveness of internal control systems established by the Management; and
  - providing internal audit recommendations for the improvement of the internal controls, policies and procedures.
- 3.2 The Internal Auditors report directly to the AC and adopt a risk based internal audit approach which focuses on key risk areas determined through high level risk review in accordance with the Internal Audit Strategy document approved by the AC. The Internal Audit Strategy for 2016 was carried out upon approval by the AC. For the year under review, the Internal Auditors conducted audits in relation to Sales and Marketing, Production, Human Resource, Finance, Strategic Management, Purchasing, Warehouse and Logistics, Product Development and Technical Support and Quality Assurance. The adequacy and effectiveness of internal controls were reviewed by the AC in relation to the internal audits in 2016. Observations arising from the internal audits together with Management's response and corrective action plans were proposed to the AC at the AC meetings. The AC's deliberations were then reported to the Board.

## 4. Internal Controls

The internal controls system of the Group encompasses governance, risk management, organizational, financial, strategy, business and operations, compliance and human capital management. The key features are described below:

### 4.1 Organizational structure/authority

- Appropriate organizational structure with clearly defined lines of authority, responsibility and accountability in place to support the Group in achieving its vision, mission, strategies and business objectives.
- Delegation of responsibilities to the Board Committees (RMC, AC, Nomination and Remuneration Committees) to assist the Board in overseeing the Group's risk management and internal control systems, Board effectiveness, nomination and remuneration of Directors.
- Responsibilities and authority of the Board and Board Committees are governed by their respective terms of reference/charters. The AC and Board Charters as well as the terms of reference of the Nomination Committee are available on the Company's website at [www.daibochiplastic.com](http://www.daibochiplastic.com).
- The senior Management team led by the Managing Director comprises experienced personnel who are accountable for the conduct and performance of their respective departments.
- Significant issues/risks are brought to the attention of the Managing Director immediately and highlighted to the Board on a timely basis.
- Management meetings are held regularly to deliberate on business performance, financial and operational matters, potential risks and issues to be resolved.

### 4.2 Audits

#### (a) Internal audit

- Regular internal audit visits are commissioned by the AC and the objectives are to independently assess the system of internal controls established by Management and to make appropriate recommendations in relation thereto.
- Meetings are held between the Internal Auditors, heads of departments and Management to discuss actions taken on internal control issues identified through reports prepared by the Internal Auditors.
- Audit reports together with findings, Management's response and corrective actions are presented by the Internal Auditors to the AC.
- Subsequent audits are conducted by the Internal Auditors to follow up on the implementation status of concerns arising from the prior audit.  
Please refer to pages 44 and 45, Sections 2.4 and 3 of the AC report for further details.

#### (b) External audits

- Regular meetings held by the AC members with full and unimpeded access to the External Auditors during the financial year under review.
- Review of unaudited quarterly financial statements and audited year-end financial statements by the External Auditors.
- Discussions on significant matters noted in the course of the audit of the Group's financial statements between the AC and External Auditors.  
Please refer to page 43, Section 2.3 of the AC report for further details.



#### (c) Quality/Environment management system audits

- The Company was accredited with ISO 9001:2008 in 2000, ISO 14001:2004 in 2011 and FSSC 22000 in 2014.
- Documented internal procedures and standard operating procedures are in place to ensure compliance with the requirements of the above certifications.
- Yearly surveillance audits are conducted by assessors of the ISO and FSSC 22000 certification bodies to ensure that systems are adequately implemented.

#### 4.3 Delegation/limitation of authority

- Effective delegation of authority limits in relation to the course of conducting business in accordance with the *Discretionary Authority Limit Policy* to promote good governance.
- Proper approval by Management on capital expenditure of up to RM1 million and by the Board on capital expenditure exceeding RM1 million.

#### 4.4 Strategic Plan, Budget and Reporting

- A Strategic plan encompassing information on the Group's performance, financial and operational reviews/highlights, strategies, key business indicators, research and development/technology, quality control and human resource is presented to the Board on a half yearly basis. The Board reviews and discusses the plan to ensure that the Group's objectives are met
- The Board is also updated on the progress of the issues highlighted during the half yearly presentation at subsequent Board meetings.
- Strategies approved by the Board are conveyed by Management to the respective HODs and discussed at management, operations, sales, quality and other department meetings held regularly.
- Assessments undertaken by Management and an independent advisor on the viability and risks associated with a new joint venture project are properly reviewed by the Board to ensure that the Group's business objectives are met prior to approval/commitment of resources.
- The Group's annual budget is deliberated and approved by the Board before implementation.
- Monitoring of results by Management and the Board through financial reports such as monthly management accounts and cash flow.
- Reporting of the Group's outstanding forex contracts by Management to the Board at Board meetings in accordance with the *Forex Policy*.
- Reporting of significant risks by the RMC/Management to the Board on a half-yearly basis.
- Reporting of the observations arising from the internal audit together with Management's response, corrective actions plans and the AC's deliberations to the Board.
- Reporting of related party transactions, recurrent related party transactions and possible conflict of interest situations on a quarterly basis by Management to the AC and the Board.

#### 4.5 Policies and Procedures

The Group has formalized policies, procedures and manuals to ensure that internal control principles and mechanisms are embedded in its business and operations. These policies/procedures have been disseminated and communicated to the relevant employees for compliance and are reviewed regularly to ensure relevance and effectiveness. The key policies include:

- The *Corporate Disclosure Policy* to ensure that confidential information on the Group's operations, financial condition and future prospects are protected.
- A *Whistle-Blowing Policy* which provides an avenue/channel for employees and stakeholders to report genuine concerns about unethical behaviour and improper conduct within the Company without fear of reprisal should they act in good faith when reporting such concerns. This policy is available on the Company's website at [www.daibochiplastic.com](http://www.daibochiplastic.com).
- *Credit Committee's Credit Control Policy* to ensure that credit evaluations are performed on all customers requiring credit and that exposure to credit risk is monitored on an ongoing basis.
- *Safety and Health Policy* to ensure a healthy and safe working environment and compliance with Occupational Safety and Health Administration laws and regulations.
- *Environmental Cares Policy* which reflects the Group's commitment in conserving the environment and compliance with the relevant laws.
- *Personal Data Protection Policy* to ensure that personal data of employees, customers etc. are processed in a secure manner and in compliance with Malaysian laws and regulations. This policy is available on the Company's website at [www.daibochiplastic.com](http://www.daibochiplastic.com).

#### 4.6 Human resource management and development

- Committed in ensuring that our business is conducted with the highest ethical standards by upholding professionalism in our dealings and relationship with customers, suppliers and shareholders as enshrined in our Code of Conduct.
- Hiring and termination guidelines in accordance with Malaysian laws.
- Training and development programs for employees to update their knowledge, expertise and skills to meet changing needs of the industry. Employee training needs are regularly assessed and various programs are in place to address competency related matters.

#### 4.7 Security controls/plans

- *Business Continuity Plan* to ensure that there is a contingency framework to manage risks in the event of potential interruptions to operations. The Group did not encounter any interruptions to its operations during the financial year.
- *Information Technology Management Policy* and enhanced security tools in place to ensure that the Group's information systems are adequately protected from potential threats.
- Adequate insurance and physical security of major assets in place to ensure that the assets of the Group are sufficiently covered against any mishap that could potentially result in material losses to 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 2016 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 not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidance for Directors of Listed Issuers or is factually inaccurate.



## 6. Conclusion by the Board

- 6.1 The Board, through the AC and RMC, has reviewed the adequacy and effectiveness of the risk management and internal control systems based on the information:
- (a) provided by Key Management in the Group delegated with the responsibility for the development and maintenance of the internal control and risk management framework and processes;
  - (b) from the Internal Auditors, who submit regular reports to the AC 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;
  - (c) provided by the External Auditors in the form of their annual statutory audit on the financial statements of the Group.
- 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 systems of the Group.
- 6.3 The risk register incorporating the major risks that may impact the Group in achieving its objectives was presented by Management at the Board Meetings on a half yearly basis upon deliberation with the RMC. There were no significant risks affecting the Group's business and operations identified in the risk register during the year under review.
- 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 systems. The Group was not penalized for any instance of non-compliance with laws/regulations and there were no unethical behaviour/improper conduct/concerns reported to the Independent Directors during the year via the *Whistle-Blowing Policy*.
- 6.6 The Board remains committed in improving our risk management framework to ensure that risks are well managed and will continue to take adequate measures to strengthen the control environment in which the Group operates.
- 6.7 The Board is satisfied that the risk management and internal controls in place for the financial year ended December 31, 2016 are adequate and effective to safeguard shareholders' investments, the Group's assets and the interest of other stakeholders.

This Statement is made in accordance with the resolution of the Board dated April 3, 2017.

# Audit Committee Report

The Board is pleased to present the Audit Committee Report for the financial year ended December 31, 2016.

The Audit Committee ("AC"/"Committee") was established on August 28, 1993 and its primary objective is to assist the Board in ensuring proper corporate governance in fulfilling its fiduciary responsibilities, particularly relating to business ethics, policies and practices, financial management, risk management and internal control. The Committee carries out its functions and duties in accordance with its terms of reference set out in the AC Charter, which is available on the Company's website at [www.daibochiplastic.com](http://www.daibochiplastic.com).

## 1. COMPOSITION AND MEETINGS

- 1.1 The AC comprises the following members and the details of attendance of each member at the Committee meetings held during the financial year ended December 31, 2016 are as follows:

NAME	STATUS OF DIRECTORSHIP	INDEPENDENT	ATTENDANCE OF MEETINGS
Mr. P. James Edwin A/L Louis Pushparatnam	Non-Executive Chairman	Yes	Attended six (6) out of six (6) meetings
Mr. Heng Fu Joe	Non-Executive Director	Yes	Attended six (6) out of six (6) meetings
Ms. Caroline Ang Choo Bee	Non-Executive Director	Yes	Attended six (6) out of six (6) meetings

- 1.2 The Committee comprises three (3) members, all of whom are Independent Non-Executive Directors. Mr. Heng Fu Joe and Ms. Caroline Ang Choo Bee are members of the Malaysian Institute of Accountants. Accordingly, the Company meets the requirements of Bursa Malaysia's Listing Requirements.
- 1.3 The AC Chairman briefs the Board on the Committee's proceedings at Board meetings which are held subsequent to the AC meetings. Additionally, confirmed minutes of the AC meetings are also circulated to all non AC members for notation.

## 2. SUMMARY OF WORK UNDERTAKEN BY THE COMMITTEE

The summary of activities/work undertaken by the AC for the financial year under review is as follows:

### 2.1 Financial Reporting

- Reviewed and discussed the following before recommending to the Board for approval:
  - the unaudited quarterly financial statements; and
  - the Group's audited year-end financial statements and significant matters noted in the course of the audit of the Group's financial statements.
- Reviewed compliance requirements with the General Manager, Corporate and Finance and External Auditors and received assurance that the Group has adhered to the appropriate accounting standards, applicable Financial Reporting Standards and IC Interpretations for quarterly reports and financial statements.
- Updated by the General Manager, Corporate and Finance on a quarterly basis on new/amended Financial Reporting Standards which may have a significant impact on the Group's financial statements.



- (d) Reviewed impairment of assets and trade receivables information with the General Manager, Corporate and Finance and External Auditors on a quarterly basis.
- (e) Reviewed/assessed the Company's fixed assets useful lives with the General Manager, Corporate and Finance and External Auditors for the financial year under review.
- (f) Discussed key audit matters raised by the External Auditors and the disclosure thereof in the Independent Auditors' Report for the financial year in line with the requirements of the new International Standards on Auditing 701.
- (g) Received assurance from the External Auditors that the accounting and other records and registers are properly kept in accordance with the Companies Act, 1965 for the Company and its subsidiaries audited by the External Auditors.
- (h) Received assurance from the External Auditors that there were no uncorrected misstatements based on the findings of their audit and that they were not aware of non-compliance of laws and regulations based on their audit work in relation to the Group.

## 2.2 Related Party Transactions and Conflict of Interest

- (a) Reviewed related party transactions ("RPT"), recurrent related party transactions ("RRPT") and possible conflict of interest ("COI") situations on a quarterly basis to ensure that transactions are undertaken in the best interest of the Company or Group, fair, reasonable, on normal commercial terms and not detrimental to the interest of the minority shareholders.
- (b) Monitored the thresholds of the RPT/RRPT to ensure compliance with Bursa Malaysia's Listing Requirements and Financial Reporting Standards.
- (c) Recommended to the Board that there were no significant RPTs, RRPTs and COI situations that may arise within the Company or Group, including any transaction, procedure or course of conduct that raises questions of Management integrity during the financial period under review.

## 2.3 External Auditors

- (a) Annual assessment and re-appointment of External Auditors
  - (i) Assessed the performance and independence of the External Auditors prior to their re-appointment. Assessments were carried out via questionnaires based on the AC's Policy on the Suitability and Independence of External Auditors adopted in 2013. Assessments and comments were properly documented prior to recommending the re-appointment to the Board for approval.
  - (ii) Considered the adequacy of the experience and resources of the audit firm, the team/persons assigned to the audit, the size and complexity of the Group being audited, independence of the External Auditors, quality of performance, audit scope and planning, timeliness and audit fees in the assessment.
  - (iii) Considered the External Auditor's provision of non-audit services to the Company in respect of tax compliance and the annual review of the Statement on Risk Management and Internal Control ("SORMIC"). Tax services were provided by partners and employees who have no involvement in the audit of the financial statements. The amount of non-audit fees incurred for the annual review of the SORMIC and tax services rendered by the External Auditors for the financial year under review amounted to RM19,500. The provision of these services is not likely to affect the independence and objectivity of the External Auditors.

- (iv) Received written assurance from the External Auditors that they have complied with the relevant ethical requirements regarding professional independence.
  - (v) Received assurance from the External Auditors of their policy to rotate the lead external audit partner every 5 years to ensure audit independence. A new lead partner will be engaged for the audit of the financial statements for the financial year ending December 31, 2017 as the current auditor has completed the 5 year tenure.
  - (vi) Being satisfied with the External Auditors' performance, timeliness, technical competency, including safeguards to ensure independence/objectivity, the AC recommended the re-appointment of Messrs SJ Grant Thornton as the Company's External Auditors for the financial year ending December 31, 2017.
- (b) Reviewed the audit fees based on the audit plan before recommending to the Board for approval.
  - (c) Reviewed with the External Auditors their audit plan prior to the commencement of audit.
  - (d) Met twice with the External Auditors on March 28, 2016 and November 10, 2016 without the presence of executive Board members and members of Management present. In these meetings, the AC discussed with the External Auditors, issues of concern arising from their audit review (if any) and co-operation extended by Management during the course of audit, reinforcing the independence of the Company's external audit function.
  - (e) Briefed by the External Auditors on the enhancements in the new auditor's report relating to key audit matters, going concern and other information.

## 2.4 Internal Auditors

- (a) Assessed the performance of the Internal Auditors based on:
  - (i) the adequacy of resources and competency of the internal audit team and audit programmes/plans vide a set of questionnaires forwarded to the AC members, and
  - (ii) discussion/feedback from members of Management.  
This is to ensure that the Internal Auditors have the required resources, expertise and professionalism to discharge their duties.
- (b) Reviewed the internal audit fee before recommending to the Board for approval.
- (c) Reviewed and approved the Internal Audit Strategy Document covering the scope of the internal audit for the year.
- (d) Reviewed the audit reports with the Internal Auditors and discussed with Management the actions to be taken to strengthen the internal control environment based on improvement opportunities identified in these reports. There were no major control weaknesses noted from the internal audit reviews.
- (e) Kept updated on Management's implementation of the internal audit recommendations on outstanding issues, on a quarterly basis, to ensure that all issues were properly addressed and resolved.
- (f) Briefed by the Internal Auditors on business continuity plan and enterprise risk management.
- (g) Updated by the Internal Auditors on the recent amendments to Bursa Malaysia's Listing Requirements and the proposed draft of the Malaysian Code on Corporate Governance 2016.



- (h) Held a separate meeting with the Internal Auditors on May 4, 2016 without the presence of Executive Directors and Management to discuss areas of concern and co-operation extended by Management.

## 2.5 Others

- (a) Discussed non-financial information presented by Management that is of importance in assessing the Company's or Group's performance i.e. in relation to products, market share, award of new business and human capital management.
- (b) Updated by the Company Secretary on recent amendments to Bursa Malaysia's Listing Requirements on disclosure, corporate governance and future financial information.
- (c) Reviewed the following prior to recommending to the Board for approval:
  - (i) amendments to the AC Charter;
  - (ii) agreements/documentation, including the announcement to Bursa Malaysia in relation to the proposed joint venture between the Company's subsidiary, Daibochi Flexibles Sdn. Bhd. and Myanmar Smart Pack Industrial Company Limited, prior to recommending to the Board for approval;
  - (iii) the Statement on Risk Management and Internal Control for inclusion in the Annual Report; and
  - (iv) the AC Report for inclusion in the Annual Report.

## 3. INTERNAL AUDIT FUNCTION

The Group set up an Internal Audit Function in 1995. The objectives of the internal audit are to independently assess the system of internal controls established by Management and make appropriate recommendations for improvement/enhancement in relation thereto. The terms of reference of the Internal Audit Function are contained in the Internal Audit Charter.

The Internal Audit Function has been outsourced to an independent professional service firm. The Internal Auditors report to the AC on a quarterly basis and provide independent views on the adequacy, integrity and effectiveness of the system of internal controls after its reviews. During the financial period under review, the Internal Auditors reported to the Committee and presented an annual Internal Audit Strategy document for the consideration and approval of the AC. The key specific areas that were audited by the Internal Auditors during the financial year were Sales and Marketing, Production, Human Resource, Finance, Strategic Management, Purchasing, Warehouse and Logistics, Product Development and Technical Support and Quality Assurance. Internal audit priority rating classifications were used to provide guidance to Management on the priority of implementation of internal audit recommendations. The cost incurred in maintaining the outsourced Internal Audit Function amounted to RM75,502 for the financial year under review.

Further details of the Internal Audit Function are set out on page 37, Section 3 of the Statement on Risk Management and Internal Control in this Annual Report.

This Statement is made in accordance with the resolution of the Board dated April 3, 2017.

# Chairman's Statement

**Dear Valued Shareholders,**

## 2016 Economic Review

The global economic landscape witnessed significant changes in 2016, shaped by protracted weakness in major economies such as the United States and in the Eurozone, as well as markedly slower growth in China.

These dampened circumstances were tempered by stronger activity in emerging Asia, including India, and the Southeast Asian region, which resulted in global economic activity growing at 3.1% (2015: 3.2%), its slowest pace since the 2008 financial crisis. Meanwhile, global commodity prices also weakened substantially on slower global demand, taking a toll on key commodity exporting countries.

Domestically, the Malaysian economy grew at a moderated pace of 4.3% versus 5.0% in the previous year, on account of sustained weakness in crude oil prices and lower public sector expenditure.

The Ringgit was also volatile against the US Dollar in the year under review, leading to higher costs for imports and heightened challenges for businesses. Moreover, various sectors from manufacturing and plantation to construction grappled with a shortage of workers due to a freeze in applications for new foreign worker hires.

## Corporate Developments

While the macro business environment proved challenging, I am pleased to report that the Group effectively overcame prevailing conditions, and set in place strategies to achieve sustainable business growth for the long term.

### Joint Venture with Myanmar Smart Pack Industrial Company Limited (MSP)

In November 2016, Daibochi entered into a Memorandum of Agreement with MSP, a prominent packaging player in Myanmar to establish a joint venture (JV). The JV - our first venture overseas - would see us manufacturing and distributing consumer flexible packaging in one of Southeast Asia's most populous nations with more than 50 million people.

Myanmar's economy is expected to grow at an average of 7.1% per annum over the next three years, with private and public investments in key areas such as infrastructure services, manufacturing, and hospitality set to rise.

The continued efforts by the Myanmar Government to reform economic policies and encouraging foreign investment are crucial milestones towards seeing the influx of leading international brands in various sectors.

These prospects would undoubtedly benefit consumer flexible packaging players like Daibochi, as we seek to not only capture the vast demand for more advanced packaging as consumer spending rises, but also serve as a key manufacturing partner to major food and beverage (F&B) and fast moving consumer goods (FMCG) brands entering Myanmar.

We believe that Myanmar is poised to witness a high growth trajectory, propelled by the increasing economic development as well as anticipated influx of global FMCG and F&B brands as the country gradually opens up. The significantly lower manufacturing costs in Myanmar also enable us to enhance our competitive advantage in the export market.

Through our collaboration with MSP, we stand to reinforce our position as a prominent flexible packaging supplier in the industry. We are committed to growing DPM into a major consumer packaging player not only in Myanmar but also among ASEAN countries.

Reflecting such optimism, market research provider PCI Wood Makenzie estimates Myanmar's flexible packaging market to be worth USD40 million in 2014, and forecasts double-digit annual growth rate until 2019.



*Chairman, P. James Edwin with the MSWG 2016 Top Corporate Governance award.*

## Corporate Governance and Social Responsibility

The Group is committed to upholding the highest standards in corporate governance and business conduct in our operations.

In recognition of our commendable practices, Daibochi was awarded for the third consecutive year the Minority Shareholder Watchdog Group's (MSWG) Excellence Award for Top Corporate Governance And Performance (Special Category) in 2016 for companies with market capitalisation of between RM300 million to RM1 billion.

The Group also ranked among the Top 100 Companies in the Malaysian Chapter of the MWSG-ASEAN Corporate Governance Transparency Index 2016.

Additionally, the Group strives to ensure sustainable business practices, and implements a corporate social responsibility (CSR) framework focusing on employee wellbeing, environmental awareness, community welfare, and marketplace conduct. The Group reports on the various CSR initiatives implemented throughout the year, as outlined in the Corporate Social Responsibility Statement in this Annual Report.

## FY2017 Outlook

In the year ahead, the global economy is expected to register a slight increase in growth to 3.4% (2016: 3.1%), led by stronger activity in key markets such as the United States and India, as well as sustained resilience of Southeast Asian markets. Meanwhile, a similar uptick in growth is expected of the Malaysian economy at 4.5% (2016: 4.3%), underpinned by increased private consumption and investments.

We also anticipate continued bright prospects for the consumer flexible packaging industry, on the back of consistently rising demand in Asia. This is fuelled not only by the region's rapid population growth, but also increasing urbanization and apparent shift in consumer preferences towards smaller packages, and higher quality products with longer shelf lives, all of which are made possible by flexible packaging.

Despite the recession-proof nature of the consumer flexible packaging industry, we remain mindful of business challenges domestically, such as increasing manufacturing costs, as well as volatility in exchange rates and raw material pricing. We continue to strive to mitigate these challenges through better operational efficiency and controls.

That said, I am confident that the Group has set in place sound strategies for sustainable business growth, not only in our existing markets, but also through expansion into other promising high-growth markets in the Southeast Asian region.

I look forward to the various business initiatives being translated into tangible financial gains in the current financial year, which would certainly see us deliver greater shareholder returns.

## Appreciation

I wish to extend my sincere gratitude to the Board of Directors, Management, and all employees of Daibochi for your contributions in steering the Group towards greater achievements.

My appreciation also goes to our customers, business partners, associates, as well as valued shareholders for your continued trust and support for Daibochi. We look forward to many more years of delivering greater value to all.

Sincerely,

**P. James Edwin A/L Louis Pushparatnam**  
Chairman

April 3, 2017



# Management Discussion and Analysis

Dear Shareholders,

## Operational Highlights

I am pleased to note that despite the challenging economic outlook across the region, Daibochi Plastic and Packaging Industry Berhad (Daibochi or the Group) continued to chart numerous significant milestones in the financial year ended December 31, 2016 (FY2016).

These serve as strong testimony to our ongoing business development initiatives towards achieving our goal of becoming a leading and preferred supplier of consumer flexible packaging for major food and beverage (F&B) multinational corporations (MNCs) across South East Asia (SEA).

To this end, the Group noted the following breakthroughs in the year under review:

- **Commencement of new packaging supply contracts**

During the year, Daibochi commenced supply of specialty flexible packaging for our customers in the F&B and fast moving consumer goods (FMCG) sectors in the ASEAN and Australian/New Zealand (ANZ) market.

These included the supply of flexible packaging to an F&B client with leading snack foods brands in ASEAN, involving the internal print process to support its marketing campaign. The Group also commenced supply of a new packaging structure for the same client in an effort to down-gauge, reduce cost and improve consumer experience.

Furthermore, Daibochi assisted another valued customer to successfully launch its new packaging format by commissioning specialized machinery and developing special packaging features within an expedited time frame.

The focus on innovation allows us to continuously provide value-added services to granting our clients an edge in product positioning amidst a competitive marketplace.

- **Expanded production capacity in Daibochi Plant 2**

The Group also completed the expansion of Daibochi Plant 2, which increased its built-up area to 140,000 sq. ft. comprising additional warehousing and production floor space, from 80,000sq.ft. previously. The expansion accords the Group larger capacity to undertake new orders for the coming years.

Additionally, the Group commissioned a new blown-film making machine in Daibochi Plant 2, thus reducing its reliance on externally-sourced blown films. The machinery is expected to enhance cost and production efficiency in the long term.

- **Entered into Joint Venture (JV) with Myanmar Smart Pack Industrial Company Limited to establish Daibochi Packaging (Myanmar) Co. Ltd.**

Daibochi, through its wholly owned subsidiary Daibochi Flexibles Sdn Bhd, entered into a Memorandum of Agreement with Myanmar Smart Pack Industrial Company Limited (MSP) of Myanmar on November 14, 2016, to establish a joint venture company in Myanmar named Daibochi Packaging (Myanmar) Co. Ltd. (DPM), to manufacture, market, sell and distribute flexible packaging within the country as well as for exports.



*Daibochi has grown into a prominent consumer packaging player in the SEA and ANZ region.*

*Today, sales to leading MNCs make up the majority of Group revenue, with more than 50% of our products exported regionally.*

**Lim Soo Koon**  
Managing Director

Daibochi would invest USD6.8 million (approximately RM30.0 million) into DPM for a 60% controlling stake, made through a combination of internally generated funds and bank borrowings. MSP would transfer its entire existing business, production assets, as well as workforce into DPM to hold the balance 40% stake in the JV.

Upon its targeted setup by mid-2017, DPM would assume supply of packaging products to existing business of MSP, and thus is expected to contribute positively to the Group's consolidated profit within the first full year of operations.

The integration of Daibochi's and DPM's operations is also expected to generate synergistic benefits to the Group such as cost savings through consolidated raw material procurement, better talent access and management, as well as shared production and technical resources.



*Daibochi Managing Director Lim Soo Koon exchanging documents with MSP Executive Director Kyaw Win Tun during the signing ceremony, witnessed by Daibochi Chairman P. James Edwin a/l Louis Pushparatnam (centre) and Executive Director Low Geoff Jin Wei (far left) and MSP Business Development Manager Ye Wint Oo (far right)*

## Financial Review

Group revenue rose 7.6% to a record-high of RM371.2 million compared to RM345.0 million previously, driven by stronger sales to both domestic and regional markets.

Export sales made up RM204.0 million of Group revenue, rising 12.6% from RM181.2 million mainly due to the commencement of new contracts to ANZ. Revenue derived from exports made up 55.0% of FY2016 group revenue, increasing from 52.5% last year.

Domestic sales contributed the balance RM167.2 million of revenue, climbing from RM163.7 million previously on larger orders from existing customers and improving consumer sentiment.

Despite the stronger revenue, Group operating profit was 10.9% lower at RM32.6 million from RM36.6 million previously due to increased operating costs, in particular due to higher wage policies and increased repair and maintenance expenses in our manufacturing facilities. Other factors included higher freight costs due to higher export sales, and weaker product margins as a result of less favourable product mix.

Profit before tax declined 16.0% to RM30.0 million in FY2016 from RM35.7 million a year ago, attributed to the reduced operating profit, and lower associate's contribution, amounting to RM0.1 million compared to RM1.5 million last year. The associate is engaged in property development, a non-core business of the Group.

Group shareholders' equity stood at RM189.2 million, largely unchanged from RM181.5 million previously. Total borrowings rose to RM54.0 million from RM43.9 million previously, due to acquisitions of new machinery and working capital requirements in line with the larger revenue base. While net gearing rose to 0.20 time as at December 31, 2016 from 0.14 time previously, this remains within the Group's comfortable level, thus enabling speedy implementation of future expansion plans.

## Corporate Development

On February 22, 2016, Daibochi completed the following corporate exercise:

- 1-to-1 share split involving the subdivision of the Group's existing 113.9 million ordinary shares of RM1.00 each, into 227.7 million ordinary shares of RM0.50 each; and
- 1-for-5 bonus issue of 45.5 million new ordinary shares of RM0.50 each

Upon completion of the corporate exercise, Daibochi has a total of 273.2 million shares of RM0.50 each listed on the Main Market of Bursa Malaysia Securities Berhad, with an enlarged share capital of RM136.6 million.

### Capital Expenditure

Daibochi incurred RM20.2 million in capital expenditure for the year under review, of which RM11.0 million was for the building expansion and purchase of new machinery for Daibochi Plant 2. The remaining RM9.2 million was invested for upgrading of existing machinery and equipment in Daibochi Plant 1.

### Dividends

The Group paid to shareholders four interim single-tier dividends in respect of FY2016 amounting to a total of 5.42 sen per share. This translates to dividend payout of RM14.8 million, representing 60% of FY2016 net profit, in adherence to the Group's dividend policy to distribute at least 60% of Group net profit attributable to shareholders.

### Growth Strategies

Daibochi continues to set sights on new milestones in the regional consumer flexible packaging industry, leveraging on our core strengths as a key manufacturing partner to major international brands in the F&B and FMCG sectors. We intend to strengthen our market position by implementing the following strategies:

- **Maintaining regional focus**

Over the past four decades, Daibochi has amassed an ever-increasing customer base of leading F&B and FMCG manufacturers, which speaks volumes of our commitment to quality and delivery. This positive repute, coupled with our larger production capacity, also positions us favourably in the eyes of potential clientele.

Going forward, we are actively engaging with major regional F&B players to further expand our clientele. To this end, we are in talks with prominent F&B players in Indonesia to supply flexible packaging, and are optimistic of affirmative outcomes in the future.

- **Continued focus on MNC customers**

Daibochi strives to support our existing MNC customers in their long-term growth plans, and serve as a key enabler and manufacturing partner in ensuring the success of their regional strategy. To date, our efforts have led to commendable results, with consistently increasing orders from our existing clientele.

We also supply flexible packaging for new product lines of our customers in existing or new markets, and are constantly in discussions with them to support their packaging requirements.

- **Enhancing operational efficiency**

Daibochi constantly conducts reviews on our operational processes to hone our competitive edge in manufacturing quality as well as efficiency. This includes efforts to improve wastage control and overall worker productivity through regular trainings and workshops to enhance employee awareness and skills.

We also conduct regular retraining and upskilling programmes for existing workers to overcome a labour shortage situation that arose in 2016. Encouragingly, the Government resumed accepting applications for new foreign worker hires in late-2016, and granted the Group approval for new foreign worker hires in November 2016. The first batch of new workers arrived in January 2017, with more expected to arrive for the rest of 2017. Also, DPM would grant our Malaysian operations access to Myanmar's large labour pool, with potential inter-country mobility of internally trained workers. These would gradually improve our operational efficiency.



At the same time, the Group intends to allocate additional CAPEX of RM11.5 million in the financial year ending December 31, 2017 for new machinery with a view towards continuously maintaining a high level of productivity.

- **Setting Daibochi Packaging (Myanmar) Co. Ltd (“DPM”) on growth path**

Furthermore, the upcoming Myanmar operations through DPM would provide us with the strategic advantage to tap into the high-growth flexible packaging market in Myanmar, and serve as a cost-competitive manufacturing centre to target new businesses across Southeast Asia.

At present, DPM seeks to not only take on larger sales orders from its existing business, but also undertake more product lines and add more manufacturers to our clientele, both within Myanmar as well as from the region.

Immediate initiatives include ongoing efforts to expand DPM’s existing business in the supply of packaging for home personal care products, a high-growth business in Myanmar. DPM is also in the midst of securing a new customer in the domestic beverages market, thus propelling DPM into the equally promising F&B industry.

While these new domestic businesses are expected to strengthen DPM’s financial performance in the near term, we look forward to achieving a high growth trajectory for DPM in revenue in the next three years. Daibochi envisages for DPM to become not only a leading packaging player in Myanmar, but also a significantly-sized player serving the flexible packaging requirements of the region.

To this end, the Group intends to equip and refine DPM’s operations to better serve customers in Myanmar and the ASEAN region. Also, DPM’s cost-competitiveness and strategic geographical advantage grants it the edge to expand its regional exports, especially to cost-sensitive businesses in various parts of Southeast Asia.

DPM would also benefit from access to Daibochi’s research and development prowess, as well as market the Group’s range of specialty films, thus complementing its existing product lines and enhancing its core offerings to potential customers.

DPM was incorporated in February 2017, while the joint venture operations is currently pending approval from the Myanmar Investment Commission. The Group is hopeful of obtaining approval by mid-2017.

On the whole, Daibochi is optimistic that these measures being implemented for DPM would position it to be a key growth centre for the Group.

Going forward, the Group remains mindful of business challenges. These include the rising costs of doing business, regulatory changes in the markets we operate in, volatility in currency exchange rates, as well as the challenges of managing our new joint venture operations in Myanmar.

That said, we are buoyant that the growth initiatives put in place, and the efforts to improve operational efficiency would enable Daibochi to achieve a greater degree of business sustainability and growth.

Sincerely,

**Lim Soo Koon**  
Managing Director

April 3, 2017