富佳木業有限公司
FOCUS LUMBER BERHAD
(Company No. 188710-V)

Focus on Sustainable Growth

Annual Report 2016

Focus Lumber Berhad (188710-V)

CONTENTS

2016

ABOUT US

Focus Lumber Berhad specialize in the manufacturing and sale of plywood, veneer and laminated veneer lumber (LVL). The Company started from a Sendirian Berhad in the early 90's and has succeeded to list on the Main Market of Bursa Malaysia Securities Berhad on 28 April 2011.

Over the years, our Group has invested in advanced machineries to enhance the efficiency of our manufacturing process. Hence, our Group is able to blend our management's technical know-how with ability in operating the advance machineries to produce quality products. Hence our Group is now capable of the followings:-

- Integrating different type of timber logs to produce plywood which has reduced the restriction in the use of only certain types of timber logs;
- Better production efficiency which increase the recovery logs resulting in lower production cost;
- Use of smaller logs (which are lower in cost) in the manufacturing operation which has resulted in lower cost of raw material and broaden the source of log supply for its production;
- Producing plywood with low content of formaldehyde;
- Our Group adopts the following standards in our plywood manufacturing:-
  - The product standard for imported wood veneer and platform (IHPA "C 2000) "C by the International Wood Products Association, US ("IHPA"); and
  - Export standard specification of Japanese plywood

CORPORATE INFORMATION

BOARD OF DIRECTORS

Datuk Aznam Bin Mansor
Chairman / Independent Non-Executive Director

Lin Hao Wen
Managing Director

Lin Fong Ming
Executive Director

Lin Hao Yu
Executive Director
(Appointed with effect from 15 July 2016)

Wong Yoke Nyen
Independent Non-Executive Director

Ng Tian Meng
Independent Non-Executive Director

AUDIT COMMITTEE

Wong Yoke Nyen (Chairman)
Datuk Aznam Bin Mansor (Member)
Ng Tian Meng (Member)

REMUNERATION COMMITTEE

Ng Tian Meng (Chairman)
Wong Yoke Nyen (Member)
Lin Hao Wen (Member)

NOMINATION COMMITTEE

Datuk Aznam Bin Mansor (Chairman)
Wong Yoke Nyen (Member)
Ng Tian Meng (Member)

COMPANY SECRETARIES

Wong Wai Foong (MAICSA 7001358)
Wong Peir Chyun (MAICSA 7018710)
Liew Pui Ling (MAICSA 7058897)

REGISTERED OFFICE AND FACTORY

Mile 3, Jalan Masak, Kampung Ulu Patikang
Locked Bag 13 SM-88, 89009 Keningau, Sabah
Tel No : 087-335457/335458/334761/334766
Fax No : 087-335459
Email : focuskgu@hotmail.com

Senior Independent Non-Executive Director:
Datuk Aznam Bin Mansor
Email : am@lh-ag.com

BRANCH OFFICE

Lot No.12A, Jalan Teluk Likas
PO Box No. 576, 88856 Kota Kinabalu, Sabah
Tel No : 088-393255/393257/393258
Fax No : 088-393169
Email : focuskk@focuslumber.com.my

AUDITORS

Ernst & Young (AF:0039)
Suite 1-10-W1, 10th Floor
CPS Tower, Centre Point Sabah
No.1, Jalan Centre Point
88000 Kota Kinabalu, Sabah

PRINCIPAL BANKERS

OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
AmIslamic Bank Berhad
Public Bank berhad

SHARE REGISTRAR

Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32, Tower A, Vertical Business Suite
Avenue 3, Bangsar South, No.8, Jalan Kerinchi
59200 Kuala Lumpur, Malaysia
Tel No : 03-2783 9299
Fax No : 03-2783 9222

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

STOCK NAME/CODE

FLBHD / 5197

WEBSITE

www.focuslumber.com.my

CORPORATE STRUCTURE

Our existing corporate Group structure is as follows:-

FOCUS LUMBER BERHAD
(188710-V)

100%

UNTUNG RIA SDN BHD
(434316-V)

- Untung Ria Sdn Bhd is principally involved in the generation and sale of electricity.
- It reuse bulk waste to generate biomass energy to supply electricity to our Group's operation.

DIRECTORS' PROFILE

DATUK AZNAM BIN MANSOR
Malaysian, aged 58, Male
Chairman/ Independent Non-Executive Director

Datuk Aznam Bin Mansor, our Chairman and Independent Non-Executive Director, was appointed to our Board on 24 November 2010. He is a member of the Audit Committee and Chairman of Nomination Committee.

He is an Advocate and Solicitor by profession having been admitted as a Barrister at Law of Lincoln's Inn in 1984 and admitted and enrolled as an Advocate and Solicitor of the High Court of Malaya in 1986. Upon his admission to the Malaysian Bar, he commenced his legal practice and he has been a partner of his present legal practice, Lee Hishammuddin Allen & Gledhill since 1993. Currently, he is the Independent Non-Executive Chairman and a member of the Audit, Remuneration and Nomination Committee of Mikro MSC Berhad, Benalec Holdings Berhad and Sentoria Group Berhad. In addition, he is a Non-Executive Director in one of the subsidiary company of Knusford Berhad Group. He is also the Senior Independent Non-Executive Director of the Company.

He has no family relationship with any Director and/or major shareholder of the Company.

LIN HAO WEN
Taiwanese, aged 38, Male
Managing Director

Lin Hao Wen, our Managing Director, was appointed to our Board on 14 July 2009. He is also a member of the Remuneration Committee.

He graduated from Yuan-Ze University, Taiwan with a Bachelor of Computer Science in 2001 and subsequently pursued his Master in Business Administration (Major in Supply Chain Management) in Eastern Michigan University, USA. He graduated in 2006 and started his career with our Group in 2007 as Assistant to the Managing Director overseeing the business operation in the area of production and marketing. Subsequently, on 1 March 2013, he was appointed as the Managing Director of the Company and as a member of the Remuneration Committee. He also holds directorships in private limited company in the Focus Lumber group of companies.

He is the son of Mr. Lin Fong Ming and the brother of Mr Lin Hao Yu, whom both are Executive Directors and major shareholders of the Company.

LIN FONG MING
Taiwanese, aged 67, Male
Executive Director

Lin Fong Ming, aged 67, is one of our company's founders. He graduated with a Diploma in Science from the Tung Fang Institute of Technology. He possesses about 40 years of experience in the trading of timber and plywood manufacturing. He had been playing an instrumental role in charting the strategic direction of our Group. Under his leadership, our Group has grown from a small company to a major player in the plywood manufacturing industry. With his vast experience in the industry and technical expertise and know-how in the manufacturing of plywood, our Group has been able to produce a wide range of quality plywood that meet customers' requirements and international quality standards. In year 2013, he resigned the position of Managing Director of our company due to health reason. And he was re-appointed to our Board as Executive Director on 19 November 2015.

He started his career in the timber industry as a timber trader in Taiwan, attached to a timber trading and plywood manufacturing company in Taiwan. Between 1981 and 2002, he and the other two (2) founders owned a timber trading company in Taiwan where he was a director of the company. Besides the plywood business, he also has investments in property development business in the PRC and a petrol station in Taiwan. Due to his extensive business experience and investments in various countries, he was appointed as the President of the East Malaysia Committee of Taipei Investors' Association in Malaysia from 2001 to 2004 and Vice National-President of Taipei Investors' Association Malaysia from 2003 to 2004. He was awarded the Best Overseas Chinese Entrepreneur by the Taiwanese government in 2005 in recognition of his entrepreneurship achievement overseas. In 2008, he was appointed as the Advisory Official in Malaysia for a year by the Taiwanese government to assist the government in handling Taiwanese residence affairs in Malaysia. In 2009, he was appointed for a two (2)-year term as an Overseas Compatriot Affair Commission member by the Taiwan government. His role as a member of the Overseas Compatriot Affair Commission is to act as one of the liaison person between the Taiwanese in Malaysia and the Taiwanese government. He also holds directorships in private limited company in the Focus Lumber group of companies.

Mr Lin Fong Ming is the father to Mr Lin Hao Wen, the Managing Director and major shareholder of the Company and Mr Lin Hao Yu, the Executive Director and major shareholder of the Company.

Directors' Profile

LIN HAO YU
Taiwanese, aged 40, Male
Executive Director

Lin Hao Yu, our Executive Director, was appointed to our Board on 15 July 2016.

He graduated from Advanced Vocational School of Agriculture & Technology in Sheng Li Gung Shan Taiwan major in Electrical & Mechanical Engineering. Currently he is studying for a diploma degree in Taiwan ShouFu University. He has about eighteen (18) years of working experience in the timber industry. He started his working career with the Company in 1998 as a General Production Manager. Then he left to join a veneer production factory in Cambodia from 2000 to 2003 as a Production and Human Resource Manager. He returned to Malaysia to join a company involved in sawmilling from 2004 to 2008, holding the position as a Production Manager and also in charge of the sales and marketing department.

From 2009 till 2015, he started his own business of sawmill factory. He pocesses a sufficient and broad experience in production, marketing, and human resource. In addition, he is familiar with Sabah timber industry and lumber concession and trading operation.

He is the son of Mr. Lin Fong Ming, the Executive Director and major shareholder of the Company and the brother of Mr. Lin Hao Wen, the Managing Director and major shareholder of the Company.

WONG YOKE NYEN
Malaysian, aged 58, Male
Independent Non-Executive Director

Wong Yoke Nyen, was appointed to the Board as an Independent Non-Executive Director of the Company on 24 November 2010. He is the Chairman of the Audit Committee and member of Remuneration and Nomination Committees.

Mr. Wong obtained a Bachelor of Arts with Second Class Honours (First Division) degree, after having completed a course in Accountancy from the City of London Polytechnic, UK (now known as London Metropolitan University, UK) in 1981. He is also a graduate of the Wharton Advance Management Program from The Wharton School of the University of Pennsylvania, USA.

In 1981, he started his career in Baker Rooke, a firm of chartered accountants in London where he gained wide experience and exposure in the areas of auditing, accountancy and management consultancy work. In 1983, he joined Aseambankers Malaysia Berhad (now known as Maybank Investment Bank Berhad). He is a seasoned investment banker with more than thirty (30) years of dedicated corporate finance and investment banking experience. He was the Executive Vice President cum Head of Corporate Finance Division in Aseambankers Malaysia Berhad. In 2004, he started WYNCORP Advisory Sdn Bhd, a private company licensed to provide corporate finance advisory services.

He is currently the Managing Director of WYNCORP Advisory Sdn Bhd. He is also an Independent Non-Executive Director of New Hoong Fatt Holdings Berhad and was an Honorary Advisor to the Master Builders Association Malaysia. He is also an Independent Non-Executive Director of XiDeLang Holdings Limited, Benalec Holdings Berhad and Sentoria Group Berhad.

He brings with him a wealth of expertise and experience in the investment banking and corporate advisory sectors to join the team.

He has no family relationship with any Director and/or major shareholder of the Company.

Directors' Profile

NG TIAN MENG
Malaysian, aged 61, Male
Independent Non-Executive Director

Ng Tian Meng, our Independent Non-Executive Director, was appointed to our Board on 24 November 2010. He is the Chairman of Remuneration Committee and member of Audit and Nomination Committees.

He has approximately 30 years of experience in the electrical engineering field involving engineering consultancy, project management, operation, maintenance, testing and commissioning. He started his engineering career and worked in Malayawata Steel Berhad as an Electrical Engineer between May 1981 and July 1983. Subsequently, he worked in several companies involved in the steel, engineering, brewery and camera manufacturing businesses. Currently, he is the Managing Director of Jurutera Perunding M & E NTM (S) Sdn Bhd and NTM Engineering Services Sdn Bhd.

Apart from his extensive working experience, he obtained his Council for National Academic Award Bachelor of Science (Major in Electrical and Electronic Engineering) from Robert Gordon Institute of Technology, Scotland in 1980. He is a corporate member of the Institution of Engineers Malaysia, the Institute of Engineers Australia and the Institute of Electrical Engineers United Kingdom. In addition, he is also a Professional Engineer registered with the Board under the Institution of Engineers, Australia and a Chartered Engineer registered with the Engineering Council, United Kingdom.

He has no family relationship with any Director and/or major shareholder of the Company.

None of the Directors has:

- any conviction for offences within the past 5 years other than traffic offences; and particulars at any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.
- Any conflict of interest with the Company.

KEY SENIOR MANAGEMENT

CHONG SEM CHAN
Malaysian, aged 55, Male
Factory Manager

Chong Sem Chan graduated from AMC College, Kota Kinabalu, majoring in Accounting Course in 1982. He was a teacher at SRJK Yuk Nam Tenom, Sabah from 1983 till 1991. Then he switched his career path to timber industries, by joining as a Packing & Statistics Assistant Supervisor in Evermaster Wood Products Sdn Bhd, a hardwood veneer and plywood manufacturer located in Keningau, Sabah. With his hard work after 8 years, he was promoted as a Factory Manager in 1999.

He then left and worked in Kin Yip Wood Industries Sdn Bhd in Sabah from 2009 till 2010 as a Factory Manager. In the following year, he moved to Blue Leaders Sdn Bhd in Keningau, Sabah as a General Manager cum Veneer & Plywood Factory Manager for four years.

By now Mr. Chong possessed about twenty five (25) years of working experience in the timber industry. He joined Focus Lumber Berhad on 01 March 2015 as a Factory Manager, focusing on plywood production and manufacturing.

He has no family relationship with any Director and/or major shareholder of the Company.

LIEW SOON HIN
Malaysian, aged 59, Male
Logs Purchasing Manager

Liew Soon Hin was appointed as the Logs Purchasing Manager of the Company on 01 November 2015. He has more than 37 years' of experience in procurement of logs and inspecting, scaling and grading of the logs purchased. The recruitment is to fulfil the vacant position, where our previous Logs Purchasing Manager, Yang Hsi-Hsien resigned in June 2016. In 1997, he actually joined the Company as Logs Supervisor for 11 years.

He graduated from Chiwen Secondary School in Negeri Sembilan in 1975. Before joining the Company, he started his first job as a Camp Manager at Rimyasa Development Sdn Bhd in 1979 till 1996 where he gained the knowledge and experience of procurement of logs. In 2008, he then worked as a Camp Manager at Gasing Selatan Sdn Bhd, a logs contractor based in Keningau.

He has no family relationship with any Director and/or major shareholder of the Company.

LIN FU MAO
Taiwanese, aged 61, Male
Purchasing Manager (Store Department)

Lin Fu Mao, origins from Kaohsiung, Taiwan, was appointed as Purchasing Manager on 01 July 2016 mainly to take over Lu Kuan-Cheng's job, our previous Executive Director who resigned on 03 August 2016. He graduated from Gang Shan Secondary School, Taiwan in 1971.

Before working in Malaysia, he was the Purchasing Supervisor of Pheapimex Fu-Chan (Cambodia) Co. Ltd., a timber related company located in Cambodia from 1995 till 2008.

He then moved to Miri, Sarawak, Malaysia in 2011 for his career and worked in Country Forest Industries Sdn. Bhd., a plywood and veneer manufacturing company as the Purchasing Manager till 2016.

He is the brother-in-law of Mr. Lin Fong Ming, the Executive Director and major shareholder of the Company.

MAH POA FIONG
Malaysian, aged 44, Female
Financial Controller

Mah Poa Fiong has been working with the Company for over 23 years. She graduated from SMK Ken Hwa, Keningau, Sabah in 1991. Her first job was as an Account Clerk in Silamewah Sdn Bhd, a logs transport company at Keningau in 1992.

She then joined Focus Lumber Berhad on 05 April 1993 as an Account & Admin Clerk. She was promoted to Account Executive in the next year due to her good performance. In 2015, she took over the job of Yong Siew Kyun @ Rose, who was the Financial Controller of the Company.

She has no family relationship with any Director and/or major shareholder of the Company.

None of the Key Senior Management has:

- any conviction for offences within the past 5 years other than traffic offences and particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year; and
- Any conflict of interest with the Company.
- Any directorship in public companies and listed issuers.

CORPORATE SOCIAL RESPONSIBILITY

The Group acknowledges the importance of Corporate Social Responsibility (CSR) and believes that CSR is the key to the sustainable development of the Group. The Group has continued to undertake activities consistent with good corporate practice and social responsibility with initiatives on human resources development, health and safety and community support.

HUMAN RESOURCES DEVELOPMENT

Human capital is a vital asset to the Group. Our human resources management has ensured that our employees are achieving the ideal work-life balance. Every year the management will organize recreational activities such as sports events and badminton competition on Labour Day and more for employees and management staffs to participate and interact.

The Group has registered their employees for various training programmes throughout the year, in order for them to acquire additional skills, knowledge and experience. The Board believes that channeling effort towards human capital development will improve employees' performance, effectiveness and their sense of fulfillment.

For the financial year 2016, the employees have completed the following seminars:-

1. GST – Practical Issue & Recent Development
2. 2017 Budget & Tax Conference
3. MFRS15 – Revenue from Contracts with Customer
4. Sabah Labour Ordinance

In addition, by adopting the diversity policy, the Group ensured that a diverse mix of skills and talent exists amongst its directors, officers and employees and it is our belief that this will result in enhanced company performance.

HEALTH & SAFETY

The Group has always regarded their employees' health & safety at work as the highest priority. Towards this end, we have placed a high level of emphasis on maintaining a safe, clean and healthy working environment through heightened safety awareness programmes and improvement to the level of support facilities such as fire prevention programs and improved rescue facilities. Regular inspections and upgrades were carried out to ensure canteen cleanliness, kitchen and sewerage facilities were well maintained.

For the financial year 2016, we have conducted the following trainings:-

1. Supervisor has given two (2) private trainings to the general workers on health & safety issue on May & July 2016.

Corporate Social Responsibility

HEALTH & SAFETY (CONT'D)

2. Health and Safety officers will give fire squad trainings to the workers in monthly basis.




3. In-house training for the Health & Safety Supervisors on the following topics:-

    (i) Safety & Health Committee (Apr 2016)
    (ii) Hazard Identification Risk Assessment & Risk Control (Mar 2016)



Corporate Social Responsibility

COMMUNITY SUPPORT

The Group's principle is to take good care of the local community in which we operate. The Board believes that reaching out to the local community is crucial to the upliftment of the standards of living of the local community. To fulfill this principle, the Group gave donations and sponsorship of charitable events.

On June 2016, our Company has donated RM7,200.00 to the Lions Club Keningau, Aid to Thalassemia families. The Club will provide financial support to the families affected by Thalassemia via provision of monthly food ration and provide accurate and latest information pertaining Thalassemia.

The Company has also collaborated with local hospital to give free Tetanus & Measles injections to our workers' children on September 2016.

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

Focus Lumber Berhad specialise in the manufacturing and sale of plywood, veneer and laminated veneer lumber (LVL). The Company started from a Sendirian Berhad in the early 90's and has succeeded to list on the Main Market of Bursa Malaysia Securities Berhad on 28 April 2011.

Our wholly-owned subsidiary, Untung Ria Sdn Bhd is involved in the generation and sale of electricity. Untung Ria Sdn Bhd reuses bulk waste to generate biomass energy to supply electricity to our manufacturing plant.

Our factory and the biomass power plant of our subsidiary are located at Keningau, Sabah, Malaysia.

BUSINESS OBJECTIVE AND STRATEGIES

Our Group strives to be a high quality plywood producer in Malaysia. We are a CARB Certified Manufacturer with formaldehyde emission of our plywood below 0.05 parts per million. In our plywood manufacturing process, we also adopt the product standard for imported wood veneer and platform (IHPA "C 2000) "C by the International Wood Products Association, US ("IWPA") and export standard specification of Japanese plywood.

In order to maintain and enhance our competitive edge, our Group intends to further penetrate into existing markets. We will continue to expand our customer base in the US as we believe that, based on our current good standing in supplying plywood for the use by the Recreational Vehicles ("RV") sector, we are in a position to procure more customers from the lucrative RV market in which our plywood can command better profit margin. Currently, approximately 60% of our products are sold to RV sector in the US.

Apart from working towards improving the quality of our products and reducing our average cost of production per unit, our capital investment programme focuses on producing plywood of different length and expanding our sales in US market through the supply of this category of plywood. In this regard, we intend to install a new peeling machine in year 2017 with some modification to other existing machineries.

By focusing on these few areas, we believe that the Group can continue to grow its market share in US's RV sector, its revenue and improve the profit of the Group.

FINANCIAL HIGHLIGHTS

Year ended 31 December	2016 RM	2015 RM	2014 RM	2013 RM	2012 RM
Sales by segment					
Manufacturing	201,428,783	180,618,103	150,266,089	147,104,503	132,703,533
Electricity	6,121,766	6,269,100	5,259,150	4,947,726	4,744,737
Intercompany electricity sales	(6,074,852)	(6,154,478)	(5,106,717)	(4,844,212)	(4,644,988)
Total	**201,475,697**	**180,732,725**	**150,418,522**	**147,208,017**	**132,803,282**
Profit before tax	25,257,253	36,317,234	17,295,020	15,348,396	8,384,048
Non-operating income	(3,495,343)	(1,521,218)	(615,307)	(336,166)	(233,578)
Operating profit	**21,761,910**	**34,796,016**	**16,679,713**	**15,012,230**	**8,150,470**

Management
Discussion & Analysis

FINANCIAL HIGHLIGHTS (CONT'D)

Year ended 31 December	2016 RM	2015 RM	2014 RM	2013 RM	2012 RM
Operating profit by segment					
Manufacturing	19,915,199	31,929,683	14,847,630	13,721,138	6,627,177
Electricity	1,846,711	2,866,333	1,832,083	1,291,092	1,523,293
Total	**21,761,910**	**34,796,016**	**16,679,713**	**15,012,230**	**8,150,470**
Profit after tax	19,180,504	31,722,340	16,032,166	15,135,940	11,600,226
Earnings per share	0.19	0.31	0.16	0.15	0.11
Dividends per share	0.06	0.15	0.08	0.08	0.06
Net assets per share	1.55	1.42	1.26	1.19	1.12
Total assets	183,065,315	159,235,048	140,229,275	141,680,905	131,667,314
Total liabilities	23,301,180	12,459,417	9,695,984	18,923,780	15,790,129

For financial year ended 31 December 2016, the Group had recorded revenue of RM201.48 million, an increase of 12% compared to previous year. Although revenue of the Group improved in the year, operating profit and profit after tax had decreased by approximately 37% and 40% respectively compared to results in year 2015. In overall, the Group recorded earnings per share of RM0.19 in year 2016. For a description of operational results see "Discussion & Analysis by Product Segment".

MAJOR CHANGES IN STATEMENT OF FINANCIAL POSITION

Total Assets

Our Group's non-current assets decreased by 13% or RM4.97 million to RM32.96 million as at 31 December 2016. This was mainly attributable to the utilisation of deferred tax assets in subsidiary company as well as depreciation of our property, plant and equipment. The Group has a lower capital expenditure in year 2016 as certain machineries were yet to receive by year end.

As at reporting date, the Group's current assets increased by RM28.80 million to RM150.11 million. The Group's cash management strategy had seen a shift from placement in fixed deposits with licensed banks to other investments made up of money market funds of which its distribution are granted tax exemption benefits. Other investments increased by RM35.98 million to RM53.18 million while cash and bank balances decreased by RM18.61 million to RM39.21 million as at end of year 2016.

Besides, the Group's trade and other receivables increased by 70% or RM11.69 million to RM28.32 million as at 31 December 2016. Among significant components is trade receivable which increased by RM8.63 million and GST recoverable. Increase in trade receivables was mainly due to increase on sales in December 2016 and they were generally on 30-day terms. On the other hand, we claimed GST input tax every month as almost all of our sales are to overseas. GST recoverable increased by RM3.04 million to RM4.99 million as at reporting date but this amount had been recovered in full subsequent to year end.

Total Liabilities

Current liabilities increased by RM11.27 million to RM20.72 million as at 31 December 2016. Increase was mainly due to increase in trade payables, dividend payable and tax liability. Increase in trade payables was due to outstanding of freight charges of approximately RM2.75 million in relation to our sales to US in December 2016. The Group had also declared an interim tax exempt dividend of RM6.19 million which was paid on 16 January 2017. On the other hand, the Group also had provision for taxation of approximately RM1.64 million as at 31 December 2016 as compared to income tax refundable in year 2015. This was mainly due to the higher tax expense recorded in year 2016 after the revocation of double tax deduction benefits took effect from 1 January 2016.

Management
Discussion & Analysis

DISCUSSION & ANALYSIS OF NON-OPERATIONAL ITEMS

In 2016, included in non-operating income were distribution income from other investments, other gain generated from other investments and interest income from fixed deposits, which were RM1.37 million, RM1.79 million and RM0.30 million respectively. Other gain generated from other investments was mainly related to redemption of money market fund denominated in US dollar. In year 2015, there was only distribution income of approximately RM0.10 million as placement in other investments commenced in fourth quarter of year 2015.

Total interest income from fixed deposits in year 2016 decreased by 78% or RM1.06 million, representing the change in our Group's cash management strategy through shifting from placement in fixed deposits with licensed banks to placement in other investments.

Note 10 to the Financial Statements provides a reconciliation of income taxes calculated at the statutory rate to the income tax provision. In 2016 the benefit of double tax deduction on freight charges incurred for sales of plywood and LVL had been revoked. In 2015, the Group had recognised income tax expense of RM4.59 million with profit before tax of RM36.32 million. Income tax expense had increased by RM1.48 million despite a decrease of profit before tax by RM11.06 million as a result of the said revocation.

DISCUSSION & ANALYSIS BY PRODUCT SEGMENT

Manufacturing

Year ended 31 December	2016	2015
Plywood (m3)		
- Production	78,288	66,678
- Sales	77,898	65,446
Veneer (m3)		
- Production	11,839	9,759
- Sales	10,926	10,118
LVL (m3)		
- Production	1,157	2,647
- Sales	1,363	2,482
Sales (RM)		
- Plywood	182,700,578	161,708,407
- Veneer	16,432,981	15,173,563
- LVL	2,295,224	3,736,133
Total sales	**201,428,783**	**180,618,103**
Operating profit	19,915,199	31,929,683
Production recovery rate (%)	45.0	44.5
Capital expenditure	635,698	4,573,332
Average selling price		
- Plywood (US$)	563	632
- Veneer (US$)	364	385
- LVL (US$)	402	391
- Plywood (RM) *	2,345	2,471
- Veneer (RM) *	1,504	1,500
- LVL (RM) *	1,684	1,506

* Translated using average spot rate of sales transaction

The manufacturing segment is comprised of our plywood, veneer and LVL operation. During the financial year 2016, revenue from manufacturing segment recorded revenue of RM201.43 million, an increase of 12% against the previous year's revenue of RM180.62 million. The improvement was mostly attributable to a weaker Ringgit Malaysia and higher sales volume in current financial year. Average selling price of our wood products in US dollar was approximately 9% lower than previous year, reflecting a stiff competition with other producers from Southeast Asia region in 2016.

DISCUSSION & ANALYSIS BY PRODUCT SEGMENT (CONT'D)

Manufacturing (Cont'd)

Operating profit from our manufacturing segment was lower in 2016 compared to previous year. This was mainly due to decrease in average selling price in US dollar, despite a higher sales volume and favourable foreign currency exchange rate in current year. Apart from decreasing selling price, financial performance in current year was impacted by the increasing production cost such as labour cost. However, improved production volume and recovery rate had substantially offset the impact from higher production cost in current financial year.

Although most major markets were experiencing flat growth in 2016, we still manage to increase our sales through better price negotiation with our customers. We also produced certain sizes of wood products to cater for South Korea market especially when demand from Taiwan was weak. The table below shows the proportion of our wood products by volume sold by destination in each of 2016 and 2015. Our revenue information based on the geographical location of customers is disclosed under Note 31 to the Financial Statements.

Sales Volume by Destination

	2016		2015	
	m3	%	m3	%
United States	57,472	64	50,080	64
South Korea	21,440	24	13,642	17
Taiwan	5,869	6	10,332	13
India	896	1	1,454	2
Malaysia	1,553	2	1,059	2
Japan	1,597	2	760	1
Others	1,360	1	719	1
Total	**90,187**	**100**	**78,046**	**100**

Electricity

Electricity segment had recorded revenue of RM6.12 million in current financial year, a slight decrease of RM0.15 million as compared to RM6.27 million recorded in previous year. Total generation had decreased slightly by 2% from 16.67 million kilowatt in year 2015 to 16.28 million kilowatt. Approximately 99% (2015: 98%) of the total electricity generated by subsidiary company was supplied to our holding company for their manufacturing process. Lower generation was mainly due to lesser operating days as more repair and maintenance works were carried out in current financial year.

Operating profit from electricity segment in current financial year amounted to RM1.85 million, 35% lower than operating profit of RM2.87 million recorded in previous year. This was mainly due to higher repair and maintenance cost incurred from major overhaul of boiler and turbine, which was performed once in every two or three years.

RISKS AND UNCERTAINTIES

Product Demand and Price Fluctuations

Our revenues and financial results are primarily dependent on the demand for, and selling prices of, our products, which are subject to significant fluctuations. The demand and price for plywood is volatile and is affected by factors such as global economic conditions, including the strength of the US recreational vehicle industry and of Asian markets, particularly Korea and Taiwan, changes in industry production capacity and other factors beyond our control. Declines in demand, and corresponding reductions in prices, for our products may adversely affect our financial results.

We cannot predict with any reasonable accuracy future market conditions, demand or pricing for any of our products due to factors outside our control. Prolonged or severe weakness in the market for any of our principal products would adversely affect our financial condition.

Management
Discussion & Analysis

RISKS AND UNCERTAINTIES (CONT'D)

Reliance on the US Market and A Single Customer

71% of our revenue was derived from exports to the US market, and 54% of our revenue was from Ihlo Sales & Import Co. It is our strategic decision to focus on the US market as we are able to command a better pricing for our plywood due to the higher quality requirements of the RV sector, which is plywood with good finishing and low formaldehyde emission. There is no assurance that in the event of another slowdown in the US economy in the future or the loss of Ihlo Sales & Import Co. as our customer, our financial performance will not be affected accordingly.

Availability of Log Supply and Fluctuation in Log Prices

Availability of log, being the main raw material for the manufacturing of plywood is important to us. We may be subject to risk of shortage in supply of log as we do not own any timber concessions. Substantially all of our logs are harvested from Sabah, in particular Keningau. Forestry Department of the State of Sabah controls the volumes that can be harvested every year. Determinations by Forestry Department of Sabah to reduce the volume of timber that may be harvested may reduce our ability to secure log supply and may increase our log purchase costs.

In addition, weather conditions and climate changes are also one of the factors that may influence the supply of logs as there will be less logging activities during the monsoon months due to wet weather conditions.

Insufficient log supply might result in reduction in our production, increase in log purchase costs and directly affect our unit production cost.

Labour Shortage

As at 31 December 2016, we have 1,017 employees out of which 894 are factory workers and 730 of our factory workers are foreign workers. Any shortage of labour due to lack of supply or government restrictions on the employment of foreign workers could impair our operations by reducing production or increasing costs.

Foreign Currency Exchange Rates

We sell the majority of our products at prices denominated in US dollar. A significant portion of our operational costs and expenses are incurred in Ringgit Malaysia. Therefore, an increase in the value of the Ringgit Malaysia relative to US dollar reduces the revenue in Ringgit Malaysia, which reduces operating margin and the cash flow available to fund operations. We are also exposed to the risk of exchange rate fluctuations in purchasing of machinery, spare parts and certain expenses denominated in foreign currencies. Exchange rate fluctuations result in exchange gains or losses. This results in significant earnings sensitivity to changes in the RM/USD exchange rate. The RM/USD exchange rate is affected by a broad range of factors which makes future rates difficult to be predicted accurately.

Competition

We compete with Southeast Asian producers, especially Indonesian producers, which may have lower productions costs than we do. Markets for our products are highly competitive. Our ability to maintain or improve the cost of producing and delivering products to those markets is crucial. Factors such as cost and availability of raw materials, energy and labour, the ability to maintain high production volume and low production cost per unit, and the quality of our final products and our customer service all affect our earnings. To the extent that one or more of our competitors become more successful with respect to any key competitive factor, our ability to attract and retain customers could be adversely affected. If we are unable to compete effectively, such failure could have a material adverse effect on our business and financial results.

Environment

We are subject to stringent environmental laws and regulations relating to air emissions and pollutants which may affect our business operations. The environmental issues that we may encounter include bulk waste comprising timber materials, smoke from burning wood chip for the boiler and sawdust in the air in the working areas. We have incurred, and will continue to incur capital expenditures and operating costs to comply with environmental laws and regulations. We will also minimize the impact of our operations on the environment through reuse of our bulk waste to generate biomass fuel for use in our production plant and office.

RISKS AND UNCERTAINTIES (CONT'D)

Environment (Cont'd)

However, no assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on our business, financial condition and operational results.

Our products are subject to third-party certification (CARB, JAS and Lacey Act) as to compliance with international recognised standards, with amongst others, the production process including receiving and storing of raw materials, formulations of finished products and processing methods and machinery and/or tools used in production. Demand for our products may be reduced if we are unable to achieve compliance, or are perceived by the public as failing to comply, with these applicable standards, or if our customers require compliance with such standards for which our operations are not certified.

Workplace Safety and Health Matters

We are subject to various laws and regulations, including those relating to workplace safety and worker health. We have mitigated, and will continue to mitigate some of these potential workplace safety and health liability by purchasing, amongst others, employees' liability and workmen compensation insurance policies.

However, the risks of workplace safety and health costs and liabilities exist in our operations, and there can be no assurance that claims for damages resulting from our operations will not have any material adverse effect on our financial condition or results of operations.

CAPITAL STRUCTURE AND LIQUIDITY

The capital structure of the Company consists of ordinary shares and retained earnings. We manage our capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, The Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company had at its 26th Annual General Meeting held on 20 May 2016, obtained an approval from the shareholders to purchase the shares up to 10% of the total issued share capital of the Company by utilising the funds allocated which shall not exceed the retained profit and/or share premium of the Company. The said approval will be expiring at the conclusion of the forthcoming 27th Annual General Meeting of the Company unless the approval is renewed.

On 15 December 2016, we announced an interim single-tier tax exempt dividend of 6.0 sen per ordinary share and it was paid on 16 January 2017.

As at 31 December 2016, the Group's cash and bank balances were approximately RM39.21 million. On the other hand, other investments which comprised of money market funds amounted to RM53.18 million. Our cash requirements, other than for operating purposes, are primarily for additions to property, plant and equipment, acquisitions and payment of dividends. The Group has estimated capital expenditure of approximately RM5 million every year to improve its manufacturing facilities. Under normal business cycles and in years without a major acquisition or debt repayment, our cash and cash equivalents and cash generated by operations have been sufficient to meet these requirements.

BUSINESS OUTLOOK

We expect the performance in year 2017 is sustainable based on current market condition. We anticipate that US dollar will continue its strong momentum and improving the profit margin of our products.

We are anticipating improved demand for plywood from US in year 2017. We believe that the US recreational vehicle sector will continue to grow in the back of recovering US economy. Besides, our capital investment program focuses on producing different types and sizes of plywood, catering the needs from US market.

Other than pricing, one of the key risks to continuing strong demand from US is the quality of our plywood. In 2017, we will continue upgrading our operations by bringing in new machinery to improve production efficiency and quality of our products.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors ("the Board") of Focus Lumber Berhad ("FLBHD") acknowledges the importance of the Principles and Best Practices as set out in the Malaysian Code on Corporate Governance 2012 ("the Code") and is committed to adhere to the highest standards of Corporate Governance ("CG Guide") throughout the Group.

The following statement outlines the corporate governance principles and best practices duly adopted by the Group during the financial year ended 31 December 2016:-

Principle 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

- **Roles and Responsibilities of the Board**

  The Board is collectively responsible for the overall conduct of the Group's business and takes full responsibility for the performance of the Company and the Group. The members of the Board exercise due diligence and care in discharging their responsibilities to ensure high ethical standards are applied, through compliance with relevant rules and regulations, directives and guidelines in addition to adopting the best practices in the Code and CG Guide, and act in the best interest of major as well as minority shareholders of FLBHD.

  The authority for implementing the Board's policies is delegated to the Managing Director within the limits authorized by the Board. The Directors bring to the Board considerable knowledge, a wealth of business and professional experience relevant to the Company in the pursuit of its business objectives.

  The role of the Chairman and Managing Director are strictly separated and clearly defined to ensure a balance of power and authority.

  The Non-Executive Directors are independent of management and free from any business relationship and decision making that could interfere with the exercise of their independent judgment to the Company and Group.

  The Managing Director as the key personnel is responsible to develop and put the business strategic plan into actions, monitors the Group's operation progress and growth with the management team and implement corrective actions, where necessary.

  The Group has put in place a Board Charter that sets out, among others, the roles of the Board, division of responsibilities between the Chairman and the Managing Director, structures of the Board Committees, procedures for the conduct of meetings, conflict of interest, etc. More information on the Board Charter can be found on the Company's website and is reviewed annually on 28 March 2017. The following are among the key responsibilities of the Board:-

  (a) Reviewing and adopting the Company's strategic plans

  The Board has put in place a strategy planning process, whereby the Managing Director presents to the Board its recommended strategies, together with the proposed business plans for the Board's review and approval. The Board will deliberate both Management and its own perspectives, and challenge the Management's views and assumptions to ensure the best outcomes.

  (b) Overseeing the conduct of the Company's business

  The Managing Director is responsible for the day-to-day management of the business and operations of the Group in respect of both regulatory and commercial functions. He is supported by Management and the Executive Directors. Management's performance, under the leadership of Managing Director, is assessed by the Board through monitoring the success in delivering the approved targets and business plans against the performance of the Group.

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

  The Audit Committee ("AC"), through guidance by the internal auditors, advises the Board on areas of high risk faced by the Group and the adequacy of compliance and control throughout the organization. The AC reviews the action plans implemented and makes relevant recommendations to the Board to manage risks.

Principle 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

- **Roles and Responsibilities of the Board (Cont'd)**

(d) Succession Planning

The Board has entrusted the Nomination Committee ("NC") and Remuneration Committee ("RC") with the responsibilities to review candidates for the Board and key management positions and to determine remuneration packages for these appointments, and to formulate nomination, selection, remuneration and succession policies for the Group.

The Board has adopted Succession Planning policy which is designed to ensure the Company recognizes and develops a pool of talented employees through mentoring, training and job rotation to replace key business leaders within the Company as they leave their positions.

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

The Company strongly believes that effective and timely communication is essential in maintaining good relations with the shareholders, investors and investment community. To that end, the Board strives to provide shareholders and investors accurate, useful and timely information about the Company, its businesses and its activities via the timely release of quarterly financial results, press releases and announcements. Whilst the Company endeavors to provide as much information as possible, it is aware of the legal and regulatory framework governing the release of material and price sensitive information.

(f) Reviewing the adequacy and integrity of management information and internal control system of the Company

The Board is ultimately responsible for the adequacy and integrity of the Company's internal control system.

Details pertaining to the Company's internal control system and the reviews of its effectiveness are set out in the Statement on Risk Management and Internal Control of this Annual Report.

- **Company Secretary**

The Company Secretary is responsible for advising the Board on issues relating to compliance with the relevant laws, rules, procedures and regulations affecting the Board and the Group, as well as best practices of governance. He/She is also responsible for advising Directors of their obligations and duties to disclose their interest in securities, disclosure of any conflict of interest in a transaction involving any other parties, prohibition on dealing in securities and restrictions on disclosure of price-sensitive information. All Directors have full and unrestricted access to the advice and services of the Company Secretary.

The Company complies with Recommendation 1.6 of the Code as the Company Secretaries are suitably qualified, competent and capable of carrying out the duties required as they are members of The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) and they carry out, among others, the following tasks:

a) Statutory duties as specified under the Companies Act 2016 and Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities");
b) Attending Board and Board Committee meetings and ensuring that the Board meetings are properly convened and proceedings are properly recorded;
c) Ensuring timely communication of Board level decisions to Management;
d) Ensuring that all appointments to the Board and Committees are properly made;
e) Maintaining records for the purposes of meeting statutory obligations;
f) Facilitating the provision of information as may be requested by the Directors from time to time; and
g) Supporting the Board in ensuring adherence to Board policies and procedures.

Statement on Corporate Governance

Principle 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

- **Insider Trading**

  In line with the MMLR of Bursa Securities and the relevant provisions of the Capital Markets and Services Act 2007, Directors, key management personnel and principal officers of the Company and the Group are prohibited from trading in securities or any kind of property based on price sensitive information and knowledge, which have not been publicly announced. Notices on the closed period for trading in the Company's shares are circulated to Directors, key management personnel and principal officers who are deemed to be privy to any price sensitive information and knowledge, in advance of whenever the closed period is applicable.

- **Conflict of Interest**

  Members of the Board are required to make a declaration to that effect at the Board meeting in the event that they have interests in proposals being considered by the Board, including where such interest arises through close family members, in line with various statutory requirements on the disclosure of Director's interest.

  Any interested Directors would abstain from deliberations and decision of the Board on the subject proposal and, where appropriate, excuse themselves from being present in the deliberations.

- **Code of Conduct and Ethics, Whistleblowing Policy and Sustainability Policy**

  In line with the recommendations of the Code, the Board has established the Code of Conduct and Ethics, Whistleblowing Policy and Sustainability Policy on 11 April 2013 and shall be reviewed by the Board annually.

  The Code of Conduct and Ethics describes the behaviors expected of our employees and how they relate to our Business Principles and core values whilst the Whistleblowing Policy is designed to create a positive environment in which employees can raise genuine concerns without fear of recrimination and enable prompt corrective action to be taken where appropriate.

  The full details of the Code of Conduct and Ethics, Whistleblowing Policy and Sustainability Policy can be viewed at the Company's website and are reviewed annually on 28 March 2017.

  The Company's Sustainability Policy has also been outlined in page 35 of this Annual Report.

Principle 2: STRENGTHEN COMPOSITION

- **Board Composition and Balance**

  Under the Company's Constitution, the number of Directors shall be not less than two (2). As at the date of this Statement, there are six (6) members of the Board, comprising of three (3) Independent Non-Executive Directors, two (2) Executive Directors and one (1) Managing Director, the composition of which is in compliance with Paragraph 15.02 of the MMLR of Bursa Securities.

  The composition of the Board fairly reflects the interest of the significant shareholders, without compromising the interest of the minority shareholders.

  The presence of Independent Non-Executive Directors on the Board, not only act as a caretaker of the minority shareholders but also fulfills a pivotal role in corporate accountability. The Board places great importance on the balance of its Independent Non-Executive Directors since they serve as an essential source of impartial and professional guidance to protect the interest of the shareholders.

  The composition of the Board is fairly balanced and mix in view of skills and experiences which add value in governing the strategic direction of the Group.

Statement on Corporate Governance

Principle 2: STRENGTHEN COMPOSITION (CONT'D)

- **Board Diversity**

Although the Board currently does not have female among its members, the Board recognizes the value of female member on the Board and has adopted a Diversity Policy. This policy is disclosed on page 33 of this Annual Report. The Board further believes that it is more important to have the right mix of skills at the Board in order to enable the Board to carry out its duties effectively instead of immediately source for female member to meet the 30% women participation on Board level.

With adoption of the Diversity Policy, all persons, regardless of age, gender, ethnicity, cultural background or other personal factors, with appropriate experience and qualifications will be considered equally during recruitment, promotion, remuneration and training.

The Group is also committed to workplace diversity ensuring that we value and respect our differences and that our workplace is fair, accessible, flexible and inclusive and free from discrimination.

A brief description of the background of each Director is stated on the Directors' Profiles in the page 5 of this Annual Report.

- **Senior Independent Non-Executive Director**

The Board has identified Datuk Aznam Bin Mansor as the Senior Independent Non-Executive Director to whom concerns of shareholders and stakeholders may be conveyed.

- **Board Meetings and Supply of Information**

The Board is scheduled to meet quarterly with additional meetings to be convened when urgent matter need to be discussed and approved in between these scheduled meetings. Notices of meetings are given to the Board members in sufficient time prior to the meetings in order for them to be present. Whenever necessary, senior management or external advisors are also invited to attend the Board and Board Committee meetings to provide further clarity on agenda items being discussed to enable the Board and/or Board Committees to arrive at a considered and informed decision.

The Board has held five (5) Board Meetings during the financial year and the attendance record is as follows:-

Directors	Total Number of Meetings Attended in 2016
Datuk Aznam Bin Mansor	5/5
Lin Hao Wen	5/5
Ng Tian Meng	5/5
Wong Yoke Nyen	5/5
Lin Fong Ming	5/5
Lin Hao Yu (Appointed with effect from 15 July 2016)	2/2
Yang Sen (Resigned with effect from 01 June 2016)	3/3
Lu Kuan-Cheng (Resigned with effect from 03 August 2016)	3/3

The Board regularly reviews reports on progress against financial objectives, business development and also receive regular reports and presentations on strategy and updates, risks profiles and material litigation. Regular reports are also provided by Board Committees on their deliberations and recommendations.

Statement on
Corporate Governance

Principle 2: STRENGTHEN COMPOSITION (CONT'D)

- **Board Diversity (Cont'd)**

  - **Board Meetings and Supply of Information (Cont'd)**

    The agenda and supporting papers are distributed in advance for all Board and Board Committee meetings to allow time for appropriate review to facilitate full discussion at the meetings. Board meeting agendas and Board meeting papers which include, among others, comprehensive management reports, minutes of meetings, project or investment proposals and supporting documents are targeted for dissemination to the Directors at least seven (7) days prior to Board meetings. However, papers that are deemed urgent may still be submitted to the Company Secretary to be tabled to the Board at the Board Meeting, subject to the approval of the Chairman and the Managing Director. Presentations to the Board are prepared and delivered in a manner that ensures a clear and adequate presentation of the object matter.

    The Board papers include, among others, the following documents or information:

    - Reports of meetings of all committees of the Board including matters requiring the Board's deliberation and approval;
    - Performance reports of the Group, which include information on financial, strategic business issues, major operational issues and updates; and
    - Board papers for other matters for discussion/approval.

    All issues raised, discussions, deliberations, decisions and conclusions including dissenting views made at Board meetings along with clear actions to be taken by responsible parties are recorded in the minutes. Where the Board is considering a matter in which a Director has interest, the relevant Director immediately discloses the interest and abstains from participating in any discussion or decision making on the subject matter.

    The Board is constantly advised and updated on statutory and regulatory requirements pertaining to their duties and responsibilities. As and when the need arises, the Directors are also provided with ad-hoc reports, information papers and relevant training where necessary to ensure they are appraised on key business, operational, corporate, legal, regulatory and industry matters.

    The Board has complete and unrestricted access to the advice and services of the appointed Company Secretary to enable them to discharge their duties effectively. The appointment of company secretaries is based on the capability and proficiency determined by the Board. The company secretaries are responsible for ensuring the Board meetings procedures are followed and that applicable rules and regulation are complied with.

    Authority is also given to the Board to seek independent professional advice, if necessary, at the Company's expense from time to time in the performance of their duties. All Board Committees also have access to independent professional advice on the same basis.

- **Board Performance Evaluation**

  A formal evaluation of the Board's effectiveness assessment has been developed as part of FLBHD Board's annual activities to assess not only the Board's performance but also brings to light improvement areas and remedial actions on the Board's administration and process.

  The annual performance evaluation of the Board was primarily based on the answers to a detailed questionnaire which took into consideration the principles as enunciated in the CG Guide and the Code. The questionnaire was endorsed by the NC and approved by the Board before it was distributed to all the respective Board members.

  The annual assessment is based on the required mix of skills, experience, diversity and other qualities, including core competencies and effectiveness of the Board as a whole, the Board committee, each individual Director(s) and Chairman of the Board.

Principle 2: STRENGTHEN COMPOSITION (CONT'D)

- **Appointment to the Board**

  The nominees to the Board are first considered by the NC, taking into consideration the various skills, competencies, experience and other qualities required before they are recommended to the Board. The NC assesses the suitability of candidates, taking into account the required mix of skills, knowledge, expertise and experience, professionalism, integrity, competencies and other qualities, before recommending their appointment to the Board for approval. For the position of independent non-executive director, the Nomination Committee will evaluate the candidate's ability to discharge such responsibilities as expected from an independent non-executive director.

- **Re-election of Directors**

  In accordance with the Constitution of the Company, one-third (1/3) of the Board, shall retire from office by rotation and be eligible for re-election at each Annual General Meeting ("AGM"). The Directors to retire in every year shall be those who have been longest in office since their last re-election or appointment and all Directors (including the Managing Director) shall retire at least once in every three (3) years. Newly appointed Directors during the year must offer themselves to the shareholders for re-election at the first AGM following their appointment.

  Based on the results of the assessment undertaken for the financial year, the NC (save for the members who had abstained from deliberations on their own re-election/reappointment) recommended to the Board that:

  - Lin Hao Wen and Datuk Aznam Bin Mansor, who are due for retirement by rotation pursuant to Article 67 of the Company's Constitution at the Twenty-Seventh AGM and be eligible for re-election; and
  - Lin Hao Yu, who also retires pursuant to Article 73 of the Company's Constitution at the Twenty-Seventh AGM, be eligible for re-election.

  The Board, save for the members who had abstained from deliberations on their own reelection/re-appointment, supported the Nomination Committee's views and recommended that shareholders vote in favor of the resolutions for their re-election/ re-appointment at the AGM.

- **Board Committees**

  The Board delegates certain of its governance responsibilities to the following Board Committees, which operate within clearly defined terms of references, primarily to assist the Board in discharging its responsibilities. The Chairman of the various committees will report to the Board the outcome of the respective committee meetings and such reports are incorporated in the minutes of the Board meeting.

  (a) Audit Committee

  The AC is authorized by the Board to investigate any activities within its Terms of Reference and has unrestricted access to both the internal and external auditors and members of the senior management of the Group. The composition of the AC and the activities carried out by the AC are summarized in the AC Report as stated on page 37 of this Annual Report.

  The full details of the Terms of Reference of the AC is published in the Company's website.

  (b) Nomination Committee

  The NC comprises of entirely Independent Non-Executive Directors, of which complied with the recommendations under the Code as follows:

  - Datuk Aznam Bin Mansor – Chairman
  - Ng Tian Meng – Member
  - Wong Yoke Nyen –Member

  The Chairman of the NC is the Senior Independent Director of the Company which is in compliance with Recommendation 2.1 of the Code.

Statement on Corporate Governance

Principle 2: STRENGTHEN COMPOSITION (CONT'D)

- **Board Committees (Cont'd)**

(b) Nomination Committee (Cont'd)

The NC meets at least once a year. During the financial year ended 31 December 2016, the NC held two (2) meetings to discuss the following matters:

- reviewed the Term of Reference of NC;
- carried out assessment on the contribution and performance of Board, Board Committees and each individual Director and this includes assessment on the independence of the Independent Directors as well as review the trainings attended by each individual Director. The Board is satisfied with the contribution and performance of each individual Director. The Independent Directors complies with the criteria of Independence based on the MMLR of Bursa Securities; and
- recommended the appointment of Mr. Lin Hao Yu as Executive Director.

The detail of the attendance record of the NC meeting is as follows:

Members	Total Number of Meeting Attended in 2016
Datuk Aznam Bin Mansor	2/2
Ng Tian Meng	2/2
Wong Yoke Nyen	2/2

The NC is empowered by the Board through its Terms of Reference to carry out the following functions:-

i) To assess and recommend to the Board, the candidates for all directorships to be filled by the shareholders or the Board, in consideration of the candidates:

- skills, knowledge, expertise and experience;
- professionalism;
- integrity;
- ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors, when carrying out evaluation of candidates for the position of Independent Non-Executive Directors; and
- time commitment;

ii) To consider, in making its recommendations, candidates for directorships proposed by the Managing Director/ Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any Director or shareholder;

iii) To recommend to the Board, the Directors to fill the seats on Board Committees;

iv) To assess annually the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each existing individual Director and thereafter, recommend its findings to the Board;

v) To review training programs for the Board and ensure that all Directors undergo appropriate induction programs and receive continuous training;

vi) To review annually the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board and thereafter, recommend its findings to the Board;

vii) To develop the criteria for recruitment process and to assess the independence of Independent Non-Executive Directors annually, especially on those who has served for more than nine (9) years;

Principle 2: STRENGTHEN COMPOSITION (CONT'D)

- **Board Committees (Cont'd)**

(b) *Nomination Committee (Cont'd)*

viii) To apply the process as determined by the Board, for assessing the effectives of the Board as a whole, the Committees of the Board, and for assessing the contribution of each individual Director, including Independent Non-Executive Directors, as well as the Managing Director where all assessments and evaluations carried out by the Committee in the discharge of all its functions should be properly documented;

ix) To review Board's succession plans; and

x) To facilitate achievement of Board gender diversity policies and targets and review the Gender Diversity Policy from time to time.

The full details of the NC's Terms of Reference are published in the Company's website.

(c) *Remuneration Committee*

The RC comprised of the following members:-

- Ng Tian Meng –Chairman / Independent Non-Executive Director
- Wong Yoke Nyen –Member / Independent Non-Executive Director
- Lin Hao Wen – Member / Managing Director

The RC held one (1) meeting during the financial year ended 31 December 2016. The details of the attendance at meeting are as follows:

Members	Total Number of Meetings Attended in 2016
Ng Tian Meng	1/1
Wong Yoke Nyen	1/1
Lin Hao Wen	1/1

The primary purpose of the RC is to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring that the Company has coherent remuneration policies that fairly and responsibly reward individuals having regard to performance, the risk management framework, the law and the highest standards of governance.

The RC is responsible for recommending to the Board the remuneration of the Executive Directors in all its forms drawing from outside advice as necessary and the Executive Directors shall play no part in the decisions on their own remuneration.

Determination of remuneration packages of the Independent Non-Executive Directors, including Independent Non-Executive Chairman, shall be determined by the Board as a whole and the individuals concerned should abstain from discussing their own remuneration.

The Group complies with Recommendation 2.3 of the Code as it has a Remuneration Policy and Procedure to provide a framework for remuneration paid to the members of the Board and the Management Team of the Company.

The Remuneration Policy recognizes the need for the Company to attract, motivate and retain qualified members of the Board and Management Team as well as to align the interests of the Board with the interests of the Company's shareholders.

The remuneration of the Board and Management Team shall be designed to support the strategic goals of the Company and to promote value creation for the benefit of the shareholders of the Company.

Statement on Corporate Governance

Principle 2: STRENGTHEN COMPOSITION (CONT'D)

- **Board Committees (Cont'd)**

(c) *Remuneration Committee (Cont'd)*

The Remuneration Policy embodies the following principles:

- Providing fair, consistent and competitive rewards to attract and retain high calibre executives;
- Motivating the Company's Directors and executives to achieve superior performance;
- A remuneration framework that incorporates both short and long term incentives linked to Company performance and total shareholder return; and
- Building a partnership between the Company and its Directors and Management Team by encouraging share ownership in the Company by the Directors and Management Team.

The full details of the RC's Terms of Reference are published in the Company's website.

- **Remuneration Procedure**

The Board establishes the RC and it operates under a Terms of Reference approved by the Board. The RC oversees the remuneration arrangements for Directors and Management Team of the Company within this Policy.

The RC assesses the appropriateness of Directors and Management Team remuneration on an annual basis by reference to the principles of this Policy, overall employment market conditions, scope of work and the Company's financial position.

The RC recommends remuneration for all the Directors to the Board for approval.

- **Remuneration of the Board**

The Independent Non-Executive Directors' remuneration package reflects the experience, expertise and level of responsibilities undertaken by the Independent Non-Executive Directors.

In relation to recommended remuneration for Directors, it will be presented at the AGM for shareholders' approval. All non-executive Directors will receive their annual Director's fees and meeting allowances upon shareholders' approval at the AGM.

The basic salaries of the Executive Directors are fixed and any revision to the basic salary will be reviewed and recommended by the RC and approved by the Board, taking into account the individual performance, the inflation price index, and information from independent sources on the rates of salary for similar positions in other comparable companies. The Group operates a bonus scheme for all employees, including the Executive Directors. Bonuses payable to the Executive Directors are reviewed by the RC and approved by the Board. The Executive Directors are not entitled to annual fees.

- **Directors' Remuneration**

The details of the Directors' remuneration of the Company for the financial year ended 31 December 2016 are provided as below:-

	Executive Directors RM	Non-Executive Directors RM	Total RM
Salaries and other emoluments	1,404,000	-	1,404,000
Directors' fee	-	280,800	280,800
Meeting Allowance	18,000	15,000	33,000
	1,422,000	**295,800**	**1,717,800**

Principle 2: STRENGTHEN COMPOSITION (CONT'D)

- **Board Committees (Cont'd)**

  (c) *Remuneration Committee (Cont'd)*

  - **Directors' Remuneration (Cont'd)**

    The total of Directors' remuneration analyzed in the band of RM50,000.00 for the financial year 2016 as follows:

Band of Remuneration	No. of Directors Executive Directors	Non-Executive Directors
Below RM50,000	-	-
Below RM100,000	-	3
Below RM150,000	1	-
Below RM200,000	1	-
Below RM250,000	1	-
Below RM300,000	-	-
Below RM350,000	-	-
Below RM400,000	1	-
Below RM450,000	-	-
Below RM500,000	-	-
Below RM550,000	1	-
TOTAL	**5**	**3**

Principle 3: REINFORCE INDEPENDENCE

The Board recognizes the importance of independence and objectivity in the decision making process. Each Independent Non-Executive Director has declared his independence to the Board based on criteria of assessing independence as set out in the MMLR.

The Group complies with Recommendation 3.4 of the Code whereby the position of Chairman and Managing Director were held by different individuals and the Chairman, Datuk Aznam Bin Mansor is a Non-Executive Member of the Board. The Board consists of 50% Independent Directors for financial year 2016.

- **Tenure of Independent Directors**

  As at the date of this statement, none of the Independent Directors has served more than nine (9) years on the Board.

  However, the Board may seek shareholders' approval to re-elect a non-executive Director who has served over the cumulative term if it deems that it is in the best interest of the Group to retain such an individual due to his or her irreplaceable insights and invaluable knowledge.

Statement on Corporate Governance

Principle 4: FOSTER COMMITMENT

- **Time Commitment of the Board Members**

The Board is mindful of the importance of devoting sufficient time and effort to carry out their responsibilities and enhance their professional skills. Thus, each director is expected to commit sufficient time and required to notify the Board prior to accepting any additional appointment of directorships in other public listed companies. The notification shall include an indication of time commitment required under the new appointment as recommended by The Code. The number of directorships in listed corporations held by any Board member at any one time shall comply with the MMLR of Bursa Securities. Currently, all the Directors of the Company hold not more than five (5) directorships in the public listed corporations.

To facilitate the Directors' time planning, a corporate calendar is prepared and circulated to all the Directors in advance of each new year. The corporate calendar provides Directors with the scheduled dates for meetings of the Board, Committees of the Board, the AGM and the closed periods for dealings in securities by the Directors based on the targeted dates of announcement of the Company's quarterly results.

- **Directors' Training**

The Board also firmly believes that it is important for its Directors to invest the time and effort to update their knowledge and enhance their skill-set through relevant training programs. This will ensure that members of the Board are kept abreast of the latest developments in the areas of the capital markets, regulatory and corporate governance while equipping themselves with the know-how to contribute further to the effectiveness of the Board.

All Directors of the Company had attended and successfully completed the Mandatory Accreditation Programme (MAP) as required by the MMLR of Bursa Securities. The Directors are encouraged to attend continuous education programmes, talks, seminars, workshops and conferences to further enhance their knowledge and to ensure Directors keep abreast with new developments in the business environment and enhance their skills and knowledge.

The Board has assessed the training needs for all the Directors by organizing the training in a group manner for all members to attend during the year. Directors are encouraged to attend at least one (1) training in each financial year. List of schedule of training program is provided by Tricor Corporate Services Sdn Bhd. This is to allow the Directors to choose the appropriate date and time of which training to attend.

During the financial year 2016, the Directors have attended the following training programmes to further enhance their knowledge to enable them to discharge their duties and responsibilities more effectively:

Directors	Name of Conferences, Seminars and Training Programmes	Date
Datuk Aznam Bin Mansor	• Tricor Breakfast Talk – Analysis of Corporate Governance Disclosure in the Annual Reports of the Listed Issuers • Focus Group Series: Corporate Governance Disclosures "What makes good, bad and ugly Corporate Governance Reporting?" • The outlook of the World's Economy: Challenges & Opportunities For Malaysia Companies • How effective Boards engage on succession planning for the CEO and Top Management • Business Sustainability & Latest Amendments To Listing Requirements • 8th International Conference on Financial Crime and Terrorism Financing • Launch of the AGM Guide & CG Breakfast series – How to Leverage on AGMs for better engagement with Shareholders by MAICSA Training Division • Briefing on PNB's Strategic Plan	03 March 2016 08 March 2016 30 May 2016 18 August 2016 22 August 2016 05 October 2016 21 November 2016 24 November 2016

Principle 4: FOSTER COMMITMENT (CONT'D)

- **Directors' Training (Cont'd)**

Directors	Name of Conferences, Seminars and Training Programmes	Date
Lin Hao Wen	• Business Sustainability & Latest Amendments To Listing Requirements • Understanding Labour Ordinance Sabah (CAP.67) & The Industrial Relations Act 1967	22 August 2016 15 & 16 December 2016
Lin Hao Yu	• Mandatory Accreditation Programme • Business Sustainability & Latest Amendments To Listing Requirements	03 & 04 August 2016 22 August 2016
Lin Fong Ming	• Business Sustainability & Latest Amendments To Listing Requirements	22 August 2016
Ng Tian Meng	• Business Sustainability & Latest Amendments To Listing Requirements • KPMG in Malaysia Tax Summit 2016	22 August 2016 15 November 2016
Wong Yoke Nyen	• The Interplay between CG, Non-Financial Information (NFI) and Investment Decision • Financial Crisis, Currency War and Portfolio Strategies • Merger & Acquisition: Pricing the Deal, Due Diligence and Alternatives to M&A • Business Sustainability & Latest Amendments To Listing Requirements	09 May 2016 09 June 2016 22 July 2016 22 August 2016

Principle 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING

- **ACCOUNTABILITY AND AUDIT**

Financial Reporting and Disclosure

The Board aims to provide and present a clear, balanced and comprehensive view of the Group's financial performance and prospects, primarily through the annual audited financial statements, quarterly announcements of results and the annual report as well as corporate announcement on significant developments affecting the Company in accordance with the MMLR. The AC assists the Board in scrutinizing information for disclosure to ensure accuracy and completeness and oversee the Group's financial reporting processes and the quality of its financial reporting.

Relationship with External Auditors

The Company's transparent and professional relationship with the external auditors is primarily maintained through the AC and the Board. The key features underlying the AC's relationship with both internal auditors and the external auditors are detailed in the AC Report of this Annual Report at pages 37 to 40 The AC is of the opinion that the external auditors are independent with respect to the Group, within the meaning of the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants. In addition, to the best of the AC's knowledge, the AC is not aware of any non-audit services that had compromised the external auditors' independence for the financial year ended 31 December 2016.

Annually, prior to the commencement of the audit engagement, the external auditors confirm to the AC on their independence and during the financial year ended 31 December 2016, the external auditors have met twice with the AC without the presence of the Executive Management.

Statement on Corporate Governance

Principle 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING (CONT'D)

- **DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF FINANCIAL STATEMENTS**

  The Directors are required by the Companies Act 2016 to prepare the financial statements for each financial year so as to give a true and fair view of the state of affairs of the Group and the Company as at end of the financial year and of results and cash flow of the Group and the Company for the financial year then ended.

  In preparing the financial statements, the Directors have taken the necessary steps and actions as follows:-

  - Adopted suitable accounting policies and applied them consistently;
  - Made judgments and estimates that are prudent and reasonable;
  - Complied with the applicable approved Financial Reporting Standards in Malaysia and the provisions of the Companies Act 2016; and
  - Prepared the financial statements on a going concern basis.

  The Directors have the responsibility in ensuring that the Company keeps accounting records which discloses with reasonable accuracy the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act 2016, MMLR of Bursa Securities and are prepared in accordance with the applicable approved accounting standard.

  The Directors have the overall responsibilities for taking such steps are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

  The AC, under its Terms of Reference, is tasked to assist the Board in making sure that the Financial Statements are prepared in accordance with the approved and applicable Malaysian Financial Reporting Standards and are in accordance with the provision of the Companies Act 2016.

  The Board is satisfied that in preparing the financial statements of the Company and the Group for the financial year ended 31 December 2016, the Company and the Group have used appropriate accounting policies and applied them consistently and prudently. The Board is of the opinion that the financial statements have prepared in accordance with all relevant approved accounting standards and have been prepared on a going concern basis.

Principle 6: RECOGNISE AND MANAGE RISKS

The Board acknowledges its responsibility for maintaining a sound risk management framework and internal control system, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations as well as with internal procedures and guidelines. The internal control system also aims at identifying and managing any risks that the Company may encounter in pursuit of its business objectives.

The Statement on Risk Management and Internal Control which provides an overview of the state of risk management and internal control within the Group is disclosed on page 41 of this Annual Report.

Principle 7: ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

The Board is committed to provide accurate, clear, timely and complete disclosure of material information pertaining to the Company's performance and operations to shareholders, investors and public generally. In responding to the recommendations contained in the Code and the disclosure obligations contained in the MMLR of Bursa Securities, the Group has formalized a Corporate Disclosure Policy.

The disclosures made by the Company and the Group to Bursa Securities, shareholders, investors and media are handled by the Managing Director or Company Secretary within the prescribed disclosure requirements under the MMLR and guided by the Corporate Disclosure Guide issued by Bursa Securities. Such disclosures would only be released to Bursa Securities, shareholders, investors and media after having reviewed and approved by the Board.

To comply with Paragraph 9.21 of the MMLR, the Group also maintains a website at www.focuslumber.com.my that allows all shareholders and investors to gain access to the information relating to annual reports, policies, financial highlights and terms of reference of the respective Board Committees.

Principle 8: STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

Dialogue between the Company and Investors

The Board recognizes the importance of an effective communications channel between the Board, stakeholders, institutional investors and the investing public at large, both in Malaysia and internationally, with the objective of providing a clear and complete picture of the Group's performance and position as much as possible.

In this respect, the Company is committed to keeping the shareholders and investors informed of the Group's business and corporate developments. Such information is disseminated via the Group's annual reports, circulars to shareholders, quarterly financial results and the various prescribed announcements made to Bursa Securities from time to time in the Bursa Securities' website at www.bursamalaysia.com or via the Company's website. Information that is price sensitive or may be regarded as undisclosed material information about the Group is not disclosed to any party until it is already in the public domain through proper disclosure.

General Meetings

The Group's AGM and Extraordinary General Meetings represent the primary platforms for direct two-way dialogue and communication between the shareholders, Board and Management of the Group. Shareholders are notified of the meeting and provided with a copy of the Company's annual report at least twenty one (21) days before the meeting. They are encouraged and will be given sufficient opportunity to enquire about the Group's activities and prospects as well as to communicate their expectations and concerns. Shareholders are encouraged to participate in the open question and answer session on the resolutions to be proposed or about the Group's operations in general. Shareholders who are unable to attend are allowed to appoint proxies in accordance with the Company's Constitution to attend and vote on their behalf. The Chairman and Board members are in attendance to respond to the shareholders' queries and to provide clarification on the queries.

The external auditors are also present to provide professional and independent clarification on issues and concerns raised by the shareholders during the meeting.

The Board also encourages shareholders to participate, speak and vote at general meetings as well as the right to demand poll voting in the general meetings.

Pursuant to Paragraph 8.29A(1) of the MMLR, any resolutions set out in the notice of any general meeting, or in any notice of resolution which may properly be moved and is intended to be moved at any general meeting of the Company will be subjected to poll voting by the shareholders. The votes cast at the general meeting will be validated by a scrutineer, who is independent of the person undertaking the polling process, not an officer of the Company and is not interested in the resolution to be passed at the general meeting.

Other than through the issuance of its Annual Reports, the Group has been actively promoting proactive engagements and communications with its shareholders and stakeholders through the following channels:

- Release of financial results on a quarterly basis;
- Press releases and announcements to Bursa Securities and subsequently to the media; and
- An Investor Relations section on the Group's website.

COMPLIANCE STATEMENT

The Board considers that the Group has substantially complied with the Best Practices of the Code throughout the financial year ended 31 December 2016.

Statement on Corporate Governance

ADDITIONAL COMPLIANCE INFORMATION

The following is presented in compliance with the MMLR of Bursa Securities:-

1. Utilisation of Proceeds raised from Corporate Proposal

   There were no proceeds raised from any corporate proposal during the financial year ended 31 December 2016.

2. Audit and Non-audit Fees

   The amount of audit fee paid to the external auditors by the Company and the Group for the financial year ended 31 December 2016 are RM80,000 and RM90,000 respectively. The amount of non-audit fees paid to the external auditors, or a firm or corporation affiliated to the external auditors by the Company and the Group for financial year ended 31 December 2016 are RM21,000 and RM27,000 respectively for corporate tax compliance and advisory services rendered.

3. Material Contracts

   There were no material contracts subsisting or entered into by the Company and its subsidiary involving any Directors or substantial shareholders of the Company or any persons connected to a Director or major shareholder of the Company during the financial year.

4. Recurrent Related Party Transactions ("RRPTs")

   RRPTs entered into the Company and the Group are disclosed under Note 27 to the Financial Statements on page 91.

This statement is made in accordance with the approval of the Board of Directors on 28 March 2017.

DIVERSITY POLICY

The Board is pleased to set out below its approach to boardroom diversity as recommended by the Malaysian Code on Corporate Governance 2012.

Policy

The Company is committed to actively managing diversity as a mean of enhancing the Company's performance by recognising and utilising the contribution of diverse skills and talent from its directors, officers and employees.

Diversity involves recognising and valuing the unique contribution people can make because of their individual background and different skills, experiences and perspectives, including persons with co-existing domestic responsibilities. Diversity may result from a range of factors including age, gender, ethnicity, cultural background or other personal factors. The Company values the differences between its people and the contribution these differences make to the Company.

1. Role of the Board

It is the responsibility of the Board to foster an environment where:

(a) Individual differences are respected.
(b) The ability to contribute and access employment opportunities is based on performance, skill and merit.
(c) Inappropriate attitudes, behaviours and stereotypes are confronted and eliminated.

2. Objectives

The Company encourages diversity in employment, and in the composition of its Board, as a means of ensuring the Company has an appropriate mix of skills and talent to conduct its business and achieve the Company's goals.

Specifically, the Company will provide equal opportunities in respect to employment and employment conditions, including:

(a) Hiring: The Board will ensure appropriate selection criteria based on diverse skills, experience and perspectives is used regardless of age, gender, ethnicity, cultural background or other personal factors when hiring new staff, including Board members. Job specifications, advertisements, application forms and contracts will not contain any direct or inferred discrimination. The Board is empowered to engage professional consultants to assist in the hiring process by presenting diverse candidates to the Company for consideration. There will be no preference given to male applicants for a position and will ensure that any women with appropriate experience and qualifications are considered equally in the recruitment and selection process.

(b) Training: All internal and external training opportunities will be based on merit and in light of Company and individual needs regardless of age, gender, ethnicity, cultural background or other personal factors. The Board will consider senior management training and executive mentoring programs to develop skills and experience to prepare employees for senior management and Board positions.

(c) Career Advancement: All decisions associated with career advancement, including promotions, transfers, and other assignments, will meet the Company's needs and be determined based on skill and merit regardless of age, gender, ethnicity, cultural background or other personal factors.

3. Achieving Diversity

The Company recognises the importance of having participation of women in its Board and within senior management.

However, the Company will not rush into identifying women to be included in its Board and senior management as the person selected must be able to contribute positively to the Company. The Nomination Committee has been delegated by the Board to continuously look for people with diverse skills and talent that can contribute to the Company. Upon identifying the appropriate candidate to be appointed as Director or Board Member, the Nomination Committee will make their recommendations to the Board for approval.

Diversity Policy

4. Work Environment

The Company will ensure that all officers, employees and contractors have access to a work environment that is free from harassment. The Company will not permit unwanted conduct based on an officer, employee or contractor's personal circumstances or characteristics.

The Board and senior managers are required to ensure that the work environment is harassment free, and to ensure that complainants or reports of sexual, racial or other harassment are treated seriously, confidentially, and sympathetically by the Company.

Promoting workplace diversity is everyone's responsibility and includes:

- practising and promoting behaviour consistent with the Company's Code of Conduct;
- respecting different ways of thinking and using our employees' different perspectives to improve business outcomes;
- treating each other with respect and dignity;
- providing a safe, secure and healthy workplace;
- making decisions genuinely based on equity and fairness;
- valuing the diversity of people; and
- taking appropriate actions to eliminate discrimination.

5. Reporting Responsibility

It is the responsibility of all Directors, officers and employees to comply with the Company's Diversity Policy and report violations or suspected violations in accordance with the Diversity Policy.

Any breach of compliance with the Diversity Policy is to be reported directly to the Chairman of the Board or the Chairman of the Audit Committee.

The contact details of the Chairman of the Board and Chairman of the Audit Committee where concerns can be raised by the employees are as follow:

Chairman of the Board	Chairman of the Audit Committee
Email: am@lh-ag.com	Email: nyen@wyncorp.com.my

Anyone breaching this Diversity Policy may be subject to disciplinary action, including termination.

6. Summary of Diversity Policy

The Board has adopted a Diversity Policy which describes the Company's commitment to ensuring a diverse mix of skills and talent exist amongst its Directors, officers and employees, to enhance Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of Directors, officers and employees. The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements.

The Board will review this policy as necessary to ensure that they meet the objectives of relevant legislations and remain effective for the Group. The Board may implement changes to this policy from time to time subject to the approval of the Group's Board of Directors.

This policy is reviewed on 28 March 2017.

SUSTAINABILITY POLICY

The Group recognises the importance of sustainability development to businesses and is committed to ensure attention is given to environmental, social and governance aspects as an integral part of its business operations.

This Policy is based upon the following principles:

- To observe and comply with all relevant legislation, regulations and codes of practice.
- To consider sustainability issues and integrate these considerations into our business decisions.
- To promote and ensure that all employees are aware of and are committed to implementing and measuring sustainability activities considering environment, social and governance factors.
- To annually report, review and to continuously strive to improve our sustainability performance.

The Group practices its Sustainability Policy on the following approach:-

1. The Business

The Group places the utmost importance on the approaches to achieving a viable and sustainable business that will grow and sustain even during the changes and challenges in the current global economic environment. Emphasis is placed not only for the current financial period but over the future as well. In arriving at this, the Group had drawn up a 5-year plan on the positioning of the Group and this dynamic strategy will be reviewed and measured every year via an annual budget together with the bases and assumptions thereon.

The Group has invested in advanced machineries to increase production capacity, to improve the quality of our product and to enhance the efficiency of the manufacturing process. Better production efficiency increases the recovery of logs resulting in lower production cost. Using smaller logs has also resulted in lower cost of raw material and broadens the source of log supply for its production.

Besides, setting up a power plant which reuses bulk waste to generate biomass energy to supply electricity to the office, hostel, and production plant has also significantly reduced our dependency on fossil fuel and enhanced cost mitigation.

2. The Workplace

The Group has the responsibility to provide and maintain a safe and healthy working environment for all its employees. Regular inspections and upgrades were carried out to ensure canteen cleanliness, kitchen and sewerage facilities were well maintained. Food hygienic standards are applied to ensure safety and health in the workplace. Recreation activities are organised, such as football and badminton tournaments and festive celebrations for employees and management staff to participate and interact. The establishment of a Safety and Health Committee for its manufacturing facilities is to ensure a safe and conducive working environment for its employees. The Group also adopts a Diversity Policy which will provide equal opportunities in respect to employment and for its workplace in regardless of age, gender, ethnicity, cultural background or other personal factors. This is to ensure the Company having a diverse mix of skills and talent among employees in order to enhance Company performance.

3. The Environment

The Group is committed to reduce environmental impact of its operation and firmly believes in adopting waste management and recycling programs such as the wood waste of which generated from the manufacturing process are used as material for the biomass power plant for regeneration of electricity supply for its operation. We are also committed to be in compliance with the relevant laws relating to sustainable forestry, emission standards and plant effluent management.

The Group has complies the following legislation in reducing the environment impact.

Sustainability Policy

3. The Environment (Cont'd)

(i) Lacey Compliance Verification (LCV) Program in affirming the legality of sourced forest products used in the manufacture of our products, which will give a high level of confidence to our customers of our fulfilment of the requirements of the Lacey Act for the US market.

(ii) The Group is certified as a CARB Certified Manufacturer by Professional Service Industries, Inc. (which is known as Benchmark Holdings in 2011). The CARB standards regulate formaldehyde emissions from wood products sold in California or used to make finished good for sale in California.

(iii) JAS Certification for General Plywood under the Law Concerning Standardization and Proper Labeling of Agriculture and Forestry Products (Law No. 175 of 1950) which is granted by Benchmark Holdings (BMH).

4. The Community

The Group has been contributing to the community by donating to the needy and contributing to the charitable events organised by the governmental and private organisation.

5. The Stakeholders

The Group will continue with its focus to enhance and maximise its shareholders' value. The Group believes in enhancing the relationship with all stakeholders including shareholders, regulatory authorities, business associates, bankers and suppliers.

Initiatives undertaken by the Group to improve its governance sustainability includes:

a. Adhering to the requirements of all laws and regulatory requirements, standards, and better practices to which the Company subscribes and establishes;

b. Having robust policies and procedures in place to ensure the adequacy and integrity of the Company's internal control system and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines;

c. Continuously improving the Company's internal control system; and

d. Maintaining a dedicated website which facilitates easy access to corporate information, annual reports, press releases and company announcements to its shareholders, prospective investors, stakeholders and the general community.

6. Marketplace

The Group has no tolerance towards fraud and unethical practices and conducts in all its business dealings with our stakeholders and within the Group. The Group will promote the best Corporate Governance requirement as well as sustainability practices to maintain the integrity of marketplace.

Disclosure and Review

The Company will disclose the application of this Policy in the Corporate Social Responsibility in the Annual Report.

This Policy shall be reviewed annually by the Board.

This policy is reviewed on 28 March 2017.

AUDIT COMMITTEE REPORT

1. CONSTITUTION

The Audit Committee was established to assist the Board to ensure timely and accurate financial reporting, proper implementation of risk management policies and internal control, and compliance with legal and regulatory requirements.

MEMBERS

The Audit Committee comprises of the following members:-

Wong Yoke Nyen
Chairman, Independent Non-Executive Director

Datuk Aznam Bin Mansor
Member, Independent Non-Executive Director

Ng Tian Meng
Member, Independent Non-Executive Director

2. MEETINGS OF THE COMMITTEE

During the financial year ended 31st December 2016, five (5) Audit Committee Meetings were held and the details of attendance of the meetings are as follows:-

Name	Total Meetings attended by Directors	Percentage Attendance
Wong Yoke Nyen	5/5	100%
Datuk Aznam Bin Mansor	5/5	100%
Ng Tian Meng	5/5	100%

The representatives of the external auditors, internal auditors and other officers of the Group were also invited to attend and brief the members on specific issues during the Audit Committee Meeting.

3. TERMS OF REFERENCE OF THE AUDIT COMMITTEE

The full terms of reference of the Audit Committee outline the Composition of the Audit Committee, Secretary of the Audit Committee, Duties and Responsibilities of Audit Committee, Rights of the Audit Committee and Procedure of Committee Meetings, is accessible via the Company's website at www.focuslumber.com.my

4. SUMMARY OF WORK OF THE AUDIT COMMITTEE

The main activities and work carried out by the Audit Committee during the financial year were as follows:-

4.1 Financial Reporting

a. Reviewed the unaudited quarterly financial results of the Group for the fourth quarter of 2015 and the annual audited financial statements of 2015 of the Company at the meetings held on 22 February 2016 and 05 April 2016, respectively;

b. Reviewed the unaudited quarterly financial results of the Group for the first, second, third and fourth quarters of 2016, which were prepared in compliance with the Malaysian Financial Reporting Standard ("MFRS"), International Accounting Standards (IAS) and paragraph 9.22, including Appendix 9B of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad before recommending to the Board for consideration and approval at the meetings held on 20 May 2016, 22 August 2016, 21 November 2016 and 21 February 2017, respectively;

4. SUMMARY OF WORK OF THE AUDIT COMMITTEE (CONT'D)

4.1 Financial Reporting

c. Reviewed related party transactions entered into by the Group and the Company to ensure that such transactions were undertaken in line with the Group's normal commercial terms and the internal control procedures with regards to such transaction are sufficient; and

d. Obtained assurance from the Managing Director that:

   i. Appropriate accounting policies has been adopted and applied consistently;
   ii. Prudent judgements and reasonable estimates has been made in accordance with requirements as set out in MFRS; and
   iii. The Annual and Quarterly Financial Statements did not contain material misstatements and gave a true and fair view of the financial position of the Group and Company.

4.2 External Audit

a. Reviewed and approved the External Auditor Independence Policy established by the Management, which encompassed areas including selection and appointment of External Auditors, independence, non-audit services, rotation of audit partner, annual assessment and review of the policy on 22 February 2016.

b. Reviewed the external auditors' 2016 Audit planning Memorandum outlining their scope of work and proposed fee for the statutory audit, together with assurance-related fee for review of the Statement of Internal Control and Risk Management on 21 November 2016 and other fee from non-audit services. The AC recommended and authorised the Management to discuss with the External Auditors, for a total statutory audit fee of the Group not exceeding a prescribed threshold as approved by the AC. External Auditors in its 2016 audit plan also presented to the AC its engagement team, audit timeline, the areas of audit emphasis, and their focus on key audit matters;

c. Obtained the written assurance from External Auditors which confirmed that they were and had been independent throughout the conduct of the audit engagement in accordance to the terms of all relevant professional and regulatory requirements, including the By-laws of the Malaysian Institute of Accountants;

d. Had private meeting with External Auditors on 05 April 2016 and 28 March 2017 without the presence of Executive Directors and Management staff. The AC enquired about the Management's co-operation with the External Auditors, their sharing of information and the proficiency and adequacy of resources in financial reporting functions. The AC Chairman also invited the External Auditors to communicate to him at any time should they be aware of any incidents or matters in the course of their audits that needed his attention or that of the AC;

e. Reviewed the audited financial statements before recommending for the Board of Directors' approval on 28 March 2017; and

f. Undertook an annual assessment of the quality of audit which encompassed the performance of External Auditors, including the quality of services, sufficiency of resources, communications and interaction with the AC, and their independence, level of non-audit fees, rotation of audit partner, objectivity and professionalism on 28 March 2017. Assessment questionnaires were used as a tool to obtain input from the Accountant, as guided by Corporate Governance Guide – 2nd Edition. The AC is satisfied with the independence, suitability and performance of Messrs Ernst & Young that meet all the established criteria and accordingly recommended to the Board to seek shareholders' approval for the re-appointment of Messrs Ernst & Young as External Auditors for ensuring financial year of 31 December 2017.

4. SUMMARY OF WORK OF THE AUDIT COMMITTEE (CONT'D)

4.3 Internal Audit

a. Reviewed and approved the internal audit plans 2016/2017 proposed by Internal Auditor at the meeting held on 20 May 2016; and

b. Reviewed with the Internal Auditor, the internal audit reports, their evaluation of the internal control system and the follow-up on the audit findings at the meetings held on 22 February 2016, 20 May 2016, 22 August 2016 and 21 November 2016.

4.4 Risk Management

a. Reviewed the report submitted by Risk Management Committee on key risks facing the Group during the meeting held on 20 May 2016 and 21 Nov 2016 to ensure that mitigation action plans have been put in place

5. INTERNAL AUDIT FUNCTIONS

The Audit Committee is aware that an independent and adequately resourced internal audit function is essential to assist in ensuring an effective and adequate internal control system in compliance with Paragraph 15.27 of the MMLR of Bursa Malaysia Securities Berhad.

The Group's internal audit function is outsourced to a professional internal audit service provider and this ensures that the outsourced internal auditor is independent as it has no involvement in the operations of the Group. The outsourced internal auditor reports directly to the Audit Committee.

The Audit Committee has full and direct access to internal auditor, reviews the reports on all audits performed and monitors its performance. The Audit Committee also in its framework reviews the adequacy of the scope, functions, competency and resources of the outsourced internal audit functions.

The outsourced internal auditor carried out internal audits on various operation units within the Group based on a risk-based audit plan approved by the Audit Committee. Based on these audits, the outsourced internal auditors provided the Audit Committee with periodic reports highlighting observations, recommendations and management action plans to improve the system of internal control.

The summary of activities carried out by the outsourced internal auditor during the financial period include:-

- Developed the internal audit plan for year 2016.
- Performed internal audit review on the following areas:

No.	Audited Area	Audit Work Taken On
1	Human Resource • Manpower requirement planning • Workers training • Workers payroll calculation and payment	11th January 2016 to 15th January 2016
2	Conducted Follow-up review on Human Resource	4th April 2016
3	Purchasing Department	25th July 2016 to 29th July 2016
4	Conducted Follow-up review on Purchasing Department	03rd October 2016

Audit Committee
Report

5. INTERNAL AUDIT FUNCTIONS (CONT'D)

- Issued reports on the results of the internal audit review, identifying weaknesses with suggested recommendations for improvements to Management for further action to improve the system of internal control.

- Attended Audit Committee meetings on 22 February 2016, 20 May 2016, 22 August 2016 and 21 November 2016 to table and discuss the audit reports.

The relevant Management members were made responsible for ensuring that corrective actions on reported weaknesses were taken within the required timeframes. The outsourced internal auditor conducted follow-up audits on key engagements to ensure that the corrective actions were implemented appropriately.

During the year, the Audit Committee has met four (4) times with the internal auditor to carry out its responsibilities in reviewing the internal audit function and to assure itself on the soundness of internal control system. The costs incurred for the outsourced internal audit function in respect of the financial year ended 31 December 2016 amounted to RM48,000.00.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Board is committed to preserve throughout the Group a sound system of risk management and internal controls and good corporate governance practices as set out in the Board's Statement on Risk Management and Internal Control made in compliance with Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers.

BOARD'S RESPONSIBILITY

The Board acknowledges its responsibility for ensuring the adequacy and effectiveness of the Group's Risk Management and Internal Control System. This includes the establishment of an appropriate control environment and risk management framework, processes and structures and continually reviewing the adequacy and integrity of the said systems to safeguard shareholders' investment and the Group's assets.

Whilst acknowledging its responsibilities, the Board is aware of the limitations that are inherent in any systems of internal control and risk management where such systems being designed to manage, rather than eliminate, the risks that may impede the achievement of the Group's business objectives. Accordingly, it can only provide a reasonable, but not absolute assurance against material misstatement or losses, fraud or breaches of laws or regulations.

Management is responsible for assisting the Board in implementing the processes for identifying, evaluating, monitoring and reporting risks and internal controls throughout the period. The Board is assisted by the Audit Committee to oversee the implementation of a system of risk management and internal controls. The Risk Management Committee ("RMC"), comprising a Risk Manager and Head of Departments from all functions is established to assist the Audit Committee in overseeing the risk management issues of the Group and to report to the Audit Committee directly on the Group's overall co-ordination of risk management activity and ensuring that the necessary processes are in place.

The Board is responsible for setting the business direction and for overseeing the conduct of the Group's operations through various Board Committees. This represents the main platform by which the Group's performance, risks and conduct are monitored. The Group monitors the effectiveness of the internal control system by a continuous process of improving the internal control system through periodic internal audit reviews. The process is regularly reviewed by the Audit Committee and the outcome of the review is reported to the Board.

For the financial year under review, the Board has received assurance from the Managing Director and the Management Team that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.

The Board is of the view that the Group's risk management and internal control framework and systems is in place for the financial year under review and up to the date of issuance of the financial statements for identifying, evaluating and managing significant risks faced or potentially to be encountered by the Group.

Statement on Risk Management and Internal Control

RISK MANAGEMENT FRAMEWORK

The Board firmly believes that an effective risk management is critical to the Group's continued profitability and the enhancement of shareholder value. Therefore, the Board has put in place a formal enterprise risk management framework that allows a more structured and focused approach to identify, evaluate, monitor and report the principal risks that affect the achievement of the Group's business objectives.

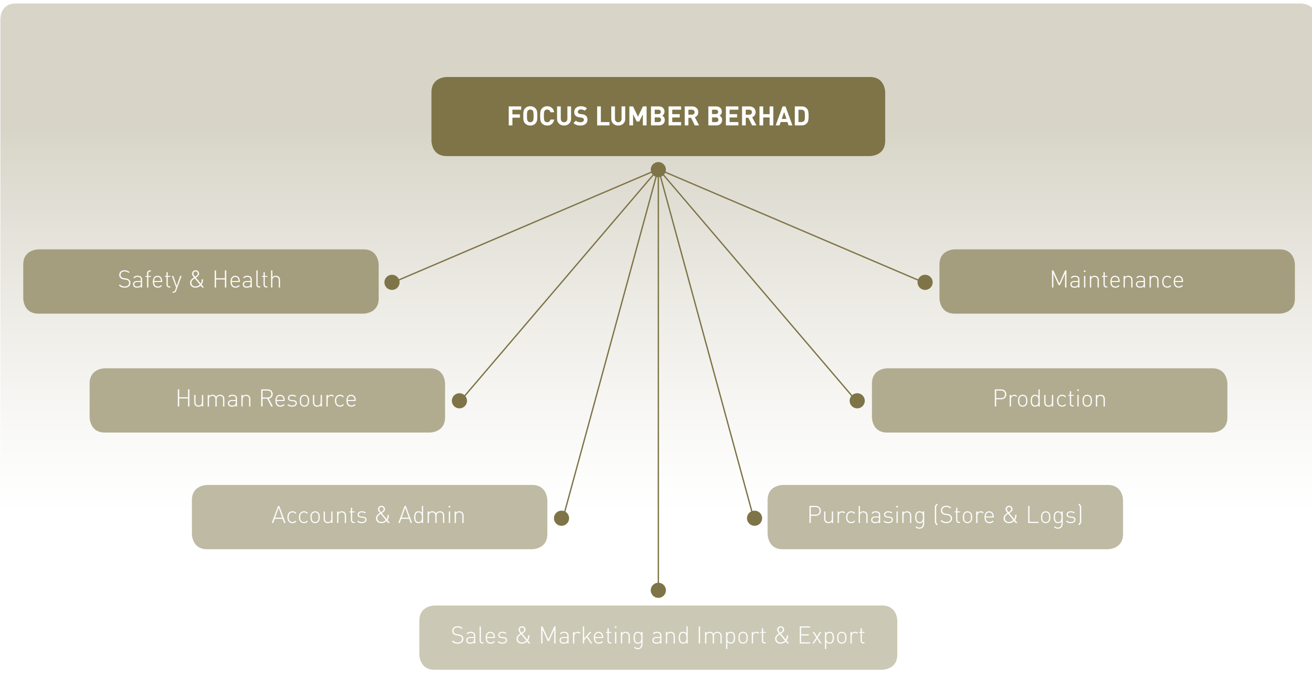
The framework is continually monitored to ensure it is responsive to the changes in the business environment.

The RMC meets at least twice a year at appropriate times and otherwise as required, to review risks that affect the achievement of the Group's business objectives. The RMC submits its report on the key risks facing the Group to the Audit Committee half-yearly. In the event of significant risks being identified, it will be reported to the Audit Committee immediately.

RISK MANAGEMENT PROCESS

The Management is responsible for reviewing risks on an on-going basis so that risks impeding the achievement of objectives are adequately identified, evaluated, managed and controlled.

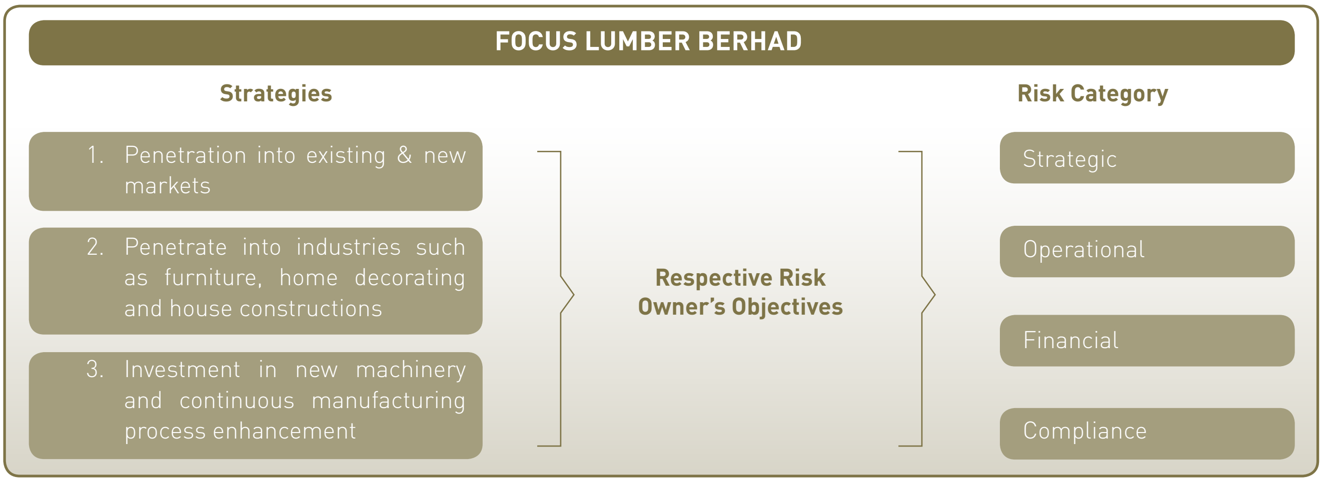
On a semi-annually basis, RMC prepares a report detailing the significant risks, the status of risk reviews and the status of implementation of action plans for review by the Audit Committee. The review undertaken involves the following function/operating units:



Statement on Risk Management and Internal Control

RISK MANAGEMENT PROCESS (CONT'D)

The risk management process starts with the identification of all risks affecting the Company's achievement of its vision and mission and the linkage between risk management and its objectives can be illustrated below:



The risks identified remain the foundation in developing a risk profile and an action plan to assist the Board of Directors and Management to adequately respond to these risks. All the risks identified are maintained in Risk Register to facilitate monitoring from time to time.

RISK MANAGEMENT ACTIVITIES

During the financial year 2016, RMC had identified weakness in Sales & Marketing department. The delay of bulk vessel arrival schedule and limited loading volume can lead to reduction in cash flow for the Company to operate. The management will continuously follow up with the shipping agent for prompt vessel schedule and book for more loading volume space. The said risk had been updated in the Risk Register for 2016.

AUDIT COMMITTEE

The Audit Committee supports the Board's oversight function on risk management and internal control through the following:

- Ensuring an effective risk management process and management of key business risks in accordance with the Group's tolerance of risks.
- Assessing the effectiveness of the Group's internal control system vis-à-vis the risks, control environment and compliance requirements.
- Ensuring an appropriate Whistleblowing policy is in place.

The Audit Committee deliberates on the abovementioned to assess the state of the Group's management of risks and internal controls and management actions on the control issues identified on a half-yearly basis. The internal control recommendations by the Internal Auditors and the External Auditors are followed-up and reported to the Audit Committee to monitor the implementation of preventive and corrective actions to mitigate related risks.

Statement on Risk Management and Internal Control

CONTROL ENVIRONMENT

In striving to operate a sound system of risk management and internal control that drives the Group towards achieving its goals, the Board of Directors has put in place an organisation structure with formally defined lines of responsibility and delegation of authority.

The daily running of business is entrusted to the Managing Director, Executive Directors and the Management Team. This close-to-operations management style enables timely identification and reporting of significant matters.

In order to inculcate a standard of ethical behaviour for directors and employees of the Group, a Code of Conduct and Code of Ethics have been established and communicated to all directors and employees of the Group.

INTERNAL CONTROL

The Group has established its internal control structure and is committed to providing the fundamental discipline on risk management and control. These internal control structures apply to all of the Group's investments. The Group has continuously been undertaking efforts to enhance its internal control structures within the Group.

The key elements of the Group's internal control structures are as follows:

- **Code of Conduct and Practice**

  The Group's practice is guided by the Code of Conduct and Ethics, which sets out the principles to guide employees in carrying out their duties and responsibilities to the highest standards of personal and corporate integrity. The Group's Code of Conduct and Ethics covers such as compliance with respective local laws and regulations, integrity, conduct in the work place, business conduct, protection of the Group's assets, confidentiality, conflict of interest and fair dealing practices.

  Major decisions that require the approval of the Board are only made after detailed appraisal and review. Proposals for major capital expenditure and new investment by the Group are reviewed and approved by the Board of Directors.

  Standard operating procedures are established to ensure operations undertaken by staff are properly guided for complete and accurate reporting.

- **Whistleblowing Policy and Procedures**

  As the Group expects the highest standards of integrity, probity, transparency and accountability from all employees to preserve and protect the Group's interests and reputation, the Group takes a serious view of any acts of wrong doing by any of its employees.

  The Board has approved a Whistleblowing Policy to allow employees to raise concerns without fear of reprisals on possible improprieties in matters of financial reporting, compliance and other malpractices at the earliest opportunity, and in an appropriate way. Under the Group's Whistleblowing Policy, the employee should immediately report any malpractice that exists in the work place to his/ her manager. However, if the employee feels reluctant to do so, the employee has an option to either report it to the Chairman of the Board or the Audit Committee Chairman.

  Full details of the Group's Code of Conduct and Ethics and Whistleblowing Policy are published in the Company website.

- **Information and communication**

  The Audit Committee holds meetings to deliberate on the findings and recommendations for improvement by the internal auditor on the state of the internal control system and reports to the Board. The Audit Committee also reviews and deliberates on any matters relating to internal control highlighted by the External Auditors in the course of their statutory audit of the financial statements of the Group.

  Quarterly performance reports provide Management and the Board of Directors with information on financial performance and key business indicators.

INTERNAL CONTROL (CONT'D)

- **On-Going Monitoring**

  Periodic reviews of adequacy and integrity of selected areas of internal control system are carried out by the internal audit function and results of such reviews are reported to the Audit Committee. The internal audit function thereby provides independent assurance on the areas reviewed by the internal audit function to the Board on the effectiveness of the Group's internal control system.

- **Internal audit function**

  Pursuant to Paragraph 9.25(1), Part A of Appendix 9C(30) of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad, the Board is pleased to set out below its internal audit function.

  The Group's internal audit function is outsourced to a professional internal audit service provider and this ensures that the outsourced internal auditor is independent as it has no involvement in the operations of the Group. The outsourced internal auditor reports directly to the Audit Committee and is headed by a management team who are registered with professional bodies as follows:

  (a) Chief Operating Officer – Certified Chartered Accountant and a registered member of Malaysian Institute of Accountants (MIA)
  (b) Director – Certified Internal Auditor, Certified Practising Accountant with CPA Australia, a member of Institute of Internal Auditors Malaysia (IIAM) and Malaysian Institute of Accountants (MIA)
  (c) Manager – Chartered Member of the Institute of Internal Auditors Malaysia

  The Group's Internal Audit plays a pivotal role in improving the effectiveness of risk management, control and governance processes of the Group's operations through its recommendations for improvement in internal controls and consulting services on related matters. Built into the audit process is also a process of follow-up of the implementation of recommendations of major issues reported to the Audit Committee to ensure improvement actions are taken. Based on the follow-up conducted during the year, actions have been taken towards improvements in the related areas.

  During the financial period, a summary of activities carried out by the outsourced internal auditor include:

  - Developing the internal audit plan for year 2016
  - Performed internal audit review on the following areas:

No.	Audited Area	Audit Work Taken On
1	Human Resource • Manpower requirement planning • Workers training • Workers payroll calculation and payment	11 January 2016 to 15 January 2016
2	Conducted follow-up review on Human Resource	4 April 2016
3	Purchasing Department	25 July 2016 to 29 July 2016
4	Conducted follow-up review on Purchasing Department	03 October 2016

  - Issued reports on the results of the internal audit review, identifying weaknesses with suggested recommendations for improvements to management for further action to improve the system of internal control.
  - Attended Audit Committee's meetings to table and discuss the audit reports.
  - Followed-up on the implementation of corrective action plans agreed by Management.

  During the year, the Audit Committee has met four (4) times with the Internal Auditors to review the internal audit function and to assure itself on the soundness of internal control system. The costs incurred for the outsourced internal audit function in respect of the financial year ended 31 December 2016 amounted to RM48,000.00.

Statement on Risk Management and Internal Control

ASSURANCE FROM THE MANAGEMENT

The Board has also received assurance from the Managing Director and the Management Team on 28 March 2017 that the Group's risk management framework and internal control system are operating adequately and effectively, in all material respects during the financial year ended 31 December 2016, based on the risk management model adopted by the Group.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by paragraph 15.23 of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad, the External Auditors have reviewed this Statement on Risk Management & Internal Control. Their review was performed in accordance with Recommended Practice Guide (RPG) 5: Guidance for Auditors on the Review of Directors' Statement on Internal Control, issued by the Malaysian Institute of Accountants. Based on their review, the External Auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process the Board has adopted in their view of the adequacy and integrity of internal control of the Group. RPG 5 does not require the External Auditors to, and they did not, consider whether this Statement covers all risk and controls, or to form an opinion on the effectiveness of the risk management and internal control systems of the Group.

CONCLUSION

Based on the processes taken through the Board and its Committees during the financial year under review and up to the date of issuance of the financial statements and assurance provided by the Group's Managing Director and the Management Team, the Board is of the view that the risk management and internal control system as described in this Statement is operating adequately and effectively, in all material aspects, to mitigate the Group's major risks. There were no material losses that have arisen from any inadequacy or failure of the Group's system of internal control which required additional disclosure in the financial statements. There is continual focus on measures to protect shareholder value and business sustainability.

Focus Lumber Berhad (188710-V)

FINANCIAL STATEMENTS 2016

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activities of the Company are the manufacturing and sale of plywood, veneer, laminated veneer lumber, and investment holding.

The principal activities of the subsidiary are the generation and sale of electricity.

Other information relating to the subsidiary is disclosed in Note 14 to the financial statements.

RESULTS

	Group RM	Company RM
Profit net of tax	19,180,504	19,756,815
Profit attributable to:		
Owners of the Company	19,180,504	19,756,815

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

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

DIVIDENDS

The amounts of dividends paid by the Company since 31 December 2015 were as follows:

	RM
In respect of the financial year ended 31 December 2016:	
Interim tax exempt (single-tier) dividend of 12%, on 103,200,000 ordinary shares of RM0.50 each, declared on 15 December 2016 and paid on 16 January 2017	6,192,000

DIRECTORS

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

Datuk Aznam Bin Mansor	
Lin Hao Wen	
Ng Tian Meng	
Wong Yoke Nyen	
Lin Fong Ming	
Lin Hao Yu	(Appointed on 15 July 2016)
Yang Sen	(Resigned on 1 June 2016)
Lu Kuan-Cheng	(Resigned on 3 August 2016)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 9 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except as disclosed in Note 27 to the financial statements.

DIRECTORS' INTERESTS

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

	Number of ordinary shares of RM0.50 each			
	1.1.2016/Date of appointment	**Acquired**	**Sold**	**31.12.2016**
Direct interest:				
Ordinary shares of the Company				
Lin Fong Ming	9,029,360	-	-	9,029,360
Lin Hao Wen	9,029,360	-	-	9,029,360
Lin Hao Yu	6,775,460	50,000	-	6,825,460
Indirect interest:				
Ordinary shares of the Company				
Lin Fong Ming	6,775,460	-	(6,775,460) ^	-
Lin Hao Yu	889,400	1,402,200	-	2,291,600 *

^ Lin Fong Ming ceased to have deemed interests by virtue of shares held by his son pursuant to Section 59(11)(c) of the Companies Act 2016 upon the appointment of Lin Hao Yu as director of the Company on 15 July 2016.

* Lin Hao Yu deemed to have interests by virtue of shares held by his spouse, Christina Phang Ya Yun pursuant to Section 59(11)(c) of the Companies Act 2016.

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

OTHER STATUTORY INFORMATION

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

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

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

Directors' Report

OTHER STATUTORY INFORMATION (CONT'D)

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

i) it necessary to write off any bad debts or to make any allowance for doubtful debts in respect of the financial statements of the Group and of the Company; and

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

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

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

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

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

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

f) In the opinion of the directors:

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

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

INDEPENDENT AUDITORS AND AUDITORS' REMUNERATION

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

Auditors' remuneration are disclosed in Note 7 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 March 2017.

Lin Hao Wen

Lin Hao Yu

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act 2016

We, Lin Hao Wen and Lin Hao Yu, being two of the directors of Focus Lumber Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 55 to 100 give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of their financial performance and the cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The supplementary information set out in Note 34 to the financial statements have been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 March 2017.

Lin Hao Wen **Lin Hao Yu**

STATUTORY DECLARATION

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Lin Hao Wen, being the Director primarily responsible for the financial management of Focus Lumber Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 55 to 101 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Lin Hao Wen
at Kota Kinabalu in the State of Sabah
on 28 March 2017

Lin Hao Wen

Before me,

INDEPENDENT AUDITORS' REPORT

To the members of Focus Lumber Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Focus Lumber Berhad, which comprise statements of financial position as at 31 December 2016 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 55 to 100.

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

Basis for opinion

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

Independence and other ethical responsibilities

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

Key Audit Matters

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

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

Inventories

As at reporting date, the Group held an inventory balance of RM27.7 million as disclosed in Note 17 of the financial statements. Inventories consists of raw materials, consumables, work-in-progress and finished goods. Finished goods consist of similar products with various sizes and qualities that come from the same manufacturing process. The costs of conversion of each product from raw materials to finished goods are not separately identifiable. Management judgement is required in determining an appropriate costing basis for the costs allocation between the products on a rational and consistent basis. The Group uses weighted average costing in measuring its finished goods, which includes an element of estimation in the allocation of the costs of conversion. Given its magnitude and the estimation involved, this is considered a key audit matter in our audit.

As part of our audit procedure, we obtained an understanding of management's process in determining an appropriate costing basis, including the allocation of costs of conversion in line with management policies. We have tested the costing on samples of finished goods by examining the elements which made up the costs. We also assessed the reasonableness of the basis of allocation for the costs that are not separately identifiable between the products and ensure that the allocations are on a rational and consistent basis. We have also performed clerical accuracy tests on the allocation of overhead costs and performed inventory count at year end.

Details of the Group's accounting policy in relation to inventories are disclosed in Note 2.16 to the consolidated financial statements.

Independent Auditors' Report

To the members of Focus Lumber Berhad (Incorporated in Malaysia)

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Independent
Auditors' Report
To the members of Focus Lumber Berhad (Incorporated in Malaysia)

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

Auditor's responsibilities for the audit of the financial statements (Cont'd)

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

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

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

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

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

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

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 34 on page 101 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

Ernst & Young
AF: 0039
Chartered Accountants

Chong Ket Vui, Dusun
02944/01/2019 J
Chartered Accountant

Kota Kinabalu, Malaysia

STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

	Note	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Revenue	4	**201,475,697**	180,732,725	**201,428,783**	180,618,103
Cost of sales		**(148,217,944)**	(124,570,876)	**(150,114,470)**	(127,519,638)
Gross profit		**53,257,753**	56,161,849	**51,314,313**	53,098,465
Other items of income					
Interest income	5	**677,906**	1,777,962	**677,906**	1,777,962
Other income	6	**3,899,426**	7,588,277	**5,934,774**	10,148,107
Other items of expense					
Administrative expenses		**(5,387,443)**	(4,717,270)	**(5,350,714)**	(4,580,049)
Selling and distribution costs		**(24 ,482,411)**	(23,182,788)	**(24,482,411)**	(23,182,788)
Other expenses		**(2,707,978)**	(1,310,796)	**(2,707,978)**	(1,310,796)
Profit before tax	7	**25,257,253**	36,317,234	**25,385,890**	35,950,901
Income tax expense	10	**(6,076,749)**	(4,594,894)	**(5,629,075)**	(3,883,162)
Profit net of tax, representing total comprehensive income for the year		**19,180,504**	31,722,340	**19,756,815**	32,067,739
Profit attributable to:					
Owners of the Company		**19,180,504**	31,722,340	**19,756,815**	32,067,739
Earnings per ordinary share attributable to owners of the Company (sen per share):					
Basic	11	**18.59**	30.74		
Diluted	11	**18.59**	30.74		

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

	Note	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Assets					
Non-current assets					
Property, plant and equipment	12	**29,379,225**	33,820,401	**20,073,507**	22,622,410
Investment properties	13	**2,542,984**	2,625,016	**2,542,984**	2,625,016
Investment in a subsidiary	14	**-**	-	**5,000,000**	5,000,000
Other investments	15	**149,040**	149,040	**149,040**	149,040
Deferred tax assets	16	**886,047**	1,333,721	**-**	-
		32,957,296	37,928,178	**27,765,531**	30,396,466
Current assets					
Other investments	15	**53,176,698**	17,201,093	**50,152,046**	17,201,093
Inventories	17	**27,691,764**	25,912,102	**27,691,764**	25,912,102
Trade and other receivables	18	**28,317,276**	16,627,000	**28,277,250**	16,402,509
Other current assets	19	**1,716,559**	3,460,969	**1,716,142**	3,460,969
Income tax refundable		**-**	286,595	**-**	286,595
Cash and bank balances	21	**39,205,722**	57,819,111	**38,709,524**	57,74 5,571
		150,108,019	121,306,870	**146,546,726**	121,008,839
Total assets		**183,065,315**	159,235,048	**174,312,257**	151,405,305
Equity and liabilities					
Current liabilities					
Trade and other payables	23	**19,001,794**	9,443,435	**21,998,425**	13,939,692
Derivatives	20	**71,030**	-	**71,030**	-
Tax payable		**1,644,794**	-	**1,644,794**	-
		20,717,618	9,443,435	**23,714,249**	13,939,692
Net current assets		**129,390,401**	111,863,435	**122,832,477**	107,069,147
Non-current liability					
Deferred tax liabilities	16	**2,583,562**	3,015,982	**2,583,562**	3,015,982
Total liabilities		**23,301,180**	12,459,417	**26,297,811**	16,955,674
Net assets		**159,764,135**	146,775,631	**148,014,446**	134,449,631
Equity attributable to the owners of the Company					
Share capital	24	**51,600,000**	51,600,000	**51,600,000**	51,600,000
Share premium	24	**883,420**	883,420	**883,420**	883,420
Retained earnings	25	**107,280,715**	94,292,211	**95,531,026**	81,966,211
Total equity		**159,764,135**	146,775,631	**148,014,446**	134,449,631
Total equity and liabilities		**183,065,315**	159,235,048	**174,312,257**	151,405,305

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

	Note	Equity, total RM	← Non-distributable Share capital (Note 24) RM	→ Share premium (Note 24) RM	Distributable Retained earnings (Note 25) RM
Group					
Opening balance at 1 January 2016		**146,775,631**	**51,600,000**	**883,420**	**94,292,211**
Total comprehensive income		**19,180,504**	**-**	**-**	**19,180,504**
Transactions with owners					
Dividends on ordinary shares	31	**(6,192,000)**	**-**	**-**	**(6,192,000)**
Total transactions with owners		**(6,192,000)**	**-**	**-**	**(6,192,000)**
Closing balance at 31 December 2016		**159,764,135**	**51,600,000**	**883,420**	**107,280,715**
Opening balance at 1 January 2015		130,533,291	51,600,000	883,420	78,049,871
Total comprehensive income		31,722,340	-	-	31,722,340
Transactions with owners					
Dividends on ordinary shares	31	(15,480,000)	-	-	(15,480,000)
Total transactions with owners		(15,480,000)	-	-	(15,480,000)
Closing balance at 31 December 2015		146,775,631	51,600,000	883,420	94,292,211
Company					
Opening balance at 1 January 2016		**134,449,631**	**51,600,000**	**883,420**	**81,966,211**
Total comprehensive income		**19,756,815**	**-**	**-**	**19,756,815**
Transactions with owners					
Dividends on ordinary shares	31	**(6,192,000)**	**-**	**-**	**(6,192,000)**
Total transactions with owners		**(6,192,000)**	**-**	**-**	**(6,192,000)**
Closing balance at 31 December 2016		**148,014,446**	**51,600,000**	**883,420**	**95,531,026**
Opening balance at 1 January 2015		117,861,892	51,600,000	883,420	65,378,472
Total comprehensive income		32,067,739	-	-	32,067,739
Transactions with owners					
Dividends on ordinary shares	31	(15,480,000)	-	-	(15,480,000)
Total transactions with owners		(15,480,000)	-	-	(15,480,000)
Closing balance at 31 December 2015		134,449,631	51,600,000	883,420	81,966,211

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

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2016

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Operating activities				
Profit before tax	**25,257,253**	36,317,234	**25,385,890**	35,950,901
Adjustments for:				
Depreciation of investment properties	**82,032**	82,031	**82,032**	82,031
Depreciation of property, plant and equipment	**5,076,853**	4,772,556	**3,184,580**	2,890,585
Dividend income	**-**	-	**(2,000,000)**	(2,500,000)
Distribution income from other investments	**(1,367,782)**	(101,093)	**(1,338,036)**	(101,093)
Gain on disposal of property, plant and equipment	**(5,998)**	-	**(5,998)**	-
Interest income	**(677,906)**	(1,777,962)	**(677,906)**	(1,777,962)
Net fair value gain on other investments - unrealised	**(52,713)**	-	**(48,646)**	-
Gain on redemption of other investments	**(1,741,845)**	-	**(1,751,006)**	-
Property, plant and equipment written off	**19**	-	**19**	-
Net fair value loss/(gain) on derivatives - unrealised	**71,030**	(564 ,567)	**71,030**	(564 ,567)
Foreign exchange gain - unrealised	**(194 ,251)**	(380,154)	**(194 ,251)**	(380,154)
Total adjustments	**1,189,439**	2,030,811	**(2,678,182)**	(2,351,160)
Operating cash flows before changes in working capital	**26,446,692**	38,348,045	**22,707,708**	33,599,741
Changes in working capital				
Inventories	**(1,779,662)**	(2,411,392)	**(1,779,662)**	(2,411,392)
Receivables	**(11,955,293)**	(456,016)	**(12,139,758)**	(256,572)
Other current assets	**1,744,410**	(3,201,658)	**1,744,827**	(3,201,658)
Payables	**3,366,359**	2,911,673	**1,866,733**	5,141,000
Total changes in working capital	**(8,624,186)**	(3,157,393)	**(10,307,860)**	(728,622)
Cash flows from operations	**17,822,506**	35,190,652	**12,399,848**	32,871,119
Interest received	**376,337**	398,627	**376,337**	398,627
Income tax refunded	**1,642,201**	21,437	**1,642,201**	21,437
Income tax paid	**(5,772,307)**	(2,133,072)	**(5,772,307)**	(2,133,072)
Net cash flows generated from operating activities	**14,068,737**	33,477,644	**8,646,079**	31,158,111
Investing activities				
Dividend received	**-**	-	**2,000,000**	2,500,000
Distribution income from other investments	**1,367,782**	101,093	**1,338,036**	101,093
Purchase of other investments	**(123,979,665)**	(27,201,093)	**(118,441,883)**	(27,201,093)
Proceeds from redemption of other investments	**89,798,618**	10,000,000	**87,290,582**	10,000,000
Withdrawal/(placement) in short-term deposits	**7,981,452**	(8,549,613)	**7,981,452**	(8,549,613)
Interest received	**620,709**	1,027,352	**620,709**	1,027,352
Proceeds from disposal of other investments	**-**	1,000,000	**-**	1,000,000
Proceeds from disposal of property, plant and equipment	**6,000**	-	**6,000**	-
Purchase of property, plant and equipment	**(635,698)**	(4,835,630)	**(635,698)**	(4,573,332)
Net cash flows used in investing activities	**(24,840,802)**	(28,457,891)	**(19,840,802)**	(25,695,593)

Statements of Cash Flows

For the financial year ended 31 December 2016

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Financing activity				
Dividends paid on ordinary shares, representing **net cash flows used in financing activity**	**-**	(15,480,000)	**-**	(15,480,000)
Net decrease in cash and cash equivalents	**(10,772,065)**	(10,460,247)	**(11,194,723)**	(10,017,482)
Effect of exchange rate changes on cash and cash equivalents	**140,128**	307,410	**140,128**	307,410
Cash and cash equivalents at 1 January	**46,199,618**	56,352,455	**46,126,078**	55,836,150
Cash and cash equivalents at 31 December (Note 21)	**35,567,681**	46,199,618	**35,071,483**	46,126,078

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Mile 3, Jalan Masak, Kampung Ulu Patikang, Keningau, Sabah.

The principal activities of the Company are the manufacturing and sale of plywood, veneer, laminated veneer lumber, and investment holding.

The principal activities of the subsidiary are generation and sale of electricity.

There have been no significant changes in the nature of the principle activities during the financial year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2016, the Group and the Company adopted the following new and amended MFRSs and IC Interpretation mandatory for annual financial periods beginning on or after 1 January 2016.

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agricultural: Bearer plants	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016

The nature and impact of the new and amended MFRSs are described below:

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset forms part of the business) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments do not have any impact to the Group and the Company as the Group and the Company have not used a revenue-based method to depreciate their non-current assets.

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

2.2 Changes in accounting policies (Cont'd)

Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of MFRS 141. Instead, MFRS 116 will apply. After initial recognition, bearer plants will be measured under MFRS 116 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of MFRS 141 and are measured at fair value less costs to sell.

The amendments are applied retrospectively and do not have any impact on the Group's and the Company's financial statements.

Amendments to MFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to MFRS 11 require that a joint operator which acquires an interest in a joint operations which constitute a business to apply the relevant MFRS 3 Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to MFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments do not have any impact on the Group's consolidated financial statements as there has been no interest acquired in a joint operation during the year.

Amendments to MFRS 127: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associate in their separate financial statements. Entities already applying MFRS and electing to change to the equity method in its separate financial statements will have to apply this change retrospectively. For first-time adopters of MFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to MFRS. These amendments do not have any impact on the Group's and the Company's financial statements.

Amendments to MFRS 101: Disclosure initiatives

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income arising from equity accounted investments

The amendments do not have any impact on the Group's and the Company's financial statements.

Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments further clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. In addition, the amendments also provides that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

The amendments do not have any impact on the Group's financial statements as the Group does not apply the consolidation exception.

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

2.2 Changes in accounting policies (Cont'd)

MFRS 14 Regulatory Deferral Accounts

MFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulations, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of MFRS. Entities that adopt MFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in the account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group and the Company are existing MFRS preparers, this standard does not apply.

Annual Improvements to MFRSs 2012–2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below. These amendments do not have a significant impact on the Group's and the Company's financial statements.

(a) MFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment to MFRS 5 clarifies that changing from one disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in MFRS 5.

The amendment also clarifies that changing the disposal method does not change the date of classification. This amendment is to be applied prospectively.

(b) MFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required.

In addition, the amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in the condensed interim financial report. This amendment is applied retrospectively.

(c) MFRS 119 Employee Benefits

The amendment to MFRS 119 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied retrospectively.

(d) MFRS 134 Interim Financial Reporting

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

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

2.3 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
Amendments to MFRS 107: Disclosures Initiatives	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax for Unrealised Losses	1 January 2017
Annual Improvements to MFRSs 2014 - 2016 Cycle	
Amendment to MFRS 12: Disclosure of Interests in Other Entities	1 January 2017
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards	1 January 2018
Amendments to MFRS 128: Investments in Associates and Joint Ventures	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16: Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between Investors and its Associate or Joint Venture	Deferred

MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)

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

MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)

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

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

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

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

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

MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

The amendments to MFRS 2 address three main areas:

(a) The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;

(b) The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and

(c) Accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on the financial statements.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The directors anticipate that the application of MFRS 15 will have a material impact on the amounts reported and disclosures made in the Group's and the Company's financial statements. The Group and the Company are currently assessing the impact of MFRS 15 and plan to adopt the new standard on the required effective date.

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's and of the Company's financial assets, but no impact on the classification and measurement of the Group's and of the Company's financial liabilities.

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

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

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

MFRS 16 Leases (Cont'd)

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group and the Company plan to assess the potential effect of MFRS 16 on their financial statements in year 2017.

Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify that:

- gains and losses resulting from transactions involving assets that do not constitute a business, between investor and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture; and

- gains and losses resulting from transactions involving the sale or contribution of assets to an associate of a joint venture that constitute a business is recognised in full.

The amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined by Malaysian Accounting Standards Board. Earlier application is permitted. These amendments are not expected to have any impact on the Group or the Company.

2.4 Basis of consolidation

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

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

a) Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);

b) Exposure, or rights, to variable returns from its investment with the investee; and

c) The ability to use its power over the investee to affect its returns.

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

2.4 Basis of consolidation (Cont'd)

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

a) The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

b) Potential voting rights held by the Company, other vote holders or other parties;

c) Rights arising from other contractual arrangements; and

d) Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

2.5 Foreign currency

a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiary and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

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

2.6 Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the assets or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group would use, if any, valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as derivative financial instruments.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities, such as contingent consideration. Selection criteria of external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

2.7 Current versus non-current classification

The Group and the Company present assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

(i) Expected to be realised or intended to be sold or consumed in normal operating cycle;
(ii) Held primarily for the purpose of trading;
(iii) Expected to be realised within twelve months after the reporting period; or
(iv) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

(i) It is expected to be settled in normal operating cycle;
(ii) It is held primarily for the purpose of trading;
(iii) It is due to be settled within twelve months after the reporting period; or
(iv) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group and the Company classify all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.8 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The costs include the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.19. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

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

- Leasehold land: Remaining lease periods
- Factory and office buildings: 20 to 40 years
- Motor vehicles: 4 years
- Heavy equipment: 5 years
- Plant and machinery: 5 to 20 years
- Furniture, fittings, office equipment and renovation: 5 years

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

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

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

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

2.9 Investment properties

Investment properties are properties that are either owned by the Group or leased under a finance lease that are held to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Properties held under operating leases are classified as investment properties when the definition of investment property is met.

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. The depreciation policy for investment properties is in accordance with that for depreciable property, plant and equipment as described in Note 2.8.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment set out in Note 2.8 up to the date of change in use.

2.10 Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

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

2.11 Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculation are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in profit or loss.

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

2.12 Subsidiary

A subsidiary is an entity over which the Group has all the following:

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

In the Company's separate financial statements, investment in a subsidiary is accounted for at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2.13 Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

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

2.13 Financial assets (Cont'd)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading or are designated as such upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the group that are not designated as hedging instruments in hedge relationship as defined by MFRS 139. Derivatives, including separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include interest and dividend income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

b) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

c) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

d) Available-for-sale financial assets

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

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

2.13 Financial assets (Cont'd)

Subsequent measurement (Cont'd)

d) Available-for-sale financial assets (Cont'd)

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commit to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2.14 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

a) Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

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

2.14 Impairment of financial assets (Cont'd)

b) Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

c) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired. These also include bank overdrafts that form an integral part of the Group's cash management.

2.16 Inventories

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

- Raw materials: purchase costs on weighted average basis.

- Finished goods and work in progress: costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity. These costs are determined using the weighted average basis.

- Consumables: purchase costs on weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost net realisable value.

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

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

2.17 Provisions

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

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

2.18 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

a) Financial liabilities at fair value through profit or loss

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

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

b) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables and other payables.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

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

2.19 Borrowing costs

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

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

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

2.20 Employee benefits

Defined contribution plans

The Malaysian companies in the Group make contributions to the Employees' Provident Fund ("EPF") in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

2.21 Leases

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

a) As lessee

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

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

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

b) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.22(c).

Contingent rents are recognised as revenue in the period in which they are earned.

2.22 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

a) Sales of goods

Revenue relating to sales of plywood, veneer, and laminated veneer lumber is recognised at net of sales discounts upon the transfer of significant risks and rewards of ownership of goods to the customer.

b) Sale of electricity

Revenue relating to sale of electricity is recognised upon consumption by the consumers.

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

2.22 Revenue (Cont'd)

c) Rental income

Rental income is accounted for on a straight-line basis over the lease term.

d) Dividend income

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

e) Interest income

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

2.23 Income taxes

a) Current income tax

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

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

b) Deferred tax

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investment in subsidiary, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

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

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

2.23 Income taxes (Cont'd)

b) Deferred tax (Cont'd)

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

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

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

2.24 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 31, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.25 Share capital and share issuance expenses

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

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.26 Contingencies

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

b) a present obligation that arises from past events but is not recognised because:

    i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

    ii) The amount of the obligation cannot be measured with sufficient reliability.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Useful lives of plant and machinery

The cost of plant and machinery for the manufacture of plywood, veneer, laminated veneer lumber, and power utility are depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant and machinery to be within 5 to 15 years for timber industry, and 15 to 20 years for power utility industry. These are the common life expectancies applied in the timber and power utility industry. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's plant and machinery at the reporting date is disclosed in Note 12. A 5% difference in the expected useful lives of these assets from management's estimates would result in approximately 1.3% (2015: 0.8%) variance in the Group's profit for the year.

b) Deferred tax assets

Deferred tax assets are recognised for unrealised net fair value losses on derivatives, unutilised tax losses, unutilised investment tax allowances and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which these deferred tax benefits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details are disclosed in Note 16.

c) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax provisions already recorded. The Group and the Company establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority.

d) Costs of conversion of inventories

Finished goods consist of plywood, veneer and laminated veneer lumber with various sizes and qualities that come from the same manufacturing process. The costs of conversion of each product from raw materials to finished goods are not separately identifiable. Significant judgment is required in determining an appropriate costing basis for the costs allocation between the products on a rational and consistent basis. The carrying amount of inventories of the Group are disclosed in Note 17.

4. REVENUE

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Sale of veneer	**16,432,981**	15,173,563	**16,432,981**	15,173,563
Sale of plywood	**182,700,578**	161,708,407	**182,700,578**	161,708,407
Sale of laminated veneer lumber	**2,295,224**	3,736,133	**2,295,224**	3,736,133
Sale of electricity	**46,914**	114,622	**-**	-
	201,475,697	180,732,725	**201,428,783**	180,618,103

5. INTEREST INCOME

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Interest income from:				
Fixed deposits	**301,569**	1,363,977	**301,569**	1,363,977
Structured investment	**-**	15,358	**-**	15,358
Foreign currency account	**39,185**	40,366	**39,185**	40,366
Current account	**337,152**	358,261	**337,152**	358,261
	677,906	1,777,962	**677,906**	1,777,962

6. OTHER INCOME

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Bad debts recovered	**15,000**	-	**15,000**	-
Dividend income	**-**	-	**2,000,000**	2,500,000
Distribution income from other investments	**1,367,782**	101,093	**1,338,036**	101,093
Gain on disposal of property, plant and equipment	**5,998**	-	**5,998**	-
Gain on redemption of other investments *	**1,741,845**	-	**1,751,006**	-
Net gain on foreign exchange				
- realised	**-**	6,662,171	**-**	6,662,001
- unrealised	**194,251**	380,154	**194,251**	380,154
Fair value gain on other investments	**52,713**	-	**48,646**	-
Rental income from				
- land	**7,925**	-	**67,925**	60,000
- investment properties	**228,000**	228,000	**228,000**	228,000
- car park lot	**8,640**	5,760	**8,640**	5,760
Sundry income	**277,272**	211,099	**277,272**	211,099
	3,899,426	7,588,277	**5,934,774**	10,148,107

* Included in the amount is the realised foreign exchange gain of RM1,740,082 upon redemption of foreign money market fund.

Notes to the Financial Statements

For the financial year ended 31 December 2016

7. PROFIT BEFORE TAX

The following amounts have been included in arriving at profit before tax:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Employee benefits expense (Note 8)	**21,887,422**	19,141,415	**20,976,113**	18,163,221
Auditors' remuneration:				
- statutory audit	**90,000**	85,000	**80,000**	75,000
- other services	**27,000**	27,000	**21,000**	21,000
Depreciation of investment properties (Note 13)	**82,032**	82,031	**82,032**	82,031
Depreciation of property, plant and equipment (Note 12)	**5,076,853**	4,772,556	**3,184,580**	2,890,585
Direct operating expenses arising from investment properties				
- rental generating properties	**114,534**	105,179	**114,534**	105,179
Non-executive directors' remuneration (Note 9)	**295,800**	258,800	**295,800**	258,800
Net fair value loss/(gain) on derivatives	**1,257,745**	1,310,796	**1,257,745**	1,310,796
Net loss on foreign exchange				
- realised	**1,450,233**	-	**1,450,233**	-
Property, plant and equipment written off (Note 12)	**19**	-	**19**	-
Rental of car park lot	**8,641**	5,760	**8,641**	5,760
Rental of land	**55,750**	55,167	**55,750**	55,167
Rental of office premises	**174,000**	168,000	**174,000**	168,000

8. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Salaries, wages, bonuses, incentives and allowances	**21,182,640**	18,581,073	**20,293,780**	17,620,925
Defined contribution plan	**614,968**	491,219	**594,296**	474,552
Social security contributions	**89,814**	69,123	**88,037**	67,744
	21,887,422	19,141,415	**20,976,113**	18,163,221

Included in employee benefits expense of the Group are executive directors' remuneration amounting to RM1,422,000 (2015: RM759,000) as further disclosed in Note 9.

9. DIRECTORS' REMUNERATION

	Group and Company	
	2016	**2015**
	RM	**RM**
Executive directors' remuneration:		
Salaries and other emoluments	**1,422,000**	759,000
Total executive directors' remuneration	**1,422,000**	759,000
Non-executive directors' remuneration		
Fees	**280,800**	244,800
Other emoluments	**15,000**	14,000
Total non-executive directors' remuneration	**295,800**	258,800
Total directors' remuneration	**1,717,800**	1,017,800

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

	Number of directors	
	2016	**2015**
Executive directors:		
RM1 - RM50,000	**-**	1
RM50,001 - RM100,000	**-**	-
RM100,001 - RM150,000	**1**	1
RM150,001 - RM200,000	**1**	-
RM200,001 - RM250,000	**1**	1
RM250,001 - RM300,000	**-**	-
RM300,001 - RM350,000	**-**	-
RM350,001 - RM400,000	**1**	1
RM400,001 - RM450,000	**-**	-
RM450,001 - RM500,000	**-**	-
RM500,001 – RM550,000	**1**	-
Non-executive directors:		
RM50,000 - RM100,000	**3**	3

Notes to the Financial Statements
For the financial year ended 31 December 2016

10. INCOME TAX EXPENSE

Major components of income tax expense

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

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Statements of comprehensive income:				
Current income tax:				
- Malaysian income tax	**5,797,853**	3,460,867	**5,797,853**	3,460,867
- Under/(over)provision in respect of previous years	**263,642**	(1)	**263,642**	(1)
	6,061,495	3,460,866	**6,061,495**	3,460,866
Deferred income tax (Note 16):				
- Origination and reversal of temporary differences	**120,693**	1,497,126	**(326,088)**	778,293
- Overprovision in respect of previous years	**(105,439)**	(345,502)	**(106,332)**	(338,401)
- Relating to change in tax rate	**-**	(17,596)	**-**	(17,596)
	15,254	1,134,028	**(432,420)**	422,296
Income tax expense recognised in profit or loss	**6,076,749**	4,594,894	**5,629,075**	3,883,162

Reconciliation between tax expense and accounting profit

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

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax	**25,257,253**	36,317,234	**25,385,890**	35,950,901
Tax at Malaysian statutory tax rate of 24% (2015: 25%)	**6,061,741**	9,079,308	**6,092,614**	8,987,725
Adjustments:				
Non-deductible expenses	**195,335**	139,828	**189,764**	137,578
Income not subject to taxation	**(338,530)**	(25,273)	**(810,613)**	(650,273)
Relating to change in tax rate	**-**	(17,596)	**-**	(17,596)
Reinvestment allowances	**-**	(410,777)	**-**	(410,777)
Expenses eligible for double deduction tax incentives	**-**	(3,825,093)	**-**	(3,825,093)
Under/(Over)provision of current income tax in respect of previous years	**263,642**	(1)	**263,642**	(1)
Overprovision of deferred income tax in respect of previous years	**(105,439)**	(345,502)	**(106,332)**	(338,401)
Income tax expense recognised in profit or loss	**6,076,749**	4,594,894	**5,629,075**	3,883,162

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

11. EARNINGS PER SHARE

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

The Company has no dilutive potential ordinary shares.

The followings reflect the profit and share data used in the computation of basic earnings per share:

	Group	
	2016 RM	**2015 RM**
Profit net of tax attributable to owners of the Company used in the computation of basic earnings per share	**19,180,504**	31,722,340
	Number of Shares	**Number of shares**
Weighted average number of ordinary shares for basic earnings per share computation	**103,200,000**	103,200,000
Basic earnings per ordinary share (sen)	**18.59**	30.74

12. PROPERTY, PLANT AND EQUIPMENT

Group	**Long term leasehold land RM**	**Factory and office buildings RM**	**Motor vehicles, heavy equipment, plant and machinery RM**	**Furniture, fittings, office equipment, and renovation RM**	**Total RM**
Cost:					
At 1 January 2015	700,080	10,102,536	121,186,503	1,388,904	133,378,023
Additions	-	320,800	4,465,761	49,069	4,835,630
Reclassifications	-	(4,180)	4,180	-	-
At 31 December 2015 and 1 January 2016	700,080	10,419,156	125,656,444	1,437,973	138,213,653
Additions	-	167,783	411,334	56,581	635,698
Disposals	-	-	(74,876)	(7,300)	(82,176)
Written off	-	-	-	(185)	(185)
At 31 December 2016	700,080	10,586,939	125,992,902	1,487,069	138,766,990
Accumulated depreciation:					
At 1 January 2015	66,225	8,753,936	89,623,846	1,176,689	99,620,696
Depreciation charge for the year (Note 7)	9,461	177,020	4,495,292	90,783	4,772,556
Reclassifications	-	(690)	690	-	-
At 31 December 2015 and 1 January 2016	75,686	8,930,266	94,119,828	1,267,472	104,393,252
Depreciation charge for the year (Note 7)	9,461	170,840	4,807,014	89,538	5,076,853
Disposals	-	-	(74,874)	(7,300)	(82,174)
Written off	-	-	-	(166)	(166)
At 31 December 2016	85,147	9,101,106	98,851,968	1,349,544	109,387,765
Net carrying amount:					
At 31 December 2015	624,394	1,488,890	31,536,616	170,501	33,820,401
At 31 December 2016	614,933	1,485,833	27,140,934	137,525	29,379,225

Notes to the Financial Statements

For the financial year ended 31 December 2016

12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Long term leasehold land RM	Factory and office buildings RM	Motor vehicles, heavy equipment, plant and machinery RM	Furniture, fittings, office equipment, and renovation RM	Total RM
Cost:					
At 1 January 2015	700,080	10,102,536	92,594,988	1,346,203	104,743,807
Additions	-	320,800	4,209,021	43,511	4,573,332
Reclassifications	-	(4,180)	4,180	-	-
At 31 December 2015 and 1 January 2016	700,080	10,419,156	96,808,189	1,389,714	109,317,139
Additions	-	167,783	411,334	56,581	635,698
Disposals	-	-	(74,876)	(7,300)	(82,176)
Written off	-	-	-	(185)	(185)
At 31 December 2016	700,080	10,586,939	97,144,647	1,438,810	109,870,476
Accumulated depreciation:					
At 1 January 2015	66,225	8,753,936	73,836,379	1,147,604	83,804,144
Depreciation charge for the year (Note 7)	9,461	177,020	2,617,934	86,170	2,890,585
Reclassifications	-	(690)	690	-	-
At 31 December 2015 and 1 January 2016	75,686	8,930,266	76,455,003	1,233,774	86,694,729
Depreciation charge for the year (Note 7)	9,461	170,840	2,919,424	84,855	3,184,580
Disposals	-	-	(74,874)	(7,300)	(82,174)
Written off	-	-	-	(166)	(166)
At 31 December 2016	85,147	9,101,106	79,299,553	1,311,163	89,796,969
Net carrying amount:					
At 31 December 2015	624,394	1,488,890	20,353,186	155,940	22,622,410
At 31 December 2016	614,933	1,485,833	17,845,094	127,647	20,073,507

13. INVESTMENT PROPERTIES

	Group and Company 2016 RM	2015 RM
Cost:		
At 1 January and 31 December	**3,651,348**	3,651,348
Accumulated depreciation:		
At 1 January	**1,026,332**	944,301
Depreciation charge for the year (Note 7)	**82,032**	82,031
At 31 December	**1,108,364**	1,026,332
Net carrying amount:		
At 31 December	**2,542,984**	2,625,016

The strata title to the investment properties is being processed by the relevant authority.

The estimated fair value of the investment properties is approximately RM3,750,000 (2015: RM4,476,158) as shown in Note 28.

14. INVESTMENT IN A SUBSIDIARY

	Company 2016 RM	Company 2015 RM
Cost		
Unquoted shares	**5,000,000**	5,000,000

Details of the subsidiary, which is a private limited company incorporated and domiciled in Malaysia, are as follows:

Name of subsidiary	Principal activities	Proportion (%) of ownership interest 2016	Proportion (%) of ownership interest 2015
Untung Ria Sdn. Bhd. *	Generation and sale of electricity.	**100%**	100%

* Audited by Ernst & Young, Malaysia.

15. OTHER INVESTMENTS

	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Non-current				
At cost:				
Investment in Golf and Country Club membership	**149,040**	149,040	**149,040**	149,040
Current				
At fair value:				
Financial assets at fair value through profit or loss				
Money market fund	**53,176,698**	17,201,093	**50,152,046**	17,201,093

Money market fund

The money market fund which aims to provide income for investors through investments in fixed deposits with financial institutions and/or money market instruments.

Notes to the Financial Statements

For the financial year ended 31 December 2016

16. DEFERRED TAX

Deferred income tax as at reporting date relates to the following:

Group	As at 1 January 2015 RM	Recognised in profit or loss RM	As at 31 December 2015 RM	Recognised in profit or loss RM	As at 31 December 2016 RM
Deferred tax liabilities:					
Property, plant and equipment	(5,745,946)	389,428	(5,356,518)	683,674	(4,672,844)
Other items	(121,809)	(53,904)	(175,713)	129,093	(46,620)
	(5,867,755)	335,524	(5,532,231)	812,767	(4,719,464)
Deferred tax assets:					
Derivatives	141,142	(141,142)	-	17,047	17,047
Unutilised investment tax allowances	4,931,673	(1,081,703)	3,849,970	(845,068)	3,004,902
Unutilised tax losses	246,707	(246,707)	-	-	-
	5,319,522	(1,469,552)	3,849,970	(828,021)	3,021,949
	(548,233)	(1,134,028)	(1,682,261)	(15,254)	(1,697,515)

Company	As at 1 January 2015 RM	Recognised in profit or loss RM	As at 31 December 2015 RM	Recognised in profit or loss RM	As at 31 December 2016 RM
Deferred tax liabilities:					
Property, plant and equipment	(2,859,726)	19,457	(2,840,269)	286,280	(2,553,989)
Other items	(121,809)	(53,904)	(175,713)	129,093	(46,620)
	(2,981,535)	(34,447)	(3,015,982)	415,373	(2,600,609)
Deferred tax assets:					
Derivatives	141,142	(141,142)	-	17,047	17,047
Unutilised tax losses	246,707	(246,707)	-	-	-
	387,849	(387,849)	-	17,047	17,047
	(2,593,686)	(422,296)	(3,015,982)	432,420	(2,583,562)

Group	2016 RM	2015 RM
Presented after appropriate offsetting as follows:		
Deferred tax assets	**886,047**	1,333,721
Deferred tax liabilities	**(2,583,562)**	(3,015,982)
	(1,697,515)	(1,682,261)
Company		
Presented after appropriate offsetting as follows:		
Deferred tax assets	**-**	-
Deferred tax liabilities	**(2,583,562)**	(3,015,982)
	(2,583,562)	(3,015,982)

17. INVENTORIES

	Group and Company	
	2016 RM	2015 RM
Cost		
Raw materials	**5,157,413**	4,833,372
Work-in-progress	**5,455,660**	4,068,355
Finished goods	**13,959,503**	13,695,057
Consumables	**3,119,188**	3,315,318
	27,691,764	25,912,102

During the year, the amount of inventories recognised as an expense in cost of sales of the Group and the Company was RM148,217,944 and RM150,114,470 (2015: RM124,570,876 and RM127,519,638) respectively.

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Current				
Trade receivables				
Third parties	**21,635,697**	13,009,164	**21,631,010**	12,987,573
Other receivables				
Workers recruitment and staff advances	**491,020**	754,113	**491,020**	754,113
Deposits	**1,134,863**	550,658	**1,134,863**	347,758
Sundry receivables	**70,280**	371,898	**34,941**	371,898
GST recoverable	**4,985,416**	1,941,167	**4,985,416**	1,941,167
	6,681,579	3,617,836	**6,646,240**	3,414,936
Total trade and other receivables	**28,317,276**	16,627,000	**28,277,250**	16,402,509
Cash and bank balances (Note 21)	**39,205,722**	57,819,111	**38,709,524**	57,745,571
Total loans and receivables	**67,522,998**	74,446,111	**66,986,774**	74,148,080

Trade receivables

Trade receivables are non-interest bearing and are generally on 30-day (2015: 30-day) terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Neither past due nor impaired	**21,635,697**	12,998,972	**21,631,010**	12,987,573
1 to 30 days past due not impaired	**-**	10,192	**-**	-
	-	10,192	**-**	-
Impaired	**-**	-	**-**	-
	21,635,697	13,009,164	**21,631,010**	12,987,573

18. TRADE AND OTHER RECEIVABLES (CONT'D)

Trade receivables (Cont'd)

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

In previous financial year, the Group has trade receivables amounting to RM10,192 that were past due at the reporting date but not impaired. These receivables were unsecured in nature.

19. OTHER CURRENT ASSETS

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Deposits for log purchase	**1,400,780**	3,238,168	**1,400,780**	3,238,168
Prepaid operating expenses	**315,779**	222,801	**315,362**	222,801
	1,716,559	3,460,969	**1,716,142**	3,460,969

20. DERIVATIVES

	Group and Company		
	Contract/ Notional Amount RM	Assets RM	Liabilities RM
2016			
Non-hedging derivatives:			
Current:			
Forward currency contracts	**24,215,969**	**-**	**71,030**
2015			
Non-hedging derivatives:			
Current:			
Forward currency contracts	-	-	-

The Group uses forward currency contracts to manage some of the transaction exposure. These contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with currency transaction exposure and fair value changes exposure. Such derivatives do not qualify for hedge accounting.

During the financial year, the Group recognised a net loss of RM1,257,745 (2015: net loss of RM1,310,796) arising from fair value changes of derivative instruments. The fair value changes are attributable to changes in foreign exchange spot and forward rate. The method and assumptions applied in determining the fair values of derivatives are disclosed in Note 28.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Cash on hand and at bank	**34,438,548**	35,053,625	**33,942,350**	34,980,085
Short-term deposits with licensed banks	**4,767,174**	22,765,486	**4,767,174**	22,765,486
Cash and bank balances	**39,205,722**	57,819,111	**38,709,524**	57,745,571
Less: Short-term deposits pledged to licensed banks for bank facilities (Note 22)	**(3,252,205)**	(3,169,378)	**(3,252,205)**	(3,169,378)
Deposits with maturity of more than 3 months	**(385,836)**	(8,450,115)	**(385,836)**	(8,450,115)
Cash and cash equivalents	**35,567,681**	46,199,618	**35,071,483**	46,126,078

Cash at banks earn interest at floating rates based on daily bank deposit rates. The weighted average effective interest rate of short-term deposits with licensed banks as at 31 December 2016 for the Group was 3.58% (2015: 4.0%) per annum.

Deposits with licensed banks amounting to RM3,252,205 (2015: RM3,169,378) have been pledged as security for the Company's bank overdraft facility (Note 22).

Deposits are made for varying periods of between 3 months and 12 months (2015: 1 month and 12 months).

22. BORROWINGS

Bank overdraft facility of RM3,500,000 was obtained but not utilised as at the end of the financial year.

The overdraft facility is secured by the following:

i) certain fixed deposits (Note 21) of the Company;

ii) joint and several guarantees by certain directors of the Company; and

iii) negative pledge on all assets of the Company.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Current				
Trade payables				
Third parties	**9,863,612**	6,898,160	**9,835,542**	6,878,779
Amount due to a subsidiary	**-**	-	**3,076,032**	4,570,885
	9,863,612	6,898,160	**12,911,574**	11,449,664

23. TRADE AND OTHER PAYABLES (CONT'D)

	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Other payables				
Accruals	**1,795,319**	1,753,154	**1,775,094**	1,719,897
Deposits received	**38,000**	38,000	**38,000**	38,000
Deposits received from customers	**276,346**	-	**276,346**	-
Dividend payable	**6,192,000**	-	**6,192,000**	-
Sundry payables	**836,517**	754,121	**805,411**	732,131
	9,138,182	2,545,275	**9,086,851**	2,490,028
Total trade and other payables	**19,001,794**	9,443,435	**21,998,425**	13,939,692
Less: Deposits received from customers	**(276,346)**	-	**(276,346)**	-
Total financial liabilities carried at amortised cost	**18,725,448**	9,443,435	**21,722,079**	13,939,692

a) Trade payables

These amounts are non-interest bearing. Trade payables are normally settled on 30 to 60 day (2015: 30 to 60 day) terms.

b) Sundry payables

These amounts are non-interest bearing. Sundry payables are generally granted 30 to 60 day (2015: 30 to 60 day) terms.

24. SHARE CAPITAL AND SHARE PREMIUM

	Group and Company			
	Number of ordinary shares of RM0.50 each 2016	Number of ordinary shares of RM0.50 each 2015	Amount 2016 RM	Amount 2015 RM
Issued and fully paid				
At 1 January and 31 December	**103,200,000**	103,200,000	**51,600,000**	51,600,000
Authorised share capital				
At 1 January and 31 December	**300,000,000**	300,000,000	**150,000,000**	150,000,000

	Group and Company 2016 RM	Group and Company 2015 RM
Share premium		
At 1 January and 31 December	**883,420**	883,420

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and ranked equally with regard to the Company's residual assets.

25. RETAINED EARNINGS

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

26. CAPITAL COMMITMENTS

	Group and Company	
	2016 RM	2015 RM
Capital expenditure commitments		
Approved and contracted for:		
- Property, plant and equipment	**894,957**	-
Approved but not contracted for:		
- Property, plant and equipment	**1,166,988**	-

27. RELATED PARTY TRANSACTIONS

a) Sale and purchase of goods and services

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

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Sale of plywood to a related party *	**(355,025)**	-	**(355,025)**	-
Purchase of electricity from subsidiary	**-**	-	**6,074,852**	6,154,478
Rental income received from subsidiary	**-**	-	**(60,000)**	(60,000)
Rental of office paid to a director	**174,000**	168,000	**174,000**	168,000

* Related party is a company in which a family member of a director, Lin Hao Yu has interest.

b) Compensation of key management personnel

The remuneration of directors and other members of key management during the financial year was as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Short-term employee benefits	**2,148,600**	1,387,600	**2,148,600**	1,387,600
Defined contribution plan	**52,008**	-	**52,008**	-
	2,200,608	1,387,600	**2,200,608**	1,387,600

Included in the total remuneration of key management personnel are:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Directors' remuneration	**1,422,000**	759,000	**1,422,000**	759,000

Notes to the
Financial Statements
For the financial year ended 31 December 2016

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value assets and liabilities

The Group and the Company categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

b) Assets and liabilities measured at fair value

The following table provides the fair value measurement hierarchy of the Group and the Company's assets and liabilities:

	(Level 1) RM	(Level 2) RM	(Level 3) RM	Total RM
Group – At 31 December 2016				
Financial assets				
Fair value through profit or loss				
Other investments	53,176,698	-	-	53,176,698
Financial liabilities				
Fair value through profit or loss				
Derivatives	-	(71,030)	-	(71,030)
Group – At 31 December 2015				
Financial assets				
Fair value through profit or loss				
Other investments	17,201,093	-	-	17,201,093

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

b) Assets and liabilities measured at fair value (Cont'd)

	(Level 1) RM	(Level 2) RM	(Level 3) RM	Total RM
Company – At 31 December 2016				
Financial assets				
Fair value through profit or loss				
Other investments	50,152,046	-	-	50,152,046
Financial liabilities				
Fair value through profit or loss				
Derivatives	-	(71,030)	-	(71,030)
Company – At 31 December 2015				
Financial assets				
Fair value through profit or loss				
Other investments	17,201,093	-	-	17,201,093

Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in fair value measurement for liabilities that are categorised within Level 2 of the fair value hierarchy:

Derivatives

Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and forward rate curves.

There has been no transfer from Level 1 and Level 2 to Level 3 for the financial years ended 31 December 2016 and 2015.

c) Assets and liabilities not carried at fair value but for which fair value is disclosed

The following table shows an analysis of the Group and Company's assets and liabilities not measured at fair value but for which fair value is disclosed:

	(Level 1) RM	(Level 2) RM	(Level 3) RM	Total RM	Carrying Amount RM
Group and Company					
At 31 December 2016					
Investment properties	-	-	3,750,000	3,750,000	2,542,984
Group and Company					
At 31 December 2015					
Investment properties	-	-	4,476,158	4,476,158	2,625,016

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

c) Assets and liabilities not carried at fair value but for which fair value is disclosed (Cont'd)

Determination of fair value

Investment properties

In current financial year, valuation is performed by an accredited independent valuer based on the comparison approach. This approach entails comparing the investment property with similar property in the locality which was recently sold or are being marketed with adjustments made for location, accessibility, size, shape, age and condition of the building, topography, tenure, title restriction, if any, land use zoning and other relevant characteristics to arrive at the market value of the investment properties.

In previous financial year, the fair value of the investment properties was estimated by the Directors based on recent prices of similar properties. No valuation by independent professional valuer was carried out.

d) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Trade and other receivables (current)	18
Trade and other payables (current)	23

The carrying amounts of trade and other receivables and payables are reasonable approximation of fair values due to their short-term nature.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process.

It is, and has been throughout the current and previous financial years, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken. The Group does not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty defaults on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities, and cash and bank balances), the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis. The credit risk concentration profiles of the trade receivables at the reporting date are as follows:

	Group			
	2016		2015	
	RM	% of total	RM	% of total
By country:				
USA	**17,789,100**	**82**	11,011,634	85
India	**-**	**-**	241,070	2
Korea	**2,286,575**	**11**	870,511	7
Taiwan	**1,214,545**	**6**	333,157	2
Canada	**-**	**-**	112,350	1
Japan	**215,658**	**1**	418,851	3
Hong Kong	**72,344**	**<1**	-	-
Malaysia	**57,475**	**<1**	21,591	<1
	21,635,697	**100**	13,009,164	100

	Company			
	2016		2015	
	RM	% of total	RM	% of total
By country:				
USA	**17,789,100**	**82**	11,011,634	85
India	**-**	**-**	241,070	2
Korea	**2,286,575**	**11**	870,511	7
Taiwan	**1,214,545**	**6**	333,157	2
Canada	**-**	**-**	112,350	1
Japan	**215,658**	**1**	418,851	3
Hong Kong	**72,344**	**<1**	-	-
Malaysia	**52,788**	**<1**	-	-
	21,631,010	**100**	12,987,573	100

Notes to the Financial Statements

For the financial year ended 31 December 2016

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

a) Credit risk (Cont'd)

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are with creditworthy debtors with good payments record with the Group. Cash and short-term deposits that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. All the financial liabilities of the Group and the Company are due within one year.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The investments in financial assets are mainly short term in nature and have been mostly placed in fixed deposits and funds.

d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposures arising from sales, and purchase of plant and machinery that are denominated a currency other than in RM. The foreign currency in which these transactions are denominated is mainly US Dollars ("USD").

Approximately 99% (2015: 99%) of the Group's sales are denominated in foreign currencies whilst almost 99% (2015: 99%) of the Group's trade receivables are denominated in foreign currencies.

The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, such foreign currency balances (mainly in USD) amount to RM15,303,506 (2015: RM23,194,360) for the Group.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD exchange rates against the functional currency of the Group entities, with all other variables held constant.

	Change in currency rate	Increase in profit net of tax			
		Group		Company	
		2016 RM	2015 RM	2016 RM	2015 RM
USD/RM	+5%	**376,802**	1,356,823	**376,802**	1,356,823

A 5% decrease in the currency rate shown above would have resulted in an equivalent, but opposite effect to profit net of tax, with all other variables held constant.

30. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

The Group and its subsidiary are not subject to any externally imposed capital requirements.

31. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

i. The manufacturing segment is business of manufacturing and sale of plywood, veneer and laminated veneer lumber and;

ii. The electricity segment is the business of generation and sale of electricity.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

31. SEGMENT INFORMATION (CONT'D)

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by business segment:

	Manufacturing		Electricity		Adjustments and eliminations		Note	Per consolidated financial statements	
	2016 RM	2015 RM	2016 RM	2015 RM	2016 RM	2015 RM		2016 RM	2015 RM
Revenue:									
External customers	**201,428,783**	180,618,103	**46,914**	114,622	**-**	-		**201,475,697**	180,732,725
Inter-segment	**-**	-	**6,074,852**	6,154,478	**(6,074,852)**	(6,154,478)	A	**-**	-
Total revenue	**201,428,783**	180,618,103	**6,121,766**	6,269,100	**(6,074,852)**	(6,154,478)		**201,475,697**	180,732,725
Results:									
Interest income	**677,906**	1,762,604	**-**	-	**-**	15,358	B	**677,906**	1,777,962
Depreciation and amortisation	**3,184,580**	2,890,585	**1,892,273**	1,881,971	**82,032**	82,031	C	**5,158,885**	4,854,587
Segment profit	**19,915,199**	31,929,683	**1,846,711**	2,866,333	**3,495,343**	1,521,218	D	**25,257,253**	36,317,234
Assets:									
Additions to non-current assets	**635,698**	4,573,332	**-**	262,298	**-**	-	E	**635,698**	4,835,630
Segment assets	**116,448,187**	126,410,156	**9,862,359**	11,516,022	**56,754,769**	21,308,870	F	**183,065,315**	159,235,048
Segment liabilities	**20,638,717**	9,368,807	**79,401**	74,628	**2,583,062**	3,015,982	G	**23,301,180**	12,459,417

31. SEGMENT INFORMATION (CONT'D)

Note **Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements**

A Inter-segment revenues are eliminated on consolidation.

B Addition to interest income consist of:

	2016 RM	2015 RM
Interest from structured investment	**-**	15,358

C Addition to depreciation and amortisation consist of:

	2016 RM	2015 RM
Depreciation of investment properties	**82,032**	82,031

D Addition to segment profit consists of:

	2016 RM	2015 RM
Distribution income from other investments	**1,367,782**	101,093
Fair value gain on other investments	**52,713**	-
Gain on redemption of other investments	**1,741,845**	-
Rental income from investment properties	**228,000**	228,000
Interest income from fixed deposit	**301,569**	1,363,977
Interest income from structured investment	**-**	15,358
Depreciation of investment properties	**(82,032)**	(82,031)
Direct operating expenses arising from investment properties	**(114,534)**	(105,179)
	3,495,343	1,521,218

E Additions to non-current assets consist of:

	2016 RM	2015 RM
Property, plant and equipment	**635,698**	4,835,630

F The following items are added to segment assets to arrive at total assets reported in the consolidated statement of financial position:

	2016 RM	2015 RM
Other investments	**53,325,738**	17,350,133
Deferred tax assets	**886,047**	1,333,721
Investment properties	**2,542,984**	2,625,016
	56,754,769	21,308,870

G The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

	2016 RM	2015 RM
Deferred tax liabilities	**2,583,562**	3,015,982

31. SEGMENT INFORMATION (CONT'D)

Geographical information

Revenue information based on the geographical location of customers is as follows:

	2016 RM	2015 RM
Canada	**168,159**	312,781
People's Republic of China	**-**	181,224
Hong Kong	**1,142,458**	752,302
India	**2,511,463**	3,845,056
Korea	**33,947,128**	22,401,294
Malaysia	**2,158,562**	1,620,525
Republic of the Marshall Islands	**230,764**	107,981
Japan	**3,821,106**	1,811,461
Taiwan	**12,783,237**	20,849,291
Thailand	**1,031,064**	-
USA	**143,681,756**	128,850,810
	201,475,697	180,732,725

32. DIVIDENDS

	Group and Company	
	2016 RM	**2015 RM**
Recognised during the financial year:		
Dividends on ordinary shares:		
Interim tax exempt (single-tier) dividend of 12%, on 103,200,000 ordinary shares of RM0.50 each, declared on 15 December 2016 and paid on 16 January 2017	**6,192,000**	-
Interim tax exempt (single-tier) dividend of 10%, on 103,200,000 ordinary shares of RM0.50 each, declared on 30 July 2015 and paid on 28 August 2015	**-**	5,160,000
Interim tax exempt (single-tier) dividend of 20%, on 103,200,000 ordinary shares of RM0.50 each, declared on 17 November 2015 and paid on 21 December 2015	**-**	10,320,000
	6,192,000	15,480,000

33. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 28 March 2017.

34. SUPPLEMENTARY INFORMATION - BREAKDOWN OF RETAINED EARNINGS INTO REALISED AND UNREALISED

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2016 and 2015 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Total retained earnings of the Company and its subsidiary				
- Realised	**108,822,296**	95,614,318	**97,942,721**	84,602,039
- Unrealised	**(1,521,581)**	(1,302,107)	**(2,411,695)**	(2,635,828)
	107,300,715	94,312,211	**95,531,026**	81,966,211
Less: Consolidation adjustments	**(20,000)**	(20,000)	**-**	-
Retained earnings as per financial statements	**107,280,715**	94,292,211	**95,531,026**	81,966,211

LIST OF PROPERTIES

Held by the Group as at 31 December 2016

NO.	LOCATION	TENURE	LAND AREA AND GROSS BUILT-UP AREA	APPROXIMATE AGE OF BUILDING	DESCRIPTION AND CURRENT USE	NET BOOK VALUE AS AT 31 DECEMBER 2016	EFFECTIVE YEAR OF PURCHASE
1	Mile 3, Jalan Masak, Kampung Ulu Patikang, Locked Bag 13 SM-88 89009 Keningau, Sabah Malaysia	99 years lease expiring on 31.12.2081	Land area 94,700 square meters Gross built-up area 31,370.47 square meters	25 years	Industrial land and building	RM1,493,262	1991
2	11F, Wisma Perindustrian, Jalan Istiadat, 88400 Likas Kota Kinabalu, Sabah Malaysia	99 years lease expiring on 31.12.2093	Land area 11,610 square meters Gross built-up area 990.20 square meters	19 years	Commercial building	RM2,542,984	1997

ANALYSIS OF SHAREHOLDINGS

As at 31 March 2017

Issued share capital	:	RM51,600,000.00 comprise of 103,200,000 ordinary shares
Class of shares	:	Ordinary shares
Voting rights of shareholders	:	One vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of holdings	No. of holders	%	No. of shares	%
1 - 99	13	0.276	481	0.000
100 - 1,000	596	12.664	479,700	0.464
1,001 - 10,000	2,864	60.858	14,498,224	14.048
10,001 - 100,000	1,133	24.075	33,819,600	32.770
100,001 - 5,159,999 (*)	97	2.061	32,233,625	31.234
5,160,000 and above (**)	3	0.063	22,168,370	21.480
Total	**4,706**	**100.000**	**103,200,000**	**100.000**

* Less than 5% of issued shares
** 5% and above of issued shares

SUBSTANTIAL SHAREHOLDERS

		Direct		Indirect	
		No. of shares	%	No. of shares	%
1	LIN FONG MING	9,029,360	8.749	-	-
2	LIN HAO WEN	9,029,360	8.749	-	-
3	LIN HAO YU	6,825,460	6.614	-	-

DIRECTORS' SHAREHOLDINGS

		Direct		Indirect	
		No. of shares	%	No. of shares	%
1	LIN FONG MING	9,029,360	8.749	-	-
2	LIN HAO WEN	9,029,360	8.749	-	-
3	LIN HAO YU	6,825,460	6.614	2,291,600 (1)	2.221
4	DATUK AZNAM BIN MANSOR	-	-	-	-
5	WONG YOKE NYEN	-	-	-	-
6	NG TIAN MENG	-	-	-	-

(1) Deemed interest by virtue of shares held by his wife, Christina Phang Ya Yun pursuant to Section 59(11)(c) of the Companies Act 2016.

Analysis of Shareholdings
As at 31 March 2017

LIST OF TOP THIRTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares Held	%
1	LIN FONG-MING	9,029,360	8.749
2	LIN, HAO-YU	6,825,460	6.614
3	PUBLIC NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIN, HAO-WEN (E-KKU/KNG)	6,313,550	6.117
4	LIN HAO WEN	2,715,810	2.631
5	CHRISTINA PHANG YA YUN	2,291,600	2.221
6	TEO TIN LUN	2,162,200	2.095
7	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (PHEIM)	1,566,000	1.517
8	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHEE SAI MUN	963,800	0.933
9	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAY ONG NGO @ TAY BOON FANG	850,000	0.823
10	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ANG JWEE LEE (E-IMO)	672,000	0.651
11	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN ENG CHUAN	665,000	0.644
12	RHB CAPITAL NOMINEES (ASING) SDN BHD HSUEH CHEN-SHENG	640,000	0.620
13	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NGOOI SENG CHOY	636,400	0.616
14	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEO TIN LUN (E-IMO)	613,000	0.593
15	CHANG YUNG-SHENG	595,015	0.576
16	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG KAR MENG	550,000	0.532
17	LEE KOK HIN	529,100	0.512
18	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG GEOK LAN	512,000	0.496
19	LOOI BIAN CHEONG	490,000	0.474
20	GAN KHO @ GAN HONG LEONG	487,000	0.471
21	AFFIN HWANG NOMINEES (ASING) SDN BHD EXEMPT AN FOR DBS VICKERS SECURITIES (SINGAPORE) PTE LTD (CLIENT)	480,500	0.465
22	KENANGA NOMINEES (ASING) SDN BHD EXEMPT AN FOR PHILLIP SECURITIES PTE LTD (CLIENT ACCOUNT)	452,400	0.438

Analysis of Shareholdings
As at 31 March 2017

LIST OF TOP THIRTY LARGEST SHAREHOLDERS (CONT'D)

No.	Name of Shareholders	No. of Shares Held	%
23	VIVEKANANDAN A/L AMS PERIASAMY	400,000	0.387
24	PUBLIC INVEST NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR PHILLIP SECURITIES PTE LTD (CLIENTS)	390,700	0.378
25	TXM SERVICES SDN BHD	380,000	0.368
26	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR CHUAH TONG YEE (MY1331)	377,000	0.365
27	SEMENYIH LAND CAPITAL SDN BHD	350,000	0.339
28	GAN KHO @ GAN HONG LEONG	331,700	0.321
29	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR LEE SOON BOON (MM0872)	314,400	0.304
30	CHONG YEE VUI	312,700	0.303
		42,896,695	**41.553**

NOTICE OF TWENTY-SEVENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twenty-Seventh Annual General Meeting of **FOCUS LUMBER BERHAD** will be held at Zara's Boutique Hotel, Harbour City, Jalan Pantai Baru, Sembulan, 88100 Kota Kinabalu, Sabah on Wednesday, 17 May 2017 at 11.00 a.m. to transact the following businesses:-

AGENDA

Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 and the Reports of the Directors and Auditors thereon. **(Please refer to Note 2)**

2. To approve the payment of Directors' Fees of RM280,800 in respect of the financial year ended 31 December 2016. **(Resolution 1)**

3. To approve the payment of Directors' Fees and Benefits up to RM445,800 from 1 January 2017 until the next Annual General Meeting of the Company. **(Resolution 2)**

4. To re-elect the following Directors who retire pursuant to Article 67 of the Company's Constitution:-

   (i) Datuk Aznam Bin Mansor **(Resolution 3)**
   (ii) Lin Hao Wen **(Resolution 4)**

5. To re-elect Lin Hao Yu who retires pursuant to Article 73 of the Company's Constitution. **(Resolution 5)**

6. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

Special Business

To consider and, if thought fit, to pass the following resolutions, with or without modifications as Ordinary Resolutions of the Company:-

7. **Ordinary Resolution I**
   Authority to Allot Shares Pursuant to Sections 75 and 76 of the Companies Act 2016

   "THAT pursuant to Sections 75 and 76 of the Companies Act 2016, the Directors of the Company be and are hereby empowered to allot shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares allotted pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued from Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting ("AGM") of the Company after the approval was given or at the expiry of the period within which the next AGM is required to be held after the approval was given, whichever is earlier, unless such approval is revoked or varied by the Company at a general meeting." **(Resolution 7)**

8. **Ordinary Resolution II**

Proposed Renewal of Shareholders' Mandate for the Authority to the Company to Purchase Its Own Shares up to Ten Per Centum (10%) of the Total Number of Issued Shares ("Proposed Renewal of Share Buy-Back Mandate")

"THAT subject to the provision of the Companies Act 2016, the Company's Constitution, the Main Market Listing Requirements ("Listing Requirement") of Bursa Malaysia Securities Berhad ("Bursa Securities") and all other applicable laws, regulations and guidelines, the Company be and is hereby authorized to allocate the maximum amount of funds not exceeding the retained profits of the Company based on the latest audited financial statements and/or the latest management accounts (where applicable) for the purpose of purchasing such amount of ordinary shares in the Company ("FLB Shares") on the stock market of Bursa Securities at any time as may be determined by the Directors of the Company provided that the aggregate number of FLB Shares which may be purchased and/or held by the Company shall not exceed ten per cent (10%) of the total number of issued shares of the Company;

THAT upon completion of the purchase by the Company of its own shares, the Directors are authorised to deal with the FLB Shares in the following manner:-

(i) to cancel the FLB Shares so purchased; or
(ii) to retain the FLB Shares so purchased as treasury shares for distribution as dividends to shareholders and/or resell the treasury shares on the stock market of Bursa Securities in accordance with the relevant rules of Bursa Securities; or
(iii) combination of (i) and (ii) above;

and in any other manner as prescribed by the Act, rules, regulations and orders made pursuant to the Act and the Listing Requirements and any other relevant authority for the time being in force;

AND THAT the Directors be and are hereby empowered to carry out the above and such authority conferred by this resolution will be effective upon the passing of this resolution and will continue to be in force until:-

(i) the conclusion of the next Annual General Meeting ("AGM") of the Company following this AGM at which this resolution is passed, at which time it will lapse, unless by an ordinary resolution passed at such AGM, the authority is renewed, either unconditionally or subject to conditions; or
(ii) the expiration of the period within which the next AGM is required to be held pursuant to Section 340(2) of the Companies Act 2016 (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
(iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting;

whichever occurs first.

AND THAT the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things as they may deem fit, expedient and necessary in the best interest of the Company to give full effect to the Proposed Renewal of Share Buy-Back Mandate contemplated and/or authorised by this resolution." **(Resolution 8)**

Notice of
Annual General Meeting

9. To consider any other business of which due notice shall be given in accordance with the Companies Act 2016.

BY ORDER OF THE BOARD
WONG WAI FOONG (MAICSA 7001358)
WONG PEIR CHYUN (MAICSA 7018710)
LIEW PUI LING (MAICSA 7058897)

Company Secretaries
Kuala Lumpur

Date: 21 April 2017

NOTES:

1. Appointment of Proxy

i. A member entitled to attend and vote at the meeting is entitled to appoint proxy(ies) (or in case of a corporation, a duly authorised representative) to attend and vote in his stead. A proxy may, but need not be a member of the Company.

ii. The instrument appointing a proxy shall be in writing (in the common or usual form) under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

iii. A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting and that where the member appoint two (2) proxies, such appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.

iv. Where a member of the Company is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.

v. Where a member of the Company is an exempt authorised nominee 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 authorised nominee may appoint in respect of each omnibus account it holds.

vi. Where the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

vii. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd. (11324-H) of Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8 Jalan Kerinchi, 59200 Kuala Lumpur or alternatively the Customer Services Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

viii. Only the members whose names appear on the Record of Depositors as at 9 May 2017 shall be entitled to attend and vote at this meeting or appoint proxy(ies) to attend and vote on their behalf.

2. **Audited Financial Statements for the financial year ended 31 December 2016**

The Audited Financial Statements in Agenda 1 is meant for discussion only as the approval of the shareholders is not required pursuant to the provisions of Sections 248(2) and 340(1) of the Companies Act 2016. Hence, this Agenda is not put forward for voting by shareholders.

3. **Directors' Fees and Benefits**

The Directors' fees and benefits (including meeting allowances) proposed for the period from 1 January 2017 up to the date of the next Annual General Meeting are calculated based on the current Board size and number of scheduled Board and Committee meetings for 2017 up to the next Annual General Meeting. This resolution is to facilitate payment of Directors' benefits on a current financial year basis. In the event the proposed amount is insufficient (eg due to more meetings or enlarged Board size), approval will be sought at the next Annual General Meeting for the shortfall.

4. **Ordinary Resolution 3 – Re-election of Director**

The Board had carried out assessment on the contribution and performance as well as the independence of the Independent Director standing for re-election and satisfied that he met the criteria of independence as prescribed in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

5. **Explanatory Notes on Special Business**

i. **Resolution No. 7 - Authority to Allot Shares**

The proposed Resolution No. 7 is proposed for the purpose of granting a renewed general mandate ("General Mandate") and empowering the Directors to allot shares in the Company up to an amount not exceeding in total 10% of the total number of issued shares of the Company for such purpose as the Directors consider would be in the interest of the Company.

The authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

The General Mandate is to provide flexibility to the Company to issue new securities without the need to convene separate general meeting to obtain its shareholders' approval so as to avoid incurring additional cost and time. The purpose of this General Mandate is for possible fund raising exercises including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital, repayment of bank borrowings, acquisitions and/or for issuance of shares as settlement of purchase consideration.

As at the date of this notice, the Company did not issue any shares pursuant to the mandate granted to the Directors at the Twenty-Sixth Annual General Meeting because there were no investment(s), acquisition(s) or working capital that require fund raising activity.

ii. **Resolution No. 8 - Proposed Renewal of Share Buy-Back Mandate**

The proposed resolution 8, if passed will give the Company the authority to purchase its own ordinary shares of up to ten per cent (10%) of the total number of issued shares of the Company. Please refer to the Statement to Shareholders dated 21 April 2017 for further information.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

Authority for Directors to Allot Shares Pursuant To Sections 75 and 76 of the Companies Act 2016

Kindly refer to item 5(i) of the Explanatory Notes on Special Business on page 109.

富佳木業有限公司
FOCUS LUMBER BERHAD
(Company No. 188710-V)

PROXY FORM

CDS account no.	No. of shares held

I/We ______________________ I.C./Passport/Company No. ______________________

of ____

being a member/members of Focus Lumber Berhad hereby appoint ______________________

of ____

or failing whom, ______________________ of ______________________

____

or failing whom the Chairman as my/our proxy/proxies to vote for me/us and on my/our behalf at the Twenty-Seventh Annual General Meeting of the Company, to be held at Zara's Boutique Hotel, Harbour City, Jalan Pantai Baru, Sembulan, 88100 Kota Kinabalu, Sabah on Wednesday, 17 May 2017 at 11.00 a.m. and, at every adjournment thereof for/against* the resolution(s) to be proposed thereat.

Item	Agenda	Resolution	For	Against
1.	Ordinary Business Receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon.			
2.	Approval on the payment of Directors' Fees of RM280,800 in respect of the financial year ended 31 December 2016.	1		
3.	Approval on the payment of Directors' Fees and Benefits up to RM445,800 from 1 January 2017 until the next Annual General Meeting of the Company	2		
4(i)	Re-election of Datuk Aznam Bin Mansor who retires pursuant to Article 67 of the Company's Constitution, as Director of the Company.	3		
4(ii)	Re-election of Lin Hao Wen who retires pursuant to Article 67 of the Company's Constitution, as Director of the Company.	4		
5.	Re-election of Lin Hao Yu who retires pursuant to Article 73 of the Company's Constitution, as Director of the Company.	5		
6.	Re-appointment of Messrs Ernst & Young as Auditors of the Company and to authorize the Directors to fix their remuneration.	6		
7.	**Special Business** Authority to allot shares pursuant to Sections 75 and 76 of the Companies Act 2016.	7		
8.	Proposed Renewal of Share Buy-Back Mandate.	8		

Please indicate with an "x" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific directions, your proxy will vote or abstain as he thinks fit.

Dated this ______________ day ______________ of 2017

____
Signature/Common Seal of Shareholder(s)
*Strike out whichever in not desired. (Unless otherwise instructed, the proxy may vote as he thinks fit).

Notes:

(a) A member entitled to attend and vote at the meeting is entitled to appoint proxy(ies) (or in case of a corporation, a duly authorised representative) to attend and vote in his stead. A proxy may, but need not be a member of the Company.

(b) The instrument appointing a proxy shall be in writing (in the common or usual form) under the hand of the appointor or of his attorney duly authorised in writing or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

(c) A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting and that where the member appoint two (2) proxies, such appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.

(d) Where a member of the Company is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.

(e) Where a member of the Company is an exempt authorised nominee 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 authorised nominee may appoint in respect of each omnibus account it holds.

(f) Where the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

(g) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd. (11324-H) of Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8 Jalan Kerinchi, 59200 Kuala Lumpur, or alternatively the Customer Services Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

(h) Only the members whose names appear on the Record of Depositors as at 9 May 2017 shall be entitled to attend and vote at this meeting or appoint proxy(ies) to attend and vote on their behalf.

Please fold here

AFFIX
STAMP

THE SHARE REGISTRAR

TRICOR INVESTOR & ISSUING HOUSE SERVICES SDN BHD (11324-H)
Unit 32-01, Level 32, Tower A, Vertical Business Suite
Avenue 3, Bangsar South, No.8, Jalan Kerinchi
59200 Kuala Lumpur, Malaysia

Please fold here

www.**focuslumber**.com.my

FOCUS LUMBER BERHAD (188710-V)

Mile 3, Jalan Masak, Kampung Ulu Patikang,
Locked Bag 13 SM-88, 89009 Keningau,
Sabah, Malaysia.
Tel : 087-334761/4/6, 335457/8
Fax : 087-335459