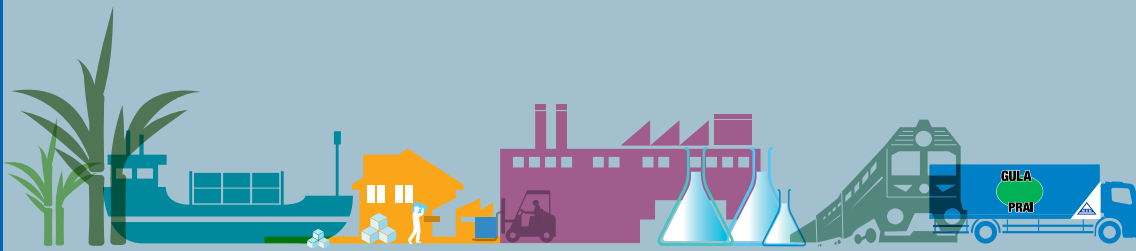




MSM MALAYSIA HOLDINGS BERHAD

SUSTAINABLE GROWTH



ANNUAL REPORT 2016



WELCOME

TO MSM MALAYSIA HOLDINGS BERHAD (MSM)
ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2016

This report represents another foundational element in our journey towards fully integrated annual reporting, the practice to build investor and stakeholder confidence and improve our future performance.

ABOUT THIS REPORT

We have invested considerable thought and effort into the production of this report to give you – our valued stakeholder – a comprehensive and objective view of our economic, social governance and environmental performance. This also entails the insights into our business strategy and future prospects in a timely, transparent and easy-to-understand manner. This section lays out the broad framework for the contents which we have meticulously and systematically put together for these purposes.



SCOPE

This Annual Report covers the financial year from 1 January 2016 to 31 December 2016 (FY2016), and encompasses all material developments concerning MSM up until the approval of the annual financial statements.

Our report focuses on MSM as a Group and touches on our operating subsidiaries, i.e. MSM Prai Berhad, MSM Perlis Sdn Bhd, MSM Logistics Sdn Bhd, MSM Sugar Refinery (Johor) Sdn Bhd and MSM Trading International DMCC. Financial and non-financial data from our subsidiaries are consolidated for ease of reference. We have also included pertinent information that should assist stakeholders in making an informed assessment of MSM and how we are able to strategically create and sustain long-term stakeholder value.

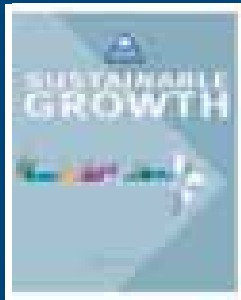


REPORTING FRAMEWORKS

We prepared our financial statements in accordance with the Financial Reporting Standards (FRS) and the Companies Act, 1965 in Malaysia. These financial statements are also in compliance with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

Our financial statements has been audited by Pricewaterhouse Coopers, whose unqualified report is on page 131. For ease of reference, the full set of consolidated annual financial statements is published on our website and can also be requested via our Company Secretary.

MSM is committed to uphold impeccable corporate governance and leadership standards, and will continue to review our reporting processes to ensure we meet industry best practices and thus create sustainable value for our stakeholders.



WHY DO WE REPORT?

MSM has produced an annual integrated report for the first time. As the transition to integrated reporting is a relatively new process for Malaysian companies, we are still honing our ability in finding the best way to communicate our strategy, risks, material issues and objectives. We report to improve our business and strengthen our stakeholder relationships. Your valuable feedback on this report can gain us holistic insight into how people understand and view our business. Do email us at info@msmsugar.com.

OUR REPORTING COMPLIES WITH:

- ✓ Companies Act, 1965
- ✓ Companies Act, 2016
- ✓ Corporate Governance Guide Issued by Bursa Malaysia Berhad
- ✓ Bursa Malaysia Main Market Listing Requirements

HOW THE REPORT IS STRUCTURED

The beginning of this report describes MSM – who we are, how we create value, who our stakeholders are, what our strategy is, and what risks we face that threaten that strategy, as well as the opportunities available to expand further. Materiality remains at the core of our integrated report this year and is the lens through which we provide detailed information on our operations, our use of resources, our relationships, our community development initiatives and our plans for the future.



An online version is available at www.msmsugar.com/ar2016



Tells you where to find more information in the Annual Report



Tells you where to find more information online at www.msmsugar.com



To contact us please refer to our Group Corporate Directory, page 205

MATERIAL ISSUES



Our material issues for 2016 are:

- Cost of raw sugar
- Managing investor's confidence
- Enhancing productivity and efficiency
- Government policy on domestic sugar industry
- Our capital structure
- Attraction, development and retention of best talent



page 64

DIRECTORS' RESPONSIBILITY



Our Board of Directors, supported by the Audit Committee, has taken overall responsibility and accountability for this report. Senior Management, assisted by a dedicated reporting team, were responsible for the preparation and consolidation of this report.

Our Board has collectively reviewed this report and confirms the integrity of the content therein. They believe that this report is a balanced and appropriate presentation of the profile and performance of MSM.

HIGHLIGHTS

**GULA
PRAI** **No1**
**SELLING BRAND
IN MALAYSIA**

PRODUCTION OUTPUT

2016
1,117,010 tonnes

2015
1,033,519 tonnes

↑ increased **8.1%**

TOTAL DIVIDEND PAY-OUT

RM98.42
million

DIVIDEND PER SHARE 14 SEN
EARNING PER SHARE 17.17 SEN

TOP 3

HIGHEST
SELLING SUGAR

- Coarse Grain
- Fine Granulated
- Caster



TOP 3

EXPORT COUNTRIES


New Zealand
24,389 tonnes


South Korea
19,743 tonnes

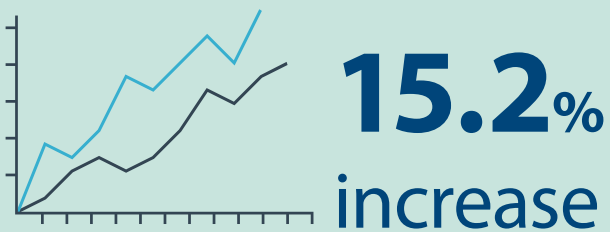

Singapore
17,264 tonnes

2016

REVENUE

2016
RM2.66 billion

2015
RM2.31 billion



TOP 3

IMPORT COUNTRIES
FOR RAW SUGAR



Brazil
1,212,000 tonnes



Australia
352,000 tonnes

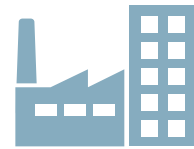


Guatemala
176,000 tonnes

MARKET CAPITALISATION

RM3.55 billion
as at December 2016

TOTAL ASSETS



RM3.23 billion

PROFIT BEFORE ZAKAT AND TAXATION

RM148.52
million

PROFIT AFTER TAX (PAT)

RM120.72
million

6th Annual General Meeting of MSM Malaysia Holdings Berhad

Banquet Hall 1, Level B2
Menara Felda, Platinum Park
No. 11, Persiaran KLCC
50088 Kuala Lumpur

Monday
15 May 2017
11.00 a.m.



Refer to page 49 and 206 for
Financial Calendar and Annual
General Meeting Information

22 Chairman's Statement

"We remain attuned to specific actions and approaches to ensure a unified Group direction, with all teams proactively and continually engaged to achieve our strategic vision and mission by 2020."

*Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad,
Chairman*

26 President/ Group CEO's Review

"Under SP20, the four main focus areas are Market Leadership, Continuous Growth, Operational Excellence and Enhanced Human Resources framework. New targets have been proposed to track our progress towards our 2020 goals."

*Mohamad Amri Sahari@Khuzari
President/Group Chief Executive Officer*

OUR PROFILE AND POSITIONING

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Higher costs and a volatile Ringgit makes for a challenging business environment for MSM. However, we are still progressing as the market leader, guided by a strategic road map that safeguards our target revenue, profit and value. The achievement of a record 1.12 million tonnes in production output and groundbreaking of MSM's standalone sugar refinery in Johor are two significant milestones achieved this financial year.



Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad, Chairman

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TOP 10 GLOBAL SUGAR PLAYER BY 2020

VISION MISSION

To excel as a highly competitive and environment friendly sugar producer with exceptional quality recognition. To be a prominent corporation in the sugar business by providing products and services of superior value so as to sustain consistent long-term growth in volume and profitability. To achieve consistent and balanced commercial success by:



Satisfying our customers' needs



Providing superior performance to our shareholders



Making available rewarding careers to our people








Having mutually beneficial relationships with our core business associates




Participating and contributing effectively towards nation building and the welfare and advancement of the society in which we operate

OUR VALUES

In 2015 MSM's senior management and staff came together to develop values aligned with our vision to be a top 10 global sugar player. Termed as SWIIT to resonate with our business and passion, the following core values are being inculcated as the DNA that defines the way we work, interact and respond. The values alignment programme is currently at an initial stage whereby validation from MSM's staff is being collated to see if these need to be further refined to ensure understanding and acceptance.

| Core Values | Sub Values | Descriptor |
|--|-------------------------------|---|
| Sense of Belonging  | Pride | Our passion in executing our tasks reflects our pride in producing what customers want. We value all feedback and take pride in our end results. All positive efforts are recognised and reinforced. |
| | Ownership | We create a culture of inclusion that engages everyone in the organisation throughout every process. As such everyone in the organisation shall be responsible and accountable for their own actions. |
| Winning Attitude  | Customer Focus | All tasks are directed towards exceeding the demands of customers who are at the heart of all that we do. We always strive to achieve the 'wow' factor as the final goal in all our interactions with our customers. |
| | Quality | In our daily actions, we seek to intrinsically provide quality outcomes as part of our embedded culture. Superior quality in our products and services shall be our signature of excellence. |
| Integrity  | Professionalism | We take pride in executing all tasks with the highest standard of professionalism through discipline and commitment. We will project a positive business appearance and display the utmost level of competency. |
| | Transparency | We operate with a strict code of ethics that leads to accountability and protects the interests of the organisation and our stakeholders. We believe in open access to common information and engage the right people in all decision making processes. |
| Innovation  | Continuous Improvement | Our firm belief in practicing incremental changes has brought tremendous rewards, allowing us to continuously be the market leader in the country. This is done through being receptive to new ideas, accepting changes and supporting all efforts to improve systems and processes. |
| | Resilience | We trust that innovation will give us the edge and ensure a sustainable future for our business. Being creative allows us to do things in fresh, original and novel ways; adapt quickly to changes; and be flexible in our approach. |
| Teamwork  | Trust | We operate in an environment of open communication that fosters unwavering trust. This is achieved by cultivating a culture of shared values, mutual regard and professionalism amongst our employees. |
| | Respect | Respect for each other is the basis of our daily interaction. We value and leverage on each other's strengths to form a synergetic bank of talents, skills and positive attitude at the workplace. |
| | Fairness | We seek the highest level of fairness in our daily conduct, hence everyone receives equal opportunity to perform at the best of their ability. We uphold the protection of employees' rights to ensure the highest level of commitment and harmonious working relationships at the workplace. |
| | Loyalty | We regard loyalty as the catalyst in forming long lasting and meaningful relationships that transcend work. We ensure everyone has an equal share of responsibilities and is committed towards supporting the organisation's vision and mission. |

CORPORATE PROFILE

MSM Malaysia Holdings Berhad (MSM) is Malaysia's leading refined sugar producer involved in producing, marketing and selling refined sugar products under the  brand. The company conducts its business principally through its subsidiaries, MSM Prai Berhad and MSM Perlis Sdn Bhd which were established in 1959 and 1971, respectively. Committed to expand its value chain, MSM also operates a logistics company and a trading company. With current production capacity of up to 1.25 million tonnes of refined sugar per annum, MSM controls approximately 60 percent of the domestic sugar market share.

Incorporated on 10 March 2011, MSM listed on the Main Market of Bursa Malaysia Securities Berhad on 28 June 2011 with a market capitalisation of RM3.55 billion (as at December 2016).



OUR SUBSIDIARIES

- MSM Prai Berhad
- MSM Perlis Sdn Bhd
- MSM Logistics Sdn Bhd
- MSM Trading & Distribution Sdn Bhd
- MSM Sugar Refinery (Johor) Sdn Bhd
- MSM Trading International DMCC

OUR CUSTOMERS

- Confectionary companies
- Beverage companies
- Hypermarket and Supermarket
- Pharmaceutical
- F&B outlets*
- Hotels*
- Households*
- Restaurants*

**via traders, wholesalers & distributors*

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad

Chairman/Non-Independent Non-Executive Director

Dato' Zainal Haji Ismail

Independent Non-Executive Director

Dato' Hajjah Rosni Haji Zahari

Independent Non-Executive Director

Dato' Rosini Abd Samad

Independent Non-Executive Director

Datuk Lim Thean Shiang

Independent Non-Executive Director

Datuk Noor Ehsanuddin

Mohd Harun Narrashid

Non-Independent Non-Executive Director

Datuk Hanapi Suhada

Non-Independent Non-Executive Director

Dato' Zakaria Arshad

Non-Independent Non-Executive Director
(appointed on 1 April 2016)

Dato' Mohammad Fakhruddin

Haji Mohd Ariff

Independent Non-Executive Director
(appointed on 21 November 2016)

Dato' Mohd Emir Mavani Abdullah

Non-Independent Non-Executive Director
(resigned on 1 April 2016)

Dato' Sheikh Awab Sheikh Abod

Non-Independent Executive Director
(deceased on 14 April 2016)

PRESIDENT/GROUP CHIEF EXECUTIVE OFFICER

Mohamad Amri Sahari@Khuzari

COMPANY SECRETARIES

Abd Rashid Atan (MIA 18390)
Koo Shuang Yen (MIA 7556)

REGISTERED OFFICE

Level 45, Menara Felda
Platinum Park
No. 11 Persiaran KLCC
50088 Kuala Lumpur, Malaysia

Tel : +603 2859 0000
Fax : +603 2859 0016

SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd

Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya, Selangor, Malaysia

Helpdesk : +603 7849 0777
Fax : +603 7841 8151/8152

AUDITORS

Messrs. PricewaterhouseCoopers

Chartered Accountants
Level 10, 1 Sentral
Jalan Rakyat, Kuala Lumpur Sentral
50470 Kuala Lumpur, Malaysia

Tel : +603 2173 1188
Fax : +603 2173 1288
Website : www.pwc.com/my

STOCK EXCHANGE LISTING

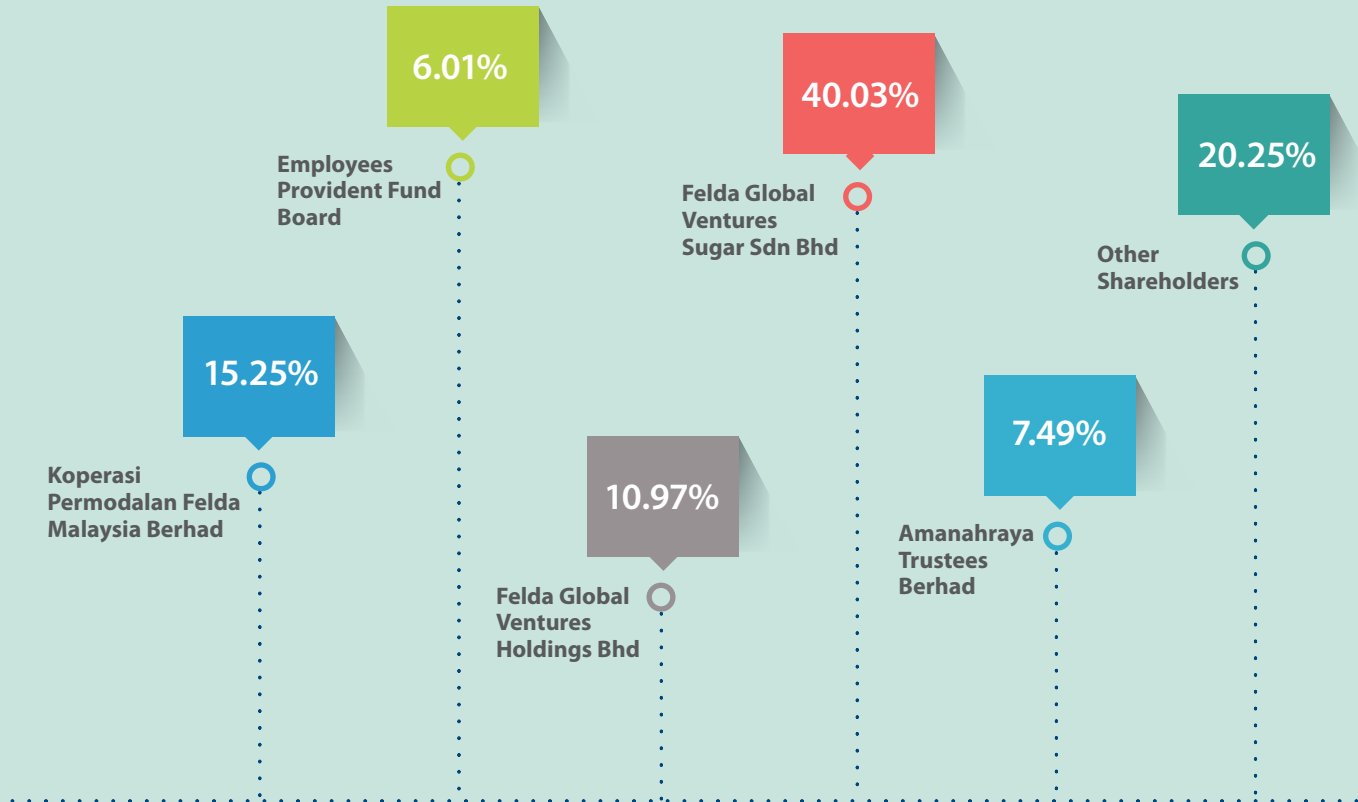
Main Market of
Bursa Malaysia Securities Berhad
Listed since 28 June 2011
Stock Code : 5202
Stock Name : MSM

INVESTOR RELATIONS AND ENQUIRIES

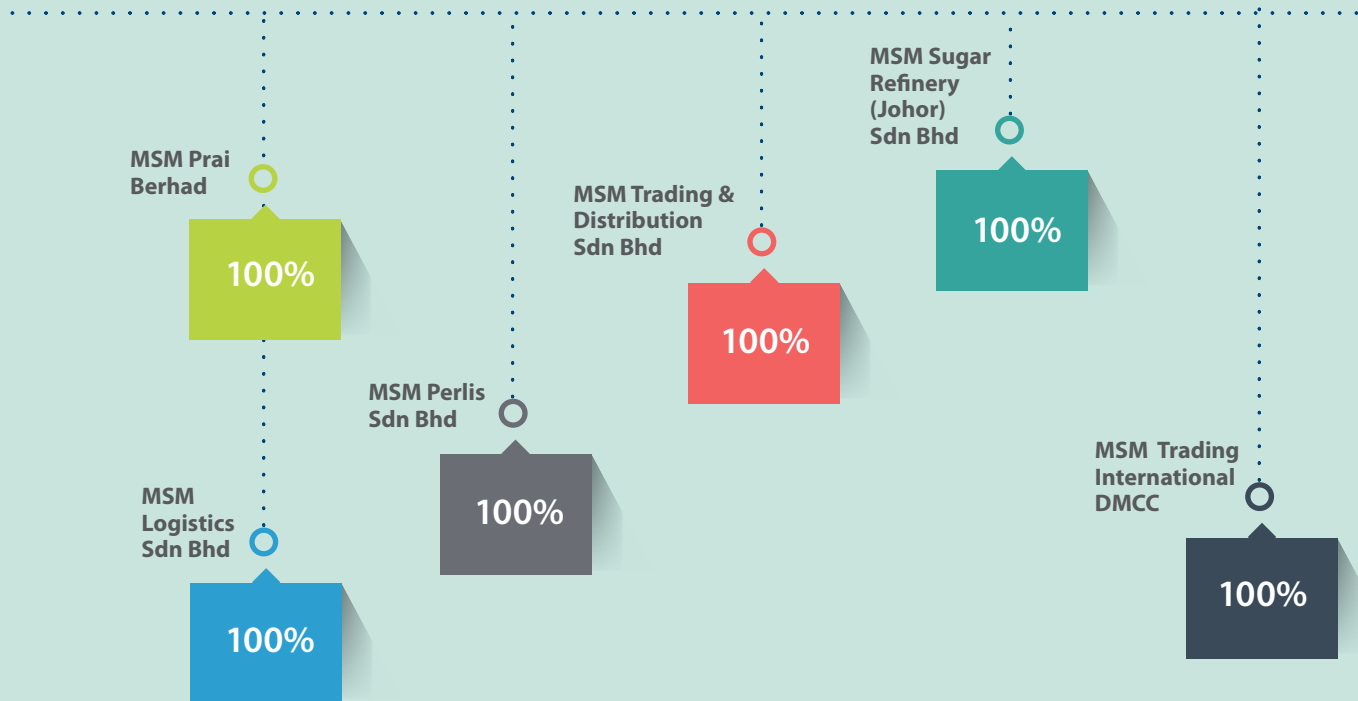
Level 44, Menara Felda
Platinum Park
No. 11 Persiaran KLCC
50088 Kuala Lumpur, Malaysia
Tel : +603 2181 5018
Fax : +603 2181 5015
Website : www.msmsugar.com
Email : investor.relations@msmsugar.com

CORPORATE STRUCTURE

AS AT 22 MARCH 2017

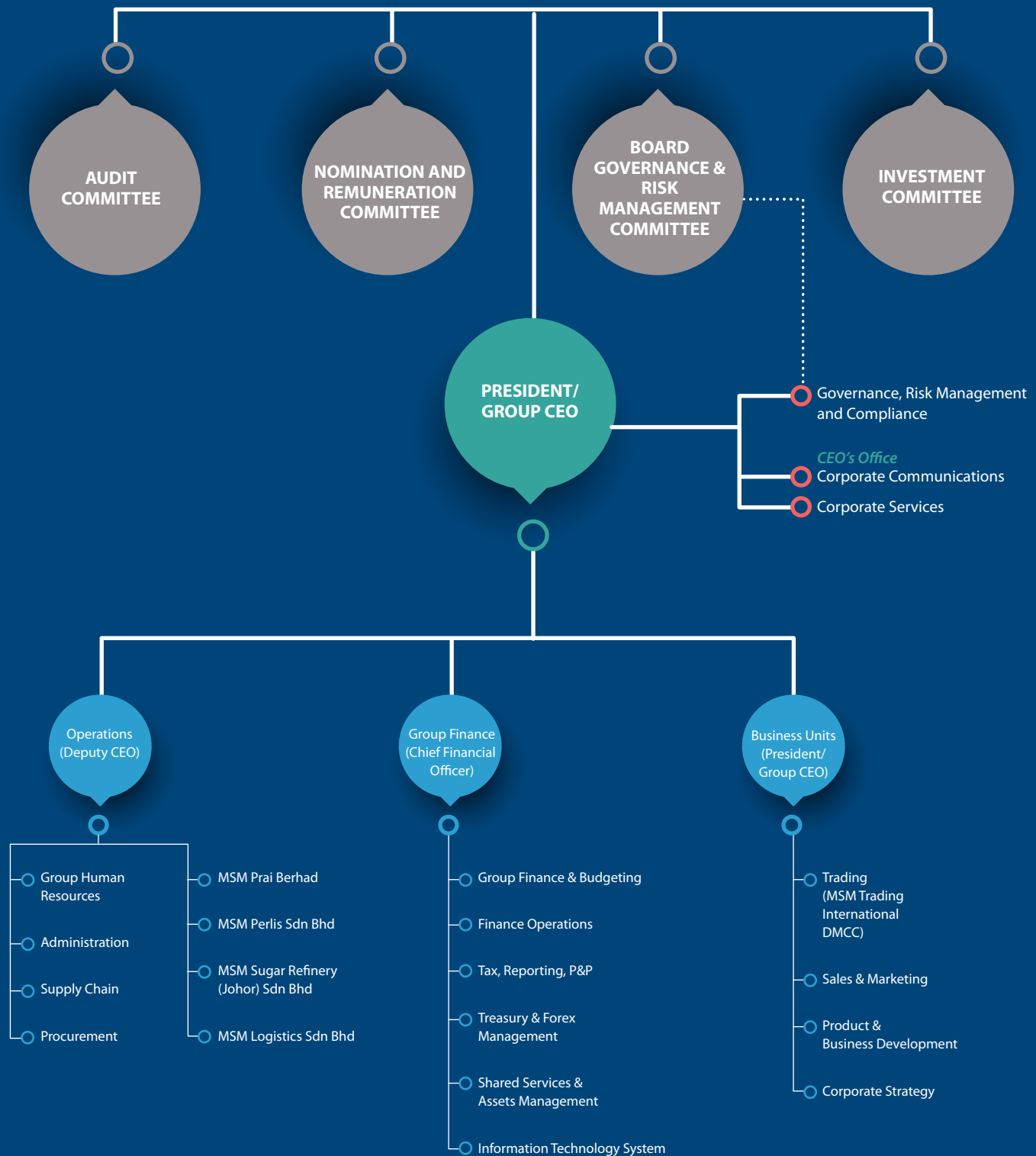


MSM MALAYSIA HOLDINGS BERHAD



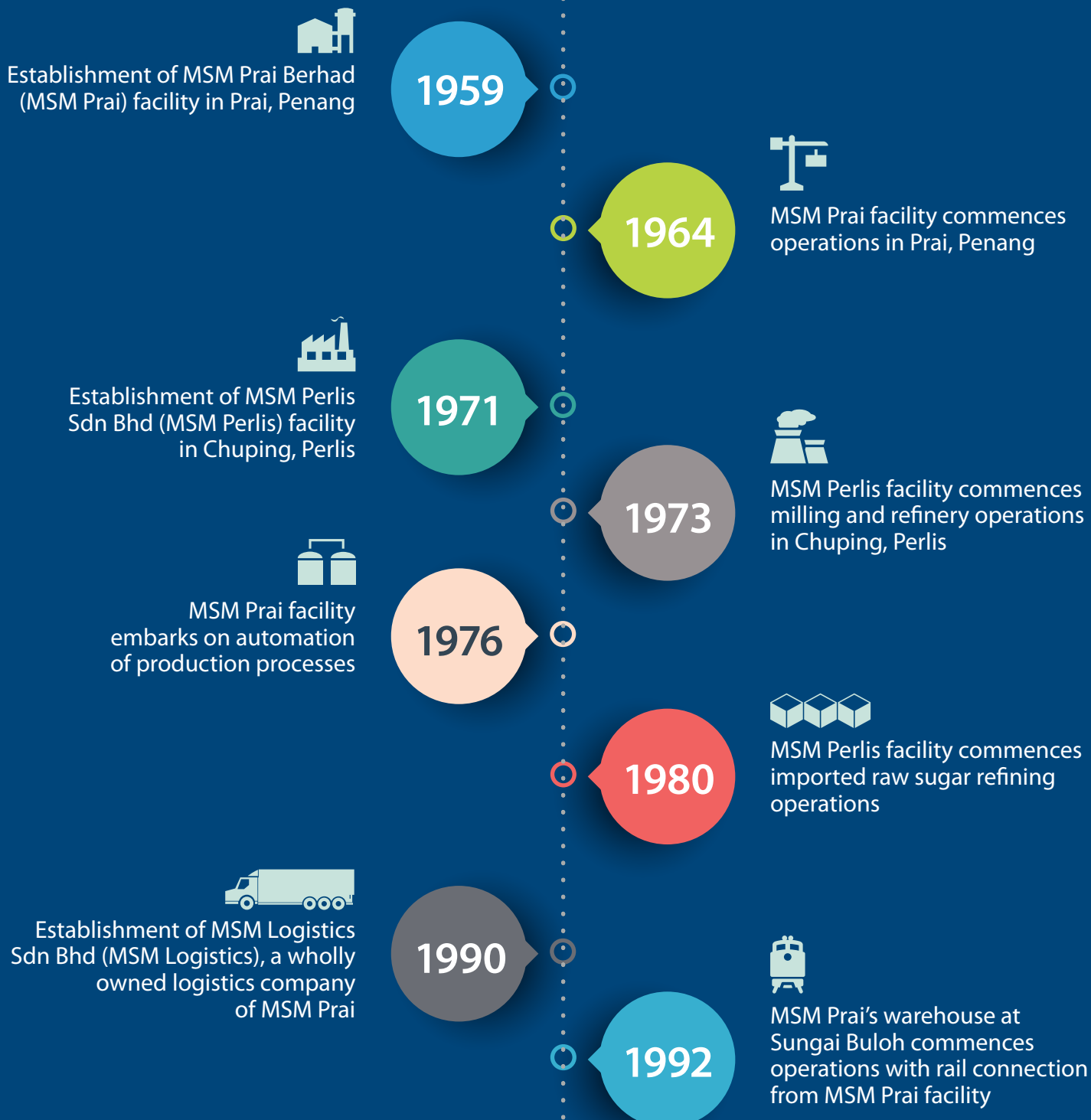
ORGANISATIONAL CHART

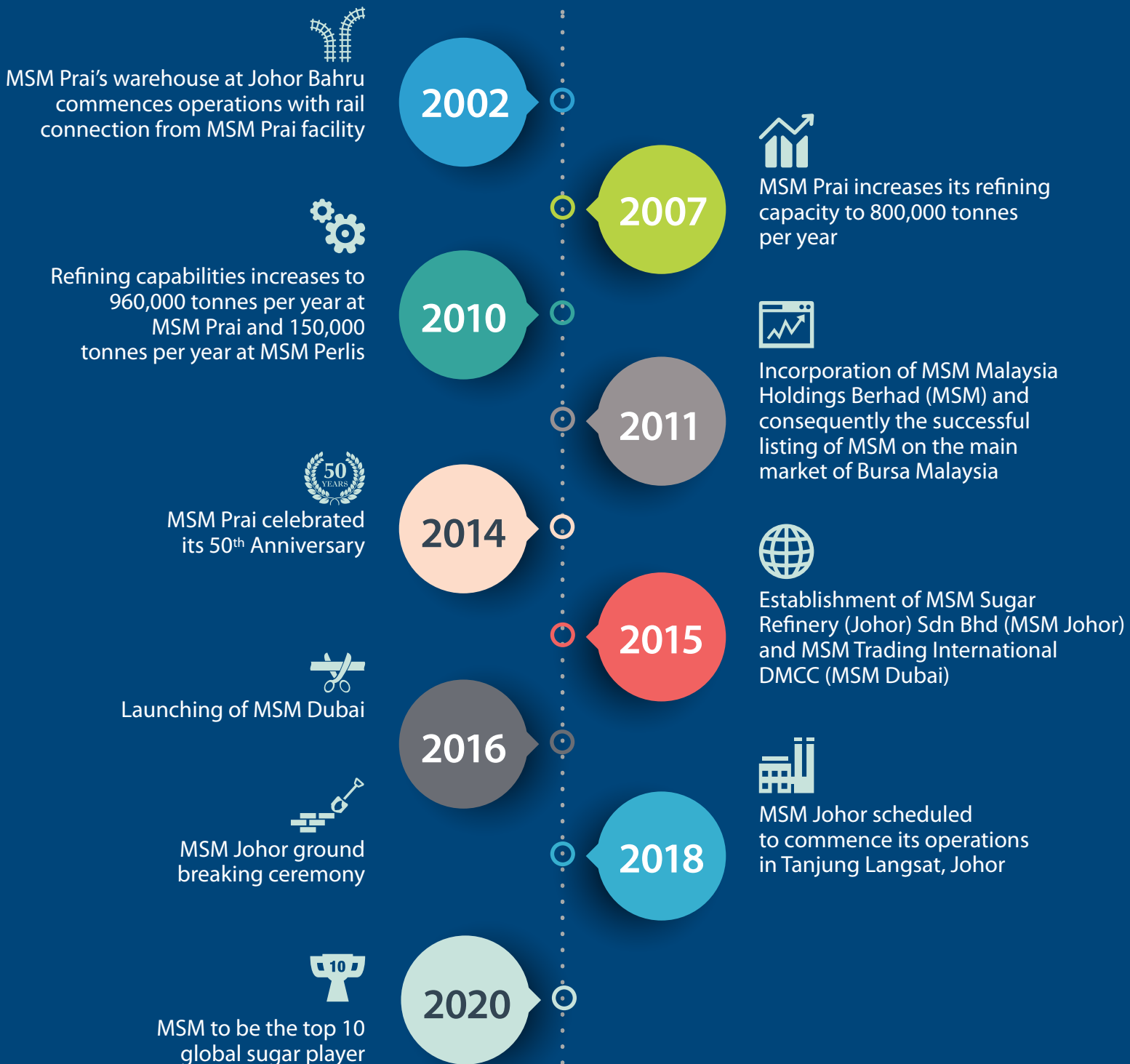
BOARD OF DIRECTORS MSM MALAYSIA HOLDINGS BERHAD



KEY MILESTONES

MSM'S SUGAR TRAIL





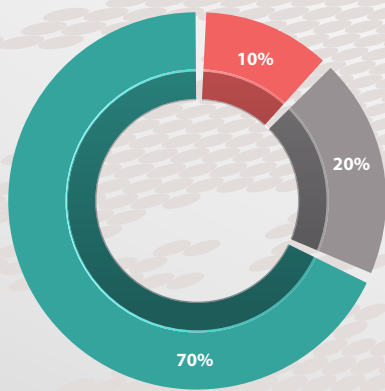
GLOBAL PRESENCE

TOP 5 KEY EXPORT MARKETS

| | | | | |
|--|--|--|--|--|
| NEW ZEALAND 24,389 tonnes | SOUTH KOREA 19,743 tonnes | SINGAPORE 17,264 tonnes | AUSTRALIA 15,154 tonnes | HONG KONG 10,024 tonnes |
|--|--|--|--|--|

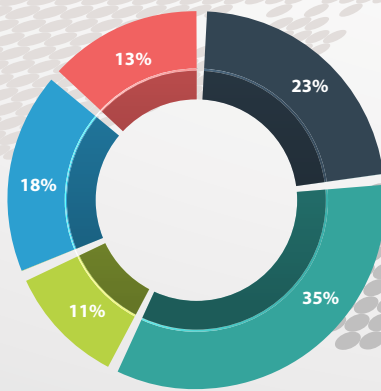
In 2016, MSM exported a total of 135,160 tonnes of refined sugar to various countries around the world. With global sugar consumption increasing at approximately 2.5 percent a year, and our annual refining capacity set to double to 2.25 million tonnes by 2018, we intend to deliver as one of the top 10 sugar player in the world by 2020. This keeps us open for acquisitions of sugar assets in Asia Pacific (APAC) regions. The opening of MSM Trading International DMCC (MSM Dubai) in 2016 was a strategic move to support our rapidly growing business as well as to develop new opportunities in the region. MSM Dubai currently procures and supplies raw sugar for the Group's requirements. Additionally, it will also undertake sugar trading activities, both in raw and refined sugar, to cater for the Middle East & North Africa (MENA) region and neighbouring APAC region. This reinforces the Group's strategy of achieving a global footprint in the sugar industry.

Our Raw Sugar Import

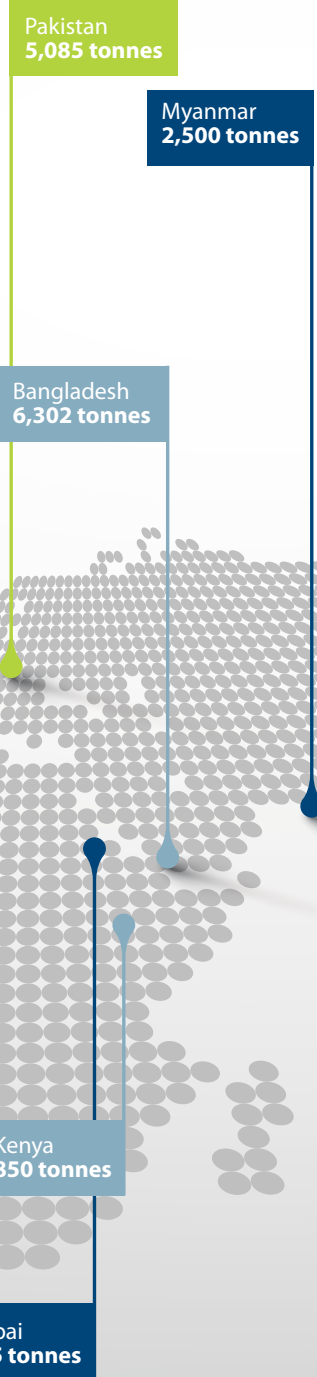


- Brazil 1,212,000 tonnes
- Australia 352,000 tonnes
- Guatemala 176,000 tonnes

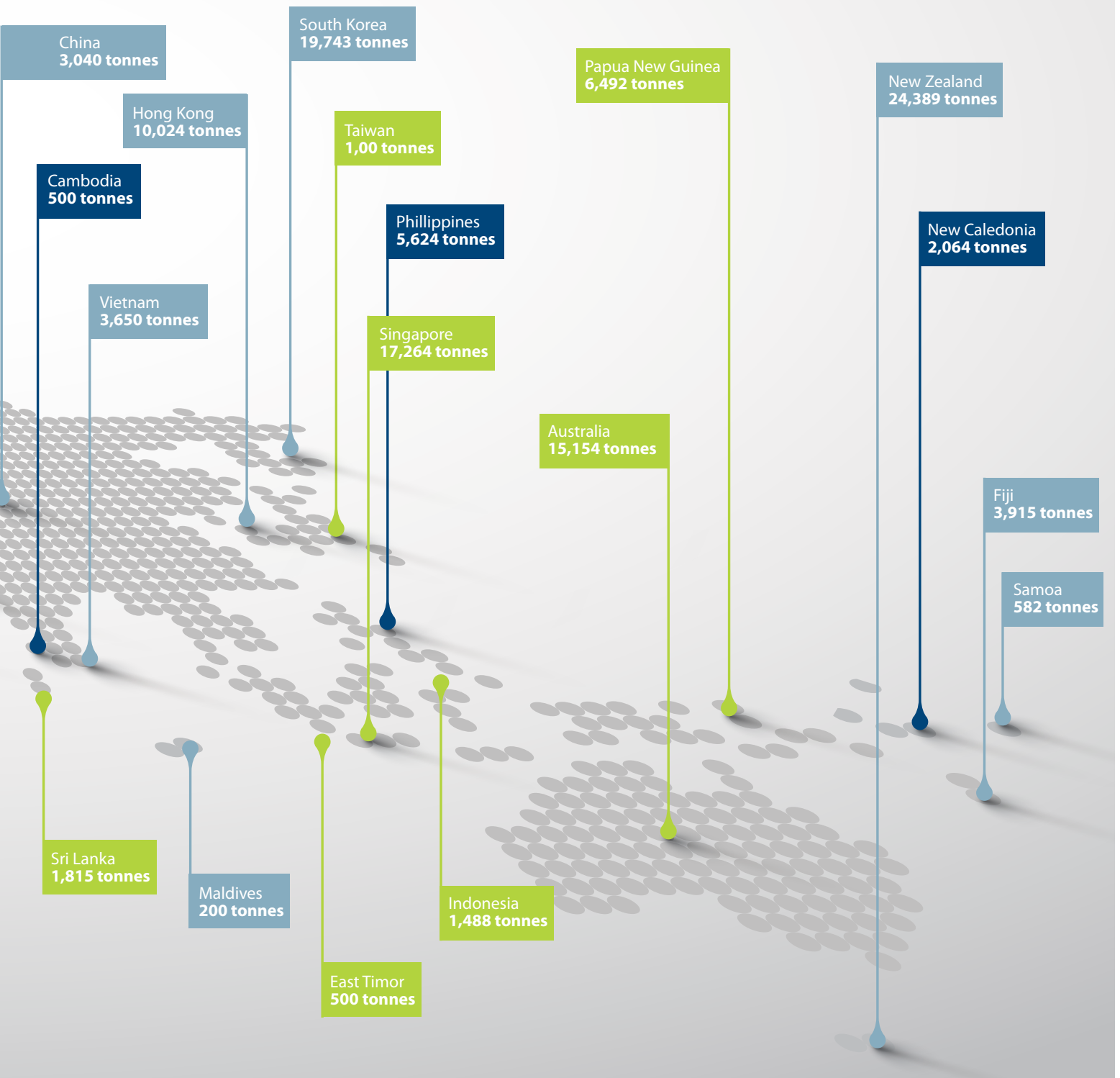
Our Refined Sugar Export



- Asia
- South East Asia
- New Zealand
- Rest of the world
- Australia



OUR EXPORT MARKETS



OUR BUSINESS MODEL

THE CAPITALS WE DRAW ON



Financial Capital

- Deposit, cash and bank balances: RM337.92 million
- Net assets: RM1.99 billion



Natural Capital

- Raw Sugar, the main feedstock of refined sugar
- Environmentally efficient refining process that reduces emissions and waste
- Committed towards conducting business in an environmental-responsible and sustainable manner



Manufactured Capital

- Production capacity of 1.25 million tonnes per annum
- Additional 1 million tonnes capacity upon completion of Johor refinery



Intellectual Capital

- Over 50 years of industry expertise
- Quality certified management, processes and products
- Research and development resources
- Number one selling brand in Malaysia
- Domestic market share of approximately 60 percent



Human Capital

Our skilled employees are our greatest assets. We have approximately 1,200 employees and maintain a staff attrition rate of 5 percent.



Social and Relationship Capital

- Strong engagement with stakeholders
- Reputable employer
- Active corporate social responsibility initiatives since establishment
- Partnership with locals in community building

WHAT WE DO



Raw Sugar Sourcing and Procurement

We source raw sugar mainly from Brazil, Australia and Guatemala in accordance with procurement strategies and guidelines to ensure reliable supply and quality.



Raw Sugar Refining

The imported raw sugar are refined in our two refineries located at Prai, Penang and Chuping, Perlis.



Supply Chain Management and Distribution

We optimise warehousing, distribution and logistics operations utilising internal and external service providers to provide the comprehensive logistics support we need to efficiently serve our customers.



Sales and Marketing

Our product, Gula Prai is marketed to the domestic market, via wholesalers and industries, as well as to export market.



Plantation

Our plantation arm focuses on rubber as the main crop after we ceased our cane planting operation in 2011. We also lease some of the vacant land in Chuping to third parties to diversify our income stream.

Our business model approach combines efficient operations with responsive strategies to meet changes in our market environment. We are astute and enterprising in how we create value today, while also taking a considered, long-term view of our business and operational sustainability.



HOW WE CREATE VALUE

In 2016, we concentrated on the **4 FOCUS AREAS** of our Strategic Plan 2020 (SP20)

1. **SUSTAINING MARKET LEADERSHIP** by engaging with various stakeholder to understand their needs and how we add value in meeting those requirements.
2. **OPERATIONAL EXCELLENCE** through strategic procurement; scheduled maintenance and timely investments in production assets; and improvements in operational reliability and cost efficiency.
3. **CONTINUOUS GROWTH** of capacity with a new refinery in Tanjung Langsat, Johor towards meeting future domestic demand and profiting from greater exports.
4. **ENHANCING HUMAN RESOURCES** by actively developing a talent pool of skilled workers; and building expertise and capabilities through the following approaches:
 - Balanced scorecard approach
 - Training and development programme
 - Introduction of Graduate Management Training programme



VALUES WE CREATED



FINANCIAL

- Investors' funds are wisely invested to increase our operational efficiency as well as to expand our business investments in MSM Dubai and MSM Johor.
- We consistently give out minimum 50 percent of our net profits as dividends to our shareholders.
- 2016 Revenue: RM2.66 billion
- 2016 Earnings per share: 17.17 sen
- 2016 Dividend Payout: RM98.42 million




MANUFACTURED

- We ensure availability of refined sugar through effective stock management.
- Production capacity of 1.25 million tonnes per annum via two refineries in Penang and Perlis.
- Production of high quality sugar with reputable certifications.
- Strong relationship with raw sugar suppliers.



NATURAL


Guided by Environmental Management System by which we continue to record improvements in waste and greenhouse gases emissions and water and energy consumption.

 See page 114 for more information.



HUMAN


- Established talent development programmes for employees. Maintained staff attrition rate at 5 percent.
- Trainings hours: 27,830

 See page 116 for more information.



SOCIAL AND RELATIONSHIP

- Creating employment opportunities for Malaysians.
- Promoting development of refining expertise and infrastructure.
- Job creation: 250 (between 2016 to 2018)
- Tax contribution: RM25.79 million
- Zakat contribution: RM2 million
- In 2016, we contributed 1.2 percent of profits to our CSR programmes.

 See page 116 for more information.





OUR RELATIONSHIP WITH STAKEHOLDERS



Consistent engagement with our stakeholders enables us to make informed decisions, paving the way for us to achieve our vision. We are committed to ongoing stakeholder engagement as it is a core component of our business and sustainability strategies.



HOW WE ENGAGE WITH OUR STAKEHOLDERS

| STAKEHOLDER GROUP | HOW WE ENGAGE | FURTHER INFORMATION |
|---|--|---|
| Communities  | <p>We conduct corporate social responsibility initiatives to help the underprivileged and the poor, mainly in the community in which we operate.</p> | <p>We also explore ways to expand our 'community power' model to bring additional benefits to the communities by increasing access to quality education and standards of living.</p> <p> <i>Our Sweet EES Journey page 112</i></p> |
| Customers  | <p>We engage with our customers on a daily or weekly basis to ensure that we have an ear to the ground and we understand our customers' needs.</p> | <p>For almost 53 years, our brand Gula Prai has been the No.1 best selling sugar in Malaysia. This is a true testament that this brand is the most popular choice by industries and consumers alike.</p> <p> <i>Corporate Profile page 8</i></p> |

| STAKEHOLDER GROUP | HOW WE ENGAGE | FURTHER INFORMATION |
|--|--|---|
| Employees  | <p>We value our employees by developing our core competencies through the facilitation of training and development for all levels.</p> | <p>We incorporate a minimum of 8 to 12 training hours into our KPI. As it is part of yearly KPI, the line of sight between self-development and corporate goals are clearly established.</p> <p> <i>Our Sweet EES Journey page 112</i></p> |
| Governments and Regulators  | <p>We engaged with them on a wide range of issues relevant to our business and provide consultations on sustainability issues.</p> | <p>Results of engagement saw the issuance of AP halted in April 2016 and sugar retail price being reviewed in March 2017.</p> <p> <i>President/CEO's Review page 26</i></p> |
| Industry Players  | <p>We engaged with other industry players regularly as we need to have holistic perspective of the sugar market globally.</p> | <p>We participated in regional and global sugar conferences to ensure that we remain up-to-date and relevant in the market. We served as a speaker at international sugar conferences in Dubai, Bali, Bangkok and New York.</p> <p> <i>Moments of the Year page 54</i></p> |
| Media  | <p>We conduct face-to-face and electronic engagement with the media on a regular basis. We aim to inform and create awareness to the public on issues pertaining to the sugar industry and the relevancy of the business.</p> | <p>We achieved a fair amount of media coverage throughout the year. In 2016, there were 165 news clippings recorded from local and international news network.</p> <p> <i>MSM in the News page 58</i></p> |
| Shareholders  | <p>We meet with investors through events, conference calls and one-to-one meetings to understand and address their concerns on sustainability risks and help us to identify potential future issues.</p> | <p>We engage with investors to provide information they seek and to explain our strategy for managing sustainability across the business. We also provide information for investors on our corporate website and commit to a 50 percent dividend policy annually.</p> <p> <i>Chairman's Statement page 22</i></p> |
| Suppliers  | <p>We communicate regularly with our suppliers via conference calls, emails and messaging to gather market updates on economic situations, sugar crop progress, weather analysis and port line-up reports of sugar origin countries.</p> | <p>Regular engagement ensures we procure raw sugar of choice quality, at optimised efficiency and at the right price.</p> <p> <i>Business Operations Analysis and Strategic Review page 30</i></p> |



GROWING CAPACITY AND REACH

The year saw MSM launching international trading operations and commencing the groundbreaking of our Johor refinery project. Through MSM Trading International DMCC, MSM is now one of the key players in sugar trading business, expanding our presence in the global industry. The upcoming Johor refinery project will ramp production capacity to 3.25 million tonnes of refined sugar per year from the current 1.25 million tonnes, fortifying MSM's position as the sugar leader in Malaysia, and ensuring a viable future as a regional supplier of refined sugar.



CHAIRMAN'S STATEMENT

Assalamualaikum w.b.t

DEAR SHAREHOLDERS,

WELCOME TO MSM MALAYSIA HOLDINGS BERHAD (MSM) ANNUAL REPORT, FINANCIAL YEAR ENDED 31 DECEMBER 2016.

ON BEHALF OF THE BOARD, I AM PROUD TO ANNOUNCE THAT MSM HAS EMBARKED ON ITS INTEGRATED REPORTING JOURNEY. WITH THE THEME 'SUSTAINABLE GROWTH', THIS IS OUR FIRST FORAY TOWARDS CREATING A HOLISTIC STORY, SHARING OUR PERFORMANCE IN 2016 AND OUR FOCUS ON SUSTAINING GROWTH THROUGH SHORT, MEDIUM AND LONG-TERM STRATEGY.

DIVIDEND FOR OUR SHAREHOLDERS

Firstly, I am glad to share with you that my Board recommends the final dividend of 4 sen per share for FY2016. Adding to the earlier interim dividend of 10 sen per share, the full year dividend amount to 14 sen per share. This brings the total payout for the period to RM98.42 million, or a net dividend payout ratio of 82 percent.

OUR PERFORMANCE IN 2016

Now sharing with you on our performance, we are proud that our revenue grew by 15.22 percent to RM2.66 billion. However, our margins were hampered by increasing costs and marked depreciation of the Ringgit Malaysia (RM) currency. The Group registered a profit before taxation and zakat of RM148.52 million and profit after tax of RM120.72 million. This represents a decline of 56.15 percent compared with the previous financial year. Albeit a very challenging year, the Group invested great amount of effort and energy to steer through the global economic uncertainty.



A detailed discussion of our financial and operational performance can be found in our President/Group Chief Executive Officer's Review and Group Financial Review at pages 26 and 38.



TAN SRI HAJI MOHD ISA
DATO' HAJI ABDUL SAMAD
Chairman

CHAIRMAN'S STATEMENT

OUR NEW LEADERSHIP

Allow me to take this opportunity to pay tribute to our previous President/Group Chief Executive Officer (CEO), Allahyarham Dato' Sheikh Awab Sheikh Abod who passed on while in office in April 2016. Those who have worked with him will remember his committed focus to growth and unflinching expectation of excellence.

Within two years of the late Dato' Sheikh's leadership, he fortified internal work processes and honed a culture of excellence. These finesse qualities have been vital in MSM's steady advancement through another challenging year, as we continue to define our way forward under the helm of our new President/Group CEO, Mohamad Amri Sahari, who was previously our Deputy CEO since 2011 and continue to steer MSM since his appointment in July 2016. He is notably known for his strong core values and has built a career spanning 27 years with FELDA and MSM Group, along with his vast work experience in the sugar industry.

It is a testament to MSM's resilience and strong fundamentals that we have smoothly weathered an unexpected transition in leadership during a time of economic turbulence. Our focus on sustaining growth was achieved by swiftly responding to changes and the flexibility in realigning our strategic initiatives to the current market environment.

STRATEGIC ADVANCEMENTS IN 2016

The challenges of 2015 continued unabated into 2016. The foreign exchange (FOREX) market was volatile with the US Dollar (USD)/Ringgit exchange rate touching a year-low of RM3.85 in April 2016 and then hitting a 18-year high at RM4.48 in December 2016. Topping that, subdued global oil prices which plunged into 13-year low in January, continued to spiral the Ringgit further down.

Outcome from the Brexit referendum in June followed by the US Presidential Election in November shook the market by surprise, consequently led hedging on USD exposure more challenging in 2016. The liquidation of domestic bonds and equities by foreign investors intensified which in turn brought the Ringgit down by 5.4 percent against the USD in Quarter 4 2016.

However, through our systematic FOREX hedging strategy, we managed to meet and lock all of our USD requirements at a more favourable rate of below RM4.15 than the average market rate throughout 2016.

The establishment of our new trading office, MSM Trading International DMCC (MSM Dubai) in February enabled us to better monitor and respond to the sugar market, along with prudently managing our operating expenses.

Another breaking milestone in March is the successful ground breaking for the largest integrated sugar refinery in Malaysia. Located in Tanjung Langsat, Johor Bahru and targeted for completion in 2018. It is set to increase its production capacity of one million tonnes of refined sugar per year, from the current 1.25 million tonnes. We target to deliver 2.25 million tonnes of refined sugar by 2020 – enabling fulfilment to domestic demand and strengthen access to key regional markets.

These are goals set towards becoming a top 10 global sugar player by 2020. To this end we are being mindful on the volatility of the market dynamics, in particular the challenges, opportunities and regulations affecting the sugar industry in the domestic arena as well as the international level. Consequently, we have adjusted previous strategies and initiatives under our new revised plan – Strategic Plan 2020 (SP20) to sustain current strengths and establish new Key Performance Indicator (KPI) targets.



Read more on MSM's strategic initiatives going forward under SP20 on page 68.

OUR RISK MANAGEMENT

The weakening of our Ringgit, increase in global raw sugar price, anticipated sluggish domestic growth, highly regulated sugar landscape in Asia Pacific, stronger competition and higher production cost have been identified as the key risk factors affecting our business today and in the near future.

While we are closely monitoring our performance quarter by quarter to minimise FOREX losses and operational costs so as to sustain profit margins; we have also performed a strategic review on the Group Strategic Blueprint 2020.

This revised strategy is called SP20. In the revision, Management has taken into consideration the challenges and opportunities affecting the sugar industry within the next five years in the domestic arena as well as at the international level and consequentially revised the strategies and initiatives moving forward.

We remain attuned to specific actions and approaches to ensure a unified Group direction, with all teams proactively and continually engaged to achieve our financial and operational objectives by 2020.



A detailed discussion of MSM's risks and risk mitigation initiatives can be found in *Mitigating Our Risks* on page 66.

DELIVERING SUSTAINABLE VALUE

We are committed to developing a holistic approach to business management as a measure towards generating long-term benefits and business continuity. The financial value we create extends to societal contributions and staff development as well as towards driving sustainable shareholder value and reinvestments in our business.

In generating non-financial value as the nation's leading sugar refiner, we take the responsibility of creating new benchmarks and creating a resilient industry on the back of quality products and processes as well as business practices. We are creating a talent pool of skilled industry workers through internship and staff mobility programmes. We also commit to creating a more facilitative work environment for our employees in which we provide recognition, career advancement opportunities and initiatives promoting work-life balance. We contribute time and knowledge back to society by volunteering hours at charitable organisations as well as providing educative initiatives to the young.



A detailed discussion of our corporate social responsibility initiatives can be found in Our Sweet Economic, Environmental and Social Journey on page 112.

COMMITMENT TO GOVERNANCE

We are committed to good corporate governance practice and processes to ensure it supports effective and ethical leadership, promote corporate citizenship values and sustainability efforts. Good governance practise also enhances the confidence placed in our Group by shareholders, business partners, employees and the financial markets. We continue to place a greater emphasis on raising the standards of good governance in relation to Board leadership and effectiveness.

We have improved the diversity within our Board to reflect the varied nature of our operations. The recent appointment of our new board member is part of these ongoing efforts. We are also making significant headway in our endeavour to achieve a minimum of 30 percent women representatives in the workplace.

In March, MSM was honoured with the FGV Corporate Governance Award. The award attests our commitment in good corporate governance and transparency within the Group and industry. In October, MSM was honoured in the Industry Excellence Award 2016 by The National Annual Corporate Reports Awards (NACRA). This is a testament of our improved quality of reporting and motivates us to continually enhance disclosure and transparency.



Read more about our approach to governance in the Corporate Governance Statement on page 80.

OUR FUTURE PRIORITIES

We are currently in a challenging market environment and shall strive to focus in our core business of sugar manufacturing and refining; improve production efficiency and operational reliability in Prai and Perlis; greater collaboration with customers and industry players; and prudent capital spending.

Our unwavering focus is to achieve a robust financial performance balanced with a sustainable approach over the long-term. In 2017, we aim to ensure MSM is on track to achieve its SP20 to become a top 10 global player in the sugar industry.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to welcome Dato' Mohammad Fakhruddin Haji Mohd Ariff to the Main Board. His skills and experiences undoubtedly will be an asset to us and we look forward to working with you.

My heartfelt gratitude also goes out to our Board of Directors whose wisdom and guidance steer the Group through smooth and rough times, as well as to all of you for your relentless support and loyalty. My appreciation also goes out to all our employees for their dedication during the toughest year.

The road ahead may be challenging but our track has been successfully laid and our destination is clear. I am confident of MSM's continued leadership in the industry.



TAN SRI HAJI MOHD ISA DATO' HAJI ABDUL SAMAD
Chairman

PRESIDENT/GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

DEAR SHAREHOLDERS,

MSM MALAYSIA HOLDINGS BERHAD (MSM) FACED ANOTHER YEAR OF PRESSURED MARGINS WITHIN A CHALLENGING OPERATING ENVIRONMENT. RAW SUGAR PRICES REMAINED ON A BULLISH TREND IN 2016, IMPACTED BY RECORD HIGH CONSUMPTION AND TIGHT STOCKS. IN ADDITION, THERE WAS NO REPEAL FROM FOREIGN EXCHANGE VOLATILITY, SPURRED BY UNCERTAINTIES IN THE AFTERMATH OF THE BREXIT VOTE, CRUDE OIL TREND AND THE US PRESIDENTIAL ELECTION RESULTS. OUR RESPONSE WAS TO REVISE PERFORMANCE TARGETS AND INTENSIFY COST REDUCTION PROGRAMMES WHILE MAKING SUSTAINABLE PROGRESS ON OUR STRATEGIC INITIATIVES.

FACING A CHALLENGING 2016

Though MSM's production recorded another year of optimum operations with a production output of 1,117,010 million tonnes and 15.22 percent revenue growth; a profit before taxation and zakat of RM148.52 million and profit after tax of RM120.72 million from 2015's record of RM372.13 million and RM275.30 million.

The drop in profit was mainly due to the increasing cost of raw sugar, which accounts for 80 percent of MSM's total operating cost. This, coupled with a weakened Ringgit, hampered our margins in 2016. In 2015, the lowest raw sugar price recorded was 13 cents per pound and it reached 25 cents per pound in 2016, a significant increase of 77 percent. It is expected that the raw sugar price will hike further in 2017 due to the current world sugar deficit. Our Ringgit depreciated against the USD by 29 percent from a low of RM3.47 in 2015 to a high of RM4.49 in 2016. Rising cost of diesel and natural gas also impacted MSM's operational expenditure during the year.

A TIMELY ACHIEVEMENT

A rallying point was the timely establishment of our Dubai trading office called MSM Trading International DMCC (MSM Dubai) which was fully operational in February 2016. It functions as our trading arm for both raw sugar and refined sugar, helping us to diversify the income stream. This enabled more competitive procurement. Our trading team is able to monitor the sugar market closely and leverage on proper hedging mechanisms for better stock management. Concurrently, our team is closely monitoring the foreign exchange market to mitigate our exposure of approximately USD450 million a year for procurement of raw sugar.



MOHAMAD AMRI SAHARI@KHUZARI
President/Group Chief Executive Officer

PRESIDENT/GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

“Under SP20, the four main focus areas are Market Leadership, Continuous Growth, Operational Excellence and Enhanced Human Resources framework. New targets have been proposed to track our progress towards our 2020 goals.”

CONTINUED ENGAGEMENT ON POLICY

Domestically, as sugar is a controlled item under the Price Control and Anti-Profiteering Act 2011, MSM actively leads the way forward as a market leader by engaging with the Domestic Trade, Cooperatives and Consumerism Ministry (KPDNKK) on the government's sugar policies as well as retail and industry selling price for sugar.



One of the positive advancements in this area was the removal of approved import permits (APs) in March 2016 for prominent companies in the food and beverage industry. This benefited the local sugar refineries as the APs of imported sugar accounted for about 130,000 tonnes or 9 percent of Malaysian consumption. Continued engagement refined the special domestic price quota of RM1,900 per tonne to small-medium industrial sugar users to RM2,500 per tonne on 1 August (RM2,400 for big industrial users), in response to the escalating price of raw sugar and to discourage sugar smuggling into neighbouring countries.

We continue to work with the government to optimise retail prices too. Currently, Malaysia's refined sugar price is the lowest in ASEAN. Our neighbouring country, Thailand is the second world largest exporter of raw sugar after Brazil sells their sugar at RM3.20 per kg. Though the price of 50kg packs have been increased to RM2,680 per tonne effective 1 June 2016, the price of 1kg packets have remained unchanged since 2012. Given the recent global market conditions, the government has reviewed the pricing and as at 1 March 2017, the retail refined sugar price was increased from RM2.84 to RM2.95 per kg.

ENHANCING OUR PRODUCTION EFFICIENCIES

Internally we are reviewing the necessity of all projects in the pipeline and closely monitoring the budget of ongoing construction of the Johor refinery, ensuring that capital expenditure (CAPEX) does not exceed the approved budget. Our operations team are prioritising maintenance, ensuring equipment are well maintained and up to date. Internal processes and systems are also being enhanced to facilitate efficiency and effectiveness.

Our domestic market share remains steadfast at approximately 60 percent this year, reflecting our position as the nation's leading sugar player. The domestic and industry segments composed the majority of demand, while the export markets continued to demonstrate good potential for growth.

OUR 2016 – 2020 STRATEGIC REVIEW

The sugar industry landscape has changed significantly in the past two years. Coupled with the gloomy global market views in the next few years, it is anticipated that MSM shall not be spared from operating in a challenging economic environment. In response, MSM has executed a strategic review on our Global Strategic Blueprint 2020 and introduced Strategic Plan 2020 (SP20) which continues to focus on our vision to be one of the top 10 global sugar player by 2020. SP20 focuses on improving current assets and operations; prudent spending; low cost asset-light investments and the exploration of sugar trading and distribution in South East Asia (SEA) market once we ramp up capacity through our refining facility in Johor.

Under SP20, the four main focus areas are Market Leadership, Continuous Growth, Operational Excellence and Enhanced Human Resources framework. New targets have been proposed to track our progress towards our 2020 goals.

Market Leadership: MSM is committed to maintain a leadership position through sustaining our reputation for quality and reliability, continuous service improvements and greater engagement with stakeholders. This is deemed pertinent in the light of the expected challenging environment in the next couple of years, suppressed the domestic economic growth forecast and stiff competition anticipated from EU refiners as EU abolishes its quota system by end of 2017.

Continuous Growth: Our new state-of-the-art sugar refinery in Tanjung Langsat, Johor, whose ground breaking was in March 2016, exemplifies our commitment to join the ranks as one of the top 10

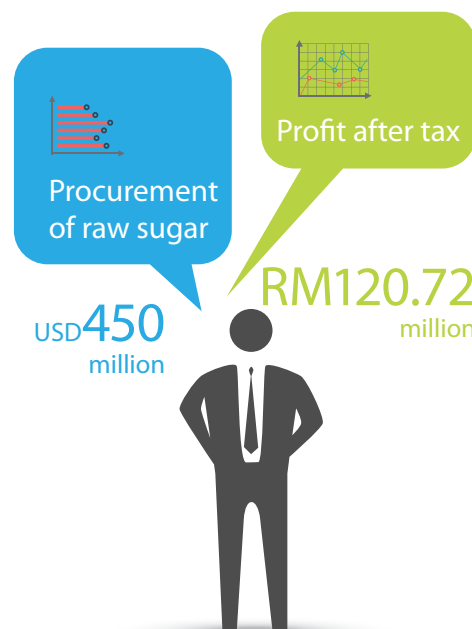
global sugar players by 2020. Upon its expected commissioning in 2018, MSM's annual production capacity will rise to 2.25 million tonnes, an additional of one million tonnes from our existing capacity. MSM will then be able to pursue export expansion into Middle East and North Africa region (MENA) and Asia-Pacific (APAC) region. We are also planning to penetrate local trading and distribution in SEA, explore mergers and acquisitions opportunities in sugar-related assets as well as strategic alliances to further expand our business.

Operational Excellence: Operational excellence anchors our plans to enhance repute by means of reliable operations and efficient cost management. With three operating assets across Peninsular Malaysia, two currently in the Northern side and one upcoming in the Southern side of Malaysia, it is also vital to rationalise across the value chain namely supply chain, logistic and distribution, sales management and operational management.

Enhancing Human Resources: In line with MSM's expansion of operations within and beyond Malaysia, we are relooking into our current Human Resource Strategy Framework to enhance MSM's ability to recruit and retain the right people; conduct timely performance review and effective consequence management; deliver best in class talent management and provide meaningful reward mechanisms. We are focused on hiring the best candidates to fit in the organisation and grooming them in partnership with our team of skilled veterans both on the operations and management front.

Our human capital has and will always be our core assets. I wish to sincerely thank all our employees for their diligence and responsiveness to change. Throughout our journey, the next year always remains a more challenging one. Let's keep our sights trained on the opportunities that are coming our way. I would also like to take this opportunity to thank our Board of Directors and stakeholders, for your steadfast support. My sincere thanks goes out to all our customers and business partners for your unflinching trust and loyalty. I look forward to traversing to a new sugar environment and exploring new opportunities with you.

Finally, together with all who knew him, I would like to express my condolences to the family of Allahyarham Dato' Sheikh Awab. His vision and direction continues to drive us onwards a path of sustainable progress.



Mohamad Amri Sahari @ Khuzari
President/Group Chief Executive Officer

BUSINESS OPERATIONS ANALYSIS AND STRATEGIC REVIEW



RAW SUGAR SOURCING AND PROCUREMENT

As MSM imports 100 percent of its raw sugar, the price of raw sugar significantly impacts our financial performance. MSM is also stringent about quality specifications in terms of colour and polarisation. Monitoring the price and quality of our supply is vital in sustaining business growth and our reputation as a market leader.

Key Performance Indicators and Results 2016

| Performance Indicator | KPIs 2016 | Actual 2016 |
|---------------------------------|------------------|------------------|
| Paper Trading | 13,780 lot | 14,470 lot |
| Physical Trading of White Sugar | 80,623 tonnes | 77,952 tonnes |
| Procurement of Raw Sugar | 1,536,619 tonnes | 1,544,008 tonnes |

2016 Review

Raw sugar price volatility presented the main challenge in 2016. Adverse weather conditions in Brazil and other sugar producing nations led to a significant Supply and Demand deficit during the year. This resulted in unexpectedly high trading activity in hedge fund as buyers increased their long position in sugar futures due to speculation of short supply through to 2018. The resulting upward trend in the price of sugar, is anticipated to prevail over the next few years.

During the year under review, MSM focused on expediting operations of its trading arm MSM Trading International DMCC (MSM Dubai), whose principal business is to undertake sugar trading activities, both in raw and refined sugar to cater for the growing demand in the region, in particular the Middle East & North Africa (MENA), South Africa country and neighbouring Asia Pacific (APAC) region. This was in line with MSM's strategy to expand our presence in the global sugar industry.

For 2016, the strategic objective for raw sugar sourcing and procurement was to achieve cost efficiency for raw sugar purchased and maximise margin for refined sugar export. Responsive strategies to support the management of raw sugar position for our refineries were initiated by implementing strategic hedging mechanisms, firming up policies and procedures for sugar trading activities, and enhancing trade facilities and executing appropriate financing structures.

Careful selection of raw sugar suppliers continued to be undertaken to ensure no compromise in the quality of our end product. If unmonitored, colour changes and polarisation due to change in seasons or harvest conditions, could affect the quality of our refined sugar. Other factors reviewed in determining the supplier were Raw Sugar Freight and Country Premium costs which can contribute up to 8 percent of total raw sugar cost.

After these factors were reviewed, the choice suppliers for 2016 were Australia, Brazil and Guatemala which respectively supplied 12 percent, 68 percent and 20 percent to MSM.

 [Global Presence, page 14](#)

Looking Ahead

For year 2017, the business plan and model for MSM's sourcing and procurement are directed towards finding the best mechanism on raw sugar pricing strategy; mitigating trading risk and tightening up our trading policy. These are short-term strategies to increase our market responsiveness and fortify our resilience amidst an environment of foreign exchange (FOREX) volatility and higher costs.

For the medium term, MSM is exploring new market possibilities in anticipation of increased capacity once our Johor refinery is operational. In growing the refined sugar export business, the Dubai team have embarked on a preliminary study to perform sugar trading activity in neighbouring regions by marketing the "Gula Prai" brand to consumers in destination where sales margin can be maximised. We are cognisant that the competitiveness of our produce and services will be an important factor in winning over new markets.

Once the groundwork is laid, our long-term goal would be to expand our third party trading business to cover both the refined and raw sugar business as part of our vision to be a top 10 global sugar player by 2020.



“ Upon commissioning of our new refinery in Tanjung Langsat, Johor, our annual production capacity will rise to 2.25 million tonnes from the present 1.25 million tonnes. ”

BUSINESS OPERATIONS ANALYSIS AND STRATEGIC REVIEW



RAW SUGAR REFINING

MSM is Malaysia's leading sugar refiner and has been a part of the nation's fabric of growth since 1959. We supply to approximately 60 percent of the domestic market and are in the process of growing our refining capacity with the largest standalone sugar refining facility in Tanjung Langsat, Johor, using the latest state of the art technology. Upon targeted operations in 2018, the refinery will double our annual production, exemplifying our commitment to join the ranks of the top 10 global sugar player by 2020.

Key Performance Indicators and Results 2016

| Performance Indicator | KPIs 2016 | Actual 2016 |
|-------------------------|------------------|------------------|
| Production Volume | 984,515 tonnes | 1,117,009 tonnes |
| Capacity Utilisation | 80 percent | 94 percent |
| Lost Time Injury | 96 days | 73 days |
| Cost Saving initiatives | RM10 million | RM5 million |
| Performance Indicator | 2016 | 2015 |
| Raw Melted | 1,084,614 tonnes | 1,074,706 tonnes |
| Customer complaint rate | 0.04 percent | 0.35 percent |

2016 Review

It was another milestone year for MSM as we achieved our highest production output of 1.12 million tonnes. Refining objectives for the year were aimed at maintaining production costs at a low level by optimising our asset utilisation rate; meeting production and delivery targets to support sales and market growth; ensuring that product quality and food safety compliance met the certified standard and the high expectations of customers. The said objectives were successfully achieved and the Company was able to meet its production targets for 2016.

Cost savings initiatives were prioritised during the year to keep refining costs down and mitigate the pressure placed by rising cost of raw sugar. Even in this challenging environment, RM5 million in cost savings was achieved through good operational management and control, plus a reduction in packaging and plant maintenance costs.

In mitigating the challenges faced this year, scheduling of Capital Expenditure (CAPEX) expenses has also been implemented to improve cash flow issues.

Good factory management had contributed in a major way to the commendable factory performance. Unit production costs had increased only marginally despite a large increase in gas fuel prices. This was realised largely by the scheduled plant maintenance and CAPEX equipment renewal programmes being implemented to increase our efficiency. Improved operational efficiency and reliability was driven by replacing, upgrading and installing process efficient equipment and performing debottlenecking initiatives.

With the Johor refinery, MSM will have three operating assets across Peninsular Malaysia, two in the Northern states and one in the Southern side of Malaysia. The strategic location of the said plants together with modern access to rail and ports would augur well in rationalising the demand and anticipated reduction in costs across the value chain; namely supply chain, logistics and distribution, sales management and operational management; moving towards more efficient cost management in all key operating functions. In seeking operational excellence, the groundwork was laid in 2016 to establish improved communication coordination between sales and production units towards the consolidation of a more focused warehousing system.



Developing a talent pipeline for our new refinery in Johor before its full commissioning was a core focus for the year and also for 2017. As market leaders of the industry, the best skill sets available for the job are mostly found within our own internal talent pool. We aim to develop our overall technical competence, through staff mobility programme to build a sustainable pool of talents to maintain operations while selected key staff and expertise are mobilised to Johor to help set up the new MSM refinery and facilitate knowledge sharing between refineries. This encompasses practising systematic succession planning, forming industrial-training alliances with universities, as well as having a comprehensive management trainee programme in place, in addition to programmes for executive and leadership development. A total of 250 positions shall be filled from 2016 to 2018 through new talent advertisement and internal hiring initiatives.

A Performance Management System also known as Balance Score Card (BSC) has been aligned throughout the MSM Group towards developing a high performance culture. The Group is addressing prevailing work-culture shortages and employee satisfaction levels, and has identified corporate values to provide rewarding careers to our people, sustain productivity growth and promote employee retention.

As a result of strenuous efforts made by all employees to improve their performance, our customer complaint rate was only 0.04 percent as compared to 0.35 percent in 2015.

Johor Refinery Progress Update

Upon completion of the new refinery in Tanjung Langsat, Johor, in the 1st quarter of 2018 our annual production capacity will rise to 2.25 million tonnes from the present 1.25 million tonnes. Ground breaking for this refinery commenced in March 2016, initiated on the 50.63-acre land plot. We have completed all piling works and have now moved to undertake the construction of pile caps and ground slab; and are in the process of tendering all the main Civil, Structural and Architectural packages including other main direct purchase packages.

Looking Ahead

With the new refinery coming on board in 2018 and leveraging on the new technology in process equipment, MSM is focused on continuing its strategy to increase output and reduce cost as to sustain resilient margins in an environment of expected continued high costs of natural resources.

Once operational, MSM Johor enables capacity building which translates to competitive pricing on end products. This allows MSM to foray into neighbouring countries and further strengthen our domestic market share and transform Malaysia into a regional hub for high quality refined sugar.

BUSINESS OPERATIONS ANALYSIS AND STRATEGIC REVIEW



SUPPLY CHAIN MANAGEMENT AND DISTRIBUTION

MSM's Supply Chain function provides supply availability and sustainability to its customer utilising all available assets in MSM's value stream and ensuring optimal cost adherence to the stipulated budget. Cross functional collaboration via the implementation of a lean supply chain ensures operational wastages within processes are continuously improved.

Key Performance Indicators and Results 2016

| Performance Indicator | KPIs 2016 | Actual 2016 |
|---------------------------|-----------------------|-----------------------|
| Sales and Distribution | RM96 million | RM134 million |
| On Time in Full | 24 hours/ 48 hours | 24 hours/ 48 hours |
| Customer Service Level | 95 percent | 92 percent |
| Inventory Record Accuracy | 90 percent | 85 percent |
| Stock Cover | 4 days | 7 days |
| Pallet Rental | RM1.7 mil | RM700,000 |

2016 Review

The year focused on implementing greater synergy and collaboration across the value chain to ensure teamwork, alignment and majority consensus is adopted. This was necessary in the face of a long practised stand-alone policy within each function that has resulted in a silo mentality within the cross functional units of distribution, warehousing and logistics.

We continue to engage all value chains within the value stream with the objective of increasing profitability, optimising operational cost, maintaining or increasing market share, and eliminating non-productive process through the identification of process waste via the lean supply chain process. We have also instilled supply chain KPIs in all processes that affect the performance and the cost of all value chain so as to be able to monitor, identify failure, improve current processes and set up project teams to improve performance and reduce cost.

During the year, on the logistics front, initiatives were launched to shorten transit times, lower delivery costs, order traceability and service reliability via an integrated transportation management system with product visibility at every point; such as pick-up, receipt, inventory status, loading, transporting and delivery.

Distribution was optimised by maximising load on trucks with minimum two turnaround distribution cycles daily with the best in class distribution plan aligned with customer receiving capacity and timing. This reduced our carbon footprint and increased customer service level. For our warehouse operations, First-In-First-Out (FIFO) flow is being practised and stock cover controlled within the min and max range of safety stocks to reduce space wastage whilst guaranteeing the freshest stocks are being supplied to our customers.

Recognising the limitation of our current skillset in supply chain management and inefficiencies caused by ageing infrastructure and technologies, we continued to outsource non-core backroom processes to third party specialist companies. This included outsourcing of pallets for our warehouses and engaging an external warehouse to ease congestion at MSM's existing warehouse which improves physical flow and eliminates the need to have unplanned shutdown at our plants due to space issues. Distribution has also been outsourced to a third party logistic company to facilitate improvements in documentation management; and a new stevedoring vendor has been appointed which reduced cost on fuel consumption and resulted in improvements to discharging timeline stipulated in the charter party.

By engaging with these backroom specialists, our core team is able to focus on growing the sugar segment and optimise overall deployment strategies to enhance supply chain efficiency, such as new sales zoning strategies to reduce transportation and raw handling costs. The year has seen the introduction of distribution planning, supply and demand planning for warehouses, and improvement of documentation management via proof of distribution (POD) tracking and monitoring. By reconciling POD we have increased cash flow for MSM in 2016 as long outstanding disputes on delivery are resolved.



Looking Ahead

There is much challenge to be faced in optimising change due to the 50 year status quo in our current operations. These include managing resistance to change, heavy expenses required to update ageing infrastructure, and longer turnarounds in incorporating latest digital technology. Change management process will have to be embedded in MSM to ensure a smooth transition to 21st century operations where MSM must be able to react dynamically and proactively to customer demands.

By end of 2017 we target the completion of the pallet outsourcing initiative to completely outsource the pallet management process. We are also reviewing all existing contract on the term, condition and cost and to negotiate for improved rates. We also aim to implement a computerised Fleet Management System to our logistics operations to improve operation productivity and

the Company's overall performance. This will be supported by a recruitment drive of additional drivers and introduction of a rotation shift schedule to address driver shortage issues.

For the medium-term, we seek to ensure that all processes are supported by contingency plans to ensure business as usual in unusual situations such as machine breakdowns or any operational downtime. This will be supported by a thorough review to ensure that idle processes are eliminated or improved, and are compliant to our internal policies and procedures.

In the long-term, MSM targets to deliver segregated warehouse functions i.e. packing warehouse and finished goods warehouse, for better stock management to ensure that only the freshest stocks leave the MSM warehouse and wastages are curbed.

BUSINESS OPERATIONS ANALYSIS AND STRATEGIC REVIEW



SALES AND MARKETING

The main role of our Sales and Marketing division is to increase sales and revenue via various channels of product marketing to the domestic and export markets. In tandem with our sales and revenue growth, we also emphasise enhancing efficient collaboration with all other value streams within the Group. This division also engages with the relevant government agencies and regulators to provide counsel on industry trends, formulation of policies and price management for the sugar industry in Malaysia.

Key Performance Indicators and Results 2016

| Performance Indicator | KPIs 2016 | Actual 2016 |
|-------------------------|-----------|-------------|
| Sales Volume (tonnes) | 949,503 | 1,028,266 |
| Revenue (RM'000) | 2,546,407 | 2,658,446 |
| Debt Collection by Days | 47 | 53 |

2016 Review

Domestic formed the bulk of demand for our product offerings (48 percent), followed by Industries (39 percent) and Export markets (13 percent). Compared with the previous year, the demand composition has swung in favour of Industries (from Domestic markets previously), whilst our Export markets remain an area for further exploration.

Amidst the challenges faced by importation of sugars from other origins into Malaysia, objectives for the year were to ensure a steady refined sugar supply for the domestic market, improve sales and revenue performance and increase the average selling price to offset the challenges presented by the industry.

The on-going initiatives over the past four years to convince the government to roll-back previous policies pertaining to sugar import permits (which is deemed detrimental to the sugar industry in Malaysia) has been a success. Effective March 2016, all issuance of import permits was cancelled by the government. To date, we continue to regularly engage with the government agencies in reviewing domestic sugar prices to reflect global sugar market prices and the ever increasing costs presented in lieu of the current economic condition.

In order to provide stability for the domestic sugar market, our strategy was to engage the sugar industry based on fair and equal competition without going into a price war.

Another positive development for the year was improved debt collection processes which significantly enhanced MSM's cash flow. This was driven by implementing regular face-to-face engagement with our customers to improve feedback and customer relationship.

Looking Ahead

MSM is committed to ensure the nation's growing sugar requirement for both consumer and the industrial segment can be fulfilled, and emerge as an important regional player supplying high quality sugar in the years to come.

With steadily growing sales volume and continued support from the government, MSM looks well positioned to ease the pressure on its operational margins, although this may ultimately depend on global sugar prices to downtrend and stabilise.

For the domestic wholesale and industrial segment, apart from the above, MSM will continue to identify and collaborate with strategic partners to achieve sustainable growth.

A stronger focus on export marketing in collaboration with our trading arm in Dubai is set to pave our dynamic way forward as a leading regional supplier in time with the expected increase in production volume upon completion of our Johor refining operations.



PLANTATION

The plantation arm of MSM started back in 1971 encompassing a 10,000 hectare sugar cane plantation in Chuping, Perlis. The sugar cane plantation ceased operation in 2011 due to lower yields produced hence the focus shifted to rubber plantation. Rubber is raised as the main crop, while oil palm and mango are cultivated as supplementary crops. As rubber is a stable and strong commodity, this activity is expected to deliver long-term sustainable value to the shareholders.

Key Performance Indicators and Results 2016

| Performance Indicator | KPIs 2016 | Actual 2016 |
|--|---------------|---------------|
| Rubber replacement according to schedule | 100 percent | 26 percent |
| Mango planted | 10.7 hectares | 2.22 hectares |
| Reduce Development Cost | 7 percent | 23 percent |
| Reduce fertilising cost | 7 percent | 38 percent |

2016 Overview

During the year under review focus was directed on strategies to optimise the use of plantation land according to long-term goals of the Group. These were to achieve rubber density of an average of 450 trees per hectare; convert areas unsuitable to plant rubber into oil palm planting; increase an additional mango planting areas of 10.70 hectare; reduce development and operating expenses by 7 percent from the budget and to receive supplementary income by rental of vacant lands to third parties.

In August 2016, we started to replace 341,150 rubber seedlings in stages, due to several causes as the survival of a young rubber seedling is very much dependant on temperature and water. These causes are:

1. Too high a temperature and lack of water which are not conducive for the survival of the plant.
2. Water logged area cause decay to the root system, thus increasing the mortality rate of seedlings.

By the end of the year, 26 percent of the trees had been successfully replaced while the remaining 74 percent shall be continued in stages beginning April/May 2017. Further, 2.22 hectares of mango had been successfully planted while the remaining 8.48 hectares shall continue throughout 2017.

In terms of costs reduction, we managed to negotiate with the suppliers to reduce the price of fertilisers by 38 percent in comparison with the budget, and increase the use of effective mechanical means such as grass slashing, ploughing and harrowing to save on the cost of weed killers.

To diversify our income stream, we offer unused vacant land for tenancy by third parties. To date, 196.39 hectares of the land has been rented and the annual income is RM196,390.

Looking Ahead

Plans are on track to deliver on the KPIs set in terms of achieving the targeted rubber density and acreage for mango. In order for rubber density to reach 450 hectare, the continued replacement of 252,455 of rubber seedlings have been brought forward to 2017. In addition, another 227,500 of rubber seedlings shall be replaced in stages. These are towards increasing the yield of rubber to 1,100 kg per hectare targeted by year 2021.

In 2017 we will also continue the planting of the remaining 8.48 hectare of land with mango in order to have a total mango planting area of 21.89 hectares. Discussion with the management is also ongoing to convert the areas unsuitable to plant rubber – wet and low lying areas of 500 hectares – to oil palm planting in order to increase the yield of oil palm to 17.33 ton per hectare by year 2021.

We will also continue to identify more unused vacant land for tenancy by third parties.



GROUP FINANCIAL REVIEW



“ Our focus for 2016 was on preserving margins by managing our costs, to counter the rising price of raw sugar and weakening of the Ringgit. Hence, we emphasised on measures to mitigate risks and enhance our financial strategies. Nonetheless, we believe that, anchored on over 50 years of experience in the sugar industry, MSM Group will be able to maintain its course and navigate through the challenges of 2017. ”

Aznur Kama Azmir
Chief Financial Officer

MSM steadfastly weathered through a challenging year even with the difficult market conditions and volatile issues affecting overall global market sentiment; such as the unexpected BREXIT outcome, the US presidential election and the change it brings in the US Government trade protectionism policy, increasing price of raw sugar and weak Ringgit. Despite these challenges, MSM has successfully delivered RM2.66 billion in revenue.

This 15.22 percent increase year-on-year (YoY) was generally driven by a 6 percent increase in the price of refined sugar after the government removed approved import permits (APs) in support of the domestic sugar market. However, cost of sales also rose substantially by 28.03 percent due to the substantial rise in the price of raw sugar, leading to Profit Before Zakat and Taxation declining by 60.09 percent YoY to approximately RM148.52 million and RM120.72 million in profit after tax (PAT).

Notwithstanding the above, appreciating the trust given by the shareholders to the Board and management, the Group continued to deliver a healthy dividend yield in accordance to its dividend policy. The Board has agreed to an annual dividend of 10 sen and additional dividend of 4 sen for the financial year. Total payout for the period is RM98.42 million, or a net dividend payout ratio of 81.52 percent.

FINANCIAL SCORECARDS

The key contributors to MSM earnings for 2016 were our refineries in Malaysia and, for the first time, MSM Trading International DMCC (MSM Dubai).

Set Financial Scorecards also known as Key Performance Indicators (KPI) were outlined in the year's strategic blueprint for the refineries and the results are as follows:

Production Cost

Production cost for 2016 increased by 19%, overshooting its set KPI and increased by 21% vis a vis previous year's achievement. Other production KPIs registered positive improvements. Capacity utilization and loss time injury showed an improvement with the former registering 94 percent against the target of 83 percent and the latter resulting in 73 days instead of the budgeted 96 days.

Assets

Property, plant and equipment increased by 35 percent due to ongoing progress of MSM Johor refinery which amounted to RM230 million as compared to RM41 million in 2015. As this is as yet a non-contributing asset, return on assets decreased to 4 percent as compared to 10 percent the previous year.

A more focused approach to debt collection was initiated by the Credit Control Committee in 2016. This facilitated a greater synergy in collection strategies on long overdue debts and saw trade receivables decreasing by 24 percent during the financial year.

Higher cash balance is consistent with lower receivable balance of the Group.

Liabilities

Payable increased by 151 percent to RM473 million at the end of the year primarily due a shipment of raw sugar in transit at the end of the year. As a result, creditor days have been extended to 66 days in 2016 as compared to 36 days in 2015.

Capital Resources

MSM's gearing ratio stood at 26 percent in 2016 from 17 percent in the previous year resulted primarily from higher external loans during the year for the purposes of construction of the new refinery in Johor and loan to a subsidiary company also for the aforementioned construction.

New Trade Operations

For MSM Dubai, as 2016 was its first year of operations, its primary task is to focus on establishing its presence in Dubai and operate as MSM's trading hub outside Malaysia. This was completed successfully and the company registered a healthy revenue and profit for the year. Having gained knowledge and experience of the market environment, two key KPIs have been set for its operations in 2017. These are to deliver a white sugar margin above USD10 per tonnes for refined sugar sales export from Prai and to record minimum sales of 10,000 tonnes per month in pure third party trading for white sugar, at a profit margin higher than USD5 per tonnes.

STRATEGIC INITIATIVES

Other than ensuring that Financial Scorecards were tracked during the year, other initiatives pursued during the year were as follows:

Financial Management Initiatives

- Prudent capital management via an optimal funding strategy, foreign exchange (FOREX) hedging mechanism and managing capital expenditure (CAPEX). These ensured a healthy and sustainable balance sheet as a foundation of future growth.
- Monitoring of other key financial ratios such as revenue and profit growth, profit margin, net asset per share, gearing ratio, average interest costs and a healthy cash balance. The last being of primary focus as cash is king in the current environment.

Information Technology (IT) Roadmap

- In 2016, the IT Steering Committee (ITSC) approved an IT roadmap for the Group. This requires Group IT to enhance its services by aligning IT requirements with business strategic direction and perform as an important tool rather than a mere support service function. Using IT as an enabler, we are investing in the suitable technology in advancing MSM forward.

Risk and Governance

- Greater emphasis was given on risk and governance during the year with support from the internal auditors as well as external auditors to spearhead the audit function and provide a third eye check and balance to the Group. For example, in mid-2016, a mid-office function was set up and spearheaded by the risk management and governance team to ensure that our trading office adhered to a strict policy and trading limit.

FUNDING STRATEGIES AND WORKING CAPITAL REQUIREMENTS

In 2016, MSM initiated its pilot USD funding programme to fund its raw sugar purchase via a cheaper USD financing facility. This was a success, enabling savings of up to RM200,000 per vessel.

For working capital requirements, MSM has been consolidating its efforts to increase trade and FOREX facilities. For instance, by end of the 2017, MSM Perlis will have more than doubled the number of trade and FOREX facilities it previously had. This will improve access to better funding rates.

Our focus continues in managing CAPEX of our new Johor refinery. This project is currently funded by CIMB Islamic and HSBC Amanah via RM1.25 billion Islamic Syndicated Financing Facility.

Moving forward, MSM will continue to work on getting better trade facilities and structures from other financial institutions.

LOOKING AHEAD

The outlook for 2017 continued to be challenged by higher production cost as a result of higher cost of raw materials used in production, continued weakness of the Ringgit and inflationary pressures. Whilst we maintain there will be a slight YoY growth compared to 2016, emphasis will be placed on increasing productivity, yields and more substantial improvements in operational cost.

In cognisance of the lackluster market environment and external forces affecting the market, we remain alert and forewarned to the following risks:

- Increased cost of business;
- Unchanged refined white sugar pricing;
- Further weakening of Ringgit leading to higher cost of raw sugar imports;
- High funding costs for working capital as well as for construction of Johor Refinery; and
- High barrier of entry to the neighboring countries with market potential such as Indonesia which is a sugar-deficit country and a net-imported of sugar.

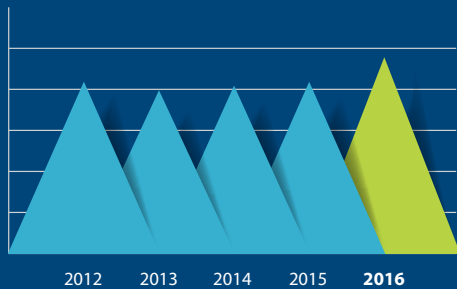
Financial Scorecard for MSM shall still be revenue and Profit Before Zakat and Taxation growth, debtor's day, healthy cash balances, return on shareholders' fund, CAPEX spending vs budget and dividend yield. Anchored on over 50 years of experience in the business, and backed by the strength of its people and operations, MSM Group is poised to withstand these external challenges with resilience and ready to take advantage of improvements in the market environment in the medium to long-term.

5-YEAR FINANCIAL SUMMARY

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|----------------|----------------|----------------|----------------|----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 2,658,446 | 2,307,263 | 2,281,493 | 2,202,480 | 2,301,319 |
| Cost of sales | (2,327,896) | (1,818,173) | (1,814,139) | (1,765,592) | (1,927,133) |
| Gross profit | 330,550 | 489,090 | 467,354 | 436,888 | 374,186 |
| Other operating income | 6,500 | 4,686 | 6,169 | 11,270 | 3,498 |
| Selling and distribution expenses | (98,406) | (71,914) | (75,402) | (57,886) | (53,608) |
| Administrative expenses | (80,081) | (70,734) | (53,122) | (42,738) | (43,529) |
| Other operating expenses | (5,570) | (5,085) | (5,527) | (252) | (3,254) |
| Other (losses)/gains – net | 3,428 | 25,769 | (4,345) | 1,501 | 3,544 |
| Profit from operations | 156,421 | 371,812 | 335,127 | 348,783 | 280,837 |
| Finance income | 5,511 | 7,862 | 12,891 | 15,017 | 15,371 |
| Finance costs | (13,417) | (7,546) | (3,719) | (4,895) | (11,049) |
| Profit before zakat and taxation | 148,515 | 372,128 | 344,299 | 358,905 | 285,159 |
| Zakat | (2,000) | (5,000) | (4,500) | (17,481) | (16,580) |
| Taxation | (25,793) | (91,832) | (82,786) | (86,747) | (66,551) |
| Profit for the financial year | 120,722 | 275,296 | 257,013 | 254,677 | 202,028 |
| Item that may be subsequently reclassified to profit or loss | | | | | |
| Currency translation difference | (2,213) | – | – | – | – |
| Total comprehensive income for the financial year attributable to owners of the Company | 118,509 | 275,296 | 257,013 | 254,677 | 202,028 |

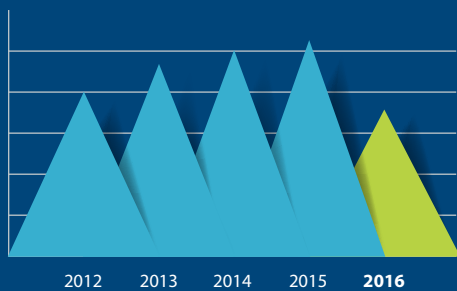
FINANCIAL RATIOS

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--------------------------------|-------|-------|-------|-------|-------|
| Return on shareholder's equity | 6.1 % | 13.5% | 13.2% | 13.7% | 11.6% |
| Return on total assets | 3.7 % | 10.1% | 10.2% | 11.7% | 8.6% |
| Debt equity ratio | 0.6 | 0.3 | 0.3 | 0.2 | 0.3 |
| Dividend cover | 0.7 | 1.5 | 1.5 | 1.7 | 1.5 |



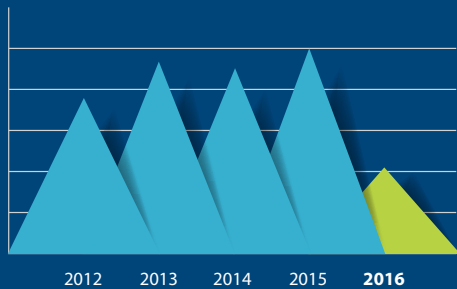
Revenue (RM'000)

2,658,446



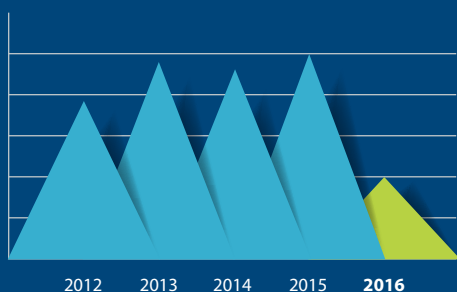
Gross Profit (RM'000)

330,550



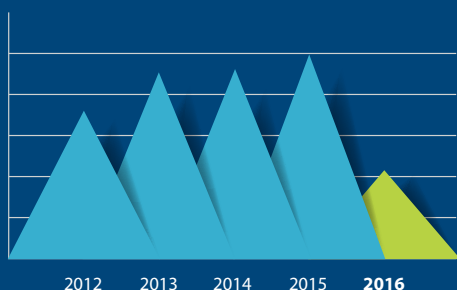
Profit from Operations (RM'000)

156,421



Profit Before Zakat and Taxation (RM'000)

148,515

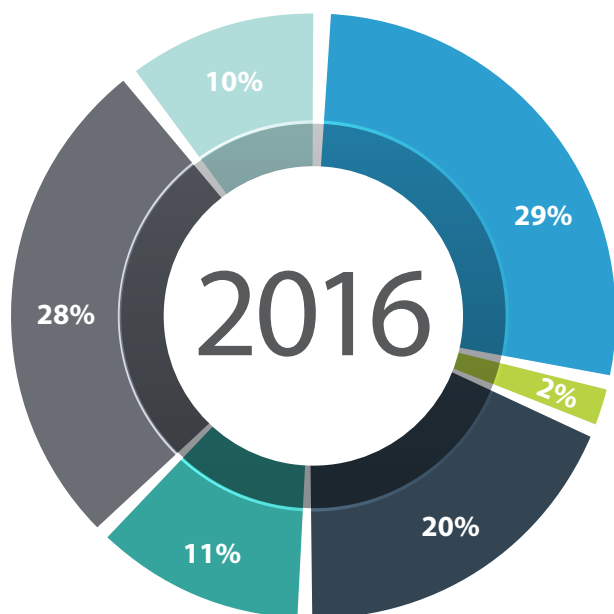


Profit for the Financial Year (RM'000)

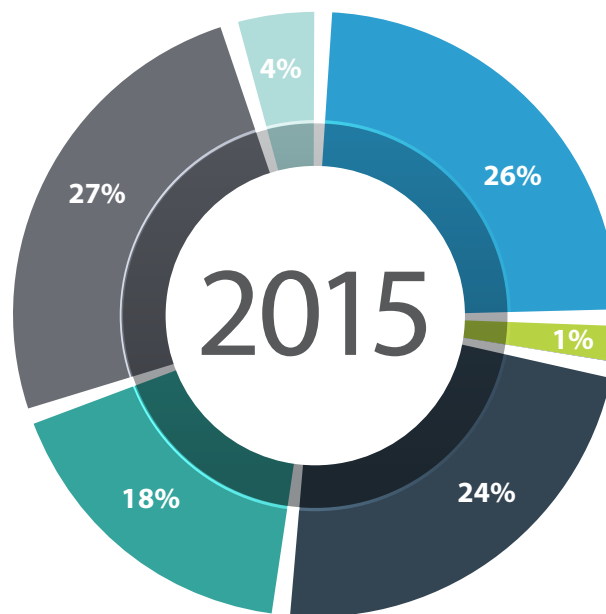
120,722

SIMPLIFIED GROUP STATEMENT OF FINANCIAL POSITION

Total Assets



- Property, Plant & Equipment
- Other Assets
- Intangible Assets
- Receivables
- Inventories
- Cash and cash equivalents

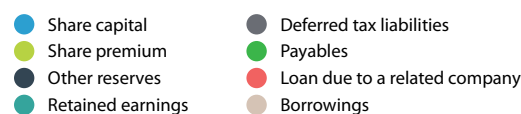
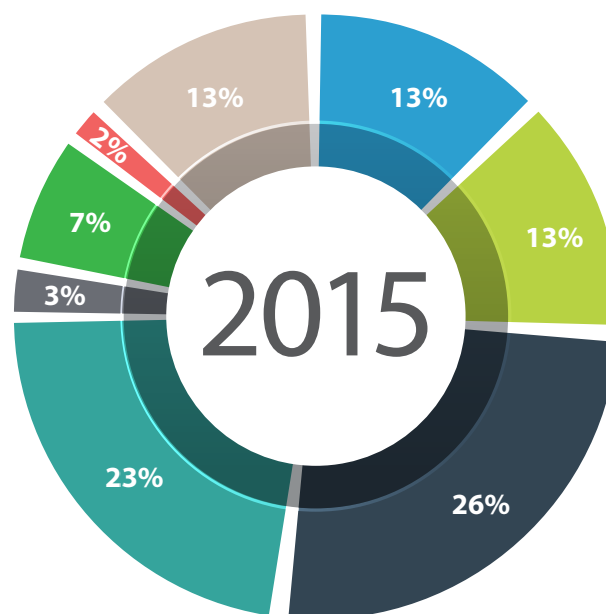
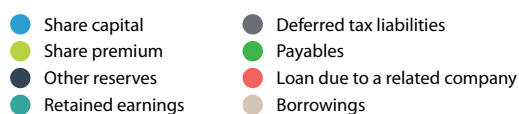
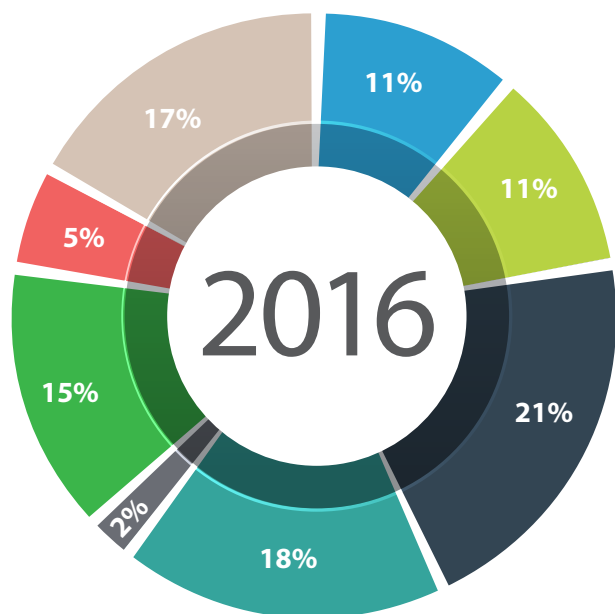


- Property, Plant & Equipment
- Other Assets
- Intangible Assets
- Receivables
- Inventories
- Cash and cash equivalents

| Assets Type | Amount RM'000 |
|-----------------------------|------------------|
| Property, plant & equipment | 950,408 |
| Other assets | 51,064 |
| Intangible assets | 646,704 |
| Receivables | 350,392 |
| Inventories | 888,949 |
| Cash and cash equivalents | 337,911 |

| Assets Type | Amount RM'000 |
|-----------------------------|------------------|
| Property, plant & equipment | 702,007 |
| Other assets | 17,818 |
| Intangible assets | 648,474 |
| Receivables | 500,294 |
| Inventories | 729,910 |
| Cash and cash equivalents | 123,902 |

Total Liabilities



| Liabilities Type | Amount RM'000 |
|---------------------------|------------------|
| Share capital | 351,490 |
| Share premium | 366,765 |
| Other reserves | 694,307 |
| Retained earnings | 574,248 |
| Deferred tax liabilities | 73,744 |
| Payables | 473,219 |
| Loan to a related company | 156,452 |
| Borrowings | 535,203 |
| Current tax liabilities | - |

| Liabilities Type | Amount RM'000 |
|---------------------------|------------------|
| Share capital | 351,490 |
| Share premium | 366,765 |
| Other reserves | 694,307 |
| Retained earnings | 624,454 |
| Deferred tax liabilities | 75,378 |
| Payables | 188,492 |
| Loan to a related company | 60,000 |
| Borrowings | 359,537 |
| Current tax liabilities | 1,982 |

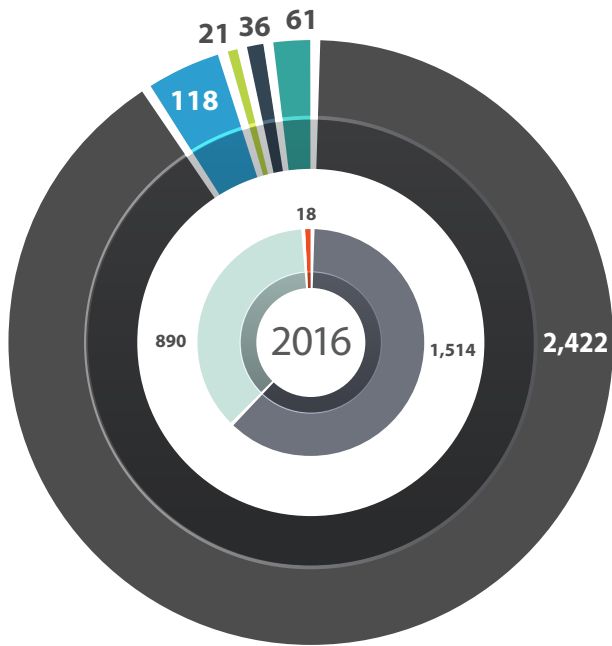
GROUP QUARTERLY FINANCIAL PERFORMANCE

| 2016 | First Quarter RM'000 | Second Quarter RM'000 | Third Quarter RM'000 | Fourth Quarter RM'000 |
|--|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| Revenue | 553,160 | 633,856 | 633,122 | 838,308 |
| Profit from operation | 62,270 | 34,625 | 34,045 | 25,481 |
| Profit before taxation and zakat | 60,555 | 31,077 | 32,750 | 24,133 |
| Profit attributable to equity holders of the Company | 59,344 | 23,679 | 23,305 | 14,394 |
| Basic earnings per share (sen) | 8.44 | 3.37 | 3.32 | 2.05 |
| Single-tier dividend per share (sen) | - | 14.0 | - | 10.0 |
| 2015 | First Quarter RM'000 | Second Quarter RM'000 | Third Quarter RM'000 | Fourth Quarter RM'000 |
| Revenue | 508,486 | 588,320 | 546,491 | 663,966 |
| Profit from operation | 88,508 | 104,840 | 86,805 | 91,659 |
| Profit before taxation and zakat | 90,325 | 105,515 | 84,521 | 91,767 |
| Profit attributable to equity holders of the Company | 71,026 | 79,134 | 63,872 | 61,264 |
| Basic earnings per share (sen) | 10.10 | 11.26 | 9.09 | 8.71 |
| Single-tier dividend per share (sen) | - | - | 12.0 | 14.0 |

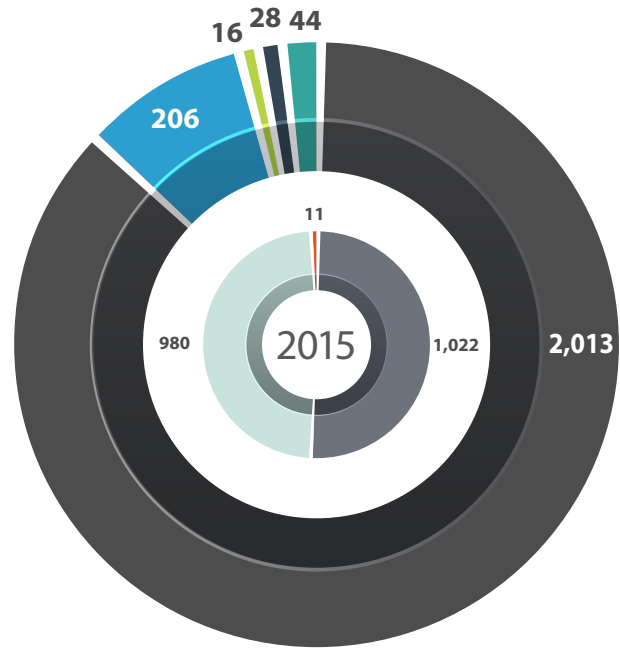
STATEMENT OF VALUE ADDED

| | 2016 | 2015 |
|---|----------------|----------------|
| | RM'000 | RM'000 |
| VALUE ADDED | | |
| Revenue | 2,658,446 | 2,307,263 |
| Purchase of goods and services | (2,386,974) | (1,845,242) |
| Value added by the Group | 271,472 | 462,021 |
| Other operating income | 6,500 | 4,686 |
| Other (losses)/gains – (net) | 3,428 | 25,769 |
| Finance income | 5,511 | 7,862 |
| Finance cost | (13,417) | (7,546) |
| Value added available for distribution | 273,494 | 492,792 |
| DISTRIBUTION | | |
| To employees | | |
| Employment cost | 72,973 | 79,282 |
| To government/approved agencies | | |
| Taxation and zakat | 27,793 | 96,832 |
| To shareholder | | |
| Dividends | 168,715 | 182,775 |
| Retained for reinvestment and future growth | | |
| Depreciation and amortisation | 52,006 | 41,382 |
| Retained profits | (47,993) | 92,521 |
| Total distributed | 273,494 | 492,792 |

SEGMENTAL ANALYSIS



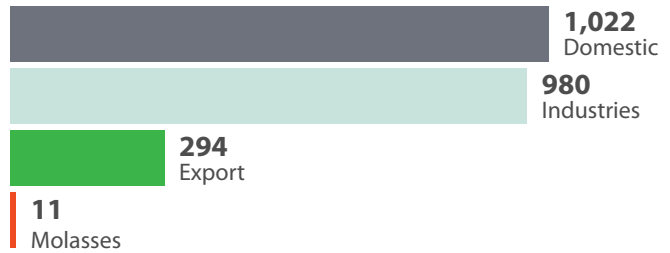
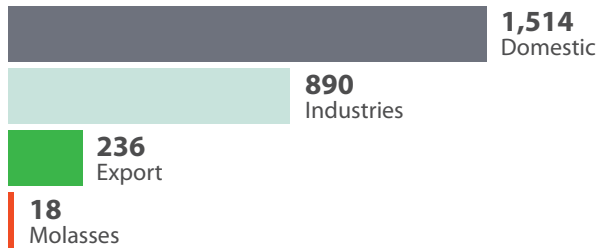
- Asia
- Australia
- Europe
- Others
- Domestic
- Industries
- Molasses
- Malaysia



- Asia
- Australia
- Europe
- Others
- Domestic
- Industries
- Molasses
- Malaysia

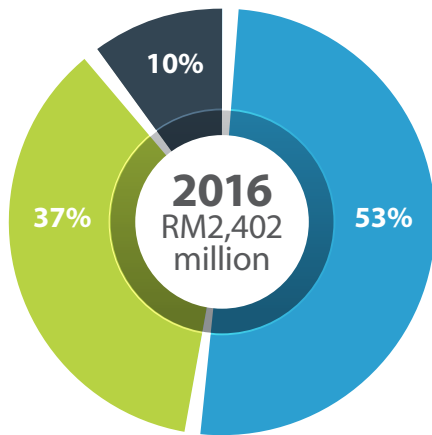
Revenue (RM Million)

Revenue (RM Million)

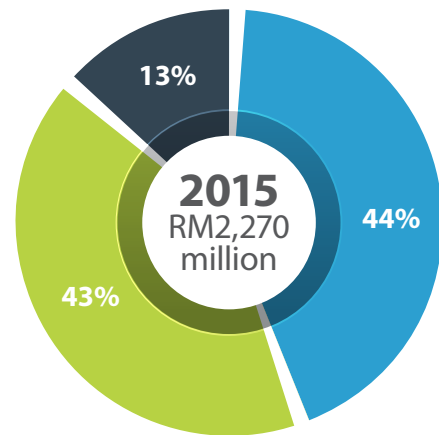


SALES ANALYSIS

Sales Revenue (RM Million)

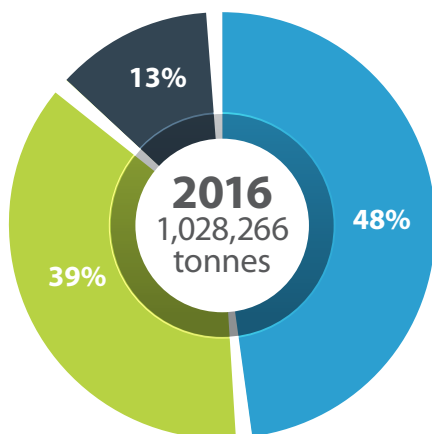


● Domestic
● Industries
● Export

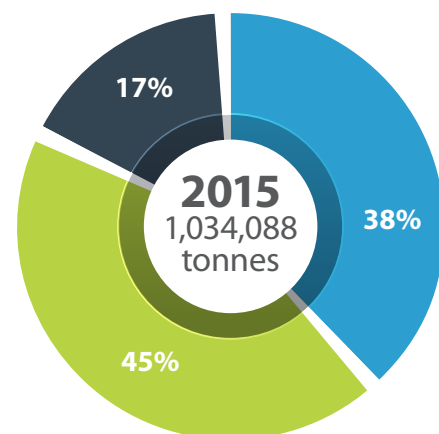


● Domestic
● Industries
● Export

Total Sales (Tonnes)



● Domestic
● Industries
● Export



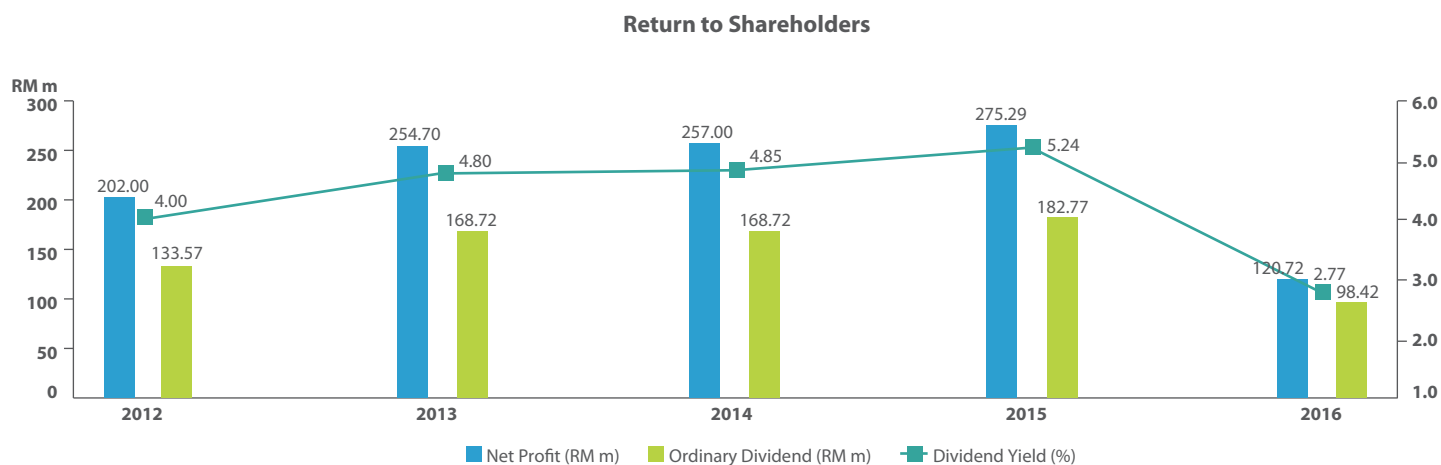
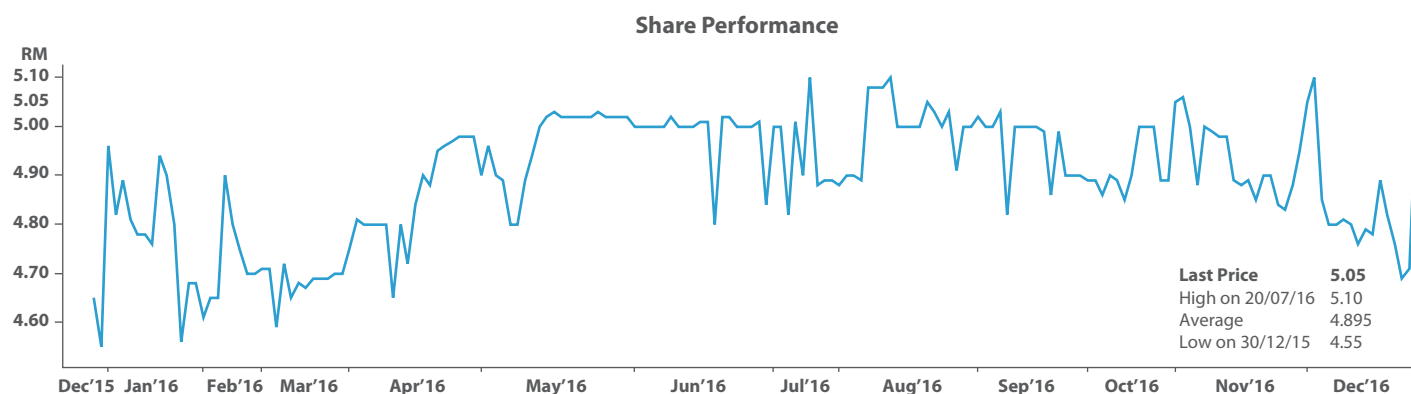
● Domestic
● Industries
● Export

Notes:

1. Sales figure is AFTER consolidation adjustment
2. The sales figure excludes the sales of molasses

INVESTOR RELATIONS

MSM shares opened at RM4.82 on 1 January 2016 and closed the year at RM5.05 having traded approximately 313,049 lots. The highest price for the year was recorded for three times on 20 July, 5 August and 1 December 2016 at RM5.10.



Equity Research Coverage

| | | | | | | | |
|---|-----------------------------|---|---------------------|---|----------------|---|------------------------|
| 1 | Affin Hwang Investment Bank | 3 | CIMB | 5 | MIDF Research | 7 | RHB Research Institute |
| 2 | AllianceDBS Research | 4 | Maybank IB Research | 6 | M&A Securities | 8 | Kenanga |

FINANCIAL CALENDAR

2016

- **23 February 2016**
4th quarter ended
31 December 2015
- **19 May 2016**
1st quarter ended
31 March 2016
- **23 August 2016**
2nd quarter ended
30 June 2016
- **21 November 2016**
3rd quarter ended
30 September 2016

- **30 March 2016**
Annual Audited Accounts
for the Financial Year ended
31 December 2015

5th Annual General Meeting

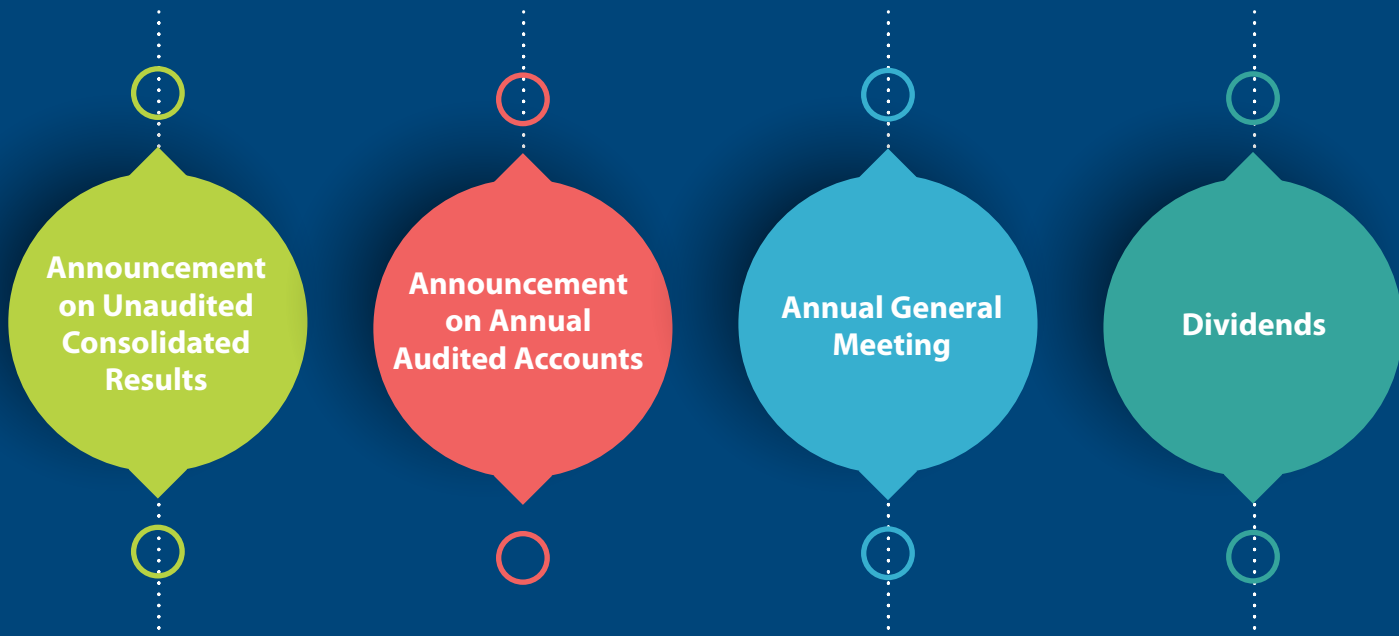
- **18 April 2016**
Notice of meeting
Issuance of Annual Report
- **10 May 2016**
Meeting date

Single Tier Final Dividend of 14.0 sen per ordinary share for the financial year ended 31 December 2015

- **27 May 2016**
Entitlement
- **10 June 2016**
Payment

Single Tier Interim Dividend of 10.0 sen per ordinary share for the financial year ended 31 December 2016

- **6 December 2016**
Entitlement
- **30 December 2016**
Payment



**Announcement
on Unaudited
Consolidated
Results**

**Announcement
on Annual
Audited Accounts**

**Annual General
Meeting**

Dividends

- **22 February 2017**
4th quarter ended
31 December 2016

2017

6th Annual General Meeting

- **20 April 2017**
Notice of meeting
Issuance of Annual Report
- **15 May 2017**
Meeting date

Single Tier Final Dividend of 4.0 sen per ordinary share for the financial year ended 31 December 2016

- **29 May 2017**
Entitlement
- **13 June 2017**
Payment

The proposed Single Tier Final Dividend is subject to the approval of shareholders of the Company at the 6th Annual General Meeting.



GROWING

INNOVATION AND EFFICIENCY

MSM has made key inroads in lowering costs through resource optimisation, increasing efficiency via the implementation of Enterprise Resource Planning and sustaining excellence with the introduction of new initiatives and systems. Innovative cost reduction initiatives are continuously implemented to improve efficiency from sourcing to production chain. These initiatives saw increased optimisation of asset utilisation and a lower capital expenditure for 2016.



AWARDS & CERTIFICATIONS



2016

INDUSTRY EXCELLENCE AWARD 2016 – CONSUMER PRODUCTS

Awarded by: The National Annual Corporate Report Awards (NACRA)



2015

EXCELLENCE IN MANUFACTURING SECTOR

Awarded by: Global Leadership Awards 2015

BEST BRAND IN SUGAR MANUFACTURING

Awarded by: Global Branding Awards 2015

SUPER BRAND – BEST BRAND IN REFINED SUGAR PRODUCER

Awarded by: 5th Asia Success Awards 2015

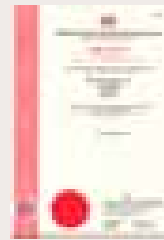
INDUSTRY EXCELLENCE IN MANUFACTURING

Awarded by: 6th Middle East Business Leadership Awards 2015

MERIT IN NACRA 2015

Awarded by: NACRA

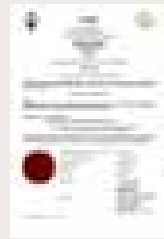
HACCP



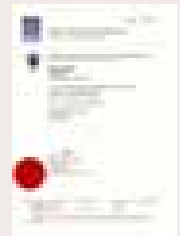
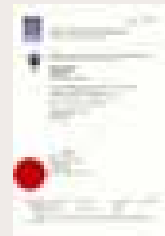
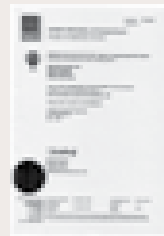
HALAL



FOOD SAFETY



LICENSE



HACCP

- Hazard Analysis and Critical Control Point (HACCP) Certification by the Ministry of Health, Malaysia

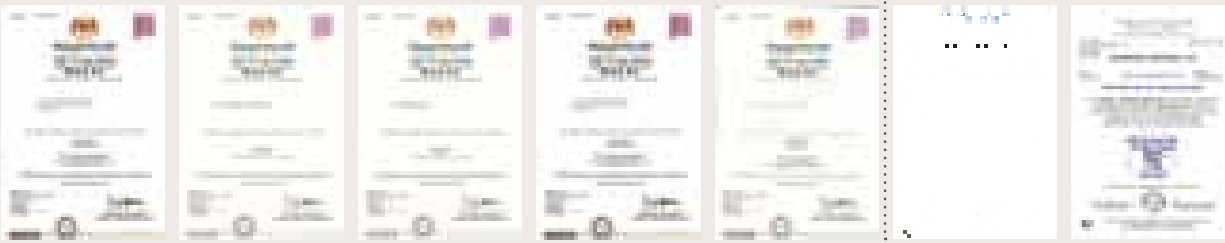
HALAL

- Halal Certification by Department of Islamic Development (JAKIM) as confirmation of our compliance with stringent food processes for White Refined Sugar, Brown Sugar, Icing Sugar, Castor Sugar and Organic Sugar

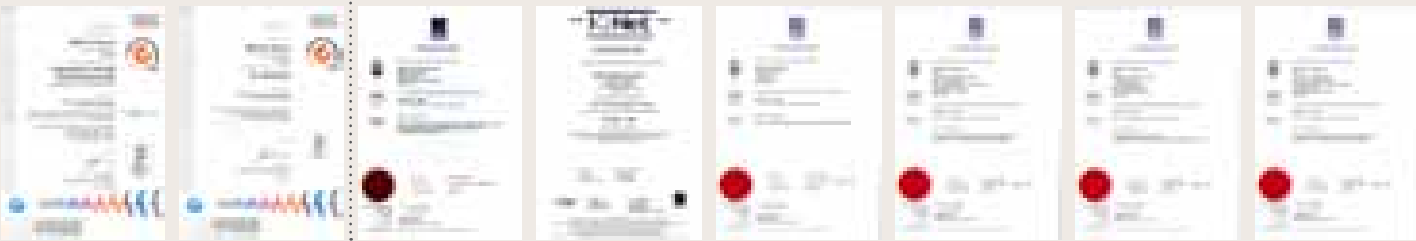
KOSHER

- Kosher Certifications by London Beth Din Certified Company

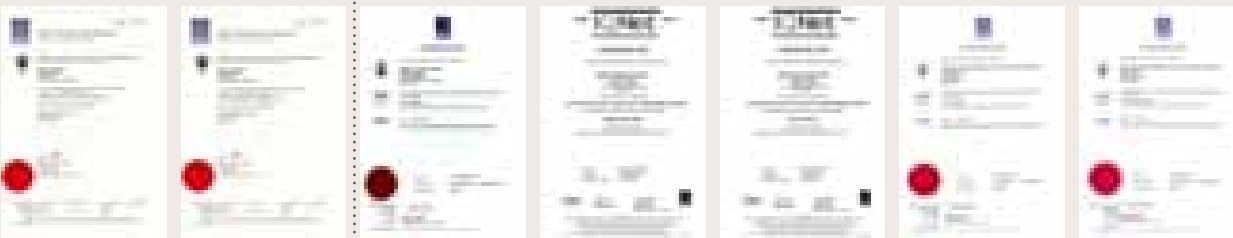
KOSHER



QUALITY MANAGEMENT



OCCUPATIONAL HEALTH & SAFETY

**FOOD SAFETY**

- Food Safety System FSSC 22000 and ISO 22000:2005 Certifications by SGS Malaysia for Manufacturing and Packing of Refined Sugar
- Food Safety Management System FSSC 22000 and ISO 22000:2005 Certifications by SIRIM QAS and International Certification Network for: Manufacturing of white refined sugar from: Receipt of raw sugar • Processing • Packaging • Loading into transportation vehicles

QUALITY MANAGEMENT

- ISO 9001: 2008 Certification by SIRIM QAS and International Certification Network for complying with Quality Management Systems in Manufacture of Refined Sugar and Related Products, Receiving and Warehousing of Refined Sugar, Delivery of Refined Sugar to Customers

LICENSE

- MS4 Certification by SIRIM QAS for license to use certification mark on white refined sugar

OCCUPATIONAL HEALTH & SAFETY

- OHSAS 18001: 2007 Certifications by SIRIM QAS and International Certification Network for complying with Occupational Health and Safety Management System for the Manufacture of Refined Sugar and Related Products
- MS1722: 2011 Certifications by SIRIM QAS and International Certification Network for complying with Occupational Health and Safety Management System for the Manufacture of Refined Sugar and Related Products

MOMENTS OF THE YEAR

8 – 10 January

Jobstreet Career and Training Fair at Mid Valley, Kuala Lumpur



4 February

Hi-tea with Analyst at Royal Chulan Hotel, Kuala Lumpur



11 & 12 February

Townhall session at MSM Prai, Penang and MSM Perlis, Perlis



22 February

Launching of MSM Trading International DMCC at Jumeirah Lakes Towers, Dubai, United Arab Emirates



14 March

Cheque handover to Wanita Felda (Wada) for Cambodia Humanitarian Fund at Menara Felda, Kuala Lumpur



21 March

Universiti Teknologi Malaysia Career Carnival 2016 at Skudai, Johor



28 March

Ground breaking of MSM Sugar Refinery (Johor) at Tanjung Langsat, Johor



31 March

FGV Group Corporate Governance Day 2016 at Menara Felda, Kuala Lumpur



16 April

Cycling programme with the Crown Prince of Perlis, Tuanku Syed Faizuddin Putra Jamalullail at Kangar, Perlis



25 – 26 April

FGV Group World OSH Day 2016 at Menara Felda, Kuala Lumpur.



30 April

Gula Perlis Open Chess Challenge at Putra Regency Hotel, Perlis



7 May

Handover of 38 bicycles to four schools in Prai, Penang



10 May

5th Annual General Meeting at Menara Felda, Kuala Lumpur



10 May

Press conference of 5th Annual General Meeting at Menara Felda, Kuala Lumpur



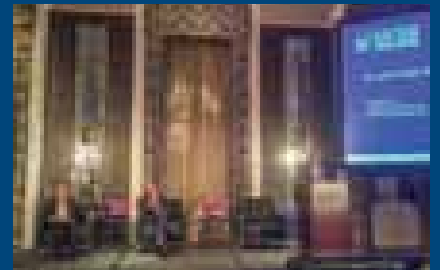
11 May

Health Screening Programme in collaboration with PERKESO, BP Healthcare and Makna at MSM Perlis, Perlis



18 May

X ISO Datagro New York Sugar and Ethanol Conference 2016 at 301 Park Avenue, New York



27 – 28 May

Executive Development Programme at The Haven Hotel, Ipoh



15 June

Program Tautan Kasih Ramadhan FGV Group 2016 at Menara Felda, Kuala Lumpur



MOMENTS OF THE YEAR

21 June

Bubur Lambuk Cooking Programme at MSM Perlis, Chuping, Perlis

**24 June**

Breaking fast with poor, destitute and old folks at Masjid Batu Bertangkup, Perlis

**27 June**

Distribution of business tithe to poor, destitute and old folks at MSM Prai, Penang

**27 June**

FGV Group Bubur Lambuk Cooking Programme at Menara Felda, Kuala Lumpur

**27 August**

Ceremony to celebrate Hajj pilgrims to Mecca at Menara Felda, Kuala Lumpur

**31 August**

MSM Perlis participated in the Merdeka Day Parade at Kangar, Perlis

**12 September**

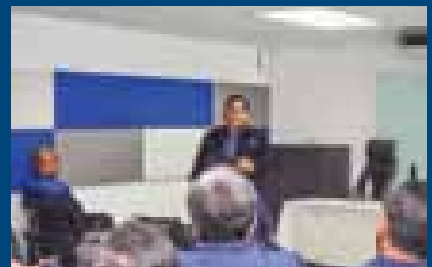
Qurban activities at Chuping, Perlis

**29 September**

Townhall with President/Group Chief Executive Officer at MSM Perlis, Perlis

**30 September**

Townhall with President/Group Chief Executive Officer at MSM Prai, Penang



16 & 23 October

Repainting of Pusat Hemodialisis Felda, Anjung Felda, Kuala Lumpur



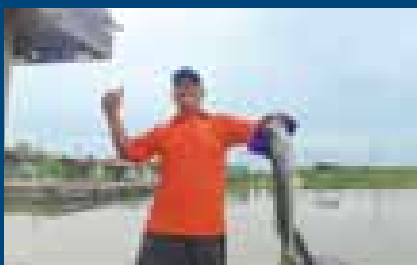
21 October

MSM HQ Bowling Tournament at Wangsa Walk Bowl, Kuala Lumpur



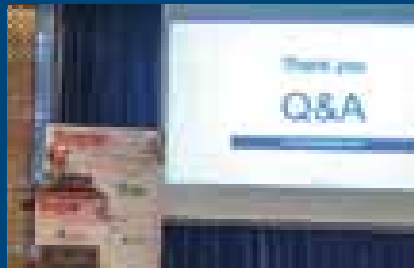
22 October

Fishing Competition organised by MSM Perlis Sports and Recreation Club at Kolam Ayer Hitam, Kedah



31 October – 2 November

22nd Asia International Sugar Conference at The Laguna Resort & Spa Bali, Indonesia



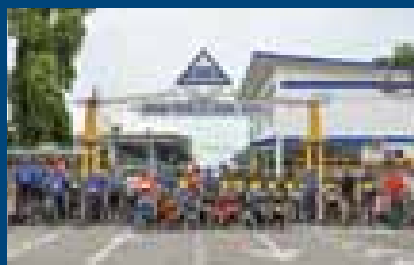
30 November

Safety, Health and Quality Management Week 2016 at MSM Perlis, Perlis



30 November

Fun Ride with Chief Executive Officer MSM Perlis at Chuping, Perlis



1 December

National Annual Corporate Report Awards (NACRA) 2016 at Hilton Hotel, Kuala Lumpur



15 December

Sugar Cluster Biz Chat at Menara Felda, Kuala Lumpur



28 December

Back to School Programme 2017 at Hotel Putra Regency, Perlis



MSM IN THE NEWS

Kilang gula terbesar di Johor

MSM buka kilang pemrosahan gula di Tanjung Lempeng



MSM membuka kilang pemrosahan gula di Tanjung Lempeng.

MSM set to reap greater success with Johor sugar plant

By [Name]



MSM is set to reap greater success with its new sugar plant in Johor. The plant, located in Tanjung Lempeng, is expected to significantly increase the company's sugar production capacity and efficiency.



Sheikh Awaj bin Azam bin Sultan Muzaffar III of Brunei presents plaque to MSM Malaysia

Sheikh Awaj bin Azam bin Sultan Muzaffar III of Brunei presented a plaque to MSM Malaysia in recognition of the company's commitment to social responsibility and community development.

Keuntungan MSM Malaysia RM280.76 juta

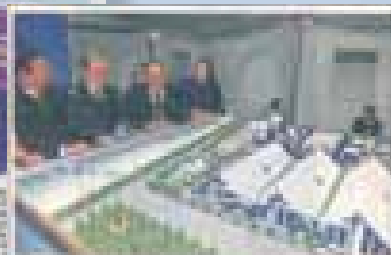
Keuntungan bersih MSM Malaysia meningkat 10 peratus kepada RM280.76 juta pada 2015 berbanding RM255.21 juta pada 2014. Pertumbuhan ini disebabkan oleh peningkatan penjualan gula dan produk sampingan.

MSM ramal 2016 lebih sukar

MSM expects 2016 to be more challenging due to several factors: fluctuating sugar prices, increasing production costs, intense competition, changing government policies, and environmental concerns.

MSM catat pertumbuhan hasil 8.2 peratus

MSM mencatat pertumbuhan hasil 8.2 peratus pada 2015 berbanding 2014. Ini adalah hasil daripada peningkatan pengeluaran modal dan peningkatan efisiensi operasi.



MSM expects to reduce cost by up to 50% with new refinery

MSM expects to reduce its production costs by up to 50% with the completion of its new refinery. This will significantly improve the company's profitability and competitiveness in the market.

MSM eyes two M&As worth RM500mil

Sugar producer targets mid-stream and up-stream businesses

MSM is targeting two major mergers and acquisitions worth a total of RM500 million. The company is looking to expand its operations into mid-stream and up-stream sectors to diversify its revenue streams.



AGRICULTURE
Target: RM5,750 juta untuk Akuisisi Pabrik Gula

MSM fokus kepada perniagaan aliran pertengahan dan hulu

MSM sees sweeter prospects in FY16

Enhance production efficiency to handle sugar expansion in Middle East, S. Africa

MSM well placed to achieve sustainable growth

AS A SUSTAINABLE business leader in the sugar industry, MSM Malaysia Holdings Berhad (MSM) is well positioned to achieve sustainable growth over the next five years.

The company has MSB as its major sugar and infrastructure asset in the Middle East, and is well placed to handle sugar expansion in the region.

MSM's Deputy CEO, Mohamad Amri, who presented the company's FY16 financial results on April 14, highlighted the company's strong performance in the region, particularly in the Middle East, and its strategic focus on sustainable growth.

"During the year, we have built a strong strategic focus on the Middle East region, which is well positioned to handle sugar expansion in the region," Amri said.

Amri also highlighted the company's strong performance in the Middle East region, particularly in the Middle East, and its strategic focus on sustainable growth.



MSM's deputy CEO Mohamad Amri promoted to CEO role

MSM Malaysia Holdings Berhad (MSM) has promoted its Deputy CEO, Mohamad Amri, to the CEO role. Amri has been in the company since 2011 and has been instrumental in the company's expansion into the Middle East region.



MSM Malaysia in expansion mode

MSM Malaysia Holdings Berhad (MSM) is in expansion mode, with the company's revenue growing by 10% in FY16.



10.36 亿建全马糖大炼糖厂 大马糖厂冀 2018 年净赚 5 亿

MSM Malaysia Holdings Berhad (MSM) is planning to build a large sugar refinery in Malaysia, with a total investment of 10.36 billion. The company also aims to achieve a net profit of 5 billion in 2018.

MSM seeks higher ceiling price for sugar

MSM Malaysia Holdings Berhad (MSM) is seeking a higher ceiling price for sugar, as the company's revenue is heavily dependent on the sugar market.



Mohamad Amri dilantik CEO MSM

Mohamad Amri telah dilantik sebagai CEO MSM Malaysia Holdings Berhad. Beliau telah memegang jawatan sebagai Deputy CEO selama beberapa tahun.



MSM catat hasil pendapatan RM553.16 juta

MSM Malaysia Holdings Berhad (MSM) mencatat hasil pendapatan sebanyak RM553.16 juta pada suku pertama tahun ini.



Overseas business to sweeten MSM sales

Overseas business is expected to sweeten MSM sales, as the company expands its operations into new markets.

MSM sasar 10 syarikat gula terbesar

MSM Malaysia Holdings Berhad (MSM) sasar untuk menjadi salah satu daripada 10 syarikat gula terbesar di dunia.

MSM sasar 10 syarikat gula terbesar

MSM Malaysia Holdings Berhad (MSM) sasar untuk menjadi salah satu daripada 10 syarikat gula terbesar di dunia.





GROWING

AGILITY AND RESILIENCE

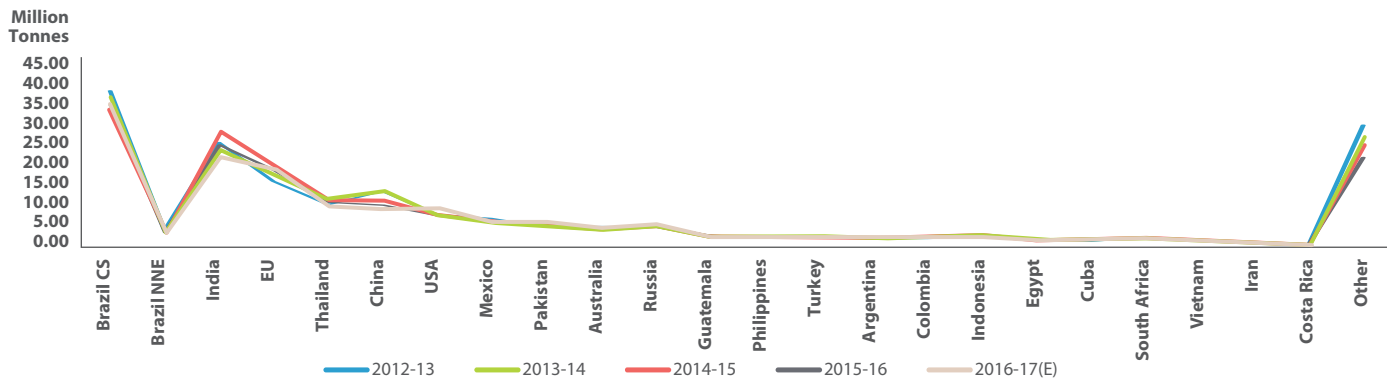
Within an environment of fluctuating costs and economic challenges, MSM focuses on staying agile and responsive to market changes. Prudent strategies guide us forward in ensuring cost competitiveness and staying financially resilient even as we steadfastly stay on track of our goals.



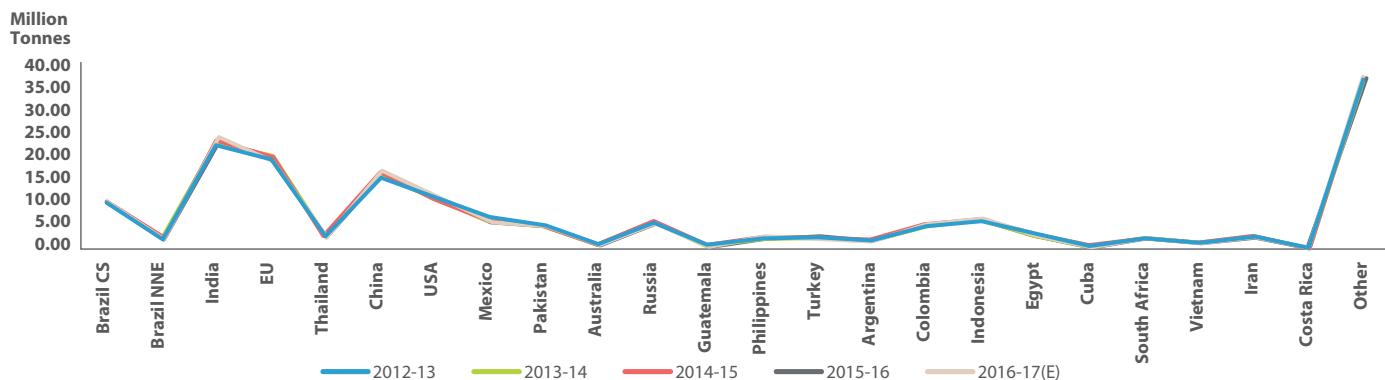
MARKET LANDSCAPE

Global production of sugar increased by 5 million tonnes to 171 million tonnes during 2016/17 as most of the top 25 global sugar producers showed gains despite declines in India and Thailand. The average price of raw sugar continued to trend higher to hitting a high of 24 cents (USD) in September 2016 from less than 11 cents (USD) in August 2015. Global sugar consumption is growing and is forecast at a record of 174 million tonnes, which continues to trend on low stock levels.

Global Sugar Production Outlook



Global Sugar Consumption Outlook



2016/17 SUGAR OVERVIEW

Source: Office of Global Analysis, USDA Foreign Agricultural Service

UNITED STATES: Production is forecast up to a record 8.5 million tonnes. Imports are expected to decline to 2.4 million tonnes with consumption relatively unchanged. Stocks are projected to dip by 8 percent.

BRAZIL: Production is forecast to rise to 37.8 million tonnes on favourable weather and a higher percentage of sugarcane being diverted toward sugar production instead of ethanol. Exports are projected to increase to 27.1 million tonnes with higher demand from markets such as India and Indonesia.

INDIA: Production is forecast to drop to 19.78 million tonnes due to lower yield. India, being the world's largest consumer has forecast that this season their consumption will drop to 25.6 million tonnes. Exports and stocks are forecast down sharply.

THAILAND: Production is forecast to decline to 9.3 million tonnes as severe drought conditions are expected to lower yields. Exports may also get affected as the country is expected to export around 6.9 million tonnes down from 7.1 million tonnes in 2015/16. Consumption is up slightly 2.7 million tonnes on growing household and industrial uses.

EUROPEAN UNION: Production is forecast to rebound to 15.9 million tonnes on higher sugar beet plantings. Consumption is projected flat at 18.5 million tonnes and imports are down. As per the WTO quota restriction, EU is only allowed to export 1.5 million tonnes of sugar, however the quota limit will end by October 2017.

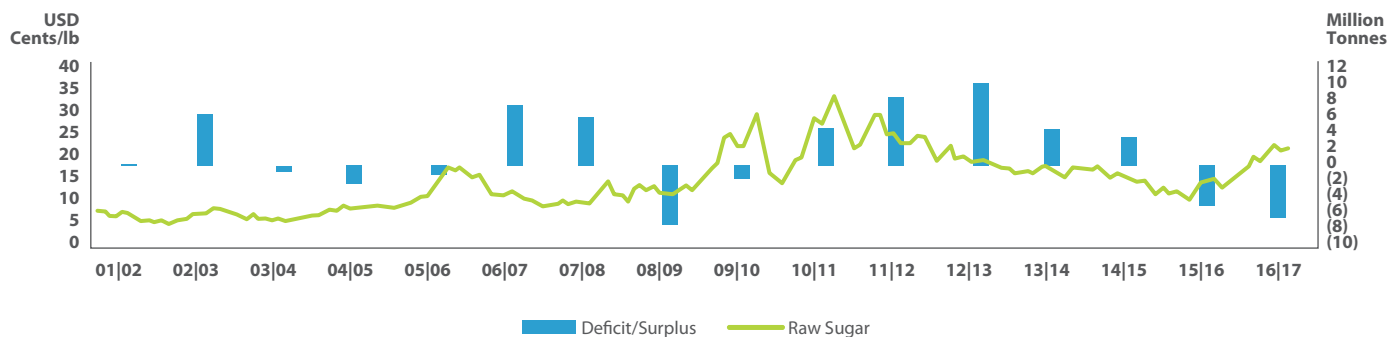
CHINA: Production is forecast up to 9.5 million tonnes. Consumption is forecast flat at 16 million tonnes, imports are expected to fall this year at around 4.7 million tonnes as the government is more interested in auctioning its stockpile. Initial stockpiles was at around 8.5 million tonnes which includes the government reserves.

AUSTRALIA: Production is projected up to 5.1 million tonnes. Exports, up nearly 30 percent in 4 years, are driven by high demand from markets such as Japan and South Korea.

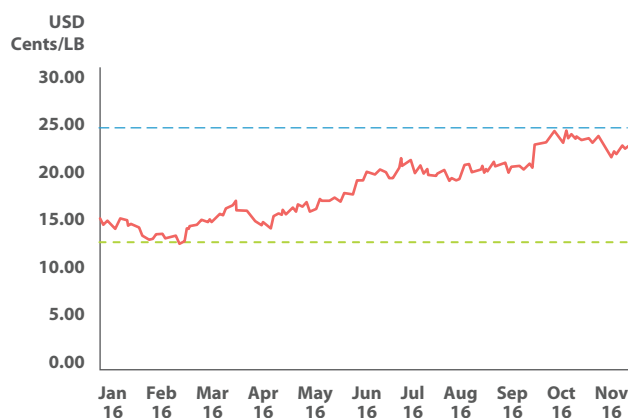
RUSSIA'S: Production is expected to climb to 6 million tonnes. Consumption at 5.85 million tonnes is expected to continue to rise due to expansion in production of home-made alcohol. Imports are forecast down slightly at 300,000 tonnes.

PAKISTAN: Production is forecast up to a record at 5.7 million tonnes reflecting growth in area. Sugar is favoured by farmers who value the government-established procurement price for sugarcane in the face of lower prices for other crops. Consumption is forecast up slightly to 5.2 million tonnes but stocks are expected to soar.

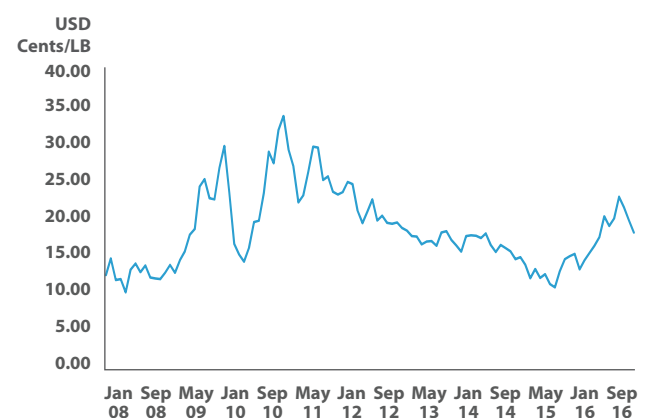
Global Sugar Balance



World Raw Sugar Price in 2016



9-Year Raw Sugar Trend



MATERIAL ISSUES



Our focus on material issues is vital as it influences our business growth and stakeholder values. We strategically analyse the risks and ensure our business grows sustainably in tandem with our vision.

Our process on identifying the material issues is currently based on internal factors as well as the changing external environment, such as economic, social and environmental factors.

Going forward, we intend to intensify our on-going engagement with our stakeholders to provide a more conclusive identification of material issues.

Although many issues remain material over time, we have identified a few issues that have become more important in 2016. These were chosen based on the economic impact towards the business and to the extent in which it is likely to significantly impact in the future.

RESOURCES AND RELATIONSHIPS AFFECTED:

Resources



Relationship



OUR ABILITY TO CONTROL OR INFLUENCE OUR RESPONSE:

- Direct control – Our response to the issue is entirely within our control.
- Shared control – Control in how we respond to the issue is shared with, or exercised through, another organisation or third party.
- Strong influence – We have the ability to influence our response to the issue within our own business and value chain.
- Some influence – We have the ability to influence our response to the issue within our own business.

COST OF RAW SUGAR



What it's about

80 percent of MSM's operating cost is from raw sugar. Our business depends on optimising margins between price of raw and refined sugar. Currently the escalating price of raw sugar and weakening of our Ringgit value are pressuring our margins.

Key risks most relevant to the issue






1. Fluctuations in raw sugar price.
2. Trading risk as we procure raw sugar on futures market.
3. Environmental and social factors that affect raw sugar stock levels globally.

Our ability to control or influence our response to the issue

Some influence by the establishment of MSM Dubai.

- Implementing strategic hedging mechanisms.
- Staying responsive to market changes.
- Better trade facilities and structures.

Business Operations Analysis and Strategic Review and Group Financial Review

| | |
|--|--|
| INVESTOR CONFIDENCE | |
| What it's about | Maintaining the trust and support of our shareholders enables us to operate successfully and meet our responsibilities. |
| Key risks most relevant to the issue | <ol style="list-style-type: none"> 1. Sustained financial and share performance. 2. Ability to deliver on announced strategic thrusts. |
| Our ability to control or influence our response to the issue | <p>Strong influence through constant engagement and commitment to a 50 percent dividend policy of profit after tax.</p> <p> <i>Our Relationship with Stakeholders (Shareholders)</i></p> |
| PRODUCTIVITY AND EFFICIENCY | |
| What it's about | Reliability, quality and ability to meet our customer demands form our core strength. Disruption of business or project delays will undermine MSM's reputation. |
| Key risks most relevant to the issue | <ol style="list-style-type: none"> 1. Unplanned downtime of plant operations. 2. Health and safety performance. 3. Ability to manage disaster recovery incidents. |
| Our ability to control or influence our response to the issue | <p>Direct control via concerted efforts to drive results through productivity and cost saving initiatives; as well as establishment of clear Health, Safety, Security and Environmental (HSSE) policy supported by HSSE training, monitoring and awareness programmes. Ongoing preparation of Disaster Response.</p> <p> <i>Our Sweet EES Journey</i></p> |
| GOVERNMENT POLICY ON DOMESTIC SUGAR INDUSTRY | |
| What it's about | As sugar is controlled under the Price Control and Anti-Profiteering Act 2011, we depend on the government to protect the domestic market sugar policies. |
| Key risks most relevant to the issue | <ol style="list-style-type: none"> 1. Inability to raise price to offset higher costs. 2. Government policies on APs. |
| Our ability to control or influence our response to the issue | <p>Shared control through constant high-level engagement and secure support to manage the domestic refined sugar price and policies.</p> <p> <i>Our Relationship with Shareholders (Government and Regulators)</i></p> |
| CAPITAL STRUCTURE | |
| What it's about | MSM's capital expenditure (CAPEX) has increased due to the current construction of MSM Johor's refinery. Given our tighter margins, lower gearing would strengthen MSM's financial flexibility. |
| Key risks most relevant to the issue | <ol style="list-style-type: none"> 1. Scheduled completion for the new Johor refinery project is on track. 2. The Johor refinery project management costs and deliverables are well within budget. |
| Our ability to control or influence our response to the issue | <p>Strong influence through constant engagement with consultants, contractors and funders to ensure prudent CAPEX spending.</p> <p> <i>Group Financial Review</i></p> |
| ATTRACT, DEVELOP AND RETAIN BEST TALENT | |
| What it's about | MSM needs to attract and retain employees with the right competencies in order to succeed in achieving our 2020 vision to be a top 10 global sugar player. |
| Key risks most relevant to the issue | <ol style="list-style-type: none"> 1. Not able to retain talent in core skills area. 2. Limited supply of technical talents in the sugar industry. 3. Long learning cycle for new entry staff. |
| Our ability to control or influence our response to the issue | <ol style="list-style-type: none"> 1. Creative sourcing of talent – early engagement and participation in graduate employability programmes. 2. Focused development at staff entry levels with defined career opportunities as retention strategy. 3. Implement sharing platforms and facilitate knowledge transfer through staff mobility programmes. <p> <i>President and Group CEO's Review</i></p> |

MITIGATING OUR RISKS



Within MSM's operations, we have identified several risks moving forward. Depending on the nature of the risk involved and the particular business or function affected, we use varying risk mitigation strategies.

| TOP RISK | CONTEXT | MITIGATION | LINK TO KEY STRATEGIES |
|---|---|---|---|
| Increase in price of raw sugar, energy and essential utilities (water and natural gas) | <p>Raw sugar represents 80 percent of our cost. News of short supply in 2017; due to adverse weather conditions, planting cycle and increased global consumption; continues to drive up the price of raw sugar.</p> <p>Operational costs are also rising due to higher price of energy and utilities.</p> | <p>Trading in sugar futures to increase long position, riding on the news of short supply into 2017. Implement proper hedging mechanism.</p> <p>Minimise the unit energy cost of production by operating our factories at maximum production rate.</p> <p>Apply energy efficiency as a new criteria in the selection of new equipment and processes when replacing machinery or adding new capacity.</p> <p>Continuous engagement with banks for more flexible credit limits.</p> <p>Monitor collections from major trade debtors to enhance cash flow.</p> | <p>Continuous Growth</p> <p>Operational Excellence Focus Throughout the Whole Value Chain</p> |
| Heightened foreign exchange (FOREX) exposure | <p>We pay for raw sugar in USD and with the weakening of the Ringgit our FOREX exposure is increasing. The weakened Ringgit is due to USD federal reserve rate hikes, uncertainties in global economic landscape, current crude oil trend and domestic slowdown.</p> | <p>Continuous monitoring on the strength of USD against Ringgit.</p> <p>Implementing proper hedging mechanisms.</p> | <p>Continuous Growth</p> |
| Domestic refined sugar selling price | <p>The continuing hike in raw sugar price as well as weakening Ringgit are pressuring our margins. We have to actively engage with the Government on the policy of the refined sugar price ceiling and approved permit (AP) that affect our profitability.</p> | <p>Constant engagement with government.</p> | <p>Continuous Growth</p> <p>Market Leadership</p> |

| TOP RISK | CONTEXT | MITIGATION | LINK TO KEY STRATEGIES |
|--|---|---|---|
| Competitive sales | Competitive sales will lead to a reduction in market share and lower profit margins. | <p>Engage with government to curb and monitor the number of sugar import AP issuances.</p> <p>Staying responsive to customer feedback and providing good follow-ups to issues raised.</p> <p>Regular visits to improve customer relationships.</p> <p>Close monitoring of market demands and competitors' activities.</p> <p>Ensure reliable supply and convenient delivery of good quality sugar.</p> | Market Leadership |
| Operational and service reliability | Aging machinery, computer software and hardware malfunctions, interruption of utility supplies, production disruption and loss. All these lead to higher operating cost, lower efficiency and loss of customer confidence. | <p>Comprehensive plant and machine upgrading and replacement programme.</p> <p>Planned and scheduled maintenance and service.</p> <p>Ensure skilled and trained operators and technicians for maintenance work.</p> <p>Establish and update standard operating procedures and hazard Identification, Risk Assessment and Determining Control for all activities.</p> | Operational Excellence Focus Throughout the Whole Value Chain |
| Shortage of capable manpower | With new plant construction in progress, we have to ensure a sustainable pool of talents are in place for optimum productivity. Lack of competent staff or poorly trained staff will affect quality, reliability and productivity levels. | <p>Staff Mobility Programme to identify talents and second them to necessary areas.</p> <p>Continuous grooming of talents in-house with an average of 8 hours annual human capital development training per annum.</p> <p>Hiring fresh graduates to partner in-house experts in Engineering and Processing as well as Management.</p> <p>Regular meetings between Management and Union of employees to create a better workplace.</p> | Enhancing Human Resource Strategy Framework |
| Health and safety of our workers | <p>Industrial accidents and health pandemics can lead to lowering of repute, loss of reliability and contamination of products.</p> <p>Quality is of paramount importance. We need to ensure all employees are aware of matters pertaining to hygiene, health epidemics and cleanliness and trained on contamination prevention procedures in order to prevent operational disruptions.</p> | <p>Fully comply with Industrial Safety and environment regulations by reducing our Lost Time Injury.</p> <p>Close monitoring and follow up with authorities on new Health, Safety, Security and Environmental requirements.</p> <p>Increase health and safety consciousness level pertaining to good hygiene, self-quarantine during fever or flu and limiting interaction with infected individuals.</p> | Enhancing Human Resource Strategy Framework |

STRATEGIC PLANNING 2020: PRIORITY AND PROGRESS

SEGMENT

MARKET LEADERSHIP



KEY STRATEGIES



MAINTAIN LEADERSHIP IN DOMESTIC MARKET

STRATEGIC PRIORITIES

- Be the choice of domestic refined sugar under the 'Gula Prai' brand.
- Ensuring our assets are operating at its optimum level to ensure no deficit of sugar supply.
- Continuous engagement with the government to ensure sustainable supply of refined sugar in the country.

CONTINUOUS GROWTH



CAPACITY BUILDING

- Additional 1 million tonnes capacity through construction of new sugar refinery in Johor.

OPERATIONAL EXCELLENCE



EXPAND PRESENCE IN GLOBAL SUGAR INDUSTRY

- Strengthen the structure and governance process for MSM Dubai.
- Explore new business opportunities in the region.



OPTIMISE ASSET UTILISATION

- To increase melting rate in production.
- To replace ageing equipment.
- To comply with certification standard.



INCREASE OPERATIONAL EFFICIENCY

- To align production with Group's sales strategy.
- To implement integrated logistics approach.

ENHANCING HUMAN RESOURCE



DEVELOP HIGH PERFORMANCE CULTURE

- Inculcate corporate value.
- Enhance talent base through staff mobility and development programmes.
- Focus on productivity and return per employee.

PROGRESS 2016

- Cessation of approved import permits (APs) for industrial customers.
 - Negotiated special domestic price quotas for small-medium industrial users.
-
- Ground breaking of MSM Johor in March 2016.
 - Completion of all piling works.
 - Completion of temporary site office and facilities.
 - Most of the major packages had been tendered and awarded to contractors.
-
- Launch of Dubai office in February 2016.
 - Establishing an organisation structure that supports the business and tighten up policies and procedures in relation to the trading activities.
-
- Performed debottlenecking initiative.
 - Significant upgrade of equipment and machineries.
 - Completion of certification standard.
-
- Strengthen coordination between sales and production unit.
 - Consolidation of warehousing system.
-
- Values statement identified.
 - Execute staff mobility initiatives to facilitate knowledge sharing between refineries.
 - Alignment of Performance Management System (BSC) throughout MSM Group.

PRIORITIES 2017

- Managing raw sugar volatility within sugar price ceiling set by the government.
 - Timely hedging of US dollar amidst weakening of Ringgit.
 - Mitigate anticipated stiff competition from EU refiners as EU abolishes its quota system by end 2017.
-
- To ensure the construction progress is on track for completion in Q1 2018.
 - Undertake the construction of pile caps and ground slab upon completion of the piling works.
 - Continue to tender the remaining packages.
-
- Pursue asset-light merger and acquisition strategies.
 - To focus on sugar trading and distribution opportunities in the neighboring countries.
-
- Prudent spending on capital expenditure.
 - Ensure production utilisation rate is above 85%.
-
- To implement sales demarcation exercise.
 - To implement integrated logistics approach for the whole supply chain.
-
- Implementation of values inculcation programmes across the Group.
 - Develop and enhance core competencies through on-job-training through secondments and assignments programme between subsidiaries.
 - Implement employee education assistance programme.



GROWING

COMMITMENT AND VALUE

Steadfastly realising our global and domestic expansion plans and activating key growth strategies, MSM is actively exploring opportunities to expand its market share and customer base particularly in sugar-hungry regional markets and fast-growing countries for synergetic joint ventures or partnerships. These will shift the Company from a local player to a global player. At the same time MSM nurtures an unwavering commitment in fulfilling its social responsibilities to all stakeholders.



BOARD OF DIRECTORS



01

01
DATO' ROSINI
ABD SAMAD

02

02
DATO' MOHAMMAD
FAKHRUDDIN HAJI
MOHD ARIFF

03

03
DATUK HANAPI
SUHADA

04

04
TAN SRI HAJI MOHD
ISA DATO' HAJI ABDUL
SAMAD



05
DATUK LIM THEAN
SHIANG

06
DATO' ZAINAL
HAJI ISMAIL

07
DATUK NOOR
EHSANUDDIN MOHD
HARUN NARRASHID

08
DATO' HAJJAH ROSNI
HAJI ZAHARI

09
DATO' ZAKARIA
ARSHAD

PROFILES OF DIRECTORS

01 TAN SRI HAJI MOHD ISA DATO' HAJI ABDUL SAMAD

APPOINTED:

25 March 2011

COMMITTEE MEMBERSHIP:

Nil

QUALIFICATIONS:

Bachelor of Arts, University of Malaya

CHAIRMAN, NON-INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, male, age 67)

EXPERIENCES:

Former Chief of UMNO Youth Teluk Kemang, State Assemblyman of Linggi and member of the Negeri Sembilan State Executive Committee, Chief Minister of Negeri Sembilan, Minister of Federal Territories and Vice President of UMNO. Currently Member of Parliament for Jempol, Negeri Sembilan and Chief of UMNO Teluk Kemang.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:

Felda Global Ventures Holdings Berhad, Felda Holdings Berhad, Pontian United Plantations Berhad and Encorp Berhad.

02 DATO' ZAINAL HAJI ISMAIL

APPOINTED:

25 March 2011

COMMITTEE MEMBERSHIP:

- Nomination and Remuneration Committee – Chairman
- Investment Committee – Member

QUALIFICATIONS:

- Bachelor of Arts (Hons) University of Malaya
- Diploma in Public Administration, University of Malaya

INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, male, age 73)

EXPERIENCES:

Former Director of Training & Career Development of Lembaga Kemajuan Pahang Tenggara (DARA), the first Director of Sarawak Development Department, General Manager of Yayasan Pahang and State Finance Officer for State of Pahang.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:

Nil

03 DATO' HAJJAH ROSNI HAJI ZAHARI

APPOINTED:

25 March 2011

COMMITTEE MEMBERSHIP:

- Investment Committee – Chairman
- Nomination and Remuneration Committee – Member

QUALIFICATIONS:

Bachelor in Law, University of Technology MARA

INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, female, age 56)

EXPERIENCES:

Advocates & Solicitor in the High Court of Malaysia since 1990 and also as Syariah lawyer under Messrs Rosni, Francis Tan & Co. Currently Chief of Pergerakan Wanita UMNO Maran since 1992 and Pahang since 2008, Executive Committee Member of Pergerakan Wanita UMNO Malaysia since 2004, Information Chief for Pergerakan Wanita UMNO and Special Duties Officer (Parliament) to the Deputy Prime Minister of Malaysia.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:

Nil

04 DATUK NOOR EHSANUDDIN MOHD HARUN NARRASHID

APPOINTED:
1 March 2013

COMMITTEE MEMBERSHIP:
■ Audit Committee – Member

QUALIFICATIONS:
Degree in Civil Engineering and Mechanics,
Southern Illinois University, Carbondale, USA

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, male, age 53)

EXPERIENCES:
Began his career as an Engineer, working for several private companies including Alfa Laval Sdn Bhd and Milford Haven Automation Sdn Bhd. Former Director of Seranta (FELDA) in the Prime Minister's Department (2008-2013). Currently Member of Parliament for Kota Tinggi, Johor.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:
Felda Global Ventures Holdings Berhad, Encorp Berhad, Iris Corporation Berhad and Federal Land Development Authority (FELDA).

05 DATUK LIM THEAN SHIANG

APPOINTED:
23 August 2013

COMMITTEE MEMBERSHIP:
■ Board Governance & Risk Management
Committee – Chairman
■ Audit Committee – Member

QUALIFICATIONS:
■ Bachelor of Business Administration,
Universiti Utara Malaysia
■ Bachelor of Law, University of London

INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, male, age 45)

EXPERIENCES:
Former Director of Glotel Sdn Bhd, Tripro Engineering Sdn Bhd, Focus Indera Sdn Bhd, Latimax Engineering Sdn Bhd, El Medical Systems Sdn Bhd, WWE Holdings Bhd, General Manager of Port Klang Authority and Executive Chairman of Port Klang Free Zone. Currently Group Chief Executive Officer of Daya Materials Berhad.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:
Daya Materials Berhad and Pontian United Plantations Berhad.

06 DATO' ROSINI ABD SAMAD

APPOINTED:
7 January 2015

COMMITTEE MEMBERSHIP:
■ Audit Committee – Chairman
■ Board Governance & Risk Management
Committee – Member

QUALIFICATIONS:
■ Honorary Fellow CPA Australia
■ Member of the Malaysian Institute of
Accountants
■ Master in Business Administration,
University of Cardiff, United Kingdom
■ Bachelor of Economics (Accounting)
(Hons), University of Malaya, Malaysia
■ Postgraduate Diploma in Accounting,
University of Malaya, Malaysia

INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, female, age 62)

EXPERIENCES:
Formerly Deputy Accountant General (Corporate) in the Accountant General's Department (Malaysia), The Accountant General's nominee on the Council of MIA, member of the Board of Directors of Percetakan Nasional Malaysia Berhad (PNMB) (2007-2014) and served as Chairman of Audit Committee, member of Nomination and Remuneration Committee, Tender Committee and Disciplinary Committee of PNMB.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:
Nil

PROFILES OF DIRECTORS

07 DATUK HANAPI SUHADA

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, male, age 60)

APPOINTED:
7 October 2015

COMMITTEE MEMBERSHIP:
■ Board Governance & Risk Management
Committee – Member

QUALIFICATIONS:
B.A Hons. UKM (1977) Universiti Kebangsaan
Malaysia

EXPERIENCES:
Holds various positions within FELDA until present from Socio Economy Officer to Regional General Manager in Mempaga, Kuantan and Johor Bahru. Currently Director General of FELDA since April 2015.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:
Encorp Berhad and Pantech Group Holdings Berhad.

08 DATO' ZAKARIA ARSHAD

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, male, age 57)

APPOINTED:
1 April 2016

COMMITTEE MEMBERSHIP:
■ Nomination and Remuneration
Committee – Member
■ Investment Committee – Member

QUALIFICATIONS:
Bachelor of Social Science Economics (Hons)
Universiti Sains Malaysia, Penang (1984)

EXPERIENCES:
Administration and Marketing Manager Felda Rubber Industries Sdn Bhd (1984-1999), Manager (Business) Malaysia Cocoa Manufacturing Sdn Bhd (1999-2002), General Manager (Commercial & Administration) Felda Rubber Products Sdn Bhd (2002-2004), General Manager Felda Marketing Services Sdn Bhd (2004-2005), Senior General Manager Felda Rubber Industries Sdn Bhd (2006-2010), Chief Executive Officer Delima Oil Products Sdn Bhd (2010-2013), Chief Executive Officer Felda Vegetable Oil Products Sdn Bhd (2012-2013), Executive Vice President/Head of Palm Downstream Cluster FGV (2014-March 2016). Currently Group President/Chief Executive Officer of FGV since 1 April 2016.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:
Felda Global Ventures Holdings Berhad, Managing Director of Felda Holdings Berhad, Pontian United Plantations Berhad.

09 DATO' MOHAMMAD FAKHRUDDIN HAJI MOHD ARIFF

INDEPENDENT NON-EXECUTIVE DIRECTOR
(Malaysian, male, age 50)

APPOINTED:
21 November 2016

COMMITTEE MEMBERSHIP:
■ Audit Committee – Member
■ Investment Committee – Member

QUALIFICATIONS:
Bachelor of Science in Industrial Engineering,
University of Miami, USA

EXPERIENCES:
Project Engineer, SME Tools Sdn Bhd (1989-1994), Senior Manufacturing Engineer (1994-1999), General Manager, Percetakan Anda Sdn Bhd (1999-2005), Business Development Manager, MACES Sdn Bhd (2005), Director, Felda Engineering Services Sdn Bhd (2004-2015), Former Chairman of UMNO Electoral Bureau and Membership (2008-2013). Currently UMNO Committee Member, Pekan and Member of Pahang State Assembly since 2008 and 2013 respectively.

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:
Nil

Additional Information

- None of the Directors has any family relationship with and is not related to any Director and/or major shareholder of MSM Malaysia Holdings Berhad.
- None of the Directors has any conflict of interest with MSM Malaysia Holdings Berhad.
- None of the Directors has:
 - been convicted of any offence (other than traffic offences) within the pass five (5) years; and
 - been imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year.
- The details of Directors' attendance at Board Meetings held in the financial year ended 31 December 2016 are set out in the Corporate Governance Statement on page 83 of this Annual Report.
- The full profiles of the Directors are available online at www.msmsugar.com

PROFILES OF COMPANY SECRETARIES

01 KOO SHUANG YEN

(Malaysian, age 54)

APPOINTED:
20 May 2011

QUALIFICATION:

- Associate of Chartered Institute of Management Accountants, United Kingdom
- Chartered Accountant, Malaysian Institute Accountants

SKILLS AND EXPERIENCE:

She began her career in Felda Holdings Berhad (FHB) and its Group of Companies in 1991, as Head of Finance of Felda Engineering Services Sdn Bhd, a subsidiary of FHB. Subsequently, she became Company Secretary of FHB and its Group of Companies from 1995 to 2012. During that time, she also served as Head of Finance of Felda Enterprises Sdn Bhd (2007), Group Accountant of FHB Downstream Division (2009) and Senior General Manager of FHB Group Finance (2011). In 2013, she was designated Head of Cluster Finance & Accounting Unit for FGV, with additional responsibility as Head of Budgeting Unit (2015). She is presently Senior Vice President in the Group President/CEO Office (since 2016) and Company Secretary of both MSM and its Group of Companies (since 2011) and FGV and its Group of Companies (since 2014).

DIRECTORSHIP IN MSM AND ITS RELATED COMPANIES:

Nil

02 ABD RASHID ATAN

(Malaysian, age 55)

APPOINTED:
11 February 2015

QUALIFICATION

- Diploma in Business Studies, Institut Teknologi MARA
- Bachelor in Business Administration (Finance), Drake University, Iowa, USA
- Bachelor of Accountancy, Universiti Teknologi MARA
- Chartered Accountant, Malaysian Institute Accountants

SKILLS AND EXPERIENCE

Began his career as the Assistant Assessment Officer of the Inland Revenue Board (1988-1995) before he moved to become Manager of HBM Management Sdn Bhd (1995-1997). Subsequently he was appointed as the Group Company Secretary of UDA Holdings Berhad (1997-2015). Since 2015, he became Company Secretary for both MSM and its Group of Companies and FGV and its Group of Companies.

DIRECTORSHIP IN MSM AND ITS RELATED COMPANIES:

Nil



SENIOR MANAGEMENT



04

03

01

02

05

PROFILES OF SENIOR MANAGEMENT

01 MOHAMAD AMRI SAHARI@KHUZARI

PRESIDENT/GROUP CHIEF EXECUTIVE OFFICER
(Malaysian, male, age 52)

DATE OF APPOINTMENT:

- 12 JULY 2016

QUALIFICATION:

- Bachelor of Science (Mechanical Engineering) – South Dakota State University, USA
- Master of Business Administration (Strategic Management) – Universiti Teknologi Malaysia

SKILLS AND EXPERIENCE:

He started his career as Factory Engineer, Felda Palm Industries Sdn Bhd (1989), Mill Manager, Hamparan Badai Oil Mill (1996) and General Manager, Felda Palm Industries Sdn Bhd (2004). He then moved to MSM Perlis Sdn Bhd as General Manager (2004), Senior General Manager (2008) and then CEO (2010). He was also the Deputy CEO of MSM Malaysia Holdings Berhad from 25 March 2011 until July 2016.

DETAILS OF ANY INTEREST IN THE SECURITIES OF THE LISTED ISSUER OR ITS SUBSIDIARIES:

Hold 16,000 shares in MSM

DIRECTORSHIP IN MSM GROUP OF COMPANIES:

Subsidiaries of MSM

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:

MSM Prai Berhad

03 HA CHARM MUN

CHIEF EXECUTIVE OFFICER, MSM PRAI BERHAD
(Malaysian, male, age 58)

DATE OF APPOINTMENT:

- 1 SEPTEMBER 2016

QUALIFICATION:

- Bachelor of Science (Mechanical Engineering) – University of Sussex, UK

SKILLS AND EXPERIENCE:

He started his career as Mechanical Engineer, MSM Prai Berhad (1982), Senior Engineer, Dupont Singapore (1992), Maintenance Manager, Idemitsu SM (Malaysia) Sdn Bhd (1999) and General Manager, MSM Prai Berhad (2004).

DIRECTORSHIP IN MSM GROUP OF COMPANIES:

Nil

02 AZNUR KAMA AZMIR

CHIEF FINANCIAL OFFICER
(Malaysian, female, age 42)

DATE OF APPOINTMENT:

- 3 JUNE 2015

QUALIFICATION:

- Bachelor of Accounting (Hons), – Universiti Utara Malaysia
- Chartered Accountant (CA), Malaysian Institute of Accountants
- Fellow of Association of Chartered Certified Accountants (FCCA), United Kingdom (UK)
- Fellow of Chartered Institute of Management Accountants (FCMA), UK
- Chartered Global Management Accountants (CGMA), CIMA & AICPA
- Master of Business Administration (MBA) – Royal Melbourne Institute of Technology, Australia

SKILLS AND EXPERIENCE:

She started her career in audit at Shamsir Jasani & Co and joined PwC in 1997. She left PwC as a Senior Auditor to join Felda Transport Services as an Accountant in 2001 and Finance Head. In 2006, she moved to Felda Holdings Berhad as the Group Accountant and later to Felda Global Ventures Holdings Berhad in 2012 as SGM/Vice President in charge of Group Accounts, Financial Reporting and Budgeting.

DIRECTORSHIP IN MSM GROUP OF COMPANIES:

Subsidiaries of MSM

DIRECTORSHIP OF PUBLIC COMPANIES/LISTED ISSUERS:

MSM Prai Berhad

04 ISMAIL SAMSU

CHIEF EXECUTIVE OFFICER, MSM PERLIS SDN BHD
(Malaysian, male, age 54)

DATE OF APPOINTMENT:

- 1 SEPTEMBER 2016

QUALIFICATION:

- Bachelor of Science in Mechanical Engineering and Aeronautical Engineering – University of Glasgow, Scotland
- 1st Grade Steam Engineer

SKILLS AND EXPERIENCE:

He started his career as a Mechanical Engineer at Linatex Process Rubber Berhad (1988) then as a Mechanical Engineer at Kedah Cement Sdn Bhd (1991). He joined MSM Perlis Sdn Bhd in 1994 as Mechanical Engineer, promoted to Manager (2005), Senior Manager, Milling Department (2008) and appointed as Technical Coordinator (2008). Then he was promoted to Assistant General Manager (2014) and Deputy General Manager (2015).

DIRECTORSHIP IN MSM GROUP OF COMPANIES:

Nil

05 ISMAIL ABDULLAH

SENIOR GENERAL MANAGER, MSM LOGISTICS SDN BHD
(Malaysian, male, age 67)

DATE OF APPOINTMENT:

- 1 SEPTEMBER 2016

QUALIFICATION:

- Police Science Diploma – Universiti Kebangsaan Malaysia

SKILLS AND EXPERIENCE:


He started his career as Probationary Inspector, Royal Malaysian Police Force (1970) then Senior Assistant Commissioner, Royal Malaysian Police Force (2006) and joined MSM Logistics Sdn Bhd as the General Manager (2007).

DIRECTORSHIP IN MSM GROUP OF COMPANIES:

Nil

Additional Information

- None of the Senior Management has any family relationship with and is not related to any Director and/or major shareholder of MSM Malaysia Holdings Berhad.
- Save for Mohamad Amri Sahari@Khuzari and Aznur Kama Azmir, none of the other Senior Management has any directorship in public companies and listed issuers.
- None of the Senior Management has any conflict of interest with MSM Malaysia Holdings Berhad.
- None of the Senior Management has:
 - been convicted of any offence (other than traffic offences) within the past five (5) years; and
 - been imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year

 The full profiles of the Senior Management are available online at www.msmsugar.com

CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS (THE BOARD) OF MSM MALAYSIA HOLDINGS BERHAD (MSM/THE COMPANY) REMAINS STEADFAST IN OUR COMMITMENT TO HIGH STANDARDS OF CORPORATE GOVERNANCE. THE BOARD FIRMLY BELIEVES THAT GOOD CORPORATE GOVERNANCE IS AN IMPORTANT ENABLER TO THE SUCCESS OF THE MSM GROUP. THE INTEGRITY AND COMMITMENT OF THE BOARD AND EMPLOYEES IS SUPPORTED BY A COMPREHENSIVE FRAMEWORK OF POLICIES, GUIDELINES AND INTERNAL CONTROLS; WHICH SERVES TO STRENGTHEN THE COMPANY'S GOVERNANCE FRAMEWORK, WHILST DRIVING A HIGH-PERFORMANCE CULTURE WITHIN MSM.

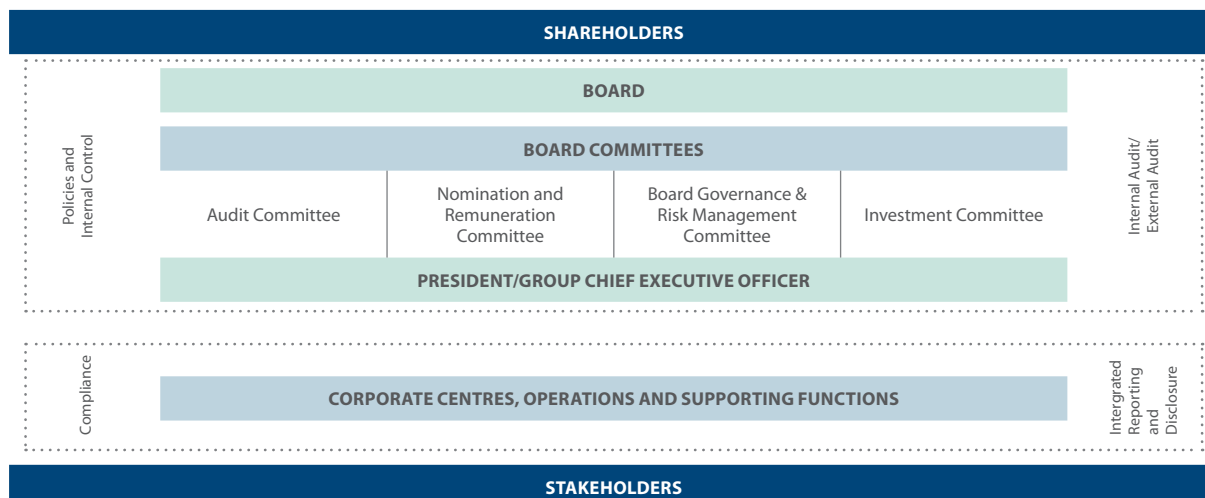
THE BOARD IS GUIDED BY THE PRINCIPLES AND BEST PRACTICE RECOMMENDATIONS PROMULGATED IN THE 8 PRINCIPLES AND 26 RECOMMENDATIONS OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012 (MCCG 2012), RELEVANT CHAPTERS OF THE MAIN MARKET LISTING REQUIREMENTS (MMLR) OF BURSA MALAYSIA SECURITIES BERHAD (BURSA SECURITIES) AS WELL AS THE ADOPTION OF BETTER PRACTICES AS PRESCRIBED IN THE CORPORATE GOVERNANCE GUIDE SECOND EDITION (THE GUIDE) ISSUED BY BURSA SECURITIES.

GOVERNANCE FRAMEWORK

The ultimate responsibility for the management of the MSM Group; the Group's strategy; the Group's performance and discharging of legal responsibilities is held by the Board, whose work is supported by Board committees namely the Audit Committee, Nomination and Remuneration Committee, Board Governance & Risk Management Committee and Investment Committee (Board Committees).

The Board delegates certain matters to these Board Committees and delegates day-to-day operations to MSM's Management team, which is headed by the President/Group Chief Executive Officer (CEO), Mohamad Amri Sahari@Khuzari. However, there are still a number of matters reserved solely for the Board's undertaking.

MSM's Governance framework is depicted below:



BOARD OF DIRECTORS

The Board Charter

In order to facilitate the effective discharge of its duties in its stewardship role of the Group, the Board is guided by its Board Charter which was last reviewed in 2015.

The Board Charter serves as a constitution for the Board and outlines the roles and responsibilities of the Board, the balance and composition of the Board, the Board's authorities, schedule of matters reserved for the Board, the establishment of the Board Committees, processes and procedures for convening Board meetings, the Board's assessment and review of its performance, compliance with ethical standards, Board's access to information and advice and declarations of conflict of interest.

The Board Charter is made available at the Company's corporate website at www.msmsugar.com.

Roles and Responsibilities of the Board

The Board assumes the following principal responsibilities in discharging its fiduciary and leadership functions:

- (1) Review and adopt a strategic plan for the Company.
- (2) Oversee the conduct of the Company's business and the performance of management to determine whether the business is being properly managed.
- (3) Identify principal risks and ensure the implementation of appropriate internal controls and mitigation measures.
- (4) Prepare succession plans for senior management positions.
- (5) Oversee the development and implementation of a shareholder communications policy for the company.
- (6) Review the adequacy and the integrity of the management information and internal controls system of the Company.
- (7) Ensure that Management maintains both an effective system of internal control and an effective risk management and oversight process.

In addition to the above, the matters reserved to the Board are (i) Board Structure (ii) Remuneration (iii) Company and Group operations (iv) Financial and (v) Others; as stated in the Company's Board Charter.

Separation of Roles of the Board Chairman and the President/Group CEO

The positions of Chairman of the Board and the President/Group CEO are held by different individuals. There is clear separation of roles between the two positions so as to promote accountability and facilitate division of responsibilities between them.

Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad, a Non-Executive Director, has been the Chairman of MSM Board since 25 March 2011. As Chairman, he is responsible to carry out the leadership role in the conduct of the Board, at the same time being the bridge between the Board, the President/Group CEO and Management.

Meanwhile, the Management of MSM Group is headed by Mohamad Amri Sahari@Khuzari, the President/Group CEO who is responsible on MSM Group's day-to-day operations subject to the specified delegations of authority approved by the Board.

Detailed roles and responsibilities of each position are clearly defined in the Board Charter.

Discretionary Authority Limit (DAL)

The DAL outlines principles to govern decision-making within MSM Group including appropriate escalation and reporting to the Board. The Board has also delegated to the President/Group CEO and various levels of management within the Group, responsibility to manage the Group's day-to-day activities. This allows for balanced oversight with appropriate empowerment and accountability of Management.

Code of Conduct

Board members ensure that high ethical standards are applied in the discharge of their responsibilities, through compliance with relevant rules and regulations, directives and guidelines in addition to adopting the best practices in the Code and the Guide, and act in the best interest of the Group and its shareholders.

Board members observe the Code of Ethics and Conduct (CoEC) and Code of Business Practice (CoBP) applicable to all Boards of Director. The CoEC and CoBP outline the ethical standards of behaviour and conduct expected from all Directors of MSM Group.

Board Balance and Composition

Independent and Non-Independent Directors

At present, there are a total of nine (9) Directors of whom five (5) are Independent Non-Executive Directors (INED) and four (4) are Non-Independent Non-Executive Directors (NINED). This composition complies with the requirements of one-third Independent Directors set out in the MMLR. The presence of majority Independent Directors satisfies Recommendation 3.5 of the MCCG 2012 as the Chairman is Non-Independent.

The Board considers five (5) directors namely Dato' Zainal Haji Ismail, Dato' Hajjah Rosni Haji Zahari, Dato' Rosini Abd Samad, Datuk Lim Thean Shiang and Dato' Mohammad Fakhruddin Haji Mohd Ariff to be independent based on the definition as set out under Paragraph 1.01 of the MMLR. The Board is satisfied that the five (5) INED represent the interest of the minority shareholders by virtue of their roles and responsibilities.

The presence of five (5) INED on the Board provides the necessary checks and balances to the Board. Their independence allows them to provide independent judgement on the issues of strategy, business performance, resources and standards of conduct. They also provide independent views in the Board's discussions to ensure that the strategies proposed by Management are fully deliberated and examined in the long-term interest of the Group, as well as the shareholders and other stakeholders.

CORPORATE GOVERNANCE STATEMENT

The Board assesses the INED's independence on an annual basis and has concluded that each of them continues to demonstrate behaviour that reflect their independence, which are in accordance with the definition under the MMLR. The INED on the Board act as caretakers of the minority shareholders and their views carry significant weight in the Board's decision-making process. None of the INED were engaged in the day-to-day management of the Group, participated in any business dealings or involved in any other relationship with the Group. The INED are free from any conflict of interests and functioned independently in an impartial manner in discharging their roles and responsibilities as INED.

Each of the five (5) INED has provided an annual confirmation of his or her independence to the Nomination and Remuneration Committee and the Board. In line with Recommendation 3.2 of the MCCG 2012, to-date, none of the INED of the Company has been a Director for more than nine (9) years.

Diverse Skill-sets and Backgrounds

The Board ensures a balanced Board where individual merits and relevance are the key entry requirements. Collectively, the Board has an appropriate mix of diversity and skills to ensure constructive debate and thoughtful decision making.

| Skill and Experience | No. of Director |
|--------------------------------|-----------------|
| Trading | 2 |
| Corporate Knowledge | 4 |
| Strategy and Risk | 1 |
| Governance | 1 |
| Legal | 2 |
| Economics | 2 |
| Finance/Accounting | 1 |
| Administration/Human Resources | 1 |
| Engineering | 1 |
| Gender | |
| Male | 7 |
| Female | 2 |
| Age | |
| 40 – 49 | 1 |
| 50 – 59 | 4 |
| 60 – 69 | 3 |
| 70 – 79 | 1 |

The current Board composition reflects the interest of the substantial shareholders, without compromising the interest of the minority shareholders. The Board comprises high calibre members from diverse professional backgrounds, skills and extensive experience and knowledge in the areas of accountancy, economics, law, general management and strategy - requisites for the successful direction of the Group.

The Board encourages female participation in the Board. At present, there are two (2) female directors namely Dato' Hajjah Rosni Haji Zahari and Dato' Rosini Abd Samad. The Board will continue its support for adequate female representation in the Board.

The Directors' profiles including the respective skills and experience they each bring to the Board can be read on pages 74 to 76 of this Annual Report.

Appointment, Re-appointment and Re-election of Directors

The Board shall consider and decide on the appointment of new Directors upon appropriate recommendation from the Nomination and Remuneration Committee. The Nomination and Remuneration Committee ensures candidates satisfy the requisite skills and core competencies deemed fit and proper, to be appointed as Director in accordance with the MMLR.

The appointment, re-appointment and re-election process and the criteria used are set out in the Nomination and Remuneration Committee Report on pages 97 to 100 of this Annual Report.

Company Secretaries

The Board is supported by two (2) suitably qualified and competent Company Secretaries who have prerequisite qualifications and experience. The roles of the Company Secretaries are set out in the Board Charter.

The Company Secretaries are responsible to advise the Board on updates relating to new statutory and regulatory requirements, their impact and implication to the Company, including fiduciary duties and responsibilities of the Board, ensuring the Board procedures are adhered.

The Company Secretaries are also responsible to assist the Chairman to organise the Board meetings and Board Committee meetings, ensure meetings are properly convened; keep and maintain accurate and proper records of the proceedings and resolutions passed at the registered office of the Company. All Directors have unrestricted access to the advice and services of the Company Secretaries to facilitate the discharge of their duties. The removal of the Company Secretaries is a matter for the Board to decide.

The full profiles of the Company Secretaries are found on pages 77 of this Annual Report.

Fostering Commitment of the Board

The Board requires all members to devote sufficient time to the working of the Board, to effectively discharge their duties as directors of MSM, and to use their best endeavours to attend meetings. Where any direction or decision is required expeditiously or urgently from the Board, between the scheduled meetings, Special Board meetings are convened.

Board Meetings

Board meetings for the financial year ended 31 December 2016 (FYE 2016) were scheduled in advance in November 2015 so that the Directors are able to plan ahead and record the next year's Board meeting dates into their respective meeting schedules. The calendar includes scheduled meetings of Board Committees and also the Annual General Meeting (AGM) date. Directors are required to notify the Chairman and the Board of any alterations

to their external commitments that arise during the year with an indication of the time commitment involved.

The Directors have a duty to declare should they have an interest in any transaction tabled to the Board. An interested Director is required to abstain from deliberations and decisions of the Board on the transaction and shall not exercise any influence over the Board in respect of the transaction.

All issues raised, discussion, deliberations, decision and conclusions including dissenting views made at Board meetings along with clear action to be taken by responsible parties are recorded in the minutes. The Board may seek clarifications of the minutes or request for any correction before the minutes are confirmed as correct.

During the FYE 2016, eight (8) Board meetings were held.

The attendance of the respective Directors in respect of the Board Meetings, AGM and Board Committee Meetings held during the FYE 2016 is set out below:

| Directors | Board | AGM | AC | NRC | BGRMC | IC |
|--|-------|-----|-----|-------|-------|-----|
| Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad | 8/8 | ✓ | – | – | – | – |
| Dato' Zainal Haji Ismail ¹ | 8/8 | ✓ | 4/4 | 11/11 | – | 1/1 |
| Dato' Hajjah Rosni Haji Zahari ² | 8/8 | ✓ | 4/4 | 11/11 | 1/1 | 1/1 |
| Dato' Rosini Abd Samad ³ | 8/8 | ✓ | 6/6 | 10/10 | 1/1 | – |
| Datuk Noor Ehsanuddin Mohd Harun Narrashid | 6/8 | ✓ | 4/5 | – | 0/1 | – |
| Datuk Lim Thean Shiang ⁴ | 7/8 | ✓ | 2/2 | – | 3/3 | – |
| Datuk Hanapi Suhada ⁵ | 5/8 | ✓ | – | – | 1/1 | – |
| Dato' Zakaria Arshad ⁶ | 5/5 | ✓ | – | 1/1 | – | 1/1 |
| Dato' Mohammad Fakhruddin Haji Mohd Ariff ⁷ | 1/1 | – | – | – | – | – |
| Dato' Mohd Emir Mavani Abdullah ⁸ | 2/3 | – | – | – | 1/1 | – |
| Dato' Sheikh Awab Sheikh Abod ⁹ | 3/3 | – | – | – | – | – |

Notes:

- (1) Resigned as Audit Committee member with effect from 23 August 2016
- (2) (a) Resigned as Audit Committee member and (b) appointed as IC Chairman/member, both with effect from 23 August 2016
- (3) (a) Resigned as NRC member and (b) appointed as BGRMC member, both with effect from 23 August 2016
- (4) (a) Resigned as IC Chairman/member and (b) appointed as AC member, both with effect from 23 August 2016
- (5) Appointed as BGRMC member with effect from 23 August 2016
- (6) (a) Appointed as Board member with effect from 1 April 2016 and (b) appointed as NRC and IC member with effect from 23 August 2016
- (7) (a) Appointed as Board member with effect from 21 November 2016 (b) appointed as AC and IC member on 22 February 2017
- (8) Resigned as Board member with effect from 1 April 2016
- (9) Deceased on 14 April 2016

All Directors have complied with the minimum requirement of 50% attendance at Board meetings as stipulated in the MMLR.

CORPORATE GOVERNANCE STATEMENT

Board Papers

The agenda and supporting papers are distributed at least seven (7) days prior to Board and Board Committee meetings to allow sufficient time for appropriate review to facilitate productive discussions at the meetings.

The Group has a structured format of Board meeting papers to ensure that the Directors have a clear depiction of the issues at hand for deliberations and decision making. Board papers on issues or corporate proposals which are deemed highly confidential are only distributed to Directors at the Board meeting itself.

The Board Committees submit a report to the Board on key matters deliberated and recommendations to the Board on matters requiring the Board's decision. The minutes of the Board Committee meetings are tabled to the Board.

Below are some key matters considered by the Board throughout the eight (8) meetings held during the year:

Board Structure

- Re-appointment/re-election of Directors retiring at the 2016 AGM
- Revision of the members composition of MSM Board Committees
- Revision of the Board of Directors of subsidiaries
- Appointment of Nominee Director representing FGV
- Appointment of the new President/Group CEO
- Annual Assessment of the Effectiveness of the Board, Board Committees and Individual Directors
- Annual Assessment of the Independent Directors
- Appointment of additional Independent Non-Executive Director
- Talent management programme for MSM Group

Financial

- The Company's and Group's 2016 performance, 2017 budget, capital expenditure and key performance targets
- 2015/2016 quarterly results for announcement to Bursa Malaysia
- Directors' Report and Audited Financial Statements for the financial year ended 31 December 2015
- Re-appointment of external auditors
- Single Tier Interim and Final Dividend
- Quarterly report on MSM Group Recurrent Related Party Transactions
- Quarterly Report on MSM Group's Capital Expenditure (CAPEX)
- Quarterly Report on Group Risks Register
- Quarterly Report on Recoverability and Trade Receivables
- Implementation of the enhanced auditors' report for the financial year ended 2016 in line with the new and revised International Standards on Auditing

Remuneration

- Annual Fees for MSM Board, MSM Board Committees' Members
- Revised Directors' Remuneration Policy
- Employee Salary Increment for the financial year 2016
- Employee Bonus Proposal for the financial year 2015
- End of service Gratuity payment to the late President/Group CEO of MSM

Company and Group Operations

- MSM Group Strategic Planning 2020
- New and revised various policies and Discretionary Authority Limits (DAL)
- Revision of the MSM Board Committees Terms of Reference
- Construction of the new sugar refinery project in Tanjung Langsat, Pasir Gudang, Johor:
 - i. Award of several tenders
 - ii. Appointment of consultants
 - iii. Progress updates report
- MSM Management's new organisation structure

Others

- Circular To Shareholders In Relation To The Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature For MSM Malaysia Holdings Berhad Group Of Companies
- Disclosures in the following reports for inclusion in the 2015 Annual Report:
 - i. Chairman's Statements
 - ii. President/Group CEO's Review
 - iii. Statement on Corporate Governance and Governance Framework
 - iv. Statement on Risk Management and Internal Control
 - v. Report on the Audit Committee
 - vi. Report on the Nomination and Remuneration Committee
- Latest amendments to Bursa Malaysia Securities Bhd's Main Market Listing Requirements

Dealings in Securities

In line with the MMLR and the relevant provisions of the Capital Markets and Services Act 2012, Directors, Senior Management and Principal Officers of 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 MSM shares are circulated to Directors, Senior Management and Principal Officers who are deemed to be privy to any price sensitive information and knowledge on a quarterly basis as a reminder on the prohibition by identifying the timeframe during which Directors and the Principal officers are prohibited from dealing in the Company's shares.

Board Continuing Development Programme and Training

The Board has assumed the onus of determining and overseeing the training needs of the Directors and have always encouraged Directors to attend courses, seminars and trainings to enhance their skills and knowledge and keep abreast of the relevant changes in laws, regulations and business environment to effectively discharge their responsibilities. In addition to the updates on relevant guidelines and statutory and regulatory requirements provided by the Company Secretaries from time to time, the Directors have on their own initiative requested to attend courses according to their individual needs as a Director or as member of a Board Committee on which they serve.

Directors that have never been appointed to a public listed company are required under Practice Note 5 of the MMLR to attend the Mandatory Accreditation Programme (MAP) organised by an approved body corporate within four (4) months from the date of appointment. Dato' Mohammad Fakhruddin Haji Mohd Ariff, the newly appointed Director has on 20 and 21 February 2017 attended and successfully completed the MAP.

Some of the trainings, seminars and briefings attended by the Directors during 2016 are as follow:

| No. | Training attended in 2016 | Organiser | Director Attended | Date |
|-----|---|---|--|------------|
| 1. | Global Sugar Industry Landscape | In-house training by Johnathan Kingsman | <ul style="list-style-type: none"> ■ Dato' Zainal Haji Ismail ■ Dato' Hajjah Rosni Haji Zahari ■ Datuk Noor Ehsanuddin Mohd Harun Narrashid ■ Dato' Rosini Abd Samad ■ Dato' Hanapi Suhada | 23.02.2016 |
| 2. | Audit Committee Conference 2016 "Setting the Right Tone" | The Institute of Internal Auditors Malaysia | Dato' Hajjah Rosni Haji Zahari | 29.03.2016 |
| 3. | Recent developments: Financial Reporting Standards, Malaysian Financial Reporting Standards and Main Market Listing Requirement | In-house training by PricewaterhouseCoopers | <ul style="list-style-type: none"> ■ Tan Sri Haji Mohd Isa ■ Dato' Haji Abdul Samad ■ Dato' Zainal Haji Ismail ■ Dato' Hajjah Rosni Haji Zahari ■ Datuk Noor Ehsanuddin Mohd Harun Narrashid ■ Dato' Rosini Abd Samad ■ Datuk Lim Thean Shiang ■ Dato' Zakaria Arshad ■ Dato' Hanapi Suhada | 21.11.2016 |
| 4. | Key Amendments to Listing Requirements 2016 | In-house training by CKM Advisory | <ul style="list-style-type: none"> ■ Tan Sri Haji Mohd Isa ■ Dato' Haji Abdul Samad ■ Datuk Lim Thean Shiang ■ Datuk Noor Ehsanuddin Mohd Harun Narrashid ■ Dato' Zakaria Arshad ■ Dato' Rosini Abd Samad | 25.08.2016 |
| 5. | Dealings by Directors and Principal Officers During Closed Period, Outside Closed Period & Insider Trading | In-house training by CKM Advisory | Dato' Zakaria Arshad | 17.10.2016 |
| 6. | Half Day Seminar on Related Party Transactions | Malaysian Institute of Corporate Governance | Dato' Rosini Abd Samad | 25.10.2016 |
| 7. | IERP's Director's Networking Group: Preparing for a Black Swan | Institute of Enterprise Risk Practitioners | Dato' Rosini Abd Samad | 28.10.2016 |

CORPORATE GOVERNANCE STATEMENT

| No. | Training attended in 2016 | Organiser | Director Attended | Date |
|-----|--|---|------------------------|-----------------------|
| 8. | Tax Briefing Highlight | Deloitte Tax Services | Datuk Lim Thean Shiang | 17.11.2016 |
| 9. | Sustainability Reporting | Deloitte PLT | Datuk Lim Thean Shiang | 23.11.2016 |
| 10. | Malaysia-Turkey Palm Oil Trade Fair & Seminar (POTS) | Malaysian Palm Oil Council & Malaysian Palm Oil Board | Datuk Hanapi Suhada | 16.05.2016-17.05.2016 |
| 11. | Overview of Malaysian Code of Corporate Governance | Encorp Berhad | Datuk Hanapi Suhada | 20.09.2016 |
| 12. | Mandatory Accreditation Programme for Directors of Public Listed Companies | Bursatra Sdn Bhd | Dato' Zakaria Arshad | 04.08.2016-05.08.2016 |

Directors' Remuneration

The level of Directors' remuneration is generally set to be competitive to attract and retain Directors of such calibre to provide the necessary skills and experience as required and commensurate the Board's responsibilities, expertise and complexity of the Company's activities for the effective management and operations of the Group. The Board has formalised its Directors Remunerations Policy which spells out the policy and framework of MSM Directors' remuneration.

The Nomination and Remuneration Committee recommends to the Board the remuneration of all Non-Executive Directors, the framework of the remuneration policy of the Directors and Senior Management and the incentive compensation plans. The Directors are paid annual fees and an attendance allowance of RM2,000 for each Board meeting and Board Committee meeting that they attend.

■ Executive Director

The basic salary of the Executive Director is fixed for the duration of their contract and formulated by taking into consideration the assessment of the performance against targets as well as benchmarking to market rate for benefit-in-kind, annual increment and bonus. Any revision to the basic salary shall be reviewed and recommended by the Nomination and Remuneration Committee and approved by the Board. Bonus payable to the Executive Director is reviewed by the Nomination and Remuneration Committee and approved by

the Board. The Executive Director is not entitled to annual Directors' fees or any meeting allowance for the Board and Board Committee meetings.

■ Non-Executive Directors

The Non-Executive Directors' remuneration package reflects the experience, expertise and level of responsibilities undertaken by the Non-Executive Directors. Details of the Non-Executive Directors' of the Board and as members at the Board Committees in the form of fees is as follows:

| Annual Fees | Non-Executive | |
|--|---------------|-----------|
| | Chairman | Directors |
| ■ Board | RM315,000 | RM120,000 |
| ■ Audit Committee | RM24,000 | RM12,000 |
| ■ Nomination and Remuneration Committee | RM10,000 | RM8,000 |
| ■ Investment Committee | | |
| ■ Board Governance & Risk Management Committee | | |

MSM Directors' remuneration for the FYE 2016 in aggregate with categorisation into components, distinguishing between Executive and Non-Executive Directors, are as follows:

| | Salary & Bonus ¹ (RM) | End of Service Gratuity (RM) | Directors' Annual Fees | | | Benefits | | Total (RM) | Range of Remuneration ⁴ (RM'000) |
|--|-------------------------------------|---------------------------------|------------------------|-----------------------------|--------------------------|---------------------------|---|------------------|--|
| | | | MSM Board (RM) | MSM Board Committee (RM) | MSM Subsidiaries (RM) | Meeting Allowance (RM) | Benefits-in-kind ² & Other benefits ³ (RM) | | |
| Non-Executive Directors | | | | | | | | | |
| Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad | | | 315,000 | – | – | 16,000 | – | 331,000* | 300 – 350 |
| Dato' Zainal Haji Ismail | | | 120,000 | 25,738 | – | 48,016 | 30,000 | 223,754 | 200 – 250 |
| Dato' Hajjah Rosni Haji Zahari | | | 120,000 | 23,164 | – | 50,016 | 33,765 | 226,945 | 200 – 250 |
| Datuk Noor Ehsanuddin Mohd Harun Narrashid | | | 120,000 | 11,366 | – | 20,000 | 30,000 | 181,366 | 150 – 200 |
| Datuk Lim Thean Shiang | | | 120,000 | 20,743 | – | 24,000 | 30,000 | 194,743 | 150 – 200 |
| Dato' Rosini Abd Samad | | | 120,000 | 32,021 | – | 50,016 | 33,765 | 235,802 | 200 – 250 |
| Datuk Hanapi Suhada | | Not applicable | 120,000 | 2,863 | – | 12,000 | – | 134,863 | 100 – 150 |
| Dato' Zakaria Arshad <i>(appointed with effect from 1 April 2016)</i> | | | 90,082 | 5,726 | 9,738 | 14,000 | – | 119,546 | 100 – 150 |
| Dato' Mohammad Fakhruddin Haji Mohd Ariff <i>(appointed with effect from 21 November 2016)</i> | | | 13,388 | – | – | 2,000 | – | 15,388 | 50 and below |
| Dato' Mohd Emir Mavani Abdullah <i>(resigned with effect from 1 April 2016)</i> | | | 24,082 | 4,022 | – | 6,000 | – | 34,104 | 50 and below |
| Executive Director | | | | | | | | | |
| Dato' Sheikh Awab Sheikh Abod <i>(deceased on 14 April 2016)</i> | 1,671,406 | 200,000 | – | – | 24,098 | – | 141,968 | 2,037,472 | 2,000 – 2,050 |
| TOTAL | 1,671,406 | 200,000 | 1,162,552 | 125,643 | 33,836 | 242,048 | 299,498 | 3,734,983 | |

* excluding GST of RM12,375.00

¹ Comprises of service contract gratuity and Company's contribution to provident fund

² Benefits-in-kind refers to (i) personal driver's allowance (ii) security services allowance

³ Other benefits includes medical expenses, insurance coverage and other claimable benefits

⁴ The following successive range of remuneration bands of RM50,000.00 is not applicable:

RM50,001 – RM100,000

RM250,001 – RM300,000

RM350,001 – RM2,000,000

CORPORATE GOVERNANCE STATEMENT

BOARD COMMITTEES

The Board delegated specific responsibilities to the Board Committees and each committee has its own Terms of Reference approved by the Board, which are available on the MSM's corporate website. Dedicated Board Committees comprise of Directors who have committed their time and effort as members to facilitate the effective discharge of their responsibilities. Each committee reports to the Board and matters discussed at the Committee meetings are tabled to the Board for their information and approval.

The Board Committees are Audit Committee, Nomination and Remuneration Committee, Board Governance & Risk Management Committee and Investment Committee.

Due to the changes of the Board members in 2016, the Board has in August 2016 revised and approved the new members' composition of each Board Committee. The current members of the respective Board Committees and the key areas of responsibilities are as below:

| Audit Committee (AC) | | |
|--|--------------------|------------------|
| Members | Type of membership | Appointment date |
| Dato' Rosini Abd Samad | Chairman/INED | 7 January 2015 |
| Datuk Lim Thean Shiang | Member/INED | 23 August 2016 |
| Datuk Noor Ehsanuddin Mohd Harun Narrashid | Member/NINED | 1 March 2016 |
| Dato' Mohammad Fakhruddin Haji Mohd Ariff | Member/INED | 22 February 2017 |

Key/Areas of Responsibilities

- Assess the risks and control environment
- Oversee financial reporting
- Evaluate the internal and external audit process
- Review conflict of interest situations and related party transactions
- Undertake any other such functions as determined by the Board from time to time

The detailed AC Report is set out on pages 93 to 96 of this Annual Report.

| Nomination and Remuneration Committee (NRC) | | |
|---|--------------------|------------------|
| Members | Type of membership | Appointment date |
| Dato' Zainal Haji Ismail | Chairman/INED | 25 March 2011 |
| Dato' Hajjah Rosni Haji Zahari | Member/INED | 25 March 2011 |
| Dato' Zakaria Arshad | Member/NINED | 23 August 2016 |

Key/Areas of Responsibilities

- Review the composition of the Board, the Board Committee, the directorship in the Group and the Group Top management
- Review the nomination and election process and appointment and re-appointment and re-election process
- Evaluate the contribution and commitment of Directors
- Review letter of appointments
- Induct and continue education programme
- Review Board assessments
- Review succession planning
- Review all remuneration matters including Remuneration Policy
- Review remuneration of the President/Group Chief Executive Officer and the Executive Director and the Group Top Management
- Review other general remuneration across MSM Group

The detailed NRC Report is set out on pages 97 to 100 of this Annual Report.

| Board Governance & Risk Management Committee (BGRMC) | | |
|---|---------------------------|-------------------------|
| Members | Type of membership | Appointment date |
| Datuk Lim Thean Shiang | Chairman/ INED | 20 August 2014 |
| Dato' Rosini Abd Samad | Member/INED | 23 August 2016 |
| Datuk Hanapi Suhada | Member/ NINED | 23 August 2016 |

Key/Areas of Responsibilities

Direct and oversee the formulation of a structured mechanism to inculcate a strong governance, ethical, integrity and risk management culture which include the following areas:

- Governance
 - Direct and oversee the formulation of governance framework, programmes and policies
 - Review reports on status and availability of procedures
 - Monitor status and progress of formulation and implementation of the related governance framework, blueprints and policies
- Ethics & Integrity
 - Oversee and maintain the Code of Ethics & Conduct and Code of Business Practice (Board and Board Committees)
 - Oversee and maintain the Code of Ethics & Conduct
- Risk Management
 - Direct and oversee the formulation of the overall enterprise risk management framework and strategies
 - Report, advise and recommend to the Board the overall risk appetite, tolerance, and strategy on managing business risks, key business risks

Meetings in 2016

BGRMC held three (3) meetings during 2016. These meetings were also attended by relevant Management teams who presented their proposals. Decisions/recommendations of these meetings were then tabled to the Board for further deliberation and final decision.

Activities in 2016

During 2016, the key matters deliberated by BGRMC are as below:

- Disclosures in the following reports for inclusion in the 2015 Annual Report:
 - i) Statement on Corporate Governance and Governance Framework
 - ii) Statement on Risk Management and Internal Control
- Quarterly Report on Group Risks Register
- New and revised policies and Discretionary Authority Limits (DAL)
- Revision of the MSM Board Committees Terms of Reference

| Investment Committee (IC) | | |
|--|---------------------------|-------------------------|
| Members | Type of membership | Appointment date |
| Dato' Hajjah Rosni Haji Zahari | Chairman/INED | 23 August 2016 |
| Dato' Zainal Haji Ismail | Member/INED | 20 August 2014 |
| Dato' Zakaria Arshad | Member/NINED | 23 August 2016 |
| Dato' Mohammad Fakhrudin Haji Mohd Ariff | Member/INED | 22 February 2017 |

Key/Areas of Responsibilities

- Review annual business plans and budgets for recommendation to the Board
- Review investment in sugar midstream (sugar refinery) and downstream (consumer products) activities only.
- Evaluate proposals on new investments and divestments of significant value to ensure consistency with MSMH Global Strategy and returns in excess of a hurdle rate adjusted for risk and performance premium
- Approve investments up to a prescribed amount as determined by the Board from time to time, beyond which a recommendation will be made to the Board
- Review financial investment portfolios of the Company. This includes and is not limited to the existing and new merger & acquisitions, new partnerships, divestments and large capital expenditure projects
- Oversee current and future capital and financial resource requirements and monitor the fund raising activities of the Group
- Conduct the annual performance evaluation of the Group's investment activities
- Review the foreign exchange and raw sugar hedging policies and procedures

Meetings in 2016

The IC held one (1) meeting during 2016. MSM's major investment during 2015/2016 is the construction of the new sugar refinery in Tanjung Langsat, Pasir Gudang Johor. MSM Project Management Team attended the meeting presented their proposals. Decisions/recommendations of this meeting were then tabled to the Board for further deliberation and final decision.

Activities in 2016

During 2016, the key matters deliberated by the IC are as below:

- Construction of the new sugar refinery project in Tanjung Langsat, Pasir Gudang, Johor
 - Progress update
 - Award of tenders
- Reviewed and recommended the award of tender for the construction of Johor sugar refinery project
- MSM Group Strategic Planning 2020
- The Company's and Group's 2016 performance, 2017 budget, capital expenditure and key performance targets

CORPORATE GOVERNANCE STATEMENT

ACCESS TO INFORMATION, MANAGEMENT AND INDEPENDENT PROFESSIONAL ADVICE

The Board has full and unrestricted access to anyone in the Company or Group in order to conduct any investigation and to obtain any information pertaining to the Company or Group, including access to the Company auditors, consultants, relevant to the furtherance of the Board's duties and responsibilities. In addition to regular presentations by Management to the Board and Board Committees, Directors may seek more detailed briefings from Management on specific matters that they require.

Independent professional advice can be obtained by the Board where necessary at the Company's expense. All Board Committees also have access to independent professional advice on the same basis.

ENGAGING WITH SHAREHOLDERS AND INVESTORS

The Company has a Corporate Disclosure Policy stipulating the proper framework and guidelines to govern the release of information to ensure that comprehensive, accurate and timely disclosures are provided to shareholders and stakeholders. The Corporate Disclosure Policy also regulates the review and release of information to the stock exchange as well as through the Company's website, facilitating timely and accurate disclosure of the Company's affairs.

The Company communicates with its shareholders and stakeholders through the following channels of communication:

Annual General Meeting

The Company's AGM, is the primary platform for communication with the widest range of shareholders.

The Chairman, at the commencement of a general meeting, informs shareholders of their right to vote. With effect from 1 July 2016, poll voting has been made mandatory under the MMLR for every resolution set out in the notice of general meetings. The Board considers the use of electronic voting for polling to facilitate greater shareholders participation, taking into consideration its availability, reliability, applicability, cost and efficiency. MSM shall appoint Independent Scrutineers to verify the results of the poll.

During the 5th AGM of the Company held on 10 May 2016, the President/Group CEO presented the Company's operational and financial performance for the financial year under review. The presentation covered salient points on financial, operational performance, return on shareholders' fund, Company's strategic priorities and progress and awards and recognition received. Questions raised by the MSWG prior to AGM together with the feedback from Management were also shared with shareholders during the AGM. The Chairman provided fair opportunity and time to all shareholders in exercising their rights to raise questions.

The proceedings at the 5th AGM were recorded in the minutes of meeting of which the summarised minutes is disclosed to shareholders in the Company's corporate website.

A media conference was held immediately after the 5th AGM whereby one of the Board of Director, President/Group CEO, Chief Financial Officer and relevant Senior Management were present to update the media representatives on the resolutions passed and answered questions on matters related to the Group. Results of all resolutions passed at the AGM were announced on the same day via Bursa LINK.

Annual Report

This is MSM's 6th Annual Report produced since its listing on Bursa Securities on 28 June 2011. The report provides a comprehensive view on the Group's operational and financial performance.

The abridged annual report is published in printed form and delivered to all shareholders together with a CD ROM. An online version of the complete Annual Report is made available on MSM's corporate website for download. As to comply with Paragraph 9.26 of the MMLR, the complete printed version of the annual report is provided to shareholders upon request of which the request form is provided in the abridged version. Our share registrar will ensure that the printed copy reaches shareholders within four (4) days from the received of the request form.

Corporate Website

The Company's corporate website has become a key communication channel to reach its shareholders and the general public. Financial results, Annual Reports, Bursa Securities announcements, corporate presentations and other information on the Company are published on the Company's corporate website. The presentation slides for the research analyst briefings and the press releases are also made available to the public via Company's corporate website, www.msmsugar.com.

Media Releases

Media releases are made to the media on all significant corporate developments and business initiatives. Media releases are subject to approval by the President/Group CEO and whenever necessary, also released to Bursa Securities to increase the visibility of media releases.

During 2016, Press conferences and analysts' briefing were held concurrently with the release of the quarterly results to Bursa Securities. This has provided opportunity for regular dialogues between the fund managers and research analysts with the President/Group CEO, the Chief Financial Officer (CFO) and other Senior Management officers of the Company. During the briefings, analysts were given the opportunity to ask and obtain further insights into the Group's results and operations for the period under review. These briefings facilitated the research analysts to produce their analysis and reports which made available to investors and the media in a timely manner.

Investor Relations

The President/Group CEO, CFO and the Investor Relations unit regularly engage with the investing community through conferences, non-deal road shows, and one-on-one meetings with equity analysts, fund managers and institutional shareholders to provide updates on the Company's quarterly financial performance, as well as attend to queries on strategic matters, regulatory issues or any changes in operating environment which may impact the Group's performance.

Shareholders are welcome to raise queries by contacting the Company at any time throughout the year and need not wait for the AGM for such an opportunity. Communication and feedback from the shareholders can be directed to info@msmsugar.com or Investor Relations & Enquiries, Level 44, Menara Felda, Platinum Park, No. 11, Persiaran KLCC, 50088 Kuala Lumpur, Malaysia.

UPHOLD INTEGRITY IN FINANCIAL REPORTING

Financial Reporting

The Board ensures that shareholders are presented with a clear, balanced and comprehensive view of the Group's financial performance and prospects through the audited financial statements, quarterly announcement of results, the Chairman's Statement, the Business Operations Analysis and Strategic Review on page 30 in the Annual Report as well as corporate announcements on significant developments affecting the Company in accordance with the MMLR. The Directors has considered the compliance with all applicable financial reporting standards, provision of the Companies Act, 1965 and relevant provision of laws and regulation in Malaysia.

The Audit Committee updates the Board on the matters deliberated in the Audit Committee Meetings. Details on the summary of work carried out during the year is set out in page 94 to 95 in the Audit Committee Report.

Directors' Responsibility Statement

The Directors have provided assurance that the financial statements for the financial year ended 31 December 2016 give a true and fair view of the financial position of the Group and Company and of the financial performance and cash flows of the Group and the Company for the year in accordance with Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965.

The Company's Statement of Directors' Responsibility for the audited financial statements is as outlined on page 125 of this Annual Report. Details of the Company and Group's financial statements for the audited financial statements for the financial year ended 31 December 2016 are set out on pages 135 to 195 of this Annual Report.

External Auditors

The Company's relationship with the external auditors is primarily maintained through the Audit Committee and the Board. The key features underlying the Audit Committee's relationship with the external and internal auditors are detailed in the Audit Committee Report on pages 93 to 96 of this Annual Report.

The Board is aware of the potential conflict of interest situation that may arise if the Company's external auditors are engaged to provide other non-audit services to the Group. The Company has formulated an External Auditor Policy, which details out the selection criteria, assessment and management of relationship independence with the external auditor.

In November 2016, the Board was briefed by the Company's external auditors, Messrs. PricewaterhouseCoopers on the new and revised International Standards on Auditing ("ISA") that come into effect for the auditors' report for financial year ending 31 December 2016 onwards. The new and revised ISA has significantly enhanced the Auditors' Report and the Board believes that the enhanced auditor's report is a very good development which will enhance transparency to the Company's shareholders, investors and other users of the Company's financial statements and boost value and trust for better sustainability of the Company in sugar industry.

Related Party Transactions and Recurrent Related Party Transactions

The Company had established its Related Party Transactions and Recurrent Related Party Transactions Policies and Procedures Manual in April, 2013 (RPT & RRPT Policy). The objectives of this RPT & RRPT Policy are as follows:

- (1) To set out the framework for the identification, monitoring, evaluation, reporting and approval of Related Party Transactions and Recurrent Related Party Transactions of the Group.
- (2) To put in place the guidelines and processes to ensure that Related Party Transactions and Recurrent Related Party Transactions are undertaken on terms not more favourable to the Related Parties than generally available to the public, and are not detrimental to the minority shareholders, and are in the best interest of the Group.

The Company had sought its shareholders' mandate at the 2016 AGM for the Recurrent Related Party Transactions of revenue or trading nature. At the forthcoming AGM, the Company will seek shareholders' mandate for the existing and additional Recurrent Related Party Transactions of revenue or trading nature. The details of the Recurrent Related Party Transactions requiring shareholders' mandate are provided in the Circular to Shareholders which will be sent together with the Annual Report.

Conflict of Interest

The Company requires the members of the Board to make declarations at the Board meeting in the event they have any 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. Interested Directors are required to abstain from deliberation and voting on the relevant resolutions in which they have conflict of interest at any Board or general meeting convened and, where appropriate, excuse themselves from being physically present during such deliberations.

CORPORATE GOVERNANCE STATEMENT

Dividend Policy

The Company presently adopts a dividend pay-out ratio of at least 50% of the Company's profits after taxation attributable to shareholders excluding non-recurring income. The dividend policy also takes into consideration the level of cash, gearing, return on equity and retained earnings, expected financial performance, projected levels of capital expenditure and other investment plans and working capital requirements, general financial condition, contractual obligations and other factors considered relevant by the Board.

As the Company is an investment holding Company, its income and its ability to pay dividend is dependent upon the dividends received from its subsidiaries, which in turn would depend on the subsidiaries' distributable profits, operating results, financial condition, capital expenditure plans and other factors deemed relevant. Whilst the dividend policy reflects the Board's current views on the Group's financial and cash flow position, the dividend policy will be reviewed from time to time. It is the policy of the Board, in recommending dividends, to allow shareholders to participate in the Company's profit, as well as to retain adequate reserves for future growth.

In this regard, and consistent with the Company's dividend policy, for FYE 2016, the Company has paid a single tier interim dividend of RM0.10 sen per ordinary share on 30 December 2016 and the Board is seeking its shareholders' approval at the forthcoming AGM for payment of a final single tier dividend of 4 sen per ordinary share.

RECOGNISING AND MANAGING RISKS

Internal Control

The Board recognises that the ultimate responsibility for ensuring the Group's sound internal control system and reviewing its effectiveness lies with the Board, in order to protect the Group's assets and the Company's shareholders investments. The Statement on Risk Management and Internal Control, which provides an overview of the state of internal control within the Group, is set out on pages 104 to 107 of this Annual Report.

Whistleblowing

MSM had established, on 22 February 2013, a Whistleblowing Policy to maintain the highest standard of ethics and legal conduct within the Group. The main objectives of this Whistleblowing Policy are:

- (i) To provide avenues for employees to disclose any acts of wrongdoing.
- (ii) To assure the employees that they will be protected from reprisals, discrimination or victimisation for whistleblowing in good faith.
- (iii) To provide a formal mechanism for action on all reports made.

The Whistleblowing Policy allows the reporting individual to report on alleged unethical behaviour within the Group such as, but not limited to, the following:

- Malpractice, impropriety, fraud and embezzlements.
- Misappropriation of assets and funds.
- Criminal breach of trust.
- Illicit and corrupt practices.
- Questionable or improper accounting.
- Misuse of confidential information.
- Act or omission, which are deemed to be against the interest of the Group, laws, regulations or public policies.
- Breach of any rules, regulations, policies and procedures of the Group.
- Attempt to deliberately conceal any of the above or other acts of wrongdoing.

The reporting individual is encouraged to report all concerns in a written letter to any of the identified individuals or through the e-Alert form on FGV Group's website and alert@feldaglobal.com.

The complaints made through FGV Group's website and alert@feldaglobal.com are administered by FGV's Group Governance Division. All reports or complaints received will be treated with strict confidentiality. Although the Company treats every report it receives seriously, action may also be considered against the whistleblower if the report is found to contain untrue, false, malicious, mischievous, vexatious or reckless allegations.

SUSTAINABILITY

MSM Group manages its business responsibly by managing the environmental, social and governance aspects of its operations and staying committed to all three principles of sustainability i.e. people, planet and profit (triple bottom line). MSM has always encouraged a balance between its triple bottom line and its role as a responsible corporate citizen whilst approaching it from the four dimensions of marketplace, community, workplace and environment.

STATEMENT BY THE BOARD

This Corporate Governance Statement is made in accordance with the resolution of the Board of Directors dated 22 March 2017.

On behalf of the Board



TAN SRI HAJI MOHD ISA DATO' HAJI ABDUL SAMAD
Chairman

AUDIT COMMITTEE REPORT

AUDIT COMMITTEE'S PRINCIPAL ROLE IS TO ASSIST THE BOARD IN CARRYING OUT ITS OVERSIGHT RESPONSIBILITIES IN RELATION TO FINANCIAL REPORTING, INTERNAL CONTROLS AND RISK MANAGEMENT AND IN MAINTAINING AN APPROPRIATE RELATIONSHIP WITH THE EXTERNAL AUDITORS. DURING THE YEAR, AUDIT COMMITTEE CONTINUED TO PLAY A KEY ROLE IN MONITORING THE INTEGRITY OF THE GROUP'S PUBLISHED FINANCIAL INFORMATION AND ASSESSING THE EFFECTIVENESS OF ITS INTERNAL CONTROLS.

THE BOARD IS PLEASED TO PRESENT THE AUDIT COMMITTEE REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016.

COMPOSITION AND MEETINGS

During 2016, the Board assessed the membership composition of the Audit Committee which resulted in the following changes effective from 23 August 2016:

- Appointment of Datuk Lim Thean Shiang as Audit Committee member.
- Resignation of Dato' Zainal Haji Ismail and Dato' Hajjah Rosni Haji Zahari as Audit Committee member.

In February 2017, the Board appointed Dato' Mohammad Fakhruddin Haji Mohd Ariff, an Independent Non-Executive Director as an additional member.

The current Audit Committee is composed solely of Non-Executive Directors with majority Independent Directors.

The Board believes that the current membership provides the appropriate balance of skills, knowledge and experience to

promote the interests of all shareholders and to meet the needs of the Group. The current Audit Committee membership composition satisfies Paragraph 15.09 of the MMLR.

Dato' Rosini Abd Samad, the Chairman of Audit Committee, is an Independent Non-Executive Director and a member of the Malaysian Institute of Accountants. She is also an Honorary Fellow CPA Australia and a professional member of the Institute of Internal Auditors Malaysia. Dato' Rosini Abd Samad has fulfilled the requisite qualifications as stipulated in Paragraph 15.09(1)(c)(i) of the MMLR.

During 2016, the Audit Committee held a total of six (6) meetings including one (1) unscheduled meeting held to discuss the trading activities of MSM Trading International DMCC, a wholly-owned subsidiary of MSM Malaysia Holdings Bhd (MSM) having its operations in Dubai since February 2016. The six (6) meetings were held on 17 February 2016, 16 March 2016, 16 May 2016, 17 August 2016, 14 November 2016 and 23 December 2016.

The membership and meeting attendance of the Audit Committee members is as follows:

| Members | Type of membership | No. of meetings attended during 2016 |
|---|---|--------------------------------------|
| Dato' Rosini Abd Samad <i>(appointed on 7 January 2015)</i> | Chairman/Independent Non-Executive Director | 6/6 |
| Datuk Lim Thean Shiang <i>(appointed on 23 August 2016)</i> | Member/Independent Non-Executive Director | 2/2 |
| Datuk Noor Ehsanuddin Mohd Harun Narrashid <i>(appointed on 1 March 2016)</i> | Member/Non-Independent Non-Executive Director | 4/5 |
| Dato' Mohammad Fakhruddin Haji Mohd Ariff <i>(appointed on 22 February 2017)</i> | Member/Independent Non-Executive Director | Not applicable |
| Dato' Zainal Haji Ismail <i>(resigned on 23 August 2016)</i> | Member/Independent Non-Executive Director | 4/4 |
| Dato' Hajjah Rosni Haji Zahari <i>(resigned on 23 August 2016)</i> | Member/Independent Non-Executive Director | 4/4 |

AUDIT COMMITTEE REPORT

During 2016, the President/Group Chief Executive Officer (CEO), Chief Financial Officer (CFO), Felda Global Ventures Holdings Berhad (FGV) Group Chief Internal Auditor and Management attended the meetings upon the invitation of the Audit Committee. The Audit Committee Chairman reported to the Board on key matters deliberated at Audit Committee Meetings. Minutes of each meeting were circulated to the Board at the next Board Meeting.

TERMS OF REFERENCE

The Audit Committee's Terms of Reference was established pursuant to the Main Market Listing Requirement and was approved by the Board to guide the Audit Committee in discharging its functions and duties. In addition, the Terms of Reference also recognises and adopts related best practices and guidance from the Malaysian Code of Corporate Governance and the Corporate Governance Guide.

The full details of the Audit Committee's Terms of Reference is published in the Company's corporate website at www.msmsugar.com.

The existence of Audit Committee does not diminish the Board's ultimate statutory and fiduciary responsibility for decision-making relating to the functions and duties of the Audit Committee.

SUMMARY OF WORK OF THE AUDIT COMMITTEE IN 2016

Through the six (6) meetings held and various private sessions with the external auditors and internal auditors, the Audit Committee undertook the following principal activities in the discharge of its responsibilities:

Assessing the Risks and Control Environment

- Evaluated the reports on the assessment of the risks and control environment based on the external auditors' quarterly financial statement review and statutory financial audits at each Audit Committee meeting.
- Reviewed all internal audit reports issued by the Group Internal Audit, which detailed the observations from all the internal audits undertaken.
- Received assurances from the President/Group CEO and CFO that the risk management and internal control system of the Group for the financial year 2015 have been operating adequately and effectively, in all material respects.
- Provided relevant guidance for the improvement of the risks and control environment of the Group, in particular in the areas of raw and refined sugar trading in which are the key focus areas of the Group during the financial year.

Overseeing Financial Reporting

- Reviewed reports of the external auditors from their quarterly financial statement review at each quarterly meeting. Amongst the main focus of the reports are the external auditors' assessments of revenue recognition of refined sugar sales, rebate and discounts to customers and export contracts arrangements based on applicable financial reporting standard.
- Reviewed the quarterly report on consolidated results for each quarter and was apprised on the analysis of the results in detail.
- Evaluated the Audited Financial Statements of the MSM Group for the financial year 2015 to ensure that the financial reports presented a true and fair view of the Company's financial performance and complied with regulatory requirements
- Assessed the proposal of the single-tier interim and final dividend from Management in consideration of the level of cash, gearing return on equity and retained earnings, expected financial performance, other investments plan and working capital requirement, and general financial condition.
- Reviewed the quarterly reports on recoverability of trade receivables, focusing on the trade receivables' compliance to credit limit and credit term for customers with long outstanding balances.
- Reviewed the assessment of the impact of the foreign currency trend on the raw sugar costs.

Reviewing the Internal Audit Process

- Reviewed and approved the annual Group Internal Audit plan by assessing the priority ranking of the audit universe to provide sufficient audit coverage and benchmarked against the previous year's Group Internal Audit Plan.
- Assessed the adequacy of resources of the internal audit function to execute the Annual Group Internal Audit Plan after taking into consideration the number of planned assignments and competencies required.
- Presented with and reviewed quarterly reports summarising the following at every quarterly meeting during the financial year 2016:
 - The observations from the internal audit reports issued during the quarter. The Audit Committee gave directions to Management on key matters requiring Management's special and immediate attention. The Audit Committee has reported to the Board on these key matters.
 - The progress of implementation of the recommendations from internal audit reports issued.
 - The progress of the implementation of the annual Group Internal Audit Plan.

- Evaluated the outcome of any special reviews and investigations, including those arising from Management and Audit Committee requests, and discussed with Management on the action taken on the matter.
- Appraised the performance of the Chief Internal Auditor and submitted the same to FGV.

Reviewing the External Audit Process

- Held two (2) private discussions with the external auditors, Messrs. PricewaterhouseCoopers (PwC), without Management on the 17 February 2016 and 17 August 2016. In these sessions, the matters discussed include revenue recognition of refined sugar sales, rebate and discounts to customers and export contracts arrangement. In addition, the Audit Committee Chairman met with PwC on a more frequent basis before the Audit Committee meetings to apprise in detail issues or concerns raised by PwC.
- Evaluated the External Auditor Policy and provided its recommendation for approval by the Board.
- Reviewed and approved the external auditors' terms of engagement and audit plan for the financial year.

PwC presented the MSM 2016 Group Audit Plan at the Audit Committee meeting held on 17 August 2016. During their presentation, PwC confirmed their independence as auditor. PwC also highlighted to the Audit Committee, the recent developments in laws and regulations which covers the latest amendments on the Financial Reporting Standards and Malaysian Financial Reporting Standards as well as the Main Market Listing Requirement. In addition, PwC briefed the Audit Committee on the new format of the Independent Auditors' Report which includes information on the Key Audit Matters and the requirements to review the Annual Report by the external auditors on disclosure of financial information to be included in the Company's Annual Report.

The Audit Committee also noted the declaration of independence by PwC.

- Analysed the external audit fees proposed in respect of the scope of work required for the financial year and recommended the same for approval by the Board.
- Evaluated the external auditors' report on the outcome of the external audit process for the financial year ended 2015 and from quarterly reviews of the 2016 financial statement, which included internal control recommendations and Management's response to the recommendations.
- Reviewed the assessment of the external auditors for financial year 2015 for reappointment based on input from Management and recommended the same for approval by the Board.

Reviewing the Related Party Transactions

- Analysed the quarterly reports on Recurrent Related Party Transactions for monitoring the transactions against the shareholders' mandate.
- Reviewed the Circular to the shareholders to seek mandate on new and existing Recurrent Related Party Transactions of the Group and recommend the same for approval of the Board.

- Reviewed the internal audit reports on Recurrent Related Party Transactions.
- Assessed two (2) new transactions with related parties during the year in regards to the construction of Johor Sugar Refinery at Lot No. PTD 4966, Mukim Sungai Tiram, Perindustrian Tanjung Langsat, Johor Bahru, Johor Darul Takzim.

The Audit Committee recommended these transactions to the Board for approval and due announcements were made to Bursa Malaysia.

Other responsibilities and duties

- Reviewed the Report on the Audit Committee and requested that the key focus areas for the Audit Committee to be enhanced by Management.
- Reviewed and recommended the Statement of Risk Management and Internal Control to the Board for approval to ensure compliance to the Main Market Listing Requirements to be included in the Annual Report for financial year 2015.
- Reviewed the following reports and recommended them for the Board's approval for inclusion in the Annual Report for financial year 2015:
 - the Report on the Audit Committee
 - the Statement of Risk Management and Internal Control
 - the Corporate Governance Statement

The Audit Committee reviewed the reports with focus on meeting the Main Market Listing Requirements and reporting best practises based on the guidance from the Malaysian Code of Corporate Governance 2012, Guidance to Directors of Public Listed Companies on the Statement of Risk Management and Internal Control and other best practise references.

- Considered the revision of Audit Committee's terms of reference to reflect changes on the Main Market Listing Requirements.
- Reviewed a special audit report and provide recommendation on trading system requirement and enhancement of internal controls in MSM Trading International DMCC.

EXTERNAL AUDITORS POLICY

On 23 February 2016, the Board approved the External Auditors Policy ("Policy"). This Policy was developed to provide guidance on matters related to dealings with the firm of professional accountants which is or will be appointed as the External Auditor for the statutory audit of MSM Group.

The Policy covers appointment and re-appointment of external auditors, assessment of external auditors' performance and independence, audit partner rotation, audit delivery and reporting, engagement of external auditors for non-audit services and removal of external auditors.

AUDIT COMMITTEE REPORT

KEEPING UPDATED ON RELEVANT INFORMATION

The Audit Committee members are regularly kept updated on changes to accounting standards and issues related to financial reporting through quarterly meetings.

Throughout the financial year 2016, all Audit Committee members had attended various seminars, training programme and conferences to keep abreast of changes in the industry and business environment. Details are set out in the Corporate Governance Statement under Directors' training on page 85 of this Report.

AUDIT COMMITTEE EVALUATION

In 2016, Board Effectiveness Assessment which encompassed the performance of the Audit Committee and the Audit Committee Chairman as well as the independence of the Independent Directors was conducted. The assessment focused on how effective the Audit Committee has conducted its activities. Based on the evaluation performed, the Board satisfied that the Audit Committee and its Chairman had demonstrated a high level of diligence, independence and commitment in discharging its responsibilities.

INTERNAL AUDIT

The internal audit function for the Group is undertaken by the Group Internal Audit of the holding company, FGV. The Chief Internal Auditor reports functionally direct to the Audit Committee of MSM. The conduct of the Group Internal Audit is based on a Group Internal Audit Charter, which was established consistent with the requirements of IIA's International Standards for the Professional Practise of Internal Auditing.

The Chief Internal Auditor, Puan Zalily Mohd. Zaman Khan, a fellow member of CPA Australia and a Certified Internal Auditor of the Institute of Internal Auditors from USA, leads the internal auditors across MSM Group.

Five (5) internal auditors have been specifically assigned for audits of MSM Group throughout the financial year. The total number of internal auditors allocated is appropriate and sufficient in terms of the mix of knowledge, skills and other competencies in line with the scope of the audit and size of MSM Group. The composition of the internal auditors and the corresponding professional status are as follows:-

| Professional Status | No. of Auditors |
|--|-----------------|
| Post Graduate | 1 |
| Graduate | 3 |
| Graduate pursuing Certified Internal Auditor (CIA) certification | 1 |
| Total | 5 |

SUMMARY OF WORK OF THE INTERNAL AUDIT FUNCTION

Group Internal Audit provides independent and objective assurance of the adequacy and effectiveness of risk management, controls and governance processes of the Group covering all operations of the Group. In conducting their independent audits, Group Internal Audit adopted a risk based internal audit approach by focusing on the assessment of significant risk areas. During the financial year under review, Group Internal Audit has undertaken the following main activities:

- Carried out internal audits according to the Annual Group Internal Audit Plan approved by the Audit Committee and reported the findings, recommendations and management's corrective action to the Audit Committee every quarterly. The scope of work was focused on the following key areas:-
 - Governance Framework and Structure
 - Financial Management
 - Trading Processes
 - Supply Chain
 - Project Management
 - Procurement
 - Human Resource
- Prepared and presented to the Audit Committee a report on the progress of implementation of the recommendations from internal audit reports issued.
- Undertook Recurrent Related Party Transactions review for the purpose of supporting the Audit Committee's statement in the Circular to the shareholders to seek mandate on new and existing Recurrent Related Party Transactions of the Group.

In addition to the assurance role, Group Internal Audit also undertakes consulting role and investigative role. Key activities carried out were as follows, amongst others:-

- Undertook investigative audits and reported the outcome of such investigations to the Audit Committee and Management.
- Provided feedback on the Statement on Risk Management and Internal Control 2015, the Report on the Audit Committee 2015 and the Statement on Corporate Governance 2015 before submission to the Audit Committee.
- Provided guidance to the Management in streamlining its corporate governance structures through Board Terms of Reference, Policies and Procedures.

The total cost incurred for internal audit for the financial year ended 31 December 2016 was RM1,387,258 (2015: RM1,925,878).

STATEMENT BY THE BOARD

This Audit Committee Report is made in accordance with a resolution of the Board of Directors duly passed on 22 March 2017.

NOMINATION AND REMUNERATION COMMITTEE REPORT

THE NOMINATION AND REMUNERATION COMMITTEE (NRC) HAS AN IMPORTANT ROLE TO PLAY IN ENSURING THAT THE BOARD AND ITS BOARD COMMITTEES HAVE THE RIGHT SKILLS, EXPERIENCE AND DIVERSITY TO LEAD AND OVERSEE THE CONDUCT OF THE GROUP'S BUSINESS TO BUILD VALUE FOR THE STAKEHOLDERS. NRC CONSTANTLY REVIEWS AND EVALUATES THE COMPOSITION OF THE BOARD AND BOARD COMMITTEES TO MAINTAIN THE APPROPRIATE BALANCE OF SKILLS, KNOWLEDGE AND INDEPENDENCE TO FUNCTION EFFECTIVELY.

THE BOARD IS PLEASED TO PRESENT THE REPORT ON NOMINATION AND REMUNERATION COMMITTEE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (FYE 2016).

COMPOSITION AND MEETINGS

During the year 2016, the Board assessed the composition of the NRC which resulted in the following changes effective from 23 August 2016:

- Appointment of Dato' Zakaria Arshad as NRC member.
- Resignation of Dato' Rosini Abd Samad as NRC member.

The current NRC comprises exclusively Non-Executive Directors with majority of Independent Directors.

The Board believes that the current NRC composition provides the appropriate balance in terms of skills, knowledge and experience to promote the interests of all shareholders and to meet the needs of the Group.

During the year 2016, NRC held a total of 11 meetings of which 6 meetings were unscheduled to discuss, amongst others, urgent/important matters as below:

1. Reviewed the proposed appointment of Officer In Charge of MSM on interim basis in the absence of the late President/Group CEO
2. Reviewed the proposed appointment of a new President/Group CEO of MSM replacing the late President/Group CEO
3. Reviewed the proposed end of service gratuity for the late President/Group CEO
4. Reviewed the proposed appointments and resignations of Nominee Directors of FGV in MSM

The NRC meetings were chaired by NRC Chairman, an Independent Non-Executive Director, who is responsible for the conduct of the meetings. NRC is required to convene at least 3 meetings annually. Scheduled meetings are fixed in the previous calendar year and unscheduled meetings are called whenever required.

MSM Company Secretaries are the Secretaries of NRC and were present at all meetings to record the proceedings of the meetings.

The membership and meeting attendance of the NRC members are as follows:

| Members | Type of membership | No. of meetings attended during the FYE 2016 |
|--|---|--|
| Dato' Zainal Haji Ismail <i>(appointed on 25 March 2011)</i> | Chairman/ Independent Non-Executive Director | 11/11 |
| Dato' Hajjah Rosni Haji Zahari <i>(appointed on 25 March 2011)</i> | Member/ Independent Non-Executive Director | 11/11 |
| Dato' Zakaria Arshad <i>(appointed on 23 August 2016)</i> | Member/Non- Independent Non-Executive Director | 1/1 |
| Dato' Rosini Abd Samad <i>(resigned on 23 August 2016)</i> | Member/ Independent Non-Executive Director | 10/10 |

TERMS OF REFERENCE

NRC is governed by its own Terms of Reference (TOR) which was established pursuant to the MMLR and was approved by the Board. The summary of NRC's key areas of responsibilities are set out on page 88 of the Corporate Governance Statement and are defined in detail in its TOR.

NOMINATION AND REMUNERATION COMMITTEE

The TOR is reviewed periodically and as and when required especially when there are changes to the MMLR and the Code. The latest TOR was reviewed and revised in November 2016. All amendments to the TOR were approved by the Board.

The full details of the NRC's TOR are published in the Company's corporate website at www.msmsugar.com.

BOARD APPOINTMENT PROCESS

The NRC considers the following selection criteria for the assessment and selection of Directors and Board Committee Members:

1. Skills, knowledge and experience,
2. Contribution and performance,
3. Character, professionalism and integrity,
4. Number of directorships and other external obligations which may affect the Director's commitments, including time commitment and valued contribution, and
5. Ability to discharge certain responsibilities/functions as expected from Independent Directors.

Prior to their appointments, candidates also need to disclose any other business interest that may result in a conflict of interest.

The Company Secretaries ensure all appointments are properly made and all necessary information are obtained from the Directors for the purposes of meeting statutory obligations including obligations arising from MMLR or other regulatory requirements.

During the year 2016, the composition of the Board of Directors saw the following changes:

- Dato' Mohd Emir Mavani Abdullah resigned from the Board on 1 April 2016.
- Allahyarham Dato' Sheikh Awab Sheikh Abod passed away on 14 April 2016.
- Dato' Zakaria Arshad was appointed to the Board as Non-Independent Non-Executive Director on 1 April 2016, replacing Dato' Mohd Emir Mavani Abdullah who resigned on the same day.
- Dato' Mohammad Fakhruddin Haji Mohd Ariff was appointed to the Board as additional Independent Non-Executive Director on 21 November 2016.

Dato' Mohd Emir Mavani Abdullah was on the Board of MSM as Non-Independent Non-Executive Director representing Felda Global Ventures Holdings Bhd (FGV), one of MSM's major shareholders. Following his resignation on 1 April 2016, FGV nominated Dato' Zakaria Arshad to replace Dato' Mohd Emir Mavani Abdullah. NRC conducted an assessment evaluation on Dato' Zakaria Arshad based on the selection criteria as provided in its TOR, before he was appointed as Non-Independent Non-Executive Director on 1 April 2016.

Since the last report, the Board has actively looked for an additional suitable candidate to be appointed as Independent Non-Executive Director. On 21 November 2016, the Board with the recommendation of NRC after an assessment evaluation based on the selection criteria provided in its TOR, approved the appointment of Dato' Mohammad Fakhruddin Haji Mohd Ariff to the Board as additional Independent Non-Executive Director. With this appointment, the number of Independent Directors now stands at five (5), forming a majority of the Board and this satisfied Paragraph 3.5 of the MCCG 2012.

All newly appointed Directors are furnished with Director's Kit which clearly states the aims of good corporate governance and outlines the roles and responsibilities of the Board and Board Committees as well as their authority limits. The MSM Board Charter which is included in the Directors' Kit, serves as a comprehensive constitution for the Board. The MSM Board Charter in summary addresses the following pertinent matters:

- An emphasis on the purpose of the Board;
- The structure and composition of the Board;
- The roles and responsibilities of the Board and those delegated to Management, including the Board's oversight role, its relationship with and responsibility to the subsidiaries within the Group;
- Authorities, duties and functions of the Board, including the right to obtain advice, to have access to personnel of the Group and to convene meeting as and when required; and
- The conduct of Board meetings.

The NRC carries out its responsibilities on reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board, the Board Committees and all directorships in the Group based on its TOR. On top of that, the NRC is also recommending a formal Board Nomination and Election Policy and Procedures to the MSM Board for approval. This formalises the policies on Board Composition, Independence, Conflict of Interest and Board Assessment. The Policy on Board Composition provides the size of the Board, the selection criteria, the Director's skills sets and the Board diversity to be considered for new appointment of Directors.

RE-APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Articles of Association of the Company, newly appointed Directors during the year must offer themselves for re-election at the first Annual General Meeting (AGM) following their appointments and one-third (1/3) of the Directors for the time being shall retire from office at least once in every three years and shall then be eligible for re-election. The directors to retire in that year shall be those who, being subject to retirement by rotation, have been longest in office since their last election or appointment. A retiring Director shall retain office until the close of the general meeting at which he retires.

The performance of those Directors who are subjected to re-appointment and re-election of Directors at the AGM were assessed by NRC whereupon recommendations were submitted to the Board for decision on the tabling of the proposed re-appointment or re-election of the Director concerned for shareholders' approval at the next AGM.

BOARD PERFORMANCE EVALUATION

A formal performance evaluation of the Board including Board Committee members provides the opportunity to assess and evaluate the Board's performance including the independence of the Independent directors. For 2016 evaluation, the Board appointed an external consultant to facilitate the Board evaluation process. The evaluation process involved a peer and self-review assessment, where Directors assessed their own and also their fellow Directors' performance.

The scope of the Board performance evaluation covers the following:

1

Terms of Reference of the Board of Directors as well as the Board Committee

2

Minutes of the Board and Board Committees' meetings carried out throughout our review period

As evaluated by NRC and recommended by the Board, the following are to be re-elected and re-appointed at the forthcoming 6th AGM:

| Director | Designation | Provision |
|---|------------------------------------|------------------------------------|
| Datuk Lim Thean Shiang | Independent Non-Executive Director | Re-election pursuant to Article 93 |
| Dato' Hajjah Rosni Haji Zahari | Independent Non-Executive Director | Re-election pursuant to Article 93 |
| Dato' Zainal Haji Ismail | Independent Non-Executive Director | Re-appointment |
| Dato' Mohammad Fakhruddin Haji Mohd Ariff | Independent Non-Executive Director | Re-election pursuant to Article 99 |

The re-election and re-appointment of each director above will be conducted separately at the forthcoming 6th AGM.

The Directors who are due to retire have met the Board's expectations, have continued to perform in an exemplary manner and have contributed to the Board's deliberations.

To assist shareholders in making their decisions in the re-election and re-appointment of Directors, sufficient information such as personal profiles, attendance at Board and Board Committee meetings and the shareholdings in the Company of the Directors standing for re-election and re-appointment are furnished in this Annual Report.

3

Review of relevant documentation and information deemed necessary in facilitating the assessment

4

Interview sessions and surveys via questionnaires with all Board Members and Board Committee Members

NOMINATION AND REMUNERATION COMMITTEE

The Board performance evaluation focus areas are as below:



Engagement

- Interaction and Communication within the Board and with the Senior Management
- Board's Contribution in the Development of MSM's strategy and objectives
- Board's role in overseeing the performance of human capital management



Infrastructure

- Board governance and structure
- Board and Management Committees
- Selection and nomination of Board members
- Board and Board Committee meetings



Effectiveness

- Evaluation of Board cadence and discussions

The Board, upon presentation by NRC shall assess the evaluation results together with the identified recommendations and initiatives to enhance the Board effectiveness.

STATEMENT OF SUMMARY OF NRC'S ACTIVITIES DURING 2016

During 2016, the NRC performed a number of key activities as summarised below which were reviewed and recommended by the NRC to the Board for approval:

Nomination and Election Process

1. Re-appointment/re-election of Directors retiring at the 5th Annual General Meeting
2. Appointment and resignation of Nominee Directors of FGV as Non-Independent Non-Executive Director
3. Appointment of additional Independent Non-Executive Director
4. Appointment and resignation of Directors of MSM subsidiaries
5. Appointment of new President/Group CEO of MSM replacing the former President/Group CEO, Dato' Sheikh Awab Sheikh Abod who deceased on 14 April 2016
6. Changes on the Board Committees' membership composition
7. Annual assessment of the effectiveness of the Board, Board Committees and Individual Directors including assessment of the Independent Directors for year 2015

Remuneration Matters

1. Revision of the Directors' Remuneration Policy
2. Realignment of the Benefit-in-kind for Directors
3. 2015 bonus and 2016 salary increment and market adjustment for MSM Group
4. Recommendation of the Director' fees for the financial year ended 31 December 2015 for shareholders' approval at the 5th Annual General Meeting
5. Settlement of final entitlement and payment of end of service gratuity to the late Dato' Sheikh Awab Sheikh Abod, the former President/Group CEO of MSM

Other matters

1. Revision of MSM's Corporate Organisation
2. Report on NRC for inclusion in MSM 2015 Annual Report
3. Promotion exercise for MSM Group
4. Review on the job evaluation outcome and harmonisation with FGV Group job grades

The Committees' Performance

On an annual basis, the Board shall evaluate the Committees' performance and extent to which the Committees have met the requirements of its Terms of Reference, including the term of office and performance of the Committees and each of their members. This performance assessment may constitute a part of the annual Board Effectiveness Assessment, pertaining to the assessment of Board Committees.

STATEMENT BY THE BOARD

This Report on Nomination and Remuneration Committee is made in accordance with a resolution of the Board of Directors duly passed on 22 March 2017.

ADDITIONAL COMPLIANCE INFORMATION

In compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the following information is provided:

1. UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSALS

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

2. SHARE BUY-BACKS

During the financial year ended 31 December 2016, there were no share buy-backs by the Company.

3. OPTION, WARRANTS OR CONVERTIBLE SECURITIES

There were no option, warrant or convertible securities issued by the Company during the financial year ended 31 December 2016.

4. AMERICANS DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMME

The Company did not sponsor any ADR or GDR programme during the financial year ended 31 December 2016.

5. MATERIAL SANCTIONS AND/OR PENALTIES

During the financial year ended 31 December 2016, there were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies.

6. NON-AUDIT FEES

The amount of non-audit fees incurred for services rendered to the Company by its external auditors, Messrs Deloitte for the financial year ended 31 December 2016 amounted to RM33,390.

7. VARIATION IN RESULTS

There were no profit estimation, forecasts or projections made or released by the Company during the financial year ended 31 December 2016.

8. PROFIT GUARANTEE

No profit guarantee was given by the Company in respect of the financial year ended 31 December 2016.

9. MATERIAL CONTRACTS

There were no material contracts entered into by the Company or its subsidiaries involving directors' or major shareholders' interest, either still subsisting at the end of the financial year ended 31 December 2016 or entered into since the end of the previous financial year.

ADDITIONAL COMPLIANCE INFORMATION

10. DISCLOSURE OF RECURRENT RELATED PARTY TRANSACTIONS OF REVENUE NATURE (RRPT)

| Transacting Parties | Nature of Relationship | Nature of Transaction | Transaction Value for the year ended 31 December | |
|---|--|--|--|----------------------|
| | | | 2016 (estimate) RM'000 | 2016 (actual) RM'000 |
| Felda Trading and MSM Prai Berhad (MSM Prai) | Interested Major Shareholders: <ul style="list-style-type: none"> ■ KPF Interested Directors: <ul style="list-style-type: none"> ■ – | Sales of refined sugar | 30,000 | 25,803 |
| MSM Malaysia Holdings Berhad (MSM) and FGV | Interested Major Shareholders: <ul style="list-style-type: none"> ■ FELDA ■ FAHC Interested Directors: <ul style="list-style-type: none"> ■ Tan Sri Haji Mohd Isa ■ Dato' Haji Abdul Samad ■ Datuk Noor Ehsanuddin Mohd Harun Narrashid ■ Dato' Zakaria Arshad | Management Fee | 9,000 | 7,576 |
| MSM Malaysia Holdings Berhad (MSM) and Felda Prodata | Interested Major Shareholders: <ul style="list-style-type: none"> ■ KPF ■ FGV ■ FELDA ■ FAHC Interested Directors: <ul style="list-style-type: none"> ■ Tan Sri Haji Mohd Isa ■ Dato' Haji Abdul Samad ■ Dato' Zakaria Arshad | Provision of information technology (IT) services | 1,000 | 356 |
| MSM Malaysia Holdings Berhad (MSM) and Felda Security | Interested Major Shareholders: <ul style="list-style-type: none"> ■ KPF ■ FGV ■ FELDA ■ FAHC Interested Directors: <ul style="list-style-type: none"> ■ Tan Sri Haji Mohd Isa ■ Dato' Haji Abdul Samad ■ Dato' Zakaria Arshad | Provision of security services | 1,500 | 922 |
| MSM Malaysia Holdings Berhad (MSM) and FELDA | Interested Major Shareholders: <ul style="list-style-type: none"> ■ FGV ■ FAHC Interested Directors: <ul style="list-style-type: none"> ■ Tan Sri Haji Mohd Isa ■ Dato' Haji Abdul Samad ■ Datuk Noor Ehsanuddin Mohd Harun Narrashid ■ Datuk Hanapi Suhada | Office rental: Address: Level 44, Menara Felda, Platinum Park, No.11, Persiaran KLCC, 50088 Kuala Lumpur Size: 15,631 sq ft Duration: 23 November 2016 – 23 November 2019 Rental payment: Monthly | 2,000 | 1,339 |

CORPORATE INTEGRITY

MSM Group has been committed to a culture of integrity. Through the implementation of integrity initiatives by FGV Group, MSM Group continues its commitment to the following initiatives:

1. ETHICS AND INTEGRITY

■ Code of Ethics and Conduct for Employees

The MSM Group has Code of Ethics and Conduct for Employees (the Code), which sets out the principles to guide its employees in carrying out their duties and responsibilities to the highest standards of personal and corporate integrity. The Code covers areas such as compliance, integrity, conduct in the workplace and business conduct. It also includes the protection of the Group's assets, confidentiality and conflict of interest. The Code is available to all employees via the MSM Group's internal portal.

■ Integrity Initiatives

FGV Group is one of the signatories to the Corporate Integrity Pledge with the Malaysian Anti-Corruption Commission (MACC). Supporting this initiative, MSM Group is committed to enhance its business environment by emphasising on transparency, integrity and good governance. Since 2014, MSM Group has participated in the FGV Integrity Awareness road show tour programme through the "Jelajah Integriti & Integrity Talk" which requires staffs to sign the Integrity Pledge.

■ Whistleblowing Policy and Procedures

MSM Group has a Whistleblowing Policy and Procedures that serves as an official channel for its employees to raise their concerns in a secure and confidential manner.

2. AUTHORITY AND RESPONSIBILITY

■ Organisation Structure

The Group organises its operations into six (6) Subsidiaries supported by corporate centres at holding company level. The organisation structure provides clear lines of reporting and functions which promotes ownership, accountability and forms the basis for delegation of authority and responsibility.

■ Group Discretionary Authority Limits (DAL)

Consistent with the spirit of continually enhancing the internal control, the Group DAL was reviewed and updated to promote organisational efficiency while ensuring that it is aligned to the Board's risk appetite. The Board approved the revised DAL Version 4.0 on 24 August 2016.

■ Job Description/Role Charter

Each role in the organisation structure is supported by clear description of the job responsibilities which are linked to the vision and goals of the Group. With clarity of responsibilities and relationship between functions, collaboration across the Group is enhanced to move the Group towards operational efficiency.

3. COMPETENCY

As an organisation that views its employees as invaluable assets, MSM Group is committed to its employees personal and professional development at all levels. In sync with the Group's continual improvement culture, the Group has developed several programmes to ensure adequate supply of skilled and knowledgeable workforce, which would then be groomed to take on leadership positions, for strong, sustainable and balanced growth.

The programmes are holistic in nature, aiming to enhance both professional and behavioural competencies by incorporating elements such as integrity, governance as well as the Group's core values.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors is pleased to provide the Statement on Risk Management and Internal Control (“Statement”) and is committed to maintaining an adequate and efficient risk management systems and internal controls in order to safeguard shareholders’ investments and MSM Group’s assets.

This Statement outlines the Group’s risk management framework and internal controls embedded in all day to day business activities of the Group. It is intended to provide to our stakeholders and users of this Annual Report with meaningful, high-level information about the adequacy and state of the Group’s risk management systems and internal controls for the financial year under review.

This Statement is made pursuant to Paragraph 15.26(b) of the Bursa Malaysia Berhad’s Main Market Listing Requirements and in accordance with The Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (“Guidelines”).

RESPONSIBILITY AND ACCOUNTABILITY

The Board acknowledges its overall responsibility in the establishment and overseeing the Group’s risk management system and internal control systems. The Board is fully committed to ensure the existence of an effective risk management systems and internal control systems within the Group and continuously reviews and evaluates the adequacy of these systems. However, the Board recognises that such systems are designed to manage and reduce, rather than eliminate, the risks identified to an acceptable level of risk appetite. As such, the risk management systems and internal controls of the Group are designed to identify the risks and manage such risks within the tolerable level of risk appetite set and approved by the Board. The internal controls implemented can only provide reasonable, but not an absolute, assurance against the risk of failure to achieve the Group’s business objectives and/or occurrence of material financial misstatement or loss.

There are three (3) committees at Board level that support the Board in its risk management and internal control responsibilities:

- i. Board Governance and Risk Management Committee (BGRMC) which is tasked with overseeing risk management and governance aspects of the Group;
- ii. Audit Committee (AC) which is tasked with assessing the risks and control environments and overseeing financial reporting, including the external and internal audit; and
- iii. Investment Committee (IC) which is tasked with ensuring investments undertaken are aligned to the Group’s vision and overall risk appetite.

These Committees are empowered by clearly established and approved terms of reference in the above mentioned responsibilities.

RISK MANAGEMENT

MSM Group has a dedicated Governance, Risk Management and Compliance Unit (GRMC) which undertakes the following responsibilities:

- Reviewing, assessing, enhancing and monitoring the Group’s Risk Management Framework including risk management policies and procedures;
- Maintaining the Risk Register for the Group;
- Providing guidance to all Group’s operations in identifying and assessing the risks, developing relevant and effective mitigation strategies to manage risks;
- Preparing risk reports to BGRMC and Board;
- Undertaking analyses on specific risks and where necessary, reporting the same to BGRMC and the Board; and
- Overseeing the Group’s Business Continuity Management.

Risk Management Framework and Approach

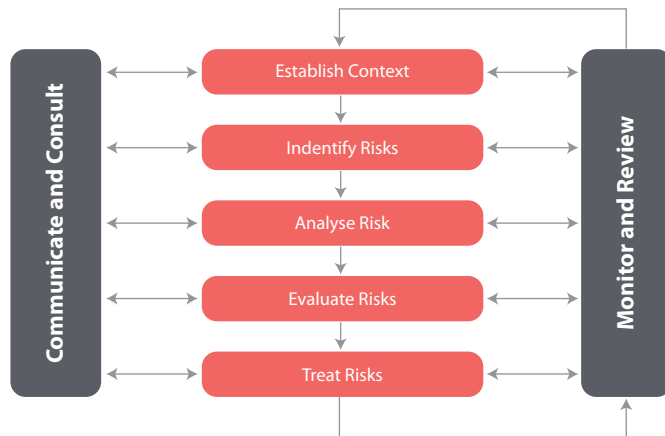
The Risk Management, Governance and Compliance of the Group are under the purview of the President/Group CEO supported by the GRMC Unit, Risk Champions and Risk Owners. The Risk Champions are supported by MSM’s various Corporate Centres and Subsidiaries’ CEOs, to coordinate with the Risk Owners in identifying, evaluating, managing and monitoring their respective key risks. They are also tasked with ensuring the implementation of the action plans to effectively mitigate the risks identified.

An overview of the Group’s risk management framework is depicted below:



The Group has in place policies and procedures which are consistent with the ISO 31000 Risk Management Standard, developed to aid relevant personnel in undertaking their risk management responsibilities.

The process of risk management adopted by the Group is illustrated below:



Key Risk Management Activities For 2016

Key risk management activities undertaken during the financial year under review are as follow:

Development of Enterprise Risk Management System

The Enterprise Risk Management System was successfully rolled out during the year and is currently being used by all relevant personnel.

Quarterly Reporting of Enterprise Risk

Key enterprise risks were reported every quarter to BGRMC. All subsidiaries within the Group update the Risk Registers through the Enterprise Risk Management System and reported to BGRMC through GRMC.

Development of Risk Management Culture and Awareness

GRMC's activities are designed to instill the importance of a strong and effective risk management culture within the Group. Enterprise Risk Management and Business Continuity Management awareness and training sessions were conducted for targeted groups.

Business Continuity Management (BCM)

BCM is prepared to support the Group to respond and recover from significant unexpected events. The BCM documentation including Business Continuity Plans, Business Impact Analyses, and Risk Assessments were reviewed in order to always maintain robust plans for protecting the interests of the stakeholders. Additionally, BCM testing has been conducted at the relevant corporate centers and subsidiaries.

Review of Terms of Reference (TOR), Policies and Procedures

All TORs, policies and procedures are reviewed periodically, between one (1) to three (3) years as and when required, especially when there are changes to the Listing Requirements and MCCC 2012 and to cater for any changes in the Group.

INTERNAL CONTROL FRAMEWORK

The Group has a risk management framework that is integrated into and where appropriate embedded into the day to day business activities and management decision making framework of the Group. The Group does not adopt any one risk management standard or guideline believing it is better to tailor the risk management framework to the specific circumstances of the Group. The Group practices are generally aligned with the principles of ISO 31000. It should be noted that these principles in themselves are broad and to be utilised only where considered appropriate. Supporting this broader risk management framework is an internal control system that facilitates internal control design and operating effectiveness to manage key risks. Key aspects of the Group's overall risk management and internal control framework are selectively outlined below, where they provide assurance the framework is adequate and effective for the purposes of this Statement.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

MSM Group manages its risks by implementing various internal control mechanisms. The mechanisms apply to all subsidiaries within the Group. Key elements of the Group's internal control structure are as follow:



1. Ethics and Integrity

a. Code of Business Conduct and Ethics for Employees

The Group's Code of Business Conduct and Ethics for Employees (the Code) have been incorporated in the MSM's Group Employee Handbook since the 1st of September 2014. The Code sets out the principles to guide its employees in carrying out their duties and responsibilities to the highest standards of personal and corporate integrity. The Code covers areas such as compliance, integrity, and conduct in the workplace, business conduct, and protection of the Group's assets, confidentiality and conflict of interest.

b. Asset Personal Interest Declaration (APID) Policy

In seeking to adopt robust, effective disclosure measures, the MSM Group has adopted the Policy in 2016 which is to establish the objectives and guidelines with regards to Asset/Personal Interest Declaration. The policy builds a culture of integrity by establishing standards of acceptable behaviour and by providing clear rules and guidance on ethical conduct at work.

c. Code of Business Practice (COBP)

The COBP which has been implemented by MSM Group, clearly sets out expected behaviours of Directors and employees, and business practices which promote and uphold the spirit of responsibility, accountability and compliance with applicable laws and regulations. It emphasises honesty, transparency, ethical business and fair trading environment across all Group business operations. It also emphasises accountability for business performance and the broader social and environmental impact of MSM Group's activities, in line with MSM Group's vision for sustainable development. An attestation programme is in place with the aim to confirm that each Director and employee has read the COBP.

d. Integrity Initiatives

MSM is one of the signatories to the Corporate Integrity Pledge with the Malaysian Anti-Corruption Commission (MACC). This commits the Group to enhance its disclosure practices and practice transparency, integrity and good governance in day to day business operations. In 2016, the Group participated in the following integrity awareness initiatives to reinforce the Group's ethics parameters:

- 38 staffs have signed the Integrity Pledge for 2016
- Jelajah Integriti
- Integrity Talk
- *Hari Integriti Kumpulan Felda 2016*

e. Whistleblowing Policy

MSM Group has put in place a Whistleblowing Policy that provides clarity of oversight and responsibilities of the whistleblowing process, the reporting process and protection to whistleblower and confidentiality afforded to the whistleblower. The primary aim of the Whistleblowing Policy and its supporting mechanism is to enable employees to raise their concerns in a secure and confidential manner without fear of retaliation. The Whistle Blowing Policy is stated in the MSM's Group Employee Handbook.

2. Authority and Responsibility

a. Organisation Structure

MSM Group organises its operations into six (6) Subsidiaries supported by corporate centres at holding company level. The organisation structure provides clear lines of reporting and functions which promotes ownership, accountability and forms the basis for delegation of authority and responsibility.

b. Discretionary Authority Limits (DAL)

Consistent with the spirit of continually enhancing the internal controls, the Group's DAL was reviewed and updated to promote organisational efficiency while ensuring that it is aligned to the Board's risk appetite. The Board approved the revised DAL Version 4.0 on the 24 of August 2016.

c. Job Description

Each role in the organisation structure is supported by a clear description of the job responsibilities which are linked to the vision and goals of the Group. With clarity of responsibilities and relationship between functions, collaboration across the Group is enhanced to move the Group towards heightened operational efficiency.

3. Competency

As an organisation that views its employees as invaluable assets, MSM Group is committed to its employees personal and professional development at all levels. The Group has developed several programmes, in sync with its continual improvement culture, to ensure adequate supply of skilled and knowledgeable workforce who are then groomed to take on leadership positions. This is a key focus towards strong, sustainable and balanced growth.

The programmes are holistic in nature, aiming to enhance both professional and behavioural competencies by incorporating elements such as integrity, governance as well as the Group's core values.

4. Policies and Procedures

a. Operational Policies and Procedures

The Group operates based on existing policies and procedures. The Operational Policies and Procedures ('the Policy') are reviewed periodically to remain effective and relevant to support the Group's business activities at all times as it continues to grow and transform locally and across borders. The Policy also facilitates compliance to regulations, listing and governance requirements.

5. Monitoring

MSM Group's performance against its business plan and annual budget is measured and monitored through the following mechanisms:

a. Financial and Operational Review

Financial and Operational Review is a mechanism adopted to measure the Group's actual performance against its business plan, previous year's performance and the annual budget. This review is undertaken on a regular basis by an Executive Committee comprising senior management of the Group.

The President/Group CEO and Chief Financial Officer present the Group Quarterly Financial Statements and the Operational Performance analysis to the AC prior to Board approval and subsequent release to Bursa Malaysia.

b. Budgetary Process

Business Planning, which is coordinated and aligned to specific objectives, is essential to direct the activities and initiatives of each Subsidiary and Head Office towards meeting the Group's short term and long-term objectives. With this view, the Group emphasises on a comprehensive annual budgeting process to ensure that the Group's business plans are in line with the Board approved MSM Strategic Planning 2020 (SP20). The SP20 covers a longer period and is an approved document that shall guide Management in the investment and capital allocation decision in the execution the Group's strategy.

REVIEW OF STATEMENT BY EXTERNAL AUDITORS AND GROUP INTERNAL AUDIT (GIA)

Pursuant to Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the External Auditors have reviewed this Statement for inclusion in the 2016 Annual Report. Their review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised) issued by the Malaysian Institute of Accountants.

The External Auditor had reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy of the risk management systems and internal control systems.

CONCLUSION

Based on the processes and measures undertaken by the Board and its Committees during the financial year and assurance provided by the President/Group CEO and Chief Financial Officer, the Board is of the view that the risk management framework and internal control system as described in this Statement is sound and effective to safeguard the shareholders' investment and the MSM Group's assets.

This Statement is made in accordance to the resolution of the Board dated 22 March 2017.

BUSINESS CONTINUITY MANAGEMENT

MSM Group fully recognises the importance of maintaining a comprehensive Business Continuity Programme for its integrated sugar processes and sugar trading environment. It has well established Business Continuity Management (BCM) practices, procedures and policies that provide appropriate resilience and recovery for critical business processes, systems and data.

The BCM policies and procedures were recommended and approved by our Board Governance & Risk Management Committee and Board of Directors respectively in August 2016 with the following objectives:

- To create awareness and readiness towards any potential and eventuality.
- To promote and embed a strong business continuity management culture.
- To adopt a common business continuity understanding across MSM Group.
- To practice transparent and consistent business continuity management process across the MSM Group.

In conjunction with the establishment of the BCM, the MSM Group has implemented its Business Continuity Plan (BCP) in 2016 for its IT Operations and Networks upon the introduction of MSM IT Solution, with the following objectives:

- To minimise the impact and respond to any significant interruption to business operations, which have their root cause in MSM IT Solution failures and temporary outages.
- To ensure that the critical business processes are maintained with minimal interruption and disruption during an event resulting in the loss of connectivity to MSM IT Solution.

THE BCP KEY PROCESSES

The Key Processes for the BCP are as follow:

- Identify critical business processes
- Develop and implement individual BCP Action Plans
- Outline local arrangements to immediately respond and
- Resume operations whenever a system related outage occurs

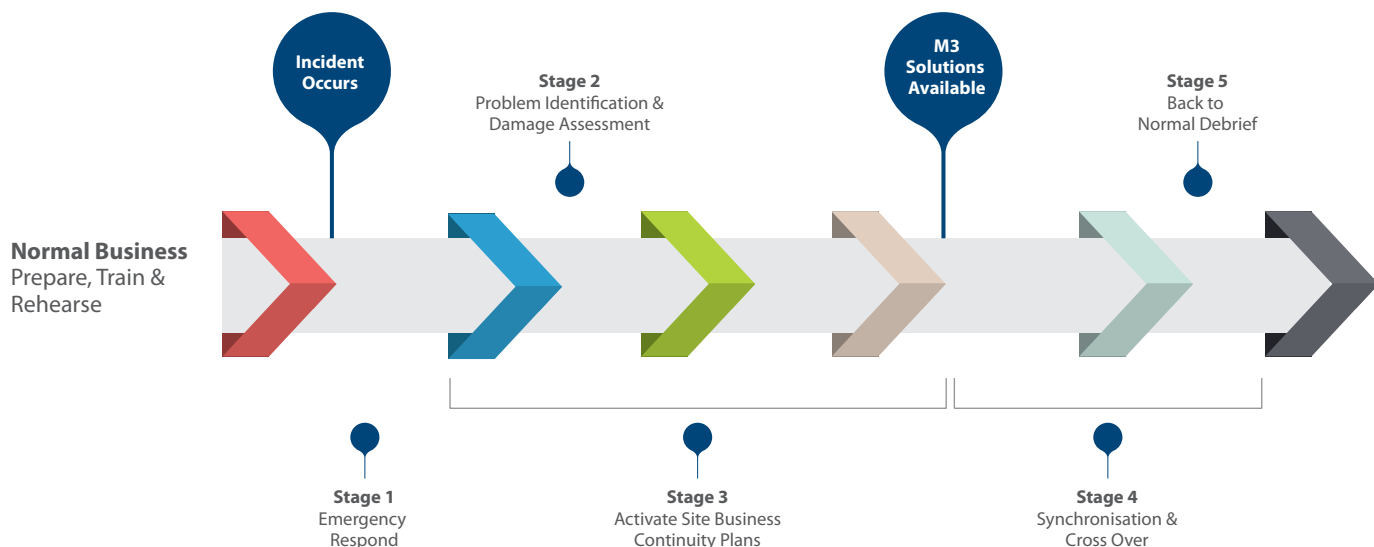
THE CRITERIA FOR ACTIVATION OF SITE BCP ACTION PLAN

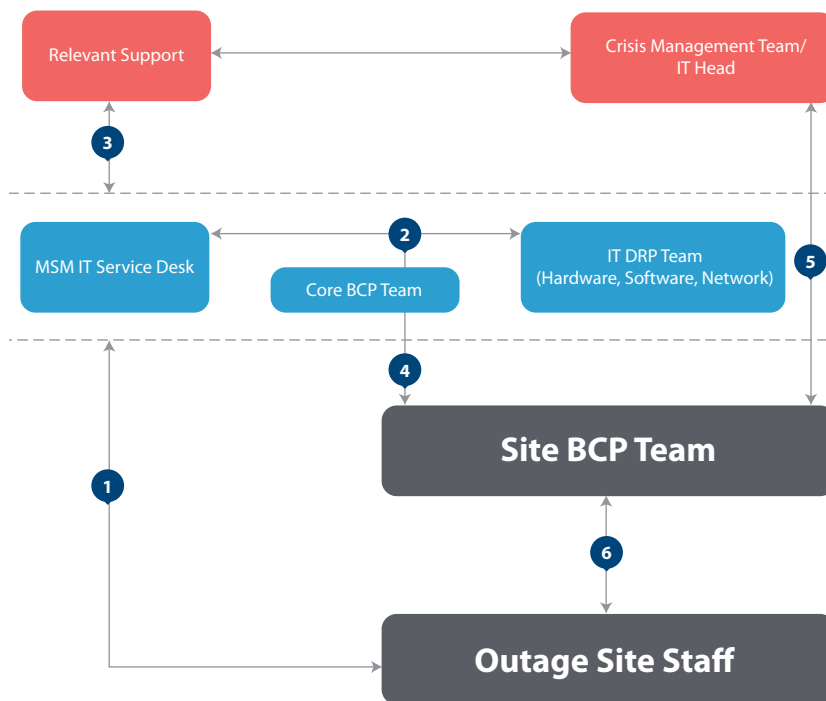
Upon identification of any outage involving critical business processes, Site Management may decide to immediately activate all or part of the Site BCP Action Plan. In addition, the following criteria will determine the automatic activation of the BCP for disruption to any critical processes:

- If the system or infrastructure disruption is expected to last more than 24 hours
- If the disruption continues for more than 24 hours without resolution
- If the disruption is a company-wide outage of M3
- If the disruption occurs during peak processing periods
- If the disruption occurs during any M3 Cutover
- If the disruption goes beyond the bottleneck specific to the site

BCP ROAD MAP

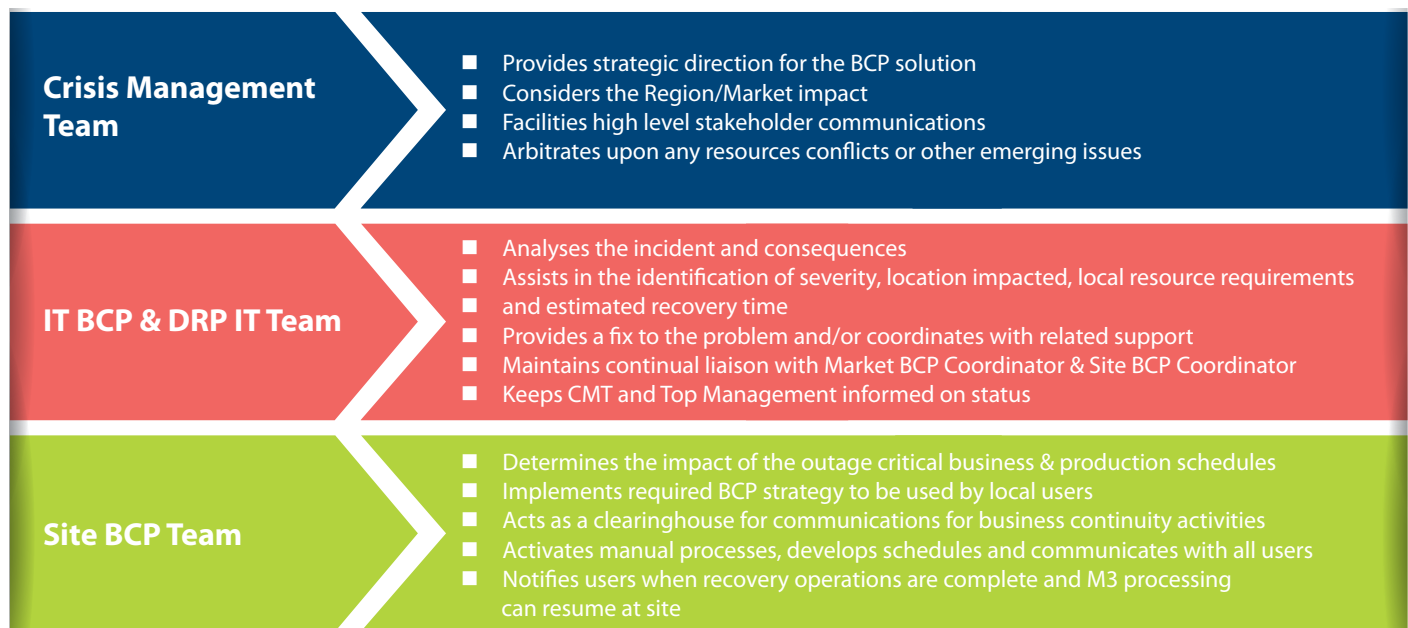
Each outage incident will be different, requiring senior management to formulate business strategies relating to the actual and emerging events. As a general rule, the following sequence would occur:





1. When a disruption occurs, Site staff contacts MSM IT Services Desk to report and assess if it is necessary to immediately implement BCP.
2. MSM IT Services Desk notifies IT DRP team, DRP team reviews situation and establishes severity, resources requirements and estimate recovery time. DRP informs Site BCP Team of situation and estimated recovery time.
3. If IT DRP team cannot fix problem, issue must be escalated to relevant support for resolution.
4. Site BCP team continues to evaluate business impact and decide the need to activate/continue Site BCP.
5. Advise CMT of decision, seek any support assistance required and obtain updates of status and situation at other MSM business Sites.
6. Site BCP team coordinates Site BCP response and resumption phases, until return to normal.

BCP ROLES & RESPONSIBILITIES



Additionally, BCM Testing was conducted in 2016 at one of the subsidiaries as below:

| Subsidiary (Location) | Date | Type of testing | Status |
|--------------------------------------|------------------|-----------------------------|------------|
| MSM Perlis Sdn Bhd (Chuping, Perlis) | 30 November 2016 | Plane Crash at Company Site | Successful |

 Video clip is available at this link: <https://www.youtube.com/watch?v=cnJ98w9ECpk>



GROWING

THE BRAND VALUE AND QUALITY

MSM is focused on organic growth through brand enhancement and strategies to improve its export market. The 53-years-old household brand, 'Gula Prai' has been strengthening its position as the leading sugar brand in Malaysia. Till today, MSM produces sugar which is highly regarded for its premium quality locally and internationally.



OUR SWEET EES JOURNEY

SUSTAINABILITY REPORTING ON ECONOMIC, ENVIRONMENTAL AND SOCIAL



At MSM, we are highly committed to developing a holistic approach to business management as a measure towards generating long-term benefits and business continuity. The viability of our business depends on the strength and wellbeing of the economic, environmental and social spheres in which we operate and our impact on them. Our success in being a globally trusted and recognised brand by 2020 will in large part be due to the relationships we build with our stakeholders and our focus on sustainability across our value chain.

ECONOMIC SUSTAINABILITY

As Malaysia's leading refined sugar producer, we are aware of our responsibility to contribute to the economic sustainability of our community and nation. Our sugar business stimulates job creation throughout our value cycle. We contribute to the economic success of each community by employing local people; paying taxes to governments; paying suppliers for goods, services and capital equipment; and supporting community investment programmes. We ensure marketplace ethics and are committed to providing quality products and marketplace practices.

Supporting Economic and Social Development in Johor, Perlis and Penang

With the ground breaking of our third refinery at Tanjung Langsat, we are enhancing the socio-economic development in Johor. The project supports wider efforts to position southern Johor as a sugar hub for the region. Built on a 20.49 hectares site, the US\$259 million mega facility is expected to open up some 250 job opportunities for locals in the next five years and provide the impetus to spur the area's economic development in the same manner MSM investments in Prai, Penang and Chuping, Perlis; over 53 years ago; has had a transformational impact on the locality.

Our growth and expansion helps to diversify our nation's output capabilities and contribute to build human talent in the country through the creation of employment opportunities of highly-skilled manufacturing professionals. In Prai, Penang we have 430 factory workers. We are proud to be one of the largest providers of employment in the state of Perlis, where in Chuping we currently have 595 employees; of whom 379 work in the sugar refinery and 216 in our plantation division.

Long-term employment opportunities will also be created for service providers, suppliers, maintenance companies and related industries in the southern region to support the operation of our sugar refinery.

Procurement and Supplier Requirements

MSM practices open sourcing, hence we are committed to support local industries. To date, 96.2 percent of our suppliers are Malaysian registered companies.

We require all MSM Group employees to comply with our procurement framework and other relevant policies, laws and regulations in the selection process of our suppliers and vendors. Suppliers that meet our requirements will have competitive advantage in our selection process.

Ensuring Engaged and Ethical Marketplace Practices

Customers represent an important pillar for any ongoing concern, and MSM recognises the value that excellent customer service can yield not just for our bottom line, but also for customers' welfare and satisfaction.

At MSM, we pride ourselves in the measures we have implemented to deliver professional, timely and friendly support. We encourage proactive feedback and communication via our Customer Hotline of 1300-22-5252. This service platform is complemented by our dedicated teams who stand ready to visit our customers' premises should the need arise.

Supplier Management

Our Supplier Code of Conduct has been developed to an exacting degree that ensures all our suppliers abide by MSM's high ethical standards and comply with all applicable local national laws.

With the existence of this Code of Conduct, our stakeholders can rest assured that all our suppliers and contractors are unequivocally required to carry out their roles responsibly. Acts of bribery or other unscrupulous behaviour are strictly prohibited. Besides, providing safe workspaces for their employees, our Code of Conduct necessitates equitable treatment of their workforce without the propagation of any unfair, discriminatory practices.

MSM ensures suppliers' compliance with our Supplier Code of Conduct through regular briefings with our suppliers and contractors on our factory requirements, including their environmental requirements.

Product Quality

In line with MSM's pledge to deliver only the best products to our customers, we are actively taking steps to solidify and enhance our product quality, decidedly an intangible asset we acquired upon the rollout of our flagship product, Gula Prai, more than half a century ago. The systems and processes at MSM Prai and MSM Perlis refineries are regularly monitored for a consistent high quality output.

Our products meet not only Food Safety System Certification (FSSC 22000 – Manufacturing), Food Safety Management System (ISO22000) and the Hazard Analysis and Critical Control Point (HACCP) Certification from the Malaysian Ministry of Health, but also stringent requirements of local and global customers. We are also a member of SEDEX, the Supplier Ethical Data Exchange, an organisation dedicated to driving improvements in responsible and ethical business practices in global supply chains. Furthermore, we received the Green Code from leading Food & Beverages (F&B) companies in Malaysia that testified to our compliance with ethical labour practice standards.

Such certifications are in addition to those accorded in recognition of MSM's compliance with global Halal and Kosher Standards (MSM products are Halal-certified under MSM 1500:2009 and Kosher-certified by the London Beth Din Kashrut Division), as well as Occupational Health and Safety Standards as specified by the Occupational Health and Safety Advisory Services (OHSAS 18001) and the Malaysian Occupational Health and Safety Management Systems (MS1722).

Our product quality processes and controls are comprehensive. They are verified annually, and regularly monitored through performance indicators that drive continuous improvement activities. Our key suppliers are externally certified and the quality of material received is regularly monitored to ensure that it meets the rigorous quality standards that our products require.

Naturally, information such as these certifications are clearly displayed on our product packaging as well as website for easy identification and reference.



Knowledge-Sharing with Industry Members

MSM was actively involved in events pertaining to the sugar industry and the wider economy in 2016, with roles running the gamut from participant, sponsor, speaker and panelist for topical panel discussions. These are done with the objective of building a sound industry knowledge base and forging relationships across a global network as we continue to advance on our aspiration to be a top global player by 2020. Such events include:

- Hi-tea with Analyst, Royal Chulan Hotel, Kuala Lumpur;
- X ISO Datagro New York Sugar and Ethanol Conference 2016 in New York;
- The 22nd Asia International Sugar Conference in Indonesia;
- The Dubai Sugar Conference 2016 in Dubai;
- The 3rd Edition of World Sugar Conference 2016 in Thailand; and
- 12th Annual Kingsman Dubai Sugar Conference in Dubai.

ENVIRONMENTAL

ENVIRONMENTAL SUSTAINABILITY

We strive to use the best possible mix of energy sources to help reduce the environmental impact of our operations. As we explore clean energy opportunities, we are also initiating water and energy savings and renewable energy initiatives. In 2016, we started monitoring the progress toward our goal of reducing the carbon footprint of our business activities. As a step forward on our journey to greater environmental sustainability, MSM has instituted a comprehensive Environmental Management System (EMS) that provides clear guidelines for responsible operations across our value chain, from our refineries in Penang and Perlis, to our daily practices at our warehouses and Head Office. With this EMS, we regularly monitor the following parameters: WASTE (pollutions/emissions) as well as WATER and ENERGY consumption and GHG Emissions.

Efficiency and environment initiatives by MSM Prai

1. Fabricated a new scheduled waste store to store waste properly in order not to pollute the surrounding environment.
2. Improved the sewage treatment plant system and water discharged in compliance with Environment Quality Act 1974.
3. Relevant competent persons successfully completed training in accordance to Environment Quality Act 1974.
4. Installation of portable dust catcher at screening department to minimize the release of sugar dust into environment.
5. Improvement and rectification have been carried out to reduce leakages in piping system to preserve energy and natural resources.
6. Installed additional capacitor bank for LT board 9 last July 2016 to improve the power factor from 0.85 to 0.95.

Efficiency and environment initiatives by MSM Perlis

1. Segregation of storm water from factory water to minimise influent rate to waste water and increase efficiency.
2. Installation of new efficient Waste Water Treatment Plant to replace old system is in progress.
3. Installation of energy efficient machineries.
4. Installation of energy saving equipment for reduction in steam consumption is in progress.
5. Installation of high efficiency natural gas boilers.



Waste

Our cutting-edge nano-filtration waste treatment system enables us to process the discharge produced by our Ion Exchange Resin (IER). The resulting salt can be reused for resin regeneration, while the rest of the residue is filtered and cleansed before being discharged.

Additionally, our suppliers that manage waste streams are licensed by the Environmental Department to collect, transport and process waste which is managed and disposed off in accordance with local regulations and standards.

Total weight of waste by type and disposal method

- **MSM Prai:** Hazardous waste collected by licensed contractor for recovery – 3.90 tonnes
- **MSM Perlis:** Hazardous waste collected by licensed contractor for recovery – 16.87 tonnes
- **Factories:** Recycled waste collected by Cycle Trend Industries – 126.35 tonnes

The numbers above are being reported for the first time and will be the baseline for our reporting.





Water

As water is a precious natural resource, we seek to maximise water efficiency in our production processes and are committed to help address the challenges surrounding safe and sufficient water supplies today and for future generations. It is clear that water, energy and food sources are inextricably linked – activities that affect one of these resources will inevitably affect the others. Water is used in vast quantities in many phases of the lifecycle of sugar production.

Tracking the use of water in our daily operations, we have recorded a 9.2 percent improvement in the percentage of water recycled and reused year on year. This will be a continuous effort for MSM going forward.

1. Total water withdrawal by source (m³/year)
 - 2,116,670 (2016) ■ 2,629,365 (2015)
2. Volume of water recycled and reused (m³/year)
 - 726,104.60 (2016) ■ 660,617.8 (2015)
3. percentage of water recycled and reused
 - 34.3 percent (2016) ■ 25.1 percent (2015)



Energy

Natural gas, Electricity, Diesel

Natural gas, the cleanest-burning fossil fuel available, is used at both of our refineries to markedly lower the production of carbon soot and sulphur emissions from our boiler flues. To manage our energy and natural gas consumption, we devised an innovative system that combines the functionalities of our Mechanical Vapour Re-Compressor (MVR) evaporator and Vertical Crystallization Tower (VKT). This system dramatically reduces the amount of steam required for our sugar-boiling system.

MSM also generates about half of its own energy requirements using back pressure turbines, with the exhaust steam being channelled to the process for heating. Additionally, we also recycle our process condensate for boiler steam generation.

Volume of Natural Gas used mMBTU

- 3,864,827 (2016) ■ 3,724,653 (2015)

Electricity used by our office buildings, factories and warehouses have been used in this calculation based on the Group's electricity bills. CO₂ emissions from the use of electricity were derived using the emission factor published by the Malaysian Green Technology Corporation for the Peninsular Grid.

In 2016, we used 86,131,571 kW of electricity compared to 82,484,476 kW in 2015 due to increase in production from 1.03 million tonnes in 2015 to 1.12 million tonnes in 2016. The purchased electricity usage produced 63,823.49 tonnes of CO₂ emissions. Going forward we intend to continue monitoring energy use and initiate more energy savings initiatives where possible.

Diesel

- 596,134 litres (2016) ■ 722,513 litres (2015)



GHG AND Other Emissions

Business Air Travel

To reduce transport-related emissions, we encourage our customers, suppliers and employees to use teleconferencing facilities to minimise travelling. Recently, our Information Technology Department has upgraded our teleconferencing system and introduced the usage of communicator throughout MSM Group. The net effect of our adoption of teleconferencing technologies has been a reduction in travel, carbon emissions, and travel costs, plus an increase in employee productivity and work-life balance. At the same time, we maintained and grew the customer relationships we need for continued revenue growth.

When there is a need, employees are asked to car pool when more than two of them are travelling to Head Office, warehouses, factories for meetings and other functions. A centralised system is employed for the booking of the majority of short and long haul flights. GHG emission for business air travel was based on the International Civil Aviation Organisation Carbon Emissions Calculator.

Carbon footprint was computed for each man trip made. In 2016, MSM employees took a total of 226 individual flights. These flights produced an estimated 15.89 tonnes of CO₂ emissions.

The numbers above are being reported for the first time and will be the baseline for our reporting.

Printing

In 2016, our human resource team introduced an online employee self-service system that provides employees with more convenient access to their pay slips, as well as applications for flight booking, claims and leave. The digitalisation of these tasks not only make things more convenient for employees, but is also part of our pro-environmental initiatives to reduce our carbon footprint via the elimination of printing and its ancillary costs for paper, toner/ink and electricity.

We have managed to significantly reduce our paper consumption through implementing actions such as double sided printing, centralising our colour printing to specific printers only accessible by authorised personnel and promoting electronic communication with colleagues and clients.

Furthermore, we have been uploading our past annual reports onto our website (www.msmsugar.com) and have disseminated together with our abridged reports in the PDF version of the full reports in CD format for convenience, paperless viewing. All our Procurement tender announcements have similarly been uploaded online via our website (www.msmsugar.com) under Tender Announcement page as well as FGV's e-procurement portal.

For 2016, we purchased 9.59 tonnes of paper throughout MSM Group.

The numbers above are being reported for the first time and will be the baseline for our reporting.

Others

Our factories and warehouses are designated as 'no smoking' buildings aiming to provide cleaner air for employees and customers alike. MSM Prai was among the first 15 establishments to be awarded the Blue Ribbon Certificate initiated by MySihat, a statutory body under Ministry Of Health in recognition of our smoke-free policies.

SOCIAL



Uplifting the human experience within the workplace and in our communities is a key driver of MSM's business sustainability. Our commitments in this sphere encompass respecting human rights, creating safe and inclusive workplaces, optimising the potential of our workforce, ensuring health and safety, engaging employees and giving back to the community through social responsibility initiatives.



WORKPLACE

MSM focuses considerable resources on continuously developing our human capital and enhancing employee well-being throughout the Group. We believe diversity of thought, background and culture in our business decision making is essential in order for our business to continue to thrive in a multicultural world. Our commitment to respect human rights extends across all aspects of our business conduct, including the ways we interact with suppliers, colleagues, customers, consumers and communities and is embodied in our Code of Ethics. This helps our employees understand how to value diversity and inclusion, maintain a workplace free of discrimination and harassment, and report potential violations to the Company without fear of retaliation. These policies are embedded in our employee handbook.

Gender Diversity

As a manufacturing company, MSM's employee base is increasingly male dominated in lieu of factory, machinery and shift work requirements. However, at management level our gender diversity is almost at par with the recommended target of 30 percent with a 78:22 male to female ratio.

Total number of staff based on gender 2016 VS 2015

| Year | Female | Male | Total |
|------|--------|-------|-------|
| 2015 | 161 | 1,044 | 1,205 |
| 2016 | 159 | 1,079 | 1,238 |

Gender diversity based on entity for 2015

| Entity | Female | Male | Total |
|-------------------------|------------|--------------|--------------|
| MSM Holdings | 21 | 29 | 50 |
| MSM Prai (HQ) | 16 | 68 | 84 |
| MSM Prai (Factory) | 32 | 381 | 413 |
| MSM Perlis (Factory) | 63 | 323 | 386 |
| MSM Perlis (Plantation) | 25 | 193 | 218 |
| MSM Logistic | 4 | 50 | 54 |
| Grand Total | 161 | 1,044 | 1,205 |

Gender diversity based on entity for 2016

| Entity | Female | Male | Total |
|-------------------------|------------|--------------|--------------|
| MSM Holdings | 21 | 51 | 72 |
| MSM Prai (HQ) | 20 | 68 | 88 |
| MSM Prai (Factory) | 34 | 396 | 430 |
| MSM Perlis (Factory) | 56 | 323 | 379 |
| MSM Perlis (Plantation) | 25 | 191 | 216 |
| MSM Logistic | 3 | 50 | 53 |
| Grand Total | 159 | 1,079 | 1,238 |

Total Employee by Gender and Category in 2016

| Entity | Gender | Top and Senior Management | Manager | Executive | Non Executive | Grand Total |
|-------------------------|--------|---------------------------|---------|-----------|---------------|-------------|
| MSM Holdings | Female | 2 | 6 | 10 | 3 | 21 |
| | Male | 8 | 13 | 24 | 6 | 51 |
| MSM Prai (HQ) | Female | 1 | | 10 | 9 | 20 |
| | Male | | 6 | 15 | 47 | 68 |
| MSM Prai (Factory) | Female | | 4 | 17 | 13 | 34 |
| | Male | 4 | 15 | 66 | 311 | 396 |
| MSM Perlis (Factory) | Female | | 2 | 8 | 46 | 56 |
| | Male | 2 | 5 | 18 | 298 | 323 |
| MSM Perlis (Plantation) | Female | | 2 | 1 | 22 | 25 |
| | Male | 1 | 4 | 9 | 177 | 191 |
| MSM Logistic | Female | | | 1 | 2 | 3 |
| | Male | 1 | 1 | 1 | 47 | 50 |

Creating Loyalty

As MSM's core competencies are embedded in technical and manufacturing, retaining our talent pool is critical. We continuously review employee benefits and seek to ensure alignment opportunities within the Group. Efforts are in place to benchmark MSM with companies which operate similarly to our industry and maintain a medium-to-large scale operations, where majority of the employee are based. We continue to monitor staff loyalty through return from leave and turnover rates statistics. In 2016, all new parents who took advantage of maternity and paternity leave returned to work after the leave period. The 100 percent return is encouraging as it indicates satisfaction with work environment.

Number of employees returning to work after maternity/paternity

| Entity | Female | Male | Total |
|-------------------------|----------|-----------|-----------|
| MSM Holdings | 2 | 3 | 5 |
| MSM Prai (HQ) | 0 | 4 | 4 |
| MSM Prai (Factory) | 0 | 6 | 6 |
| MSM Perlis (Factory) | 1 | 6 | 7 |
| MSM Perlis (Plantation) | 1 | 4 | 5 |
| MSM Logistic | 0 | 0 | 0 |
| Grand Total | 4 | 23 | 27 |

Staff Turnover Rate

| Entity | Total Staff | Resigned Staff | Percentage |
|-------------------------|--------------|----------------|------------|
| MSM Holdings | 72 | 11 | 15.3 |
| MSM Prai (HQ) | 88 | 13 | 14.8 |
| MSM Prai (Factory) | 430 | 14 | 3.3 |
| MSM Perlis (Factory) | 379 | 17 | 4.5 |
| MSM Perlis (Plantation) | 216 | 2 | 0.9 |
| MSM Logistic | 53 | 5 | 9.4 |
| Grand Total | 1,238 | 62 | 5.0 |

Staff Mobility Programme

With the upcoming opening of our Johor refinery and the corresponding need for more skilled personnel, the year saw intensified focus on building and refining our employees' core technical and leadership competencies through structured training and development programmes. These anchor MSM's current strategy of facilitating a vigorous Staff Mobility Programme to enable secondments within the MSM Group.

The strategy is simple. Catalyse skill developments within current employees and new trainees so that core experts at Senior Management and Engineer levels can be seconded to the Johor Site Office where they can start establishing the technical process and impart their knowledge with newly hired factory workers. This will help shorten learning cycles and speed up the startup of the new Johor operations.

SOCIAL

Meanwhile, the vacancies left in Prai and Perlis by these seconded core experts will be filled by newly trained engineer and technicians from our Graduate and Internship Programmes. MSM has implemented a more structured training and development programme in 2016 to optimise the development of in-house talent. These are directed towards fulfilling certification and technical requirements to maximise the potential of current staff and build our pool of internal expertise.

More opportunities are now available for our fresh graduate trainees and interns and in 2016, MSM has begun to provide better support for employees' further education to encourage the development of required technical and engineering expertise. There is also an ongoing review of secondment benefits to increase the attractiveness of the Staff Mobility Programme.

Fortifying these strategies, MSM has embarked on a values alignment programme to nurture a culture of shared knowledge across all factories and build a sense of group unity.

Employee Engagement 2016

MSM highly encourages the adoption of healthy, active lifestyles by promoting sporting activities and a work-life balance to employees at every level of the Company. The table below summarises the sporting activities organised by our employee at our operational centres in 2016.

- **28 February 2016**
MSM Perlis Badminton Tournament organised by *Kelab Sukan dan Rekreasi MSM Perlis*, Multi Purpose Hall, MSM Perlis
- **3 March 2016**
MSM Perlis Volleyball Tournament organised by *Kelab Sukan dan Rekreasi MSM Perlis*, Volleyball Court, Housing MSM Perlis
- **16 April 2016**
Cycling programme with the Crown Prince of Perlis, Tuanku Syed Faizuddin Putra Jamalullail, Kangar, Perlis
- **30 April 2016**
Gula Perlis Open Chess Challenge, Putra Regency Hotel, Perlis
- **11 May 2016**
MSM Perlis Health Screening Programme collaboration with PERKESO, BP Healthcare and MAKNA, MSM Perlis
- **21 July 2016**
MSM Prai Health and Safety Campaign, Penang
- **27 July 2016**
Friendly Football Tournament between MSM Prai and MSM Perlis, Stadium Simpang Empat, Perlis
- **4 September 2016**
Patriotism Ride with Biro Tatanegara Perlis, Kuala Perlis, Perlis
- **8 October 2016**
Fun Ride in conjunction with National Sports Day 2016, Institut Pendidikan Guru, Perlis
- **21 October 2016**
MSM Head Office Bowling Tournament, Wangsa Walk Bowl, Kuala Lumpur
- **22 October 2016**
Fishing Competition organised by *Kelab Sukan dan Rekreasi MSM Perlis*, Kuala Sanglang, Kedah
- **30 November 2016**
Health Ride with Chief Executive Officer MSM Perlis, Chuping, Perlis
- **20 November 2016**
MSM Prai Futsal Tournament, Safira Country Club, Seberang Jaya, Penang
- **26 November 2016**
MSM Prai Badminton Tournament, Sunway Sport Centre, Seberang Jaya, Penang
- **27 November 2016**
Health Kick organised by *Kelab Sukan dan Rekreasi MSM Perlis*, D'Futsal Centre, Perlis
- **24 December 2016**
MSM Prai Bowling Tournament, Megalane, Megamall Pinang, Seberang Jaya, Penang
- **30 December 2016**
UniMAP Open Chess Tournament 2016, Seriab, Perlis



COMMUNITY

As MSM's business has grown over the years, we have expanded our support of projects relevant to local communities. We are committed to invest our time, expertise and resources to help develop and maintain vibrant and sustainable local communities and strive daily to be responsive to the citizenship priorities in the communities in which we live and work through corporate social responsibility initiatives. These range from volunteering help, channeling financial and material contributions to help the underprivileged in supporting educational institutions and initiatives.

The MSM Fellowship Fund represents MSM's most significant contribution to developing excellence in education. It channels RM250,000 on an annual basis to Universiti Sains Malaysia (USM), reserved for outstanding and qualified individuals who pursue a research-based Master Degree in any subject offered by USM's School of Industrial Technology. The fellowship quantum RM30,000 per annum for two years covers tuition fees, salaries or allowances, as well as research expenses.

Eight post-graduate candidates were awarded Fellowship from 2015 to 2016 after the initiative was rebranded, with the same overarching objective of contributing towards scientific research and innovation in Malaysia. This is to be achieved through the performance of industrial-based scientific research with elements of innovation for national public benefits and economic growth.



Supporting Educational Institutions and Initiatives

MSM firmly believes that promoting quality educational opportunities is the key for the sustainable development of community welfare. Over the years, a consistent feature of our corporate social responsibility programme has been the support of school in the surrounding communities. This continued in 2016 as MSM Prai sponsored 38 bicycles to four schools, namely the Sekolah Rendah St Mark, Sekolah Rendah Khir Johari, Sekolah Rendah Taman Indrawasih and Sekolah Rendah Jalan Baharu. The bicycles are to be used for school purposes, such as surveillance during cross country. Doing its part to serve the northern community, MSM Perlis contributed up to RM11,000 to 22 schools around Perlis state in 2016.

MSM's annual 'Back to School' programme continued to provide charity services to selected students. 148 students consist of primary and secondary schools were involved in this programme. The children received financial assistance to ease their burden in preparing for the new school term in 2017.

The year also saw the 8th Gula Perlis Open Chess Challenge 2016 being organised whereupon entry fees collected from participants totaling over RM7,600 were donated to the Majlis Sukan Sekolah-Sekolah Perlis chess contingent to enable their participation in the Majlis Sukan Sekolah-Sekolah Malaysia Competition. The event is held annually in conjunction with HRH the King of Perlis' Birthday. Over 360 participants from different states in Malaysia took part in the 2016 installment. This event creates awareness and provides a good platform to train younger players at primary and secondary schools for bigger tournaments.

Zakat and Other Contributions

For 2016, a total of RM2 million zakat obligations was made out to relevant authorities in MSM's operational bases at Perlis, Penang and Wilayah Persekutuan Kuala Lumpur. From year 2011 to 2016, MSM have contributed RM45,561 million for zakat. On 15 April 2016, MSM has distributed RM391,000 to 91 underprivileged individuals namely the poor and destitute, single mothers, senior citizens, as well as orphans under the allocation from Zakat 2015. RM50,000 to upgrade Masjid Al-Barakah, Jelompok and RM20,000 to upgrade Masjid Al-Islah, Ngulang. Furthermore, RM10,000 was also allocated for the construction of an autism centre at Universiti Malaysia Perlis (UniMAP) and another RM10,000 for Sekolah Rendah Agama At-Tarbiyah Al-Islamiyah in Tunjung, Beseri, Perlis. In other occasions, MSM Prai has distributed RM50,000 to 100 underprivileged individuals around the state during Ramadhan.

Festive occasions are opportune moments for MSM to channel financial and material contributions to help aid needs of the underprivileged. In 2016, MSM organised several community-centric projects in conjunction with the holy month of Ramadhan that included *bubur lambuk*-cooking events and breaking of fast with the less-fortunate families in our areas of influence. Under our *Ibadah Korban* Programme, MSM Group has donated 36 cows as part of Hari Raya Haji occasion throughout Malaysia. Underprivileged individuals, namely the poor and destitute, single mothers, senior citizens, as well as orphans, benefited from the donation.

SOCIAL



MSM also contributed to Wanita Felda (WADA) in 2016. The aim of our sponsorship was to help families and communities in Cambodia, generally in the form of providing education assistance, cleanliness, circumcision assistance, health screening tests and also contribution to the mosque.

As a benevolent employer with employees' welfare close to our heart, MSM also provided total financial assistance to three of our MSM Perlis employees to repair the roof of their houses that had been blown off by heavy winds during the year under review.



Assistance and Volunteerism

On 16 and 23 October 2016, 40 employees of MSM Malaysia Holdings Berhad and Felda Hemodialysis Centre teamed up to repaint and beautify the centre as part of its efforts in creating a more conducive and comfortable area for 78 patients who received their dialysis treatment at the centre. The total number of volunteer hours logged in for the programme was 560 hours.

Continuing their commitment to having a clean environment, five employees of MSM Prai have kept up their fortnightly commitment to engage with the community of Taman Tunku in Butterworth as they volunteer their time and energy to spruce up the public park. This joint effort with the Seberang Perai Municipal Council commenced in 2013 following MSM Prai's recognition of the tremendous recreational value that this public space offer to its surrounding communities. In 2016, MSM Prai employees chalked up close to 2,000 man-hours performing general maintenance work at the park, such as lawn mowing and cleaning its facilities. The total number of volunteer hours logged in 2016 hit 2560 hours.

Also throughout the year, our employees were encouraged to do their bit for society by taking part in a blood donation drive. A total of 124 pints of blood was collected in 2016 throughout the MSM Group.

TAKING SAFETY AND HEALTH TO THE NEXT LEVEL



MSM has a strong workforce of over 1,200 employees working in our refineries, warehouses and offices in four states in Malaysia. In early 2015, MSM's senior leadership implemented a system wide safety vision and commitment supporting the implementation of robust safety response processes and ensuring that incident reduction action plans and intervention practices are in place. Since 2015, we began implementing improvements to our governance systems, including moving to unannounced audits; combining our Quality, Safety & Environment audits; and internalising our Safety and Environment auditors.



Our Health, Safety and Environment (HSE) team implemented several programmes in 2016 designed to improve operational performance.

Health, Safety and Environment Programmes:

- Set up workplace inspection team and implement activities
- To conduct workplace inspection by HSE Committee members before HSE Committee meeting
- Implement the contractors safety orientation before starting work in plant
- Implementation of wearing safety helmet in plant
- Conduct Safety and Health awareness training for employees
- HSE Committee meeting every 2 months instead of 3 months as per OSHA 1994 (MSM Prai)
- Handbook Safety Launching (MSM Perlis)
- 3,000 Hours without Work Accident (MSM Perlis)
- Zero Accident Campaign (MSM Perlis)
- Safety Working at Height Programme (MSM Perlis)
- You See You Act Implementation (MSM Perlis)
- "Slips, Trips and Fall" Campaign and Training (MSM Perlis)
- Health and Safety Campaign 2016 (MSM Prai)
- Safety, Health and Quality Management Week 2016 (MSM Perlis)
- SOHELP Programme (MSM Perlis)
- Business Continuity Management (MSM Perlis)

Our Health and Safety Performance

MSM's Health and Safety performance for 2016 was underscored by Loss Time Injury Frequency Rate (LTIFR) of 15.63 percent. A total of 34 loss time cases were reported and consequently reviewed to identify mitigating measures to safeguard against repeats. Stepping up our HSE commitment, the year also saw MSM adhering to scheduled timeline of HSE events to ensure constant monitoring and awareness. HSE Awards were held within the Group to promote best practices in HSE among employees and contractor at factory level. These were won by MSM Perlis for the year. MSM Perlis was also the proud recipient of the Internal FGV President's Award for Safety – Best Health and Safety Committee.



Safety and Health Practices

HSE MEETINGS

- MSM HSE Committee Meeting – Bi-Monthly
- MSM – Management Review Meeting – Yearly
- MSM HSE Sub-Committee Meeting (Contractor) – Monthly

AUDIT AND INSPECTIONS – AUTHORITIES (BOMBA, DOSH AND DOE)

- External Audit by Department of Safety and Health (DOSH)
- External Audit by BOMBA – Fire Certificate Renewal
- External Audit by Department by Department of Environment (DOE)

TAKING SAFETY AND HEALTH TO THE NEXT LEVEL



Inspections

- Fire Fighting Equipment

Safety Inspections

- HSE Committee Workplace Inspection
- Machineries Inspection
- Canteen Hygiene

Rescue/Emergency Equipment Inspections

- Safety Shower and Eyewash
- First Aid Boxes

Emergency Preparedness

- Internal Evacuation Drill/Fire Drill (BOMBA)
- Develop and train ERT Members (Theory and Practical)

- Frequency of reporting
 - Monthly Health and Safety Officer reporting to MSM Head Office
 - Monthly Head Office reporting to HSE FGV
 - Monthly JKPP reporting 6 and 9 to JKPP Penang and Perlis
 - Monthly reporting to JKPP Penang and Perlis
 - Quarterly Safety Meeting Report
 - Online accident reporting to FGV HSE (SPKK – *Sistem Pemantauan Keselamatan dan Kesihatan*)
 - Yearly report JKPP 8 to DOSH HQ
 - 5 years Chemical Health Risk Assessment (CHRA) reporting to DOSH



MONITORING AND MEASUREMENT OF HSE PERFORMANCES

- Safety and Health Committee workplace inspection
- Internal Audit
 - OHSAS 18001: 2007 and MS 1722
- External Audit
 - TIER 2 AUDIT - FGV HSE Management
 - OHSAS 18001: 2007 and MS 1722 – SIRIM
 - Fire Certificate – BOMBA



HSE AWARENESS AND COMPETENCY TRAININGS

- HSE Awareness Training
 - HSE Committee – OSHA 1994 training
 - OHSAS 18001 Awareness Training
 - Health and Safety Legislation Awareness Training for HSE Committee
 - Occupational Safety, Health and Environment Management
 - Personal Hygiene and ISO Refresher
 - Safety Awareness training for MSM Prai's staff every two months
 - Motorcycle Safety Induction Programme with PERKESO and NIOSH
 - Chemical Spillage training
 - HIRADC Risk Management

- Competency Trainings
 - Authorised Gas Tester and Entry Supervisor (AGTES) for Confined Space
 - Authorised Entrant/Standby Person (AESP) for Confined Space
 - Certified Environmental Professionals in the Operation of Industrial Effluent Treatments Systems.
 - Certified Environmental Professionals in Sewage Treatment Plant Operation
 - Certified Environmental Professionals in Scrubber Operation
 - Certified Environmental Professionals in Back Filter Operation
- Trainings provided by MSM to Contractor
 - Forklift Safety Training (MSM Perlis)
 - Contractor Safety Pass/Briefing (MSM Perlis)
- HSE On-Job-Training (“OJT”)
 - Internship Trainee attached at HSE Department
- Emergency Response Team (“ERT”)
 - Emergency Preparedness
 - Internal Evacuation Drill/Fire Drill (BOMBA) on 1 December 2016 (MSM Prai)
 - Internal Evacuation Drill/Fire Drill (BOMBA) on 30 November 2016 (MSM Perlis)
 - Develop and train ERT Members (Theory and Practical) MSM Group



WATER POLLUTION CONTROL

- MSM Prai – Effluent discharged complied with the DOE Requirement (Standard B).



DUST MONITORING

- Installation of portable dust catcher at screening department to minimize the release of sugar dust into environment



NOISE POLLUTION CONTROL

- Noise Boundary Monitoring
 - DOE in May 2016 (MSM Prai)
- Additional Area Noise Monitoring
 - DOSH in May 2016 (MSM Prai)



OTHERS

- Health Surveillance (lead test)
- Audiometric test by our panel clinic
 - For employees working at high noise area/ workplace.

WE WANT TO HEAR FROM YOU!

In advancing our investment in sustainability, we realise there is synergy between our evolving sustainability reporting and stakeholder engagement processes. Our development of goals and strategies will benefit from collaborative conversations with our stakeholders. Additionally, once our reports are published, we intend to listen carefully to stakeholders’ feedback and provide further clarity within our disclosure topics. Comments, suggestions and critiques on our sustainability practices and reporting are welcome. Please send us a message via email to corpcomm@msmsugar.com.



FINANCIAL STATEMENTS

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STATEMENT ON DIRECTORS' RESPONSIBILITIES

The Companies Act, 1965 requires the Directors to prepare financial statements (which include the consolidated statements of financial position and the consolidated statements of financial position and the consolidated statements of comprehensive income of the Group) for each financial year in accordance with Malaysian Accounting Standards Board (MASB) approved accounting standards in Malaysia for entities other than private entities and the provisions of the Companies Act, 1965 and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Malaysia), and to lay these before the Company at its Annual General Meeting.

Incorporated on pages 135 to 195 of this Annual Report, are the financial statements of the Company and the Group for the financial year ended 31 December 2016. The Companies Act, 1965 placed responsibility on the Directors to ensure that the consolidated statements of financial position provides a true and fair view of the state of affairs of the Group as at 31 December 2016 and the consolidated statement of comprehensive income provides a true and fair view of the results of the Group for the financial year ended 31 December 2016.

In undertaking the responsibility placed upon them by law, the Directors have relied upon the Group's system of internal control to provide them with reasonable grounds to believe that the Group's accounting records, as well as other relevant records, have been maintained by the Group in a manner that enables them to sufficiently explain the transactions and financial position of the Group. This also enables the Directors to ensure that a true and fair consolidated statements of financial position and statement of comprehensive income and documents required by the Companies Act, 1965 to be attached are prepared for the financial year to which these financial statements relate.

The Companies Act, 1965 also requires the Directors to cause the Company to keep such accounting and other records in such manner that enables the Directors to sufficiently explain the transactions and financial position of the Company and the Group, and to prepare a true and fair statements of comprehensive income and statements of financial position and any documents required to be attached, as well as to enable such accounting records to be audited conveniently and properly.

The Directors also have general responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Group and of the Company and to prevent and detect fraud and other irregularities.

DIRECTORS' REPORT

The Directors have pleasure in submitting their annual report to the members together with the audited financial statements of the Group and the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 18 to the financial statements.

There have been no significant change in the nature of these activities of the Group and the Company during the financial year.

FINANCIAL RESULTS

| | Group RM'000 | Company RM'000 |
|-------------------------------|-------------------------------|---------------------------------|
| Profit for the financial year | 120,722 | 176,213 |

DIVIDENDS

Dividends on ordinary shares paid or declared by the Company since 31 December 2015 were as follows:

| | RM'000 |
|--|----------------|
| In respect of the financial year 31 December 2015: | |
| Final single tier dividend of 14 sen per share, paid on 10 June 2016 | 98,417 |
| In respect of the financial year 31 December 2016: | |
| Interim single tier dividend of 10 sen per share, paid on 30 December 2016 | 70,298 |
| | 168,715 |

The Board of Directors are recommending the payment of a final single tier dividend of 4 sen per share amounting to RM28.12 million which is not taxable in the hands of the shareholders pursuant to paragraph 12B of Schedule 6 of the Income Tax Act, 1967, and which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

RESERVES AND PROVISIONS

All material transfers to and from reserves or provisions during the financial year are disclosed in the financial statements.

ISSUE OF SHARES

The Company did not issue any shares or debentures during the financial year.

DIRECTORS

The Directors who have held office since the date of last report are as follows:

Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad

Dato' Zainal Haji Ismail

Dato' Hajjah Rosni Haji Zahari

Datuk Noor Ehsanuddin Mohd Harun Narrashid

Datuk Lim Thean Shiang

Dato' Rosini Abd Samad

Datuk Hanapi Suhada

Dato' Zakaria Arshad

(Appointed on 1 April 2016)

Dato' Mohammad Fakruddin Haji Ariff

(Appointed on 21 November 2016)

Dato' Mohd Emir Mavani Abdullah

(Resigned on 1 April 2016)

Dato' Sheikh Awab Sheikh Abod

(Deceased on 14 April 2016)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than those arising from holding company's long term incentive plan ("LTIP") as disclosed in Directors' Interest in Shares and Debentures.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than as disclosed in Note 10 to the financial statements) by reason of a contract made by the Company or a related corporation with the Directors or with a firm of which he/she is a member, or with a company in which he/she has a substantial financial interest.

DIRECTORS' INTEREST IN SHARES AND DEBENTURES

According to the Register of Director's shareholdings, the Directors who held office at the end of the financial year and their interests in shares of the Company and its related corporations are as follows:

Shareholdings in MSM Malaysia Holdings Berhad

| | Number of ordinary shares of RM0.50 each | | | At 31.12.2016 |
|--|--|----------|------------|------------------|
| | At 1.1.2016 | Acquired | (Disposed) | |
| Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad | 20,000 | - | - | 20,000 |
| Dato' Zainal Haji Ismail | 20,000 | - | - | 20,000 |
| Dato' Hajjah Rosni Haji Zahari | 20,000 | - | - | 20,000 |

DIRECTORS' REPORT

DIRECTORS' INTEREST IN SHARES AND DEBENTURES (CONTINUED)

Shareholdings in Felda Global Ventures Holdings Berhad, the ultimate holding company

| | Number of ordinary shares of RM1.00 each | | | At 31.12.2016 |
|--|--|----------|------------|------------------|
| | At 1.1.2016/date of appointment | Acquired | (Disposed) | |
| Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad | 180,000 | - | - | 180,000 |
| Datuk Noor Ehsanuddin Mohd Harun Narrashid | 5,000 | - | - | 5,000 |
| Dato' Zainal Haji Ismail | 40,000 | - | - | 40,000 |
| Dato' Zakaria Arshad | 165,000 | - | - | 165,000 |
| Dato' Mohammad Fakhruddin Haji Mohd Ariff | 2,000 | - | - | 2,000 |

The shares granted to Directors pursuant to Felda Global Ventures Holdings Berhad's Long Term Incentive Plan is set out below:

| | Number of ordinary shares of RM1.00 each granted under LTIP | | | | | 31.12.2016 |
|----------------------|---|------|---|---------|-------------|------------|
| | Grant Date | Type | At 1.1.2016 date of grant appointment | Granted | (Forfeited) | |
| Dato' Zakaria Arshad | 1.7.2016 | RS | - | 147,100 | - | 312,100 |

*RS – restricted shares

Under the FGVH's LTIP, ordinary shares of RM1.00 each in FGVH are granted to eligible employees and Executive Directors of the FGVH Group. The grants under the LTIP will be vested upon fulfilment of vesting conditions which include achievement of service period and performance targets. The total number of shares to be vested from the number of shares granted varies depending on the level of achievement of the performance targets as determined by LTIP Committee.

Other than as disclosed above, according to the Register of Directors' Shareholdings, the Directors in office at the end of the financial year did not hold any interest in shares and options over shares in the Company, or shares, options over shares and debentures of its related corporations during the financial year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

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

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve (12) months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or the Company to meet their obligations when they fall due.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

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

- (a) any charge on the assets of the Group and the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and the Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors,

- (a) the results of the Group's and the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual in nature likely to affect substantially the results of the operations of the Group or the Company for the financial year reported.

ULTIMATE HOLDING COMPANY

The Directors regard Felda Global Ventures Holdings Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad, as the ultimate holding company.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 22 March 2017.



YB TAN SRI HAJI MOHD ISA DATO' HAJI ABDUL SAMAD
CHAIRMAN

Kuala Lumpur



DATO' ZAKARIA BIN ARSHAD
DIRECTOR

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad and Dato' Zakaria Arshad, two of the Directors of MSM Malaysia Holdings Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 135 to 195 are drawn up so as to give a true and fair view of the financial position of the Group and Company as at 31 December 2016 and of the financial performance and cash flows of the Group and the Company for the financial year ended on that date in accordance with Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965.

The supplementary information set out in Note 41 on page 196 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 of Directors in accordance with a resolution dated 22 March 2017.



YB TAN SRI HAJI MOHD ISA DATO' HAJI ABDUL SAMAD
CHAIRMAN

Kuala Lumpur



DATO' ZAKARIA BIN ARSHAD
DIRECTOR

STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Aznur Kama Azmir, the Officer primarily responsible for the financial management of MSM Malaysia Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 135 to 195 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.



AZNUR KAMA AZMIR

Subscribed and solemnly declared by the above named Aznur Kama Azmir at Kuala Lumpur in Malaysia on 22 March 2017, before me.

COMMISSIONER FOR OATHS



Lot 1.08, Tingkat 1,
Bangunan KWSP, Jln Raja Laut
50350 Kuala Lumpur.
Tel: 019-6680745

31 MAR 2017

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MSM MALAYSIA HOLDINGS BERHAD (INCORPORATED IN MALAYSIA) (COMPANY NO. 935722 K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of MSM Malaysia Holdings Berhad ("the Company") and its subsidiaries ("the Group") 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 financial year then ended in accordance with Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 135 to 195.

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 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.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of Group and the Company. In particular, we considered where the Directors made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MSM MALAYSIA HOLDINGS BERHAD (INCORPORATED IN MALAYSIA) (COMPANY NO. 935722 K)

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| <p>Goodwill impairment assessment</p> <p>As at 31 December 2016, the Group has goodwill of RM576.2 million.</p> <p>We focused on this area as the recoverable amount of the cash generating unit ("CGU") is based on value-in-use ("VIU") calculations, which require management's judgment on the assumptions used in the calculations, in particular selling price, raw sugar price, sales volume, terminal growth rate, exchange rate and discount rate.</p> <p>Refer to Note 3(d), 5 and 17 of financial statements.</p> | <p>We assessed the reasonableness of the discounted future cash flow projections prepared by management and our procedures included:</p> <ul style="list-style-type: none"> We evaluated the key assumptions used by management in the VIU calculations, in particular selling price, raw sugar price, sales volume, exchange rate, terminal growth rate and discount rate by comparing with approved budget, business plans, historical results and market data; We assessed the reliability of management's forecast through the review of past trends of actual financial performance against previous forecasted results; Sensitivity analysis had been performed on selling price, raw sugar price, sales volume, exchange rate and discount rate to evaluate the impact on the impairment assessment; and We assessed the adequacy and reasonableness of the disclosures. <p>Based on the procedures, we noted no significant exceptions.</p> |

We have determined that there are no key audit matters for the Company to communicate in our report.

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 Chairman's Statement, President/Group Chief Executive Officer's Review, Group Financial Review, which we obtained prior to the date of this auditors' report, and Business Operation Analysis and Strategic Review, which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to 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.

Responsibilities of the Directors for the financial statements

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

- (a) 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.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (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.
- (e) 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.
- (f) 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.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MSM MALAYSIA HOLDINGS BERHAD
(INCORPORATED IN MALAYSIA)
(COMPANY NO. 935722 K)**

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 18 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 41 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 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



PRICEWATERHOUSECOOPERS

(No. AF: 1146)

Chartered Accountants

Kuala Lumpur

22 March 2017



AZIZAN BIN ZAKARIA

(No.2930/05/18 (J))

Chartered Accountant

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | Group | | Company | |
|---|------|--------------------|----------------|-----------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Revenue | 6 | 2,658,446 | 2,307,263 | 208,240 | 210,957 |
| Cost of sales | | (2,327,896) | (1,818,173) | - | - |
| Gross profit | | 330,550 | 489,090 | 208,240 | 210,957 |
| Other operating income | 7 | 6,500 | 4,686 | - | - |
| Selling and distribution expenses | | (98,406) | (71,914) | - | - |
| Administrative expenses | | (80,081) | (70,734) | (27,007) | (25,008) |
| Other operating expenses | | (5,570) | (5,085) | - | - |
| Other gains – net | 8 | 3,428 | 25,769 | - | - |
| Profit from operations | | 156,421 | 371,812 | 181,233 | 185,949 |
| Finance income | 9 | 5,511 | 7,862 | - | - |
| Finance costs | 9 | (13,417) | (7,546) | (2,648) | - |
| Profit before zakat and taxation | 10 | 148,515 | 372,128 | 178,585 | 185,949 |
| Zakat | 11 | (2,000) | (5,000) | (500) | (500) |
| Taxation | 12 | (25,793) | (91,832) | (1,872) | (3,097) |
| Profit for the financial year | | 120,722 | 275,296 | 176,213 | 182,352 |
| <u>Items that may be subsequently reclassified</u> | | | | | |
| <u>to profit or loss</u> | | | | | |
| Currency translation difference | | (2,213) | - | - | - |
| Total comprehensive income for the financial year attributable to owners of the Company | | 118,509 | 275,296 | 176,213 | 182,352 |
| Basic and diluted earnings per share attributable to equity holders of the Company (sen) | 13 | 17.17 | 39.16 | | |

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

| | Note | Group | | Company | |
|---|------|------------------|----------------|------------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| ASSETS | | | | | |
| <u>Non-current assets</u> | | | | | |
| Property, plant and equipment | 15 | 950,408 | 702,007 | 91,214 | 91,063 |
| Prepaid lease payments | 16 | 601 | 687 | - | - |
| Intangible assets | 17 | 646,704 | 648,474 | 2,056 | 928 |
| Investments in subsidiaries | 18 | - | - | 2,057,406 | 2,027,406 |
| Loans to subsidiaries | 20 | - | - | 213,903 | 35,000 |
| Receivables | 21 | 4,640 | 16,533 | - | - |
| | | 1,602,353 | 1,367,701 | 2,364,579 | 2,154,397 |
| <u>Current assets</u> | | | | | |
| Inventories | 22 | 888,949 | 729,910 | - | - |
| Receivables | 21 | 350,392 | 500,294 | 1,078 | 6,118 |
| Tax recoverable | | 29,520 | 277 | 4,580 | 277 |
| Amounts due from subsidiaries | 23 | - | - | 64,459 | 155,935 |
| Amount due from other related companies | 24 | 14,326 | 1 | - | - |
| Loans to subsidiaries | 20 | - | - | 100,000 | 143,200 |
| Derivative financial assets | 26 | 1,970 | 313 | - | - |
| Deposits, cash and bank balances | 27 | 337,911 | 123,902 | 121,502 | 19,512 |
| | | 1,623,068 | 1,354,697 | 291,619 | 325,042 |
| Assets held for sale | 28 | 7 | 7 | - | - |
| Total assets | | 3,225,428 | 2,722,405 | 2,656,198 | 2,479,439 |

| | Note | Group | | Company | |
|--|------|--------------------|----------------|------------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| EQUITY AND LIABILITIES | | | | | |
| <u>Capital and reserves</u> | | | | | |
| Share capital | 29 | 351,490 | 351,490 | 351,490 | 351,490 |
| Share premium | 30 | 366,765 | 366,765 | 366,765 | 366,765 |
| Reorganisation deficit | 30 | (1,039,632) | (1,039,632) | - | - |
| Merger relief reserve | 30 | 1,733,939 | 1,733,939 | 1,733,939 | 1,733,939 |
| Retained earnings | 30 | 576,461 | 624,454 | 13,032 | 5,534 |
| Foreign exchange reserve | 30 | (2,213) | - | - | - |
| Equity attributable to owners of the Company | | 1,986,810 | 2,037,016 | 2,465,226 | 2,457,728 |
| <u>Non-current liabilities</u> | | | | | |
| Deferred tax liabilities | 31 | 73,744 | 75,378 | - | - |
| Borrowings | 33 | 178,903 | - | 178,903 | - |
| | | 252,647 | 75,378 | 178,903 | - |
| <u>Current liabilities</u> | | | | | |
| Payables | 32 | 465,856 | 176,197 | 8,139 | 12,415 |
| Amounts due to subsidiaries | 23 | - | - | - | 5,362 |
| Loan due to a related company | 24 | 156,452 | 60,000 | - | - |
| Amounts due to other related companies | 24 | 400 | 510 | 156 | 133 |
| Amount due to ultimate holding company | 25 | 6,963 | 11,785 | 3,774 | 3,483 |
| Borrowings | 33 | 356,300 | 359,537 | - | - |
| Current tax liabilities | | - | 1,982 | - | 318 |
| | | 985,971 | 610,011 | 12,069 | 21,711 |
| Total liabilities | | 1,238,618 | 685,389 | 190,972 | 21,711 |
| Total equity and liabilities | | 3,225,428 | 2,722,405 | 2,656,198 | 2,479,439 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | Share capital (Note 29) RM'000 | Share premium (Note 30) RM'000 | Reorgani- sation deficit (Note 30) RM'000 | Merger relief reserve (Note 30) RM'000 | Foreign exchange reserve (Note 30) RM'000 | Retained earnings (Note 30) RM'000 | Total RM'000 |
|--|------|--------------------------------------|--------------------------------------|---|--|---|---|-----------------|
| <u>Group</u> | | | | | | | | |
| At 1 January 2016 | | 351,490 | 366,765 | (1,039,632) | 1,733,939 | - | 624,454 | 2,037,016 |
| Profit for the financial year | | - | - | - | - | - | 120,722 | 120,722 |
| Other comprehensive loss | | - | - | - | - | (2,213) | - | (2,213) |
| Total comprehensive (loss)/ income for the financial year | | - | - | - | - | (2,213) | 120,722 | 118,509 |
| <u>Transactions with owners:</u> | | | | | | | | |
| Dividends | 14 | - | - | - | - | - | (168,715) | (168,715) |
| At 31 December 2016 | | 351,490 | 366,765 | (1,039,632) | 1,733,939 | (2,213) | 576,461 | 1,986,810 |
| At 1 January 2015 | | 351,490 | 366,765 | (1,039,632) | 1,733,939 | - | 531,933 | 1,944,495 |
| Profit and total comprehensive income for the financial year | | - | - | - | - | - | 275,296 | 275,296 |
| <u>Transactions with owners:</u> | | | | | | | | |
| Dividends | 14 | - | - | - | - | - | (182,775) | (182,775) |
| At 31 December 2015 | | 351,490 | 366,765 | (1,039,632) | 1,733,939 | - | 624,454 | 2,037,016 |

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | Non-distributable | | Distributable | | Total RM'000 |
|---|------|---|---|--|---|-----------------|
| | | Share capital (Note 29) RM'000 | Share premium (Note 30) RM'000 | Merger relief reserve (Note 30) RM'000 | Retained earnings (Note 30) RM'000 | |
| <u>Company</u> | | | | | | |
| At 1 January 2016 | | 351,490 | 366,765 | 1,733,939 | 5,534 | 2,457,728 |
| Profit and total comprehensive income for the financial year | | - | - | - | 176,213 | 176,213 |
| <u>Transactions with owners:</u> | | | | | | |
| Dividends | 14 | - | - | - | (168,715) | (168,715) |
| At 31 December 2016 | | 351,490 | 366,765 | 1,733,939 | 13,032 | 2,465,226 |
| At 1 January 2015 | | 351,490 | 366,765 | 1,733,939 | 5,957 | 2,458,151 |
| Profit and total comprehensive income for the financial year | | - | - | - | 182,352 | 182,352 |
| <u>Transactions with owners:</u> | | | | | | |
| Dividends | 14 | - | - | - | (182,775) | (182,775) |
| At 31 December 2015 | | 351,490 | 366,765 | 1,733,939 | 5,534 | 2,457,728 |

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | Group | | Company | |
|---|------|------------------|----------------|------------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit for the financial year | | 120,722 | 275,296 | 176,213 | 182,352 |
| Adjustments for: | | | | | |
| Taxation | | 25,793 | 91,832 | 1,872 | 3,097 |
| Depreciation of property, plant and equipment | | 46,126 | 37,980 | 2,118 | 1,412 |
| (Gain)/Loss on disposal of property, plant and equipment – net | | (9) | 95 | - | - |
| Gain on disposal of asset held for sale | | - | (22) | - | - |
| Property, plant and equipment written off | | 1,598 | 1,681 | - | 317 |
| Amortisation of prepaid lease payments | | 86 | 88 | - | - |
| Amortisation of intangible assets | | 5,794 | 3,315 | 216 | 77 |
| Amortisation of advance payment | | 928 | 928 | - | - |
| Unrealised gain on derivatives | | (1,970) | (313) | - | - |
| Dividends income | | - | - | (180,715) | (188,775) |
| Interest income | | (5,511) | (7,862) | (11,890) | (12,100) |
| Interest expense | | 13,417 | 7,546 | 2,648 | - |
| Reversal of impairment on property, plant and equipment | | - | (2,956) | - | - |
| Inventories written down | | 13,294 | - | - | - |
| Provision for onerous contracts | | 16,637 | - | - | - |
| Unrealised (gain)/loss on foreign exchange translation | | (4,049) | 19 | - | - |
| Zakat | | 2,000 | 5,000 | 500 | 500 |
| | | 234,856 | 412,627 | (9,038) | (13,120) |
| Changes in working capital: | | | | | |
| Inventories | | (172,333) | (55,640) | - | - |
| Receivables | | 75,587 | (282,970) | 5,040 | (6,058) |
| Payables | | 246,874 | (73,236) | (19,482) | 5,878 |
| Intercompany | | (19,256) | 4,914 | (3,760) | (6,667) |
| Cash generated from/(used in) operations | | 365,728 | 5,695 | 27,240 | (19,967) |
| Zakat paid | | (2,000) | (5,000) | (500) | (500) |
| Tax paid | | (58,652) | (91,724) | (6,493) | (2,588) |
| Net cash generated from/(used in) operating activities | | 305,076 | (91,029) | (34,233) | (23,055) |

| | Note | Group | | Company | |
|---|------|--------------------|----------------|------------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of property, plant and equipment | 35 | (206,057) | (232,163) | (2,269) | (91,751) |
| Purchase of intangible assets | | (4,024) | (2,140) | (1,344) | (493) |
| Proceeds from disposal of property, plant and equipment | | 207 | 829 | - | 599 |
| Proceeds from disposal of asset held for sale | | - | 33 | - | - |
| Interest received | | 5,511 | 1,655 | 11,890 | 12,100 |
| Dividend received | | - | - | 180,715 | 188,775 |
| Loan to subsidiaries | | - | - | (278,903) | (178,200) |
| Repayment of loan by subsidiaries | | - | - | 143,201 | 192,000 |
| Capital injection in subsidiaries | | - | - | (30,000) | (4,477) |
| Receipt of payment/(payment) on behalf of subsidiaries | | - | - | 90,188 | (127,868) |
| Net cash (used in)/generated from investing activities | | (204,363) | (231,786) | 113,478 | (9,315) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Net drawdown of loan from a related company | | 96,452 | 60,000 | - | - |
| Drawdown of borrowings | | 1,201,496 | 1,039,276 | 178,903 | - |
| Repayment of borrowings | | (1,014,866) | (928,551) | - | - |
| Dividends paid | | (168,715) | (182,775) | (168,715) | (182,775) |
| Interest paid | | (18,112) | (11,232) | (2,648) | - |
| Net cash generated from/(used in) financing activities | | 96,255 | (23,282) | 7,540 | (182,775) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT | | 196,968 | (346,097) | 86,785 | (215,145) |
| Effect of foreign exchange rate changes | | 1,836 | - | - | - |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR | | 123,902 | 469,999 | 19,512 | 234,657 |
| CASH AND CASH EQUIVALENT AT THE END OF THE FINANCIAL YEAR | 27 | 322,706 | 123,902 | 106,297 | 19,512 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1 GENERAL INFORMATION

The Company was incorporated in Malaysia under the Companies Act, 1965 as a public limited company. The registered office of the Company is located at Level 45, Menara Felda, Platinum Park, No.11, Persiaran KLCC, 50088 Kuala Lumpur. The principal place of business of the Company is located at Level 44, Menara Felda, Platinum Park, No.11, Persiaran KLCC, 50088 Kuala Lumpur.

The principal activity of the Company is of investment holding. The principal activities of the subsidiaries are set out in Note 18 of the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The Company is public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The ultimate holding company is Felda Global Ventures Holdings Berhad ("FGVH"), a company incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad.

2 BASIS OF PREPARATION

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

The Group includes transitioning entities and has elected to continue to apply FRS during the financial year. The Group will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS") for annual period beginning on 1 January 2018. In adopting the new framework, the Group will be applying MFRS 1 "First-time adoption of MFRS".

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the individual policy statements in Note 3 to the financial statements.

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial period.

It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

During the financial year, the Group has changed an accounting policy and considered the new accounting pronouncements in the preparation of the financial statements.

(i) Change in accounting policy

During the financial year, the Group changed its accounting policy for bearer plants to be in line with the accounting requirements of FRS 116 – Property, Plant and Equipment. A bearer plant is a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. The bearer plants of the Group are oil palm trees and rubber trees.

Prior to the change in the accounting policy, the Group adopted the capital maintenance model on its bearer plants (previously termed as biological assets) whereby the expenditure on new planting was capitalised as biological assets at cost and was not amortised. Replanting of same crops expenditure was charged to the profit or loss in the financial year in which the expenditure was incurred.

Under the revised accounting policy, bearer plants (both new planting and replanting) are accounted for in the same way as self-constructed items of property, plant and equipment. Expenditure on new planting and replanting of bearer plants are capitalised at cost and depreciated on a straight-line basis over the economic useful lives of 22 years for oil palm trees and 20 years for rubber trees from date of maturity or, the remaining period of the land lease, whichever is shorter. Bearer plants are classified as property, plant and equipment. The bearer plants are assessed for indicator of impairment, and if indication exists, an impairment test is performed in accordance with FRS 136 – Impairment of Assets.

2 BASIS OF PREPARATION (CONTINUED)

(i) Change in accounting policy (Continued)

The revised accounting policy will result in the financial statements reflecting more fairly the Group's financial position and financial performance. The carrying amount of bearer plants will be more reflective of the cost incurred whilst the depreciation of the bearer plants over their useful lives will reflect the consumption of the bearer plants' future economic benefits.

The new accounting policy is also more aligned with the underlying principle in the revised standard, Agriculture: Bearer Plants (Amendments to MFRS 116 – Property, Plant and Equipment and MFRS 141 - Agriculture) issued under the Malaysian Financial Reporting Standards Framework (MFRS Framework).

The change in the accounting policy has been applied retrospectively and the carrying amount of the biological assets (Note 19) have been reclassified to property, plant and equipment (Note 15), to be consistent with the revised accounting policies adopted.

However, the impact of the adoption of the new accounting policy is not material to the financial position of the Group as at 1 January 2015. Accordingly, the statement of financial position of the Group as at 1 January 2015 is not presented.

In addition, the Group's profit before tax for the financial years ended 31 December 2016 and 31 December 2015 is not restated as the impact is not material.

(ii) Accounting pronouncements that are effective and have been adopted by the Group and the Company as at 1 January 2016:

- Amendments to FRS 11 'Joint arrangements' - Accounting for Acquisition of Interests in Joint Operations
- Amendments to FRS 101 'Presentation of Financial Statements' - Disclosure Initiative
- Amendments to FRS 127 'Separate Financial Statements' - Equity Method in Separate Financial Statements
- Amendments to FRS 10 'Consolidated Financial Statements', FRS 12 'Disclosures of Interests in Other Entities' and FRS 128 'Investments in Associates and Joint Ventures' - Investment Entities - Applying the Consolidation Exception
- Amendments to FRS 116 'Property, Plant and Equipment' and FRS 138 'Intangible Assets' - Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to FRSs 2012 – 2014 Cycle (Amendments to FRS 5 'Non-current Assets Held for Sale and Discontinued Operations', FRS 7 'Financial Instruments: Disclosures', FRS 119 'Employee Benefits' and FRS 134 'Interim Financial Reporting')

The adoption of the above amendments to existing standards did not have any impact on the current or any prior year and are not likely to affect future periods.

Effective for annual periods beginning on or after 1 January 2017 with earlier application permitted

- Amendments to FRS 107 'Statement of Cash Flows' - Disclosure Initiative
- Amendments to FRS 112 'Income Taxes' - Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements to FRS 12 'Disclosures of Interests in Other Entities'

The adoption of the above amendments to existing standards did not have any impact on the current or any prior year and are not likely to affect future periods.

Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted

- FRS 9 'Financial Instruments' – This complete version of FRS 9 replaces the entire FRS 139. It amends the requirements on classification and measurement of financial assets and includes an expected credit losses model that replaces the incurred loss impairment model used today. It also includes the new hedging guidance.
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' – guidance how to determine "the date of transaction" when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The effects of the above standards and accounting pronouncements are currently being assessed by the Directors which the Group expects to adopt on its effective date.

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

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated:

(a) Basis of consolidation and investment in subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of financial year. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Acquisition accounting

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of the non-controlling interests. The Group recognises any non-current controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. At the end of reporting period, non-controlling interests consists of amount calculated on the date of combinations and its share of changes in the subsidiary's equity since the date of combination.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with FRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 3(d)).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(a) Basis of consolidation and investment in subsidiaries (continued)

Predecessor accounting

Acquisitions of subsidiaries and businesses under common control that meet the conditions of a merger are accounted for using the predecessor basis of accounting.

Under the predecessor basis of accounting, the results of subsidiaries and businesses under common control are presented as if the business combination had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the business combination is cancelled with the values of the shares received. Any resulting credit or debit difference is classified as reorganisation reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the combined entities, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated, unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with the policies adopted by the Group.

Non-controlling interests is the equity in a subsidiary not attributable, directly or indirectly, to a parent. On an acquisition-by-acquisition basis, the Group measures any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. At the end of reporting period, non-controlling interests consists of amount calculated on the date of combinations and its share of changes in the subsidiary's equity since the date of combination.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences or other reserves that relate to the subsidiary and is recognised in profit or loss.

All earnings and losses of the subsidiary are attributed to the parent and the non-controlling interests, even if the attribution of losses to the non-controlling interests results in a debit balance in the non-controlling interests.

In the Company's financial statements, investments in subsidiaries are shown at cost less accumulated impairment losses.

Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount (Note 3(g)).

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(d) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries over the Group's share of the fair value of their identifiable net assets including contingent liabilities at the date of acquisition. Goodwill on acquisition in respect of a subsidiary is included in the consolidated statement of financial position as intangible assets. Negative goodwill represents the total of consideration transferred, non-controlling interest recognised and previously held interest measured being less than where the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

If such an indication exists, an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. See significant accounting policies Note 3(l) on impairment of non-financial assets.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date.

Intangible assets is amortised when ready for use.

Intangible assets are amortised using the straight line basis over their estimated useful lives as follows:

| | |
|----------|-------------|
| Brand | 25 years |
| Software | 3 - 5 years |

Amortisation on intangible assets under development commences when the assets are ready for their intended use.

The nature of the intangible assets are as follows:

- (i) Brand is related to a sugar brand 'Prai' acquired as part of the acquisition of the sugar business.
- (ii) Software relates to information technology ("IT") used within the Group

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(f) Financial assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group did not apply hedge accounting during the financial year.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables are as disclosed in Note 38.

Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

Subsequent measurement - gains and losses

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(g) Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) Adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(h) Financial liabilities

Financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transactions costs.

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method except for derivatives in a loss position, if any, which are measured at fair value.

For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in fair value of derivatives are recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 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.

(i) Property, plant and equipment

Property, plant and equipment are initially stated at cost. All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Major spare parts, stand-by equipment and servicing equipment are classified as property, plant and equipment rather than inventory when they are expected to be used during more than one period.

Freehold land is not depreciated as it has an infinite useful life and assets under construction are not depreciated until when the assets are ready for their intended use.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(i) Property, plant and equipment (continued)

All property, plant and equipment are depreciated on a straight line basis to write off the cost of each asset to their residual values over their estimated useful lives as follows:

Principal annual rates used are summarised as follows:

| <u>Property, plant and equipment</u> | <u>Estimated useful lives (years)</u> |
|---|--|
| Leasehold land | 66 – 99 years |
| Buildings | 3 – 20 years |
| Plant and machinery | 3 – 20 years |
| Furniture, fittings, equipment and motor vehicles | 3 – 11 years |
| Bearer plants | |
| - Oil palm | 22 years, or the lease term if shorter |
| - Rubber | 20 years, or the lease term if shorter |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The effects of any revision of the residual values and useful lives are included in profit or loss for the financial year in which the changes arise.

Depreciation on property, plant and equipment ceases at the earlier of derecognition and classification as held for sale. Depreciation on assets under construction commences when the assets are ready for their intended use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in other operating income in profit or loss.

At each statement of financial position date, the Group assess whether there is any indication of impairment. If such an indication exists, an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. See significant accounting policies note 3(l) on impairment of non-financial assets.

(j) Biological assets

Nursery

Nursery costs comprise costs of oil palm and rubber seedlings and the associated development costs incurred (for example fertilising and weeding) in preparing the nursery. Nursery costs relating to new planting are transferred to oil palm and rubber plantations upon reaching a certain level of maturity, which is between ten (10) to twelve (12) months for oil palm and five (5) to six (6) months for rubber, while other types (resold or replanted) are charged to profit or loss.

Where an indication of impairment exists, the carrying amount of the biological asset is assessed and written down immediately to its recoverable amount. See significant accounting policies Note 3(l) on impairment of non-financial assets.

(k) Inventories

Inventories which consist of raw materials, work-in-progress, finished goods, molasses and consumables are stated at lower of cost and net realisable value.

Cost is determined on the weighted average cost basis. Raw material cost comprises the landed cost of goods purchased and in the case of work-in-progress and finished goods, includes materials, direct labour, other direct charges and an appropriate proportion of factory overheads. Consumables comprise the actual purchase costs.

Net realisable value is the estimated selling price in the ordinary course of business, less selling and distribution costs and all other estimated cost to completion.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(l) Impairment of non-financial assets

Assets that have an indefinite useful life for example goodwill or intangible asset not ready to use, are not subject to amortisation and are tested annually for impairment, or when events or circumstances occur indicating that impairment may exist. Property, plant and equipment and other non-current non-financial assets, including intangible assets with definite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The impairment loss is charged to profit or loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impaired assets, except goodwill, are reviewed for possible reversal of impairment at each reporting date and is recognised in profit or loss.

The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised.

(m) Current and deferred income taxes

Tax expenses for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current and deferred tax is measured using the tax rates that have been enacted or substantially enacted at the statement of financial position date in the countries where the Group's subsidiaries operate generate taxable income.

Deferred tax is provided for on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Tax benefits arising from reinvestment allowance are recognised when the tax credit is utilised.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(n) Zakat

The Group recognises its obligations towards the payment of zakat on business. Zakat for the current period is recognised as and when the Group has a current zakat obligation as a result of zakat assessment. The amount of zakat expense shall be assessed when a company within the Group has been in operation for at least 12 months, i.e. for the period known as “haul (eligible period)”.

Zakat expense is determined based on the Group’s financial results for the year. The amount of zakat paid is recognised as an expense in the financial year in which it is incurred.

(o) Foreign currencies

Functional and presentation currency

Items included in the financial statements of the each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in Ringgit Malaysia (“RM”), which is the Group and Company’s functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss. Foreign exchange gains and losses related to foreign currency forward contracts are presented in profit or loss within “other (losses)/gains – net”.

Group companies

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of comprehensive income are translated at average rate (unless this average is not reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in the foreign exchange reserve as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at closing rate. Exchange differences arising are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and long-term advances are taken to the foreign exchange reserve within equity. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(p) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented net of goods and services tax, returns, rebates and discounts and after eliminating sales within the Group.

(i) Revenue from sale of goods

Revenue from sale of goods is recognised upon the delivery of goods, when significant risks and rewards of ownership of the goods are transferred to the buyer.

Bill and hold sales are sales contracts which, at customers' request, transfer legal title of inventories to customers before the inventories leave the warehouses. Bill and hold sales are recognised as revenue when legal title is transferred, on condition that it is probable that delivery will be made, the inventories are ready for delivery, are physically segregated from unsold inventories, the customer has specifically acknowledged deferred delivery instructions and usual payment terms apply.

(ii) Revenue from rendering of services

Revenue from rendering of services including management fees and transportation services are recognised when the services are performed by reference to completion of the specific services.

(iii) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(iv) Dividend income

Dividend income is recognised when the shareholders' right to receive is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(v) Rental income

Rental income related to rental of properties and plants are recognised over the period of tenancy or usage, as appropriate.

(q) Dividend distribution

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the statement of financial position date. A dividend proposed or declared after the statement of financial position date, but before the financial statements are authorised for issue, is not recognised as a liability at the statement of financial position date.

(r) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(s) Leases

Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

Operating leases – the Group as lessee

Operating leases payment are recognised as an expense on a straight-line basis over the period of the relevant lease period. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expenses over the lease term on a straight-line basis.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Initial direct costs incurred by the Company in negotiating and arranging operating leases are recognised in profit or loss when incurred.

Payment for rights to use land and buildings over a predetermined period, is classified as prepaid lease payments and is stated at cost less accumulated amortisation and accumulated impairment losses. The prepaid lease payments are amortised on a straight-line basis over lease periods ranging from 15 to 60 years.

Finance lease – the Group as lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of finance on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The finance element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(t) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred.

(iii) Termination benefits

The Group pays termination benefits in cases of termination of employment within the framework of the restructuring. Termination benefits are recognised as a liability and an expense when the Group has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

(u) Equity instruments

Ordinary shares are classified as equity.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(v) Contingent liabilities

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence and non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However contingent liabilities do not include financial guarantee contracts.

(w) Segment reporting

Segment information is presented in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Group Chief Executive Officer.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated: (continued)

(x) Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate of the amount can be made.

Where the Group expects a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time recognised as finance cost.

(y) Onerous contracts

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(z) Non-current assets held for sale

Non-current assets are classified as assets held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for sale in its immediate condition. They are stated at the lower of their carrying amounts and fair value less costs to sell.

(aa) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated based on the consolidated profit after taxation attributable to equity shareholders of the Company and divided by the weighted number of ordinary shares in issue.

(ab) Fair value measurement

The fair value measurement prescribes that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk management policies

The Group is exposed to market risk (including foreign currency risk, commodity price risk and finance rate risk), credit risk and liquidity risk arising from its business activities. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group uses relevant derivative financial instruments to hedge the risk of such commercial exposure and ensure the implementation risk action plans to effectively mitigate the risks.

The Board of Directors has overall responsibility for the oversight of financial risk management which includes risk identification, operational or strategic, and the subsequent action plans to manage these risks. Management is responsible for identifying, monitoring and managing the Group's risk exposures.

Market risk

(i) Foreign currency exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("USD").

The Group manages its currency exposure through foreign currency forward contracts.

A 5% (2015: 10%) strengthening/weakening of the USD against Malaysia Ringgit ("RM") at the date of statement of financial position would have a lower/higher impact to Group's profit after tax of approximately RM16,224,000 (2015: RM5,311,902).

The above exposure mainly as a result of foreign exchange gains/losses on translation of payables. The analysis assumes that all other variables remain constant.

(ii) Commodity price risk

The Group is exposed to raw sugar prices which are subject to fluctuations due to unpredictable factors such as weather, change of global demand and global production.

Management is responsible for managing the Group's exposure to raw sugar input cost against selling prices of refined sugar set by the Government. Management meets regularly to review their raw sugar requirements and price trends and then decides when to buy and price raw sugar consignments so that a refining margin is locked to ensure budgeted profits are met. In addition, the Group enters into New York 11 raw sugar future contracts to manage its raw sugar purchase cost.

A sensitivity analysis has been performed based on the Group's exposure to sugar futures as at year end. If price of raw sugar increases or decreases by 10% with all other variables held constant, the Group's profit before tax and equity would decrease or increase by RM194,000 (2015: nil).

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management policies (continued)

Market risk (continued)

(iii) Finance rate risk

The Group's finance rate risk mainly arises from term loans. Term loans issued at variable rates expose the Group to cash flow finance rate risk.

The finance rate profile of the Group's finance bearing financial assets, based on carrying amounts as at the end of the financial year was:

| | Group | | Company | |
|---|----------------|--------|----------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Financial assets</u> | | | | |
| <u>At fixed rate</u> | | | | |
| Fixed deposits | 245,593 | 67,592 | 120,472 | 16,761 |
| Loans to subsidiaries | - | - | 135,000 | 178,200 |
| | 245,593 | 67,592 | 252,281 | 194,961 |
| <u>At floating rate</u> | | | | |
| <u>(Exposed to cash flow finance rate risk)</u> | | | | |
| Loans to subsidiaries | - | - | 178,903 | - |
| | 245,593 | 67,592 | 431,184 | 194,961 |

The finance rate profile of the Group's finance bearing financial liabilities, based on carrying amounts as at the end of the reporting period was:

| | Group | | Company | |
|---|----------------|---------|----------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Financial liabilities</u> | | | | |
| <u>At fixed rate</u> | | | | |
| Loans due to a related company | 156,452 | 60,000 | - | - |
| Borrowings | 356,300 | 359,537 | - | - |
| | 512,752 | 419,537 | - | - |
| <u>At floating rate</u> | | | | |
| <u>(Exposed to cash flow finance rate risk)</u> | | | | |
| Borrowings | 178,903 | - | 178,903 | - |
| | 691,655 | 419,537 | 178,903 | - |

If finance rates on its floating rate financial liabilities increased/decreased by 10 basis points with all other variables held constant, the profit after tax of the Group will increase by RM178,903.

Other financial assets and financial liabilities are non-finance bearing, and therefore are not affected by changes in finance rates.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management policies (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group adopts the policy of dealing with customers with an appropriate credit history, and obtaining sufficient security where appropriate, including bank guarantees and advance payment, to mitigate credit risk. The maximum exposures approximate the carrying amount of the financial assets.

Trade receivables

In addition, the trade receivable exposure is continuously closely monitored and followed up by finance and marketing department. The Group's ten major customers comprise 36% of trade receivables as at 31 December 2016 (2015: 53%).

Fixed deposits and bank balances

The Group seeks to invest in its cash assets safely by depositing them with licensed financial institutions.

The Group's bank and cash balances were largely placed with major financial institutions in Malaysia. The Directors are of the view that the possibility of non-performance by these financial institutions, including those non-rated financial institutions, is remote on the basis of their financial strength.

Inter-company balances

The Company provided unsecured loans to subsidiaries. The Company monitors the results of the subsidiaries regularly.

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position and there was no indication that the loans to the subsidiaries are not recoverable.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations due to shortage of funds. The Group maintains a sufficient level of cash and cash equivalents to meet the Group's working capital requirements by closely monitoring its cash flows. Due to the nature of its business, the Group has adopted prudent liquidity risk management in maintaining and obtaining sufficient credit facilities from financial institutions.

Cash flow forecasting is performed in the operating entities of the Group and then aggregated by management. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statements of financial position ratio targets and, if applicable, external regulatory or legal requirements – for example, currency restrictions.

Surplus cash is invested in profit bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held cash investments of RM245,593,000 (2015: RM67,592,000) and other liquid assets of RM92,318,000 (2015: RM56,310,000) that are expected to readily generate cash inflows for managing liquidity risk. At the reporting date, the Company held cash investments of RM120,472,000 (2015: RM16,761,000) and other liquid assets of RM1,030,000 (2015: RM2,751,000) that are expected to readily generate cash inflows for managing liquidity risk.

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management policies (continued)

Liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining maturity periods at the reporting date to the contractual maturity dates. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The table below summaries the maturity profile of the Group's and Company's financial liabilities based on the remaining maturity periods at the statement of financial position date. The amounts disclosed in the table are based on contractual undiscounted cash flows.

Group

| | Less than 1 year RM'000 | Between 1 and 2 years RM'000 | Between 2 and 5 years RM'000 | Over 5 years RM'000 | Total RM'000 |
|---|--|---|---|------------------------------------|-------------------------|
| <u>At 31 December 2016</u> | | | | | |
| Payables | 465,856 | - | - | - | 465,856 |
| Loan due to a related company | 163,492 | - | - | - | 163,492 |
| Amounts due to other related companies | 400 | - | - | - | 400 |
| Amount due to ultimate holding company | 6,963 | - | - | - | 6,963 |
| Borrowings | 363,868 | 7,568 | 183,522 | - | 554,958 |
| Total undiscounted financial liabilities | 1,000,579 | 7,568 | 183,522 | - | 1,191,669 |
| <u>At 31 December 2015</u> | | | | | |
| Payables | 176,197 | - | - | - | 176,197 |
| Loan due to a related company | 60,000 | - | - | - | 60,000 |
| Amounts due to other related companies | 510 | - | - | - | 510 |
| Amount due to ultimate holding company | 11,785 | - | - | - | 11,785 |
| Borrowings | 359,537 | - | - | - | 359,537 |
| Total undiscounted financial liabilities | 608,029 | - | - | - | 608,029 |

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management policies (continued)

Liquidity risk (continued)

Company

| | Less than 1 year RM'000 | Between 1 and 2 years RM'000 | Between 2 and 5 years RM'000 | Over 5 years RM'000 | Total RM'000 |
|---|-------------------------------|------------------------------------|------------------------------------|---------------------------|-----------------|
| <u>At 31 December 2016</u> | | | | | |
| Payables | 8,139 | - | - | - | 8,139 |
| Amounts due to other related companies | 156 | - | - | - | 156 |
| Amount due to ultimate holding company | 3,774 | - | - | - | 3,774 |
| Borrowings | 7,568 | 7,568 | 183,522 | - | 198,658 |
| Total undiscounted financial liabilities | 19,637 | 7,568 | 183,522 | - | 210,727 |

At 31 December 2015

| | | | | | |
|---|--------|---|---|---|--------|
| Payables | 12,415 | - | - | - | 12,415 |
| Amounts due to subsidiaries | 5,362 | - | - | - | 5,362 |
| Amounts due to other related companies | 133 | - | - | - | 133 |
| Amount due to ultimate holding company | 3,483 | - | - | - | 3,483 |
| Total undiscounted financial liabilities | 21,393 | - | - | - | 21,393 |

(b) Capital risk management policies

The Group's and Company's primary objectives on capital management policies are to safeguard the Group's and Company's ability to maintain healthy capital ratios to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group and Company manage its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group and Company 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 financial year ended 31 December 2016 and 31 December 2015.

The Group and Company monitor capital using gearing ratio. This ratio is calculated as net debt divided by total capital of the Group and Company. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) and loan due to a related company. Total capital is calculated as 'equity attributable to owners of the Company as shown in the consolidated statement of financial position plus the net debt of the Group and Company.

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Capital risk management policies (continued)

The gearing ratio analysis for the Group and the Company are as disclosed below:

| | Group | | Company | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Net debt | 691,655 | 419,537 | 178,903 | - |
| Equity attributable to owners | 1,986,810 | 2,037,016 | 2,465,226 | 2,457,728 |
| | 2,678,465 | 2,456,553 | 2,644,129 | 2,457,728 |
| Gearing ratio | 26% | 17% | 7% | - |

The increase in the Group's and the Company's gearing ratio in 2016 resulted primarily from higher external loans obtained during the financial year for the purposes of construction of a new refinery in Johor by a subsidiary of the Group.

As at 31 December 2016, the Group and the Company have complied with all external financial covenants.

(c) Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are disclosed by the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016 and 31 December 2015:

Group

| Assets | Carrying amount RM'000 | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 |
|--|------------------------------|-------------------|-------------------|-------------------|
| <u>As at 31 December 2016</u> | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Derivatives | | | | |
| - Foreign exchange forward contracts | 29 | - | 29 | - |
| - Commodities futures contracts | 1,941 | 1,941 | - | - |
| | 1,970 | 1,941 | 29 | - |
| <u>As at 31 December 2015</u> | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Derivatives | | | | |
| - Foreign exchange forward contracts | 313 | - | 313 | - |

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value estimation (continued)

There were no transfers between levels 1 and 2 during the financial year.

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise of commodity derivatives quoted on foreign commodity exchanges.

(ii) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. Instruments included in Level 2 comprise foreign exchange forward contract.

The Company has no financial assets and liabilities that are measured at fair value at 31 December 2016 and 31 December 2015.

There are no offsetting financial assets and financial liabilities during the financial year.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated by Directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumption 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:

Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units ('CGU') to which the goodwill is allocated. Estimating the recoverable amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amounts of CGUs were determined based on the higher of fair value less cost to sell or value-in-use ("VIU") calculations. The VIU is the net present value of the projected future cash flows derived from the CGU discounted at an appropriate discount rate. Projected future cash flows are estimates made based on historical, industry trends, general market and economic condition and other available information. Projected future cash flows are based on Group's judgment in terms of assessing future uncertain parameters such as selling price, raw sugar price, sales volume, terminal growth rate, exchange rate and discount rate. These judgments are based on the historical track record and expectations of future events that are believed to be reasonable under current circumstances.

As a result of these impairments assessments, the Group did not recognise any impairment. A forecast period of 3 years together with a terminal value growth rate was used to derive the recoverable amount.

The key assumptions and the sensitivity analysis are as disclosed in Note 17 to the financial statements.

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

6 REVENUE

| | Group | | Company | |
|-----------------------------|------------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Revenue from sale of goods | 2,658,446 | 2,307,259 | - | - |
| Dividends from subsidiaries | - | - | 180,715 | 188,775 |
| Management fees | - | - | 14,621 | 10,082 |
| Interest income | - | - | 11,890 | 12,100 |
| Others | - | 4 | 1,014 | - |
| | 2,658,446 | 2,307,263 | 208,240 | 210,957 |

7 OTHER OPERATING INCOME

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Rental income | 143 | 112 |
| Income from sale of scrap | 1,451 | 204 |
| Gain on disposal of property, plant and equipment and assets held for sale | 9 | 1,785 |
| Unrealised gain/(loss) on foreign exchange translation | 4,049 | (19) |
| Realised gain/(loss) on foreign exchange translation | 848 | (2,267) |
| Reversal of impairment | - | 2,956 |
| Others | - | 1,915 |
| | 6,500 | 4,686 |

8 OTHER GAINS - NET

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Unrealised fair value gains-net | | |
| - Sugar futures contracts | 1,941 | - |
| - Foreign exchange forward contracts | 29 | 313 |
| | 1,970 | 313 |
| Realised fair value gains/(losses)-net | | |
| - Sugar futures contracts | - | 24,235 |
| - Foreign exchange forward contracts | 1,458 | 1,221 |
| | 1,458 | 25,456 |
| | 3,428 | 25,769 |

9 FINANCE INCOME AND COSTS

| | Group | | Company | |
|---|-----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Finance income: | | | | |
| Interest income | 5,511 | 7,862 | - | - |
| Finance costs: | | | | |
| Interest on: | | | | |
| - bankers' acceptances | (11,840) | (7,341) | - | - |
| - Islamic term loan | (2,648) | - | (2,648) | - |
| - loan from a related company | (3,624) | (670) | - | - |
| | (18,112) | (8,011) | (2,648) | - |
| Amount capitalised on qualifying assets | | | | |
| - property, plant and equipment | 4,695 | 465 | - | - |
| | (13,417) | (7,546) | (2,648) | - |

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

10 PROFIT BEFORE ZAKAT AND TAXATION

Profit before zakat and taxation is stated after charging/(crediting):

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Cost of raw sugar consumed | 1,811,208 | 1,485,392 | - | - |
| Changes in inventories of work in progress, refined sugar and molasses | 4,615 | 8,853 | - | - |
| Distribution and transport expenses | 92,903 | 64,183 | - | - |
| Natural gas and fuel consumed | 68,122 | 53,874 | - | - |
| Property, plant and equipment | | | | |
| - Depreciation | 46,126 | 37,980 | 2,118 | 1,412 |
| - Write offs | 1,598 | 1,681 | - | 317 |
| - Reversal of impairment | - | (2,956) | - | - |
| - (Gain)/loss on disposal of property, plant and equipment | (9) | 95 | - | - |
| Amortisation of prepaid lease payments | 86 | 88 | - | - |
| Amortisation of intangible assets | 5,794 | 3,315 | 216 | 77 |
| Amortisation of advance payment | 928 | 928 | - | - |
| Principal auditors' remuneration | | | | |
| - Audit fee | 378 | 457 | 150 | 140 |
| - Other assurance services | 259 | 357 | 259 | 100 |
| - Non audit fee | | | | |
| - current year | - | 473 | - | 473 |
| - prior year | - | 393 | - | 393 |
| Member firm of principal auditors' remuneration – Audit fee | 178 | - | - | - |
| Other auditors' remuneration | | | | |
| - Non-audit | 33 | 135 | 33 | 135 |
| Inventories written down | 13,294 | - | - | - |
| Operating lease rental on land and buildings | 307 | 311 | - | - |
| Repair and maintenance | 15,536 | 12,365 | 428 | 319 |
| Tyre expenses | 444 | 503 | - | - |
| Staff costs* | 72,973 | 79,282 | 11,100 | 12,935 |
| Rental income | (143) | (112) | (703) | - |
| Rental expenses | 20,343 | 5,268 | - | 364 |
| Gain on disposal of assets held for sale | - | (22) | - | - |
| Provision for onerous contracts | 16,637 | - | - | - |

10 PROFIT BEFORE ZAKAT AND TAXATION (CONTINUED)

Profit before zakat and taxation is stated after charging/(crediting): (continued)

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| *Staff costs comprise: | | | | |
| Wages, salaries and bonuses | 53,808 | 60,541 | 7,844 | 10,591 |
| Defined contribution plan | 7,794 | 9,460 | 1,091 | 1,072 |
| Other employee benefits | 11,371 | 9,281 | 2,165 | 1,272 |
| | 72,973 | 79,282 | 11,100 | 12,935 |
| Directors' remuneration included in staff costs above comprise: | | | | |
| Fees | 1,322 | 1,956 | 1,288 | 1,836 |
| Meeting allowances | 242 | 248 | 242 | 248 |
| Salaries, allowances and bonuses | 1,451 | 1,019 | 1,451 | 343 |
| Defined contribution plan | 221 | 172 | 221 | 58 |
| Gratuity | 200 | - | 200 | - |
| Benefits-in-kind | 120 | 264 | 120 | 225 |
| Other benefits | 179 | 58 | 179 | 58 |
| | 3,735 | 3,717 | 3,701 | 2,768 |

11 ZAKAT

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Movement in zakat liability: | | | | |
| At beginning of financial year | - | - | - | - |
| Current financial year's zakat expense | 2,000 | 5,000 | 500 | 500 |
| Zakat paid | (2,000) | (5,000) | (500) | (500) |
| At the end of financial year | - | - | - | - |

12 TAXATION

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Current tax | 28,119 | 91,767 | 1,872 | 3,097 |
| (Over)/under accrual in prior financial year | (692) | 1,386 | - | - |
| | 27,427 | 93,153 | 1,872 | 3,097 |
| Deferred tax (Note 31) | (1,634) | (1,321) | - | - |
| | 25,793 | 91,832 | 1,872 | 3,097 |

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

12 TAXATION (CONTINUED)

The numerical reconciliation of the relationship between taxation and profit before taxation after zakat is as follows:

| | Group | | Company | |
|--|----------------|----------------|-----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Profit before taxation after zakat | 146,515 | 367,128 | 178,085 | 185,449 |
| Tax at Malaysian tax rate of 24% (2015: 25%) | 35,163 | 91,782 | 42,741 | 46,362 |
| Tax arising from: | | | | |
| - non-deductible expenses | 2,133 | 1,103 | 1,522 | 5,494 |
| - income not subject to tax | (3,327) | (2,310) | (42,391) | (48,759) |
| - difference tax rate in other country | (7,484) | - | - | - |
| - expenses eligible for double deduction | - | (129) | - | - |
| - (over)/under accrual in prior year | (692) | 1,386 | - | - |
| | 25,793 | 91,832 | 1,872 | 3,097 |

13 EARNINGS PER SHARE

| | Group | |
|---|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Profit for the financial year attributable to owners of the Company | 120,722 | 275,296 |
| Weighted average number of ordinary shares in issue ('000) | 702,980 | 702,980 |
| Basic and diluted earnings per share (sen) | 17.17 | 39.16 |

There is no diluted earnings per share as there is no potential dilutive ordinary shares in issue.

14 DIVIDENDS

Dividends declared and paid in respect of the financial year are as follows:

| | Group and Company | | | |
|--|------------------------------|---------------------------|------------------------------|---------------------------|
| | 2016 | | 2015 | |
| | Gross dividend per share Sen | Amount of dividend RM'000 | Gross dividend per share Sen | Amount of dividend RM'000 |
| Final single tier dividend for the year ended 31 December 2014 - paid on 2 July 2015 | - | - | 14 | 98,417 |
| Interim single tier dividend for the year ended 31 December 2015 - paid on 29 December 2015 | - | - | 12 | 84,358 |
| Final single tier dividend for the year ended 31 December 2015 - paid on 10 June 2016 | 14 | 98,417 | - | - |
| Interim single tier dividend for the year ended 31 December 2016 - paid on 30 December 2016 | 10 | 70,298 | - | - |
| | 24 | 168,715 | 26 | 182,775 |

The Board of Directors are recommending the payment of a final single tier dividend of 4 sen per share amounting to RM28.12 million which is not taxable in the hands of the shareholders pursuant to paragraph 12B of Schedule 6 of the Income Tax Act, 1967, and which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

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

15 PROPERTY, PLANT AND EQUIPMENT

| Group | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery RM'000 | Furniture, fittings, equipment and motor vehicles RM'000 | Assets under construction RM'000 | Bearer plant – Rubber and Oil Palm RM'000 | Total RM'000 |
|---|----------------------------|-----------------------------|---------------------|----------------------------------|---|---|--|-----------------|
| <u>2016</u> | | | | | | | | |
| <u>Cost</u> | | | | | | | | |
| At 1.1.2016, as previously stated | 15,950 | 212,303 | 86,133 | 398,729 | 42,960 | 94,683 | - | 850,758 |
| Effect of change in accounting policy - Reclassified from biological assets (Note 19) | - | - | - | - | - | - | 41,393 | 41,393 |
| At 1.1.2016, as restated | 15,950 | 212,303 | 86,133 | 398,729 | 42,960 | 94,683 | 41,393 | 892,151 |
| Additions | - | - | 8,998 | 21,904 | 5,672 | 252,719 | 7,030 | 296,323 |
| Disposals | - | - | (2,458) | (816) | (562) | - | - | (3,836) |
| Write-offs | - | - | (466) | (2,900) | (915) | - | - | (4,281) |
| Reclassifications | - | - | 1,432 | 27,675 | 3,239 | (32,346) | - | - |
| At 31.12.2016 | 15,950 | 212,303 | 93,639 | 444,592 | 50,394 | 315,056 | 48,423 | 1,180,357 |
| <u>Accumulated depreciation</u> | | | | | | | | |
| At 1.1.2016 | - | 12,660 | 26,188 | 139,875 | 11,317 | - | 1 | 190,041 |
| Charge for the financial year | - | 3,509 | 5,582 | 31,651 | 5,383 | - | 1 | 46,126 |
| Disposals | - | - | (2,430) | (561) | (647) | - | - | (3,638) |
| Write-offs | - | - | (305) | (1,866) | (512) | - | - | (2,683) |
| At 31.12.2016 | - | 16,169 | 29,035 | 169,099 | 15,541 | - | 2 | 229,846 |
| <u>Accumulated impairment</u> | | | | | | | | |
| At 1.1.2016 / 31.12.2016 | - | - | - | 43 | 60 | - | - | 103 |
| <u>Net book value</u> | | | | | | | | |
| At 31.12.2016 | 15,950 | 196,134 | 64,604 | 275,450 | 34,793 | 315,056 | 48,421 | 950,408 |

Net book value of the assets pledged as security to borrowings is RM86,358,000 (2015: Nil).

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Group | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery RM'000 | Furniture, fittings, equipment and motor vehicles RM'000 | Assets under construction RM'000 | Bearer plant – Rubber and Oil Palm RM'000 | Total RM'000 |
|---|----------------------------|-----------------------------|---------------------|----------------------------------|---|---|--|-----------------|
| <u>2015</u> | | | | | | | | |
| <u>Cost</u> | | | | | | | | |
| At 1.1.2015, as previously stated | 15,950 | 123,351 | 78,530 | 356,374 | 27,386 | 43,856 | - | 645,447 |
| Effect of change in accounting policy - Reclassified from biological assets (Note 19) | - | - | - | - | - | - | 33,590 | 33,590 |
| At 1.1.2015, as restated | 15,950 | 123,351 | 78,530 | 356,374 | 27,386 | 43,856 | 33,590 | 679,037 |
| Additions | - | 88,952 | 5,468 | 34,457 | 18,584 | 76,899 | 7,803 | 232,163 |
| Disposals | - | - | - | - | (2,218) | - | - | (2,218) |
| Write-offs | - | - | (243) | (14,443) | (2,053) | - | - | (16,739) |
| Transfer to intangible assets (Note 17) | - | - | - | - | (92) | - | - | (92) |
| Reclassifications | - | - | 2,378 | 22,341 | 1,353 | (26,072) | - | - |
| At 31.12.2015 | 15,950 | 212,303 | 86,133 | 398,729 | 42,960 | 94,683 | 41,393 | 892,151 |
| <u>Accumulated depreciation</u> | | | | | | | | |
| At 1.1.2015 | - | 9,527 | 21,493 | 127,960 | 9,431 | - | - | 168,411 |
| Charge for the financial year | - | 3,133 | 4,918 | 25,622 | 4,306 | - | 1 | 37,980 |
| Disposals | - | - | - | - | (1,294) | - | - | (1,294) |
| Write-offs | - | - | (223) | (13,707) | (1,126) | - | - | (15,056) |
| At 31.12.2015 | - | 12,660 | 26,188 | 139,875 | 11,317 | - | 1 | 190,041 |
| <u>Accumulated impairment</u> | | | | | | | | |
| At 1.1.2015 | - | 2,956 | - | 45 | 60 | - | - | 3,061 |
| Write-offs | - | - | - | (2) | - | - | - | (2) |
| Reversal | - | (2,956) | - | - | - | - | - | (2,956) |
| At 31.12.2015 | - | - | - | 43 | 60 | - | - | 103 |
| <u>Net book value</u> | | | | | | | | |
| At 31.12.2015 | 15,950 | 199,643 | 59,945 | 258,811 | 31,583 | 94,683 | 41,392 | 702,007 |

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

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Company | Leasehold land RM'000 | Furniture, fittings, equipment and motor vehicles RM'000 | Total RM'000 |
|---|-----------------------------|---|-----------------|
| <u>2016</u> | | | |
| At 1.1.2016 | 88,952 | 3,573 | 92,525 |
| Additions | - | 2,269 | 2,269 |
| At 31.12.2016 | 88,952 | 5,842 | 94,794 |
| <u>Accumulated depreciation</u> | | | |
| At 1.1.2016 | 1,112 | 350 | 1,462 |
| Charge for the financial year | 1,482 | 636 | 2,118 |
| At 31.12.2016 | 2,594 | 986 | 3,580 |
| <u>Net book value</u> | | | |
| At 31.12.2016 | 86,358 | 4,856 | 91,214 |
| <u>2015</u> | | | |
| At 1.1.2015 | - | 1,905 | 1,905 |
| Additions | 88,952 | 2,800 | 91,752 |
| Disposals | - | (599) | (599) |
| Write-offs | - | (441) | (441) |
| Transfer to intangible assets (Note 17) | - | (92) | (92) |
| At 31.12.2015 | 88,952 | 3,573 | 92,525 |
| <u>Accumulated depreciation</u> | | | |
| At 1.1.2015 | - | 174 | 174 |
| Charge for the financial year | 1,112 | 300 | 1,412 |
| Write-offs | - | (124) | (124) |
| At 31.12.2015 | 1,112 | 350 | 1,462 |
| <u>Net book value</u> | | | |
| At 31.12.2015 | 87,840 | 3,223 | 91,063 |

Net book value of the assets pledged as security to borrowings is RM86,358,000 (2015: Nil).

Included in the additions of property, plant and equipment was interest capitalised on qualifying assets amounting to RM4,695,000 (2015: RM465,000).

16 PREPAID LEASE PAYMENTS

| | Group | |
|-------------------------------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| <u>Short-term leasehold land</u> | | |
| <u>Cost</u> | | |
| At 1 January/ 31 December | 1,684 | 1,684 |
| <u>Accumulated amortisation</u> | | |
| At 1 January | 997 | 909 |
| Amortisation for the financial year | 86 | 88 |
| At 31 December | 1,083 | 997 |
| <u>Net book value</u> | | |
| At 31 December | 601 | 687 |

17 INTANGIBLE ASSETS

| | Goodwill RM'000 | Brand RM'000 | Software RM'000 | Group Total RM'000 | Company Software RM'000 |
|--|--------------------|-----------------|--------------------|--------------------------|-------------------------------|
| <u>Net book value</u> | | | | | |
| As at 1.1.2016 | 576,240 | 66,677 | 5,557 | 648,474 | 928 |
| Additions | - | - | 4,024 | 4,024 | 1,344 |
| Amortisation charge for the financial year | - | (4,282) | (1,512) | (5,794) | (216) |
| As at 31.12.2016 | 576,240 | 62,395 | 8,069 | 646,704 | 2,056 |
| As at 1.1.2015 | 576,240 | 69,903 | 3,414 | 649,557 | 420 |
| Additions | - | - | 2,140 | 2,140 | 493 |
| Transfer from property, plant and equipment (Note 15) | - | - | 92 | 92 | 92 |
| Amortisation charge for the financial year | - | (3,226) | (89) | (3,315) | (77) |
| As at 31.12.2015 | 576,240 | 66,677 | 5,557 | 648,474 | 928 |

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

17 INTANGIBLE ASSETS (CONTINUED)

| | Goodwill RM'000 | Brand RM'000 | Software RM'000 | Group Total RM'000 | Company Software RM'000 |
|--------------------------|--------------------|-----------------|--------------------|--------------------------|-------------------------------|
| As at 1.1.2016 | | | | | |
| Cost | 576,240 | 86,033 | 9,905 | 672,178 | 2,352 |
| Accumulated amortisation | - | (23,638) | (1,836) | (25,474) | (296) |
| As at 31.12.2016 | 576,240 | 62,395 | 8,069 | 646,704 | 2,056 |
| As at 1.1.2015 | | | | | |
| Cost | 576,240 | 86,033 | 5,881 | 668,154 | 1,008 |
| Accumulated amortisation | - | (19,356) | (324) | (19,680) | (80) |
| As at 31.12.2015 | 576,240 | 66,677 | 5,557 | 648,474 | 928 |

Goodwill

The goodwill relates to the acquisition of the sugar business and is allocated to the sugar segment. This represents the lowest level at which goodwill is monitored for internal management purposes.

The recoverable amount of the Cash Generating Unit ("CGU") is determined based on value-in-use ("VIU") calculations using cash flows projections based on financial budgets approved by the Directors covering a three-year period and applying a terminal value multiple using a long term sustainable growth rate.

The key assumptions used for the CGU's value in use calculation are:

Key assumptions

| | 2016 | 2015 |
|-------------------------------|-------------------|-----------------|
| Selling price, RM/MT | | |
| - Domestic | 2,800 | 2,580 |
| - Industry | 2,711 – 2,991 | 2,142 – 2,200 |
| Raw sugar price, US cents/lbs | 17.3 – 20.3 | 14 - 14.4 |
| Sales volume, MT'000 | 1,082.0 – 1,629.5 | 1,038 – 1,590.1 |
| Terminal growth rate % | 2% | 2% |
| Discount rate % | 8%-9% | 11% |
| Exchange rate | 1 USD: RM4.67 | 1 USD: RM4.10 |

(i) Exchange rate

Raw sugar is priced in United States Dollar (USD). The exchange rate is estimated based on USD/MYR forward sales.

(ii) Selling price

Selling price is assumed based on ceiling price set by Government for domestic. Industry and export selling prices are estimated based on raw sugar futures price and expected margins from refining of raw sugar. The selling prices are held constant in FY 2018 and FY 2019.

(iii) Raw sugar price

Raw sugar price is projected in line with New York #11 raw sugar futures contracts. The long term price beyond FY 2019 is held constant consistent with selling prices.

17 INTANGIBLE ASSETS (CONTINUED)

Goodwill (continued)

(iv) Sales volume

The increase in sales volume arises from commissioning of MSM Johor refinery with an expected production volume of 400,000 MT in year 1 and 500,000 MT in year 2 (2015: 500,000 MT in year 3).

(v) Terminal value growth rate

The terminal growth rate used is based on long term sustainable growth rates in the sugar industry in Malaysia.

(vi) Discount rate

Discount rate used, reflects specific industry risks relating to the sugar business. A higher discount rate of 9% was applied on MSM Johor due to uncertainties in the projected sales volume and timing of operations commencement.

Other than as disclosed below, there is no reasonably possible change in any of the above key assumptions, which would cause the carrying value of the CGU to exceed its recoverable amount.

2016

| Key assumptions | Sensitivity | VIU lower by RM'000 |
|-----------------|--|---------------------------|
| Selling price | Reduce by RM100/MT | 1,400,000 |
| Raw sugar price | Increase in raw sugar prices by 1 cent/lbs | 923,000 |
| Sales volume | Reduce by 10% | 1,002,000 |
| Exchange rate | Increase by 5% | 878,000 |
| Discount rate | Increase by 1% | 553,000 |

The recoverable amount calculated based on VIU exceeded the carrying value by RM524 million. A reduction in selling price of RM 37/MT, increase in raw sugar price by 0.6 cents/lbs, reduction in sales volume by 5%, increase in exchange rate by 3% and increase in discount rate by 0.95% would, all changes taken in isolation, result in the recoverable amount being equal to the carrying amount.

2015

Management believes that there is no reasonable possible change in any of the above key assumptions which would cause the carrying amount of the CGU to exceed the recoverable amount.

The above sensitivity analysis is based on a change in assumption while holding all other assumptions constant.

18 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|-----------------------------------|------------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Unquoted investments, at cost | | |
| At 1 January | 2,027,406 | 2,022,929 |
| Capital injection in a subsidiary | 30,000 | 4,477 |
| At 31 December | 2,057,406 | 2,027,406 |

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

18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of subsidiaries, are as follows:

| Name of subsidiary | Place of business/ country of incorporation | Nature of business | Proportion of ordinary shares directly held by parent | | Proportion of ordinary shares held by the Group | |
|------------------------------------|---|---|---|-----------|---|-----------|
| | | | 2016 % | 2015 % | 2016 % | 2015 % |
| <u>Direct subsidiaries</u> | | | | | | |
| MSM Prai Berhad | Malaysia | Sugar refining, sales and marketing of refined sugar products | 100 | 100 | 100 | 100 |
| MSM Perlis Sdn Bhd | Malaysia | Sugar refining, sales and marketing of refined sugar products and planting of rubber and oil palm | 100 | 100 | 100 | 100 |
| MSM Trading & Distribution Sdn Bhd | Malaysia | Conduct commodity trading and related business activities | 100 | 100 | 100 | 100 |
| MSM Sugar Refinery (Johor) Sdn Bhd | Malaysia | Carry on business in sugar products and by-products | 100 | 100 | 100 | 100 |
| MSM Trading International DMCC* | United Arab Emirates | Raw and refined sugar trading | 100 | 100 | 100 | 100 |
| <u>Indirect subsidiaries</u> | | | | | | |
| MSM Logistics Sdn Bhd | Malaysia | Provision of transportation services | - | - | 100 | 100 |

* Audited by an affiliate of PricewaterhouseCoopers Malaysia

There is no proportion of investment of ordinary shares and preferences shares held by non-controlling interests and the Group respectively.

19 BIOLOGICAL ASSETS

Group

| | Rubber and Palm Oil RM'000 (Restated) |
|---|--|
| <u>2016</u> | |
| <u>Cost</u> | |
| At 1 January, as previously stated | 41,393 |
| Effect of change in accounting policy | |
| - reclassification to property, plant and equipment (Note 15) | (41,393) |
| At 1 January, as restated | - |
| <u>2015</u> | |
| <u>Cost</u> | |
| At 1 January, as previously stated | 33,590 |
| Effect of change in accounting policy | |
| - reclassification to property, plant and equipment (Note 15) | (33,590) |
| At 1 January, as restated | - |

20 LOANS TO SUBSIDIARIES

| | Company | |
|--|------------------------|------------------------|
| | 2016 RM'000 | 2015 RM'000 |
| Non-current asset: | | |
| Term loan – MSM Perlis Sdn Bhd | 35,000 | 35,000 |
| Islamic term loan – MSM Sugar Refinery (Johor) Sdn Bhd | 178,903 | - |
| | 213,903 | 35,000 |
| Current asset: | | |
| Revolving credit | | |
| - MSM Prai Bhd | - | 65,000 |
| - MSM Perlis Sdn Bhd | 100,000 | 78,200 |
| | 100,000 | 143,200 |
| Total loans to subsidiaries | 313,903 | 178,200 |

The interest rates charged during the financial year were as follows:

| | 2016 % | 2015 % |
|------------------------|--------------------|-------------------|
| | per annum | per annum |
| Term loan | 5.80 | 5.80 |
| Islamic term loan | 3.87 | - |
| Revolving credit loans | 4.11 – 4.58 | 3.60 |

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

20 LOANS TO SUBSIDIARIES (CONTINUED)

- (a) Revolving credit loans to subsidiaries are unsecured, with interest charged at a rate which is at the prevailing rate based on a licensed bank's revolving credit facility rate on the day of the drawing. Subject to the provisions of the agreements, the amount of the facility shall be repaid at the end of every six (6) months from the date of the first drawing.
- (b) Term loan is unsecured, with interest charged at a rate which is at the prevailing rate based on a licensed bank's term loan facility rate on the day of the drawing. Subject to the provisions of the agreements, the amount of the facility shall be repaid commencing from the seventh (7) year from the date of the first drawing and shall be repaid fully at the tenth (10) year.
- (c) Islamic term loan is secured against a leasehold land, debenture and certain bank balances of the company.

As at 31 December 2016, the loans to subsidiaries are neither past due nor impaired.

The fair value of the non-current loans to subsidiary, MSM Perlis Sdn Bhd, as at 31 December 2016 and 31 December 2015 is RM33,435,000 and RM33,554,000 respectively.

The fair value of the non-current loans to subsidiaries (term loan) is estimated based on the discounted cash flows using prevailing market interest rates for lending with similar risk profile and is within level 3 fair value hierarchy.

The fair value of the current loans to subsidiaries and Islamic term loan approximate their carrying amounts, as the impact of discounting is not significant.

21 RECEIVABLES

| | Group | | Company | |
|------------------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Non-current: | | | | |
| Advance payment (Note (a)) | 4,640 | 5,569 | - | - |
| Prepayments (Note (b)) | - | 10,964 | - | - |
| | 4,640 | 16,533 | - | - |
| Current: | | | | |
| Trade receivables | 262,443 | 346,396 | - | - |
| Other receivables (Note (c)) | 71,577 | 66,649 | 492 | 5,671 |
| Deposits (Note (d)) | 8,358 | 82,949 | 11 | 8 |
| Prepayments (Note (e)) | 7,086 | 3,372 | 575 | 439 |
| Advance payment (Note (a)) | 928 | 928 | - | - |
| | 350,392 | 500,294 | 1,078 | 6,118 |
| Total receivables | 355,032 | 516,827 | 1,078 | 6,118 |

The receivables are denominated as follows:

| | Group | | Company | |
|------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Ringgit Malaysia | 301,792 | 467,203 | 1,078 | 6,118 |
| US Dollar | 53,240 | 49,624 | - | - |
| | 355,032 | 516,827 | 1,078 | 6,118 |

21 RECEIVABLES (CONTINUED)

Credit term of trade receivables is between 30 to 60 days (2015: 30 to 60 days).

- On 28 February 2014, MSM Perlis Sdn Bhd signed the Gas Supply Agreement ("GSA") for the supply and delivery of gas to MSM Perlis Sdn Bhd. The GSA is effective from March 2014 and will expire on 31 December 2022. The advance payment is amortised over 106 months on a straight line basis starting from March 2014 based on the tenure of the GSA and the total amortisation expenses incurred during the financial year ended 31 December 2016 amounted to RM928,075 (2015: RM928,075).
- Non-current prepayments balance of RM10,964,221 in 2015 related to loan arrangement fees for the construction of refinery sugar mill in Johor which has been reclassified and offset against borrowings in 2016.
- Included in other receivables are deposits for to sugar futures trading facilities of RM40,103,000 (2015: RM36,560,000).
- Included in deposits as at 31 December 2015 was an amount of RM74,634,182 relating to advance prepayments to contractors for the construction of sugar refinery in Johor.
- Included in prepayments as at 31 December 2016 is an amount of RM2,921,923 relating to insurance paid for the construction of the sugar refinery in Johor.

Group

Past due but not impaired

As at 31 December 2016, RM54,583,000 (2015: RM82,127,000) of receivables were past due but not impaired. These relate to a number of external parties where there is no expectation of default and there were receipts from these customers amounting to RM72,329,667 (2015: RM37,165,000) subsequent to period end. The ageing analysis of these receivables is as follows:

| | No history of default RM'000 | History of default RM'000 | New customers RM'000 | Total RM'000 |
|--|---|--|-------------------------------------|-------------------------|
| <u>Group</u> | | | | |
| <u>2016</u> | | | | |
| Less than 30 days past due | 34,060 | - | 4 | 34,064 |
| Between 30 and 60 days past due | 10,254 | - | - | 10,254 |
| Between 61 and 90 days past due | 9,782 | - | - | 9,782 |
| Between 91 days and more than 1 year past due | 483 | - | - | 483 |
| At 31 December 2016 | 54,579 | - | 4 | 54,583 |
| <u>2015</u> | | | | |
| Less than 30 days past due | 44,879 | - | 167 | 45,046 |
| Between 30 and 60 days past due | 25,450 | - | - | 25,450 |
| Between 61 and 90 days past due | 8,103 | - | - | 8,103 |
| Between 91 days and more than 1 year past due | 3,528 | - | - | 3,528 |
| At 31 December 2015 | 81,960 | - | 167 | 82,127 |

Trade and other receivables of RM279,437,000 (2015: RM413,867,000), which are neither past due nor impaired are not significantly impacted by credit and default risks.

There are no amounts that are past due and impaired.

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

21 RECEIVABLES (CONTINUED)

The credit quality of trade receivables that are neither past due nor impaired can be assessed to historical information about counter party default rates:

| | Group | |
|------------------------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Group 1 | 4 | 1,463 |
| Group 2 | 279,433 | 412,404 |
| Total unimpaired receivables | 279,437 | 413,867 |

Group 1 – new customers (less than 6 months).

Group 2 – existing customers (more than 6 months) with no defaults in the past.

The fair value of the receivables, excluding prepayments, approximates their carrying value, as the impact of discounting is not significant.

22 INVENTORIES

| | Group | |
|--------------------------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| <u>At cost</u> | | |
| Raw materials | 428,820 | 564,611 |
| Work-in-progress | 20,087 | 22,214 |
| Finished goods | 39,850 | 32,246 |
| Consumable stores | 28,451 | 28,681 |
| Molasses | 459 | 1,321 |
| Raw sugar in transit | 324,184 | 80,837 |
| | 841,851 | 729,910 |
| <u>At net realisable value</u> | | |
| Raw materials | 47,098 | - |
| | 888,949 | 729,910 |

23 AMOUNTS DUE FROM/ (TO) SUBSIDIARIES

Amounts due from/(to) subsidiaries are unsecured, interest free, denominated in Ringgit Malaysia and have credit terms of 30 to 60 days (2015: 30 to 60 days).

Past due but not impaired

As at 31 December 2015, RM56,577,000 (2015: RM147,911,000) of the total amounts due from subsidiaries were past due but not impaired. These relate to interest income and expenses paid on behalf of subsidiaries where there is no expectation of default. The ageing analysis of these balances is as follows:

| | Company | |
|-------------------------------------|----------------|---------------|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| Less than 30 days past due | 64 | 127,868 |
| Between 30 and 90 days past due | 8,736 | 2,505 |
| Between 91 days and 1 year past due | 47,777 | 17,538 |
| | 56,577 | 147,911 |

Impaired and provided for

As at 31 December 2016 and 31 December 2015, none of the amounts due from subsidiaries were impaired and provided for.

The credit quality of subsidiaries that are neither past due nor impaired can be assessed to historical information about counterparty default rates:

| | Company | |
|------------------|----------------|---------------|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| Group 2 | 7,882 | 8,024 |
| Total unimpaired | 7,882 | 8,024 |

Group 1 - new subsidiary (less than 6 months)

Group 2 - existing subsidiaries (more than 6 months) with no defaults in the past

The fair value of the amounts due from/(to) subsidiaries approximates their carrying value, as the impact of discounting is not significant.

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

24 AMOUNTS DUE FROM/(TO) OTHER RELATED COMPANIES AND LOAN DUE TO A RELATED COMPANY

Amounts due from/(to) other related companies are unsecured, interest free and have credit terms ranging from 30 to 60 days (2015: 30 to 60 days) and denominated in Ringgit Malaysia.

Loan due to a related company relates to a short term funding facility from a subsidiary of the ultimate holding company. The average interest rate of the loan is 4.58% (2015: 4.61%) per annum.

The credit quality of other related companies that are neither past due nor impaired can be assessed to historical information about counterparty default rates:

| | Group | |
|------------------|--------|--------|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| Group 2 | 14,326 | 1 |
| Total unimpaired | 14,326 | 1 |

Group 1 - new other related company (less than 6 months)

Group 2 - existing other related companies (more than 6 months) with no defaults in the past.

The fair value of amounts due from/(to) other related companies and loan due to a related company approximates their carrying value, as the impact of discounting is not significant.

25 AMOUNT DUE TO ULTIMATE HOLDING COMPANY

As at 31 December 2016, the amount due to the ultimate holding company represents non trade balance, which is expected to be settled within the normal credit period of 90 days (2015: 90 days) and is denominated in Ringgit Malaysia, unsecured and interest free.

The fair value of amount due to ultimate holding company approximates its carrying value, as the impact of discounting is not significant.

26 DERIVATIVE FINANCIAL ASSETS

| | Group 2016 | | Group 2015 | |
|------------------------------------|------------------------------|--------------------------------|------------------------------|--------------------------------|
| | Notional amount RM'000 | Derivative assets RM'000 | Notional amount RM'000 | Derivative assets RM'000 |
| Foreign currency forward contracts | 15,696 | 29 | 64,194 | 313 |
| Sugar futures contracts | 110,235 | 1,941 | - | - |
| | 125,931 | 1,970 | 64,194 | 313 |

The Group classifies derivative financial instruments as financial assets/liabilities at fair value through profit or loss. None of the derivatives are designated as hedges as hedge accounting has not been applied.

27 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the followings:

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Fixed deposits with | | | | |
| - licensed investment bank in Malaysia | 124,242 | 49,952 | 120,472 | 16,761 |
| - licensed banks | 121,351 | 17,640 | - | - |
| | 245,593 | 67,592 | 120,472 | 16,761 |
| Cash and bank balances | 92,318 | 56,310 | 1,030 | 2,751 |
| Deposits, cash and bank balances | 337,911 | 123,902 | 121,502 | 19,512 |
| Less: Restricted cash | (15,205) | - | (15,205) | - |
| Cash and cash equivalents | 322,706 | 123,902 | 106,297 | 19,512 |

The effective interest rates of the fixed deposits range from 2.9% to 3.84% (2015: 3.15% to 3.6%) per annum for the Group and range from 3.08% to 3.76% (2015: 3.15% to 3.46%) per annum for the company respectively. All fixed deposits have original maturity terms of three months or less (2015: 3 months or less).

Bank balances are deposits held at call with banks and earn no interest.

Restricted cash relates to bank balance pledged in order to obtain certain bank facilities.

The fixed deposits, cash and bank balances are denominated as follows:

| | Group | | Company | |
|------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Ringgit Malaysia | 291,605 | 115,980 | 121,502 | 19,512 |
| US Dollar | 45,194 | 3,445 | - | - |
| AE Dirham | 1,112 | 4,477 | - | - |
| | 337,911 | 123,902 | 121,502 | 19,512 |

Credit rating profiles of banks in which the fixed deposits have been placed are as follows:

| | Group | | Company | |
|-----|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| AAA | 112,867 | 38,101 | 37,902 | 11,034 |
| A1 | - | 879 | - | - |
| A2 | - | 28,612 | - | 5,727 |
| AA1 | - | - | 82,570 | - |
| AA2 | 131,847 | - | - | - |
| AA3 | 879 | - | - | - |
| | 245,593 | 67,592 | 120,472 | 16,761 |

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

27 CASH AND CASH EQUIVALENTS (CONTINUED)

- AAA - A financial institution rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term financial institution rated assigned by RAM Ratings.
- AA - A financial institution rated AA has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
- A - A financial institution rated A has an adequate capacity to meet its financial obligations. The financial institution is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.

For long-term ratings, RAM Ratings applies subscripts 1, 2 or 3 in each rating category from AA to C. The subscripts 1 indicates that the financial institution ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscripts 3 indicates that the financial institution ranks at the lower end of its generic rating category.

28 ASSETS HELD FOR SALE

The details are as follows:

| | Plant and machinery RM'000 | Furniture and fittings, equipment and motor vehicles RM'000 | Total RM'000 |
|---|----------------------------------|--|-----------------|
| <u>31 December 2016</u> | | | |
| <u>Group</u> | | | |
| Property, plant and equipment at net book value | 3 | 4 | 7 |
| <u>31 December 2015</u> | | | |
| Property, plant and equipment at net book value | 14 | 4 | 18 |
| Disposal | (11) | - | (11) |
| | 3 | 4 | 7 |

29 SHARE CAPITAL

| | Group and Company | |
|--|-------------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Authorised share capital: | | |
| 1,000,000,000 ordinary shares of RM0.50 each | 500,000 | 500,000 |
| Issued and fully paid share capital: | | |
| 702,980,000 ordinary shares of RM0.50 each | 351,490 | 351,490 |

30 RESERVES

(i) Share premium (non-distributable)

Share premium comprises the 125,000,000 new ordinary shares issued in 2011 with a par value of RM0.50 each at fair value of RM3.50 per share in conjunction with the listing and quotation of the Company's shares on Main Market of Bursa Malaysia Securities Bhd. The difference between par value and fair value is recognised as share premium.

Share premium is not available for distribution as cash dividends.

(ii) Reorganisation deficit (non-distributable)

Reorganisation deficit comprises the difference between the fair value of 577,979,800 new ordinary shares issued at RM3.50 per share on 20 May 2011 and the carrying amounts of the sugar business as at January 2010. It is recognised as reorganisation deficit in accordance with the predecessor method of accounting.

(iii) Merger relief reserve (non-distributable)

Merger relief reserve comprises the 577,979,800 new ordinary shares with a par value of RM0.50 each issued at a fair value of RM3.50 per share for the acquisition of entire equity interests in MSM Prai Berhad and MSM Perlis Sdn Bhd on 20 May 2011. The difference between par value and fair value is recognised as merger relief reserve in accordance with section 60(4) of the Companies Act, 1965.

(iv) Foreign exchange reserve

The foreign exchange reserve is used to record exchange difference arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(v) Retained earnings

Under the single-tier tax system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders.

31 DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

| | Group | |
|----------------------------|-----------------|---------------|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| Subject to income tax | | |
| - Deferred tax liabilities | (73,744) | (75,378) |

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

31 DEFERRED TAX LIABILITIES (CONTINUED)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Deferred tax liabilities: | | |
| - Deferred tax liabilities to be recovered after more than 12 months | (28,754) | (30,388) |
| - Deferred tax liabilities to be recovered within 12 months | (44,990) | (44,990) |
| Deferred tax liabilities (net) | (73,744) | (75,378) |
| At 1 January | (75,378) | (76,699) |
| Charged/(credited) to statement of comprehensive income (Note 12): | | |
| - property, plant and equipment | 2,042 | (878) |
| - payables and accruals | - | 73 |
| - intangible assets | 624 | 807 |
| - receivables | (1,032) | 1,310 |
| - derivative financial assets | - | 9 |
| | 1,634 | 1,321 |
| At 31 December | (73,744) | (75,378) |
| Deferred tax liabilities (before offsetting) | | |
| - property, plant and equipment | (59,573) | (61,615) |
| - intangible assets | (15,238) | (15,862) |
| - receivables | - | 1,032 |
| | (74,811) | (76,445) |
| Offsetting | 1,067 | 1,067 |
| Deferred tax liabilities (after offsetting) | (73,744) | (75,378) |
| Deferred tax assets (before offsetting) | | |
| - payables and accruals | 1,067 | 1,067 |
| Offsetting | (1,067) | (1,067) |
| | - | - |

32 PAYABLES

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Trade payables | 240,661 | 100,107 | - | - |
| Other payables | 87,966 | 48,200 | 5,298 | 7,865 |
| Accruals | 116,534 | 24,196 | 2,832 | 4,541 |
| Unpaid balance for acquisition of property, plant and equipment (Note 35) | 20,695 | 3,694 | 9 | 9 |
| | 465,856 | 176,197 | 8,139 | 12,415 |

32 PAYABLES (CONTINUED)

Trade payables carry credit periods of between 30 days to 60 days (2015: 30 days to 60 days).

The fair value of the payables approximate their carrying value, as the impact of discounting is not significant.

The payables are denominated as follows:

| | Group | | Company | |
|------------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| - Ringgit Malaysia | 88,039 | 99,265 | 8,139 | 12,415 |
| - United States Dollar | 377,724 | 76,932 | - | - |
| - Euro | 22 | - | - | - |
| - Thai Bath | 3 | - | - | - |
| - Japan Yen | 68 | - | - | - |
| | 465,856 | 176,197 | 8,139 | 12,415 |

33 BORROWINGS

| | Group | | Company | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Non-current: | | | | |
| Islamic term loans | | | | |
| - Secured | 178,903 | - | 178,903 | - |
| Current: | | | | |
| Bankers' acceptances | | | | |
| - Unsecured | 356,300 | 359,537 | - | - |
| | 535,203 | 359,537 | 178,903 | - |

The average interest rates of the borrowings range approximately 3.09% to 4.23% (2015: 3.60% to 4.04%) per annum.

All borrowings are denominated in Ringgit Malaysia.

As at 31 December 2016, the Islamic term loans which have a tenure of 8 years are secured against a leasehold land, debenture and certain bank balances of the Group.

The Group and Company is required to comply with certain financial covenants such as consolidated net debt and financing to equity ratio, consolidated net debt and financing to earnings before interest, tax, depreciation and amortisation and consolidated finance payment cover ratio.

The fair value of borrowings approximate their carrying amount, as the impact of discounting is not significant.

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

34 RELATED PARTY TRANSACTIONS

Federal Land Development Authority ("FELDA"), a significant shareholder of the Group's ultimate holding company, Felda Global Ventures Holdings Berhad ("FGVH"), owns 33.67% (2015: 33.67%) of the issued share capital of FGVH, which in turn has an effective 51% interest in the Company. The Group considers that, for the purpose of FRS 124 "Related Party Disclosures", FELDA and the Malaysian Government is in the position to exercise significant influence over it. As a result, the Malaysian Government and Malaysian Government controlled bodies (collectively referred to as "government-related entities") are related parties of the Group and the Company.

Apart from the individually significant transactions as disclosed in Note 34(a)(v) and Note 34(c) to the financial statements, the Group and the Company have collectively, but not individually, significant transactions with other government-related entities which include but not limited to the following:

- Deposit placing with and deposit taking from government-related entities
- Utilities services provided by the government-related entities

These transactions are conducted in the ordinary course of the Group's business on terms consistently applied in accordance with the Group's internal policies and processes. These terms do not depend on whether the counterparties are government-related entities or not.

Related parties and their relationship with the Group are as follows:

| Related parties | Relationship |
|--|---------------------------------|
| Federal Land Development Authority ("FELDA") | Significant shareholder of FGVH |
| Felda D'Saji Sdn Bhd ("D'Saji") | Subsidiary of FELDA |
| Felda Trading Sdn Bhd ("FTSB") | Subsidiary of FELDA |
| Felda Global Ventures Holdings Berhad ("FGVH") | Ultimate holding company |
| Felda Prodata Systems Sdn Bhd ("FPSB") | Subsidiary of FGVH |
| Felda Security Services Sdn Bhd ("FSS") | Subsidiary of FGVH |
| FGV Capital Sdn Bhd ("FGVC") | Subsidiary of FGVH |
| FPM Sdn Bhd ("FPM") | Subsidiary of FGVH |
| MSM Sugar Refinery (Johor) Sdn Bhd ("MSM Johor") | Subsidiary company |
| MSM Logistics Sdn Bhd ("MSM Logistics") | Subsidiary company |
| MSM Prai Berhad ("MSM Prai") | Subsidiary company |
| MSM Perlis Sdn Bhd ("MSM Perlis") | Subsidiary company |
| MSM Trading & Distribution Sdn Bhd ("MSM Trading") | Subsidiary company |
| MSM Trading International DMCC ("MSM Trading International") | Subsidiary company |

(a) Significant transactions with related parties

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| (i) Transactions with FGVH Group: - management fees | 5,558 | 5,800 |
| (ii) Transactions with FHB and subsidiaries of FHB: - FSS (security services) | 919 | 596 |
| - FPM (provision of plantation material) | - | 266 |
| - FELDA (rental) | 1,131 | 1,376 |
| - Other related parties | 828 | 708 |

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant transactions with related parties (continued)

| | Group | |
|-------------------------------------|----------------|---------------|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| (iii) Transactions with FTSB: | | |
| - sales of refined sugar | 25,803 | 21,792 |
| (iv) Transaction with D'Saji | | |
| - provision of refreshment | 73 | 117 |
| | Company | |
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| (v) Transactions with subsidiaries: | | |
| Dividends received from: | | |
| - MSM Prai | 106,423 | 18,878 |
| - MSM Perlis | 20,883 | 169,897 |
| - MSM Trading International | 53,409 | - |
| Interest received from: | | |
| - MSM Prai | 538 | 590 |
| - MSM Perlis | 5,996 | 5,184 |
| - MSM Johor | 2,647 | - |
| Management fees from: | | |
| - MSM Prai | 8,364 | 8,040 |
| - MSM Perlis | 5,888 | 1,860 |
| - MSM Logistics | 369 | 183 |

These transactions were undertaken on agreed terms between the related parties.

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

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant financial year end balances are as follows

| | Group | | Company | |
|---|------------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Amount due to ultimate holding company, FGVH | (6,963) | (11,785) | (3,774) | (3,483) |
| Amounts due from/(to) other related companies | | | | |
| Due from | | | | |
| - FTSB | 14,325 | - | - | - |
| - Other related companies | 1 | 1 | - | - |
| | 14,326 | 1 | - | - |
| Due to | | | | |
| - Other related companies | (400) | (510) | (156) | (133) |
| Loan due to related company, FGVC | (156,452) | (60,000) | - | - |
| Amounts due from subsidiaries: | | | | |
| - MSM Perlis | - | - | 19,561 | 14,620 |
| - MSM Prai | - | - | 5,793 | 13,103 |
| - MSM Logistics | - | - | 408 | 341 |
| - MSM Johor | - | - | 37,680 | 127,868 |
| - MSM Trading | - | - | 3 | 3 |
| - MSM Trading International | - | - | 1,014 | - |
| | - | - | 64,459 | 155,935 |
| Loans due from subsidiaries, net of repayments: | | | | |
| - MSM Prai | - | - | - | 65,000 |
| - MSM Perlis | - | - | 135,000 | 113,200 |
| - MSM Johor | - | - | 178,903 | - |
| | - | - | 313,903 | 178,200 |

(c) Key management personnel remuneration

Key management personnel comprise Directors and senior management and above of the Group, having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly.

The aggregate amount of emoluments received/receivable by Directors of the Group during the year is disclosed in Note 10 to the financial statements.

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel remuneration (continued)

The aggregate amount of emoluments received/receivable by key management personnel of the Group and Company during the year is as follows:

| | Group | | Company | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Fees | 1,479 | 1,956 | 1,288 | 1,836 |
| Salary, allowances and bonuses | 5,032 | 3,791 | 3,286 | 1,833 |
| Defined contribution plan | 896 | 591 | 585 | 252 |
| Other employee benefits | 77 | 58 | 22 | 8 |
| Total | 7,484 | 6,396 | 5,181 | 3,929 |

Benefits-in-kind provided to key management personnel of the Group amounted to RM19,457 (2015: RM280,539).

35 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Aggregate cost of property, plant and equipment | 296,323 | 232,163 | 2,269 | 91,752 |
| Capitalisation of borrowing cost | (4,695) | (2,121) | | - |
| Unpaid balances included in other payables and accruals (Note 32) | (20,695) | (3,694) | (9) | (9) |
| Cash paid in respect of previous financial years acquisition | 9,755 | 5,815 | 9 | 8 |
| Utilisation of deposit paid in previous financial year | (74,631) | - | - | - |
| | 206,057 | 232,163 | 2,269 | 91,751 |

36 OPERATING LEASE COMMITMENTS

The Group leases premises from various parties under operating lease arrangements. These leases are non-cancellable and typically run for a period.

None of the leases includes contingent rentals. There are no restrictions placed upon the Group by entering into these leases.

The future aggregated minimum lease payments under non-cancellable operating lease are as follows:

| | Group | |
|---|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| No later than 1 year | 5,629 | 9,734 |
| Later than 1 year and no later than 5 years | 1,934 | 1,410 |
| Later than 5 years | 631 | 1,119 |
| | 8,194 | 12,263 |

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

37 CAPITAL COMMITMENTS

Capital expenditure not provided for in the financial statements are as follows:

| | Group | | Company | |
|-------------------------------------|----------------|------------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Property, plant and equipment: | | | | |
| - contracted and not provided for | 494,293 | 467,681 | - | - |
| - authorised and not contracted for | 378,125 | 1,004,098 | - | - |
| | 872,418 | 1,471,779 | - | - |

38 FINANCIAL INSTRUMENTS

The analysis of classification of financial instruments are as follows:

Group

| | Loans and receivables | | Financial assets at fair value through profit and loss | |
|---|-----------------------|----------------|--|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| <u>As at 31 December</u> | | | | |
| <u>Financial assets</u> | | | | |
| <u>Current assets</u> | | | | |
| Receivables (excluding prepayments) and advance payments | 342,378 | 495,994 | - | - |
| Amounts due from other related companies | 14,326 | 1 | - | - |
| Derivative financial assets | - | - | 1,970 | 313 |
| Cash and cash equivalent | 337,911 | 123,902 | - | - |
| Total financial assets | 694,615 | 619,897 | 1,970 | 313 |

Group

| | Liabilities at amortised cost | |
|--|-------------------------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| <u>Financial liabilities</u> | | |
| <u>Non-current liabilities</u> | | |
| Borrowings | 178,903 | - |
| <u>Current liabilities</u> | | |
| Payables | 465,856 | 176,197 |
| Amount due to ultimate holding company | 6,963 | 11,785 |
| Amounts due to other related companies | 400 | 510 |
| Loan due to a related company | 156,452 | 60,000 |
| Borrowings | 356,300 | 359,537 |
| | 985,971 | 608,029 |
| Total financial liabilities | 1,164,874 | 608,029 |

38 FINANCIAL INSTRUMENTS (CONTINUED)

The analysis of classification of financial instruments are as follows: (continued)

Company

| | Loans and receivables | |
|-------------------------------------|------------------------------|---------------|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| <u>As at 31 December</u> | | |
| <u>Financial assets</u> | | |
| <u>Non-current assets</u> | | |
| Loans to subsidiaries | 213,903 | 35,000 |
| <u>Current assets</u> | | |
| Receivables (excluding prepayments) | 503 | 5,679 |
| Amounts due from subsidiaries | 64,459 | 155,935 |
| Loans to subsidiaries | 100,000 | 143,200 |
| Deposits, cash and bank balances | 121,502 | 19,512 |
| Total financial assets | 286,464 | 324,326 |
| | 500,367 | 359,326 |

Company

| | Liabilities at amortised cost | |
|--|--------------------------------------|---------------|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| <u>As at 31 December</u> | | |
| <u>Financial liabilities</u> | | |
| <u>Non-current liabilities</u> | | |
| Borrowings | 178,903 | - |
| <u>Current liabilities</u> | | |
| Payables | 8,139 | 12,415 |
| Amount due to ultimate holding company | 3,774 | 3,483 |
| Amounts due to other related companies | 156 | 133 |
| Amounts due to subsidiaries | - | 5,362 |
| Total financial liabilities | 12,069 | 21,393 |
| | 190,972 | 21,393 |

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

39 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal management reporting provided to the chief operating decision maker ("CODM"). The CODM who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Group Chief Executive Officer. The President and Group Chief Executive Officer considers the business primarily a product perspective.

The reportable operating segments have been identified as follows:

- (i) Sugar - sugar refining and sales, marketing of refined sugar and commodity trading
- (ii) Rubber and palm oil - rubber and palm oil plantation

Reconciliation represents income and expenses related to the corporate office, which is the investment holding entity. Included in reconciliation are cash and cash equivalents, accruals of the holding company.

The President and Group Chief Executive Officer, which is the chief operating decision maker, reviews the internal management reports on a basis that is consistent with the presentation as per the statement of comprehensive income.

The segment information provided to the President and Group Chief Executive Officer for the reportable segments for the financial year is as follows:

| | Sugar RM'000 | Rubber and palm oil RM'000 | Reconciliation RM'000 | Total RM'000 |
|--|-----------------|----------------------------------|--------------------------|-----------------|
| <u>31 December 2016</u> | | | | |
| Total segment revenue | 2,657,934 | 512 | - | 2,658,446 |
| Finance income | 2,804 | - | 2,707 | 5,511 |
| Finance costs | (10,767) | (2) | (2,648) | (13,417) |
| Depreciation and amortisation | (52,005) | (1) | - | (52,006) |
| Profit/(Loss) before zakat and taxation | 138,553 | (6,369) | 16,331 | 148,515 |
| Zakat | (1,500) | - | (500) | (2,000) |
| Taxation | (23,920) | - | (1,873) | (25,793) |
| Profit for the financial year | | | | 120,722 |
| Total assets | 2,952,895 | 147,129 | 125,404 | 3,225,428 |
| Total liabilities | (1,134,107) | (91,081) | (13,430) | (1,238,618) |
| Additions to property, plant and equipment | 286,720 | 7,333 | 2,270 | 296,323 |
| Additions to intangible assets | 3,607 | - | 417 | 4,024 |

39 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the President/Chief Executive Officer for the reportable segments for the financial year is as follows: (continued)

| | Sugar RM'000 | Rubber and palm oil RM'000 | Reconciliation RM'000 | Total RM'000 |
|--|-----------------|----------------------------------|--------------------------|-----------------|
| <u>31 December 2015</u> | | | | |
| Total segment revenue | 2,307,042 | 221 | - | 2,307,263 |
| Finance income | 1,555 | - | 6,307 | 7,862 |
| Finance costs | (7,543) | (3) | - | (7,546) |
| Depreciation and amortisation | 37,444 | 2,368 | 1,571 | 41,383 |
| Profit/(Loss) before zakat and taxation | 399,878 | (3,651) | (24,099) | 372,128 |
| Zakat | (4,500) | - | (500) | (5,000) |
| Taxation | (88,734) | - | (3,098) | (91,832) |
| Profit for the financial year | | | | 275,296 |
| Total assets | 2,428,708 | 136,336 | 157,361 | 2,722,405 |
| Total liabilities | (589,554) | (78,736) | (17,099) | (685,389) |
| Additions to property, plant and equipment | 211,385 | 8,049 | 12,729 | 232,163 |
| Additions to intangible assets | 1,647 | - | 493 | 2,140 |

Analysis of revenue

The analysis of revenue by geographical locations is as follows:

| | Group | |
|-----------|------------------|------------------|
| | 2016 RM'000 | 2015 RM'000 |
| Malaysia | 2,422,106 | 2,012,973 |
| Asia | 118,282 | 206,003 |
| Australia | 20,393 | 16,357 |
| Europe | 36,273 | 27,988 |
| Others | 61,392 | 43,942 |
| | 2,658,446 | 2,307,263 |

All non-current assets other than financial instruments are located in Malaysia.

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 22 March 2017.

SUPPLEMENTARY INFORMATION

41 REALISED AND UNREALISED RETAINED EARNINGS

| | Group | | Company | |
|---------------------------|-----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Realised | 720,223 | 832,413 | 13,032 | 5,534 |
| Unrealised | (72,442) | (73,066) | - | - |
| | 647,781 | 759,347 | 13,032 | 5,534 |
| Consolidation adjustments | (71,320) | (134,893) | - | - |
| Total retained earnings | 576,461 | 624,454 | 13,032 | 5,534 |

The unrealised portion of retained earnings comprises deferred tax expense, cumulative net gains arising from fair value through profit or loss and translation gains and losses on monetary items denominated other than in Ringgit Malaysia.

ANALYSIS OF SHAREHOLDINGS

AS AT 22 MARCH 2017

Issued and Paid Up Share Capital : 702,980,000
 Class of Shares : Ordinary share of RM0.50 each
 Voting Right : One (1) vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Shareholders | % of Shareholders | No. of Shares Held | % of Issues Shares |
|--|---------------------|-------------------|--------------------|--------------------|
| Less than 100 | 393 | 11.65 | 2,265 | 0.00 |
| 100 to 1,000 | 1,512 | 44.83 | 971,816 | 0.14 |
| 1,001 to 10,000 | 1,273 | 37.74 | 4,934,879 | 0.70 |
| 10,001 to 100,000 | 162 | 4.80 | 3,787,240 | 0.54 |
| 100,001 to less than 5% of issued shares | 27 | 0.80 | 132,658,800 | 18.87 |
| 5% and above of issued shares | 6 | 0.18 | 560,625,000 | 79.75 |
| Total | 3,373 | 100.00 | 702,980,000 | 100.00 |

INFORMATION ON DIRECTORS SHAREHOLDINGS

| No. | Name of Directors | Direct Interest | |
|-----|--|--------------------|--------------------|
| | | No. of Shares Held | % of Issued Shares |
| 1. | Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad | 20,000 | 0.00 |
| 2. | Dato' Zainal Haji Ismail | 20,000 | 0.00 |
| 3. | Dato' Hajjah Rosni Haji Zahari | 20,000 | 0.00 |
| 4. | Datuk Noor Ehsanuddin Mohd Harun Narrashid | - | - |
| 5. | Datuk Lim Thean Shiang | - | - |
| 6. | Dato' Rosini Abd Samad | - | - |
| 7. | Datuk Hanapi Suhada | - | - |
| 8. | Dato' Zakaria Arshad | - | - |
| 9. | Dato' Mohammad Fakhruddin Haji Mohd Ariff | - | - |

Notes:

- The Directors' interest in shares of the Company and its related corporations are set out in the Directors' Report of the Financial Statements for the financial year ended 31 December 2016 on pages 127 to 128 of this Annual Report.
- Mohamad Amri Sahari@Khuzari, the President/Group Chief Executive Officer of the Company who is not a Director has direct interest in the Company through his shareholdings of 16,000 ordinary shares (0.00%) in the Company.

ANALYSIS OF SHAREHOLDINGS AS AT 22 MARCH 2017

INFORMATION ON SUBSTANTIAL SHAREHOLDERS (5% AND ABOVE)

| No. | Name of Shareholders | Direct | | Indirect | |
|-----|---|--------------------|--------------------|--------------------|--------------------|
| | | No. of Shares Held | % of Issued Shares | No. of Shares Held | % of Issued Shares |
| 1. | Felda Global Ventures Sugar Sdn Bhd | 281,369,800 | 40.03 | – | – |
| 2. | Koperasi Permodalan Felda Malaysia Berhad | 107,234,952 | 15.25 | – | – |
| 3. | Felda Global Ventures Holdings Berhad* | 77,150,248 | 10.97 | 281,369,800 | 40.03 |
| 4. | Employees Provident Fund Board | 42,215,500 | 6.01 | – | – |
| 5. | AmanahRaya Trustees Berhad | 52,654,500 | 7.49 | – | – |

* Deemed interested by virtue of its interests in Felda Global Ventures Sugar Sdn Bhd, its wholly owned subsidiary.

LIST OF TOP 30 SHAREHOLDERS

| No. | Name of Shareholders | No. of Shares Held | % of Issued Shares |
|-----|--|--------------------|--------------------|
| 1. | FELDA GLOBAL VENTURES SUGAR SDN BHD | 281,369,800 | 40.03 |
| 2. | FELDA GLOBAL VENTURES HOLDINGS BERHAD | 77,150,248 | 10.97 |
| 3. | KOPERASI PERMODALAN FELDA MALAYSIA BERHAD | 66,305,852 | 9.43 |
| 4. | AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA | 52,654,500 | 7.49 |
| 5. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD | 42,215,500 | 6.01 |
| 6. | KOPERASI PERMODALAN FELDA MALAYSIA BERHAD | 40,929,100 | 5.82 |
| 7. | LEMBAGA TABUNG HAJI | 35,000,000 | 4.98 |
| 8. | AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020 | 17,807,900 | 2.53 |
| 9. | VALUECAP SDN BHD | 12,160,000 | 1.73 |
| 10. | AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA | 11,496,800 | 1.64 |
| 11. | KUMPULAN WANG PERSARAAN (DIPERBADANKAN) | 10,760,300 | 1.53 |
| 12. | AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA | 8,260,200 | 1.18 |
| 13. | AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND | 7,220,000 | 1.03 |
| 14. | CARTABAN NOMINEES (ASING) SDN BHD GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C) | 5,845,900 | 0.83 |
| 15. | AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK | 5,799,400 | 0.82 |

LIST OF TOP 30 SHAREHOLDERS (CONTINUED)

| No. | Name of Shareholders | No. of Shares Held | % of Issued Shares |
|------------|--|---------------------------|---------------------------|
| 16. | AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND | 4,411,000 | 0.63 |
| 17. | CIMB GROUP NOMINEES (TEMPATAN) SDN BHD YAYASAN HASANAH (AUR-VCAM) | 4,265,200 | 0.61 |
| 18. | AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT TREASURES FUND | 4,099,900 | 0.58 |
| 19. | AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT ENTERPRISES FUND | 1,918,400 | 0.27 |
| 20. | CARTABAN NOMINEES (ASING) SDN BHD GIC PRIVATE LIMITED FOR MONETARY AUTHORITY OF SINGAPORE (H) | 1,590,400 | 0.23 |
| 21. | BANK SIMPANAN NASIONAL | 231,000 | 0.03 |
| 22. | BANK SIMPANAN NASIONAL | 207,300 | 0.03 |
| 23. | CARTABAN NOMINEES (TEMPATAN) SDN BHD AIG MALAYSIA INSURANCE BERHAD | 200,000 | 0.03 |
| 24. | KOH YONG KIANG | 192,300 | 0.03 |
| 25. | BANK SIMPANAN NASIONAL | 181,100 | 0.03 |
| 26. | BANK SIMPANAN NASIONAL | 171,000 | 0.02 |
| 27. | BANK SIMPANAN NASIONAL | 150,000 | 0.02 |
| 28. | SHHRIL BIN SHAMSUDDIN | 150,000 | 0.02 |
| 29. | UOB KAY HIAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS) | 111,000 | 0.02 |
| 30. | BANK SIMPANAN NASIONAL | 110,700 | 0.02 |

SUMMARY OF PROPERTIES OWNED

BY MSM GROUP AS AT 31 DECEMBER 2016

PROPERTIES OWNED BY OUR GROUP

| No. | Name of Registered owner/ Beneficial owner Lot. no/Leasehold period | Ownership | Existing Use | Land Area (hectares unless otherwise stated) | Approximate age of Plant & Building (years) | NBV as at 31/12/2016 (RM'000) |
|------------------------|--|-----------|---|--|--|--|
| MSM PRAI BERHAD | | | | | | |
| 1 | H.S.(D) 31960, PT 34442, Mukim Batu, Daerah Gombak, Negeri Selangor. Lot 59, Jalan BRP 8/1, Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor | Freehold | Vacant land | 0.254 | 24 | 678 |
| 2 | H.S.(D) 31961, PT 34443, Mukim Batu, Daerah Gombak, Negeri Selangor Lot 58, Jalan BRP 8/1, Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor | Freehold | Bays for trucks and primers | 0.088 | 24 | 235 |
| 3 | H.S.(D) 31962, PT 34444, Mukim Batu, Daerah Gombak, Negeri Selangor Lot 58, Jalan BRP 8/1, Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor | Freehold | Bays for trucks and primers | 0.519 | 24 | 1,386 |
| 4 | H.S.(D) 31963, PT 34445, Mukim Batu, Daerah Gombak, Negeri Selangor. Lot 59, Jalan BRP 8/1, Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor | Freehold | Vacant land | 0.353 | 24 | 943 |
| 5 | H.S.(D) 31964, PT 34446, Mukim Batu, Daerah Gombak, Negeri Selangor | Freehold | Facility for sugar distribution and storage | 1.214 | 24 | 20,091 |
| | Lot 60, Jalan BRP 8/1. Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor | | Building | 903 sq metres | | |
| 6 | H.S.(D) 31965, PT 34447, Mukim Batu, Daerah Gombak, Negeri Selangor | Freehold | Facility for sugar distribution and storage | 1.10543 | 15 | 23,334 |
| | Lot 61, Jalan BRP 8/1, Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor | | Building | 9,010 sq metres | | |

| No. | Name of Registered owner/ Beneficial owner Lot. no/Leasehold period | Ownership | Existing Use | Land Area (hectares unless otherwise stated) | Approximate age of Plant & Building (years) | NBV as at 31/12/2016 (RM'000) |
|--|---|---|---|--|--|--|
| MSM PRAI BERHAD (continued) | | | | | | |
| 7 | H.S.(D) 4976, TLO 778A, Bandar Johor Bahru, Daerah Johor Bahru, Negeri Johor | Leasehold | Facility for sugar distribution and storage | 0.8599 | 17 to 39 | 1,826 |
| | 5, Jalan Bakti, Kawasan Perindustrian Larkin, 80350 Johor Bahru, Johor | | Building | 3,891 sq metres | | |
| 8 | H.S.(D) 119796, PT121676, Mukim Kelang, Daerah Klang, Selangor | Leasehold | Vacant land | 10,670 sq metres | | 5,106 |
| 9 | H.S.(D) 119797, PT121677, Mukim Kelang, Daerah Klang, Selangor | Leasehold | Vacant land | 9,697 sq metres | | 4,642 |
| MSM PERLIS SDN BHD (FACTORY) | | | | | | |
| 1 | Pajakan Negeri, No. Pendaftaran 38, Lot No. 2039, Mukim Chuping, Daerah Perlis, Negeri Perlis | MSM Perlis Sdn Bhd (Factory)/Leasehold | Factory land | 16.353 | | 6 |
| | | | Factory Buildings | 42,855 sq metres | | 8 |
| 2 | Pajakan Negeri, No. Hakmilik 58, Lot 3142, Mukim Chuping, Daerah Perlis, Negeri Perlis | MSM Perlis Sdn Bhd (Factory)/Leasehold | Tubewell area | 28.715 | | 48 |
| | | | Building | 236 sq metres | | |
| MSM PERLIS SDN BHD (PLANTATION) | | | | | | |
| 3 | PN 37, Lot No : 2040, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold 46 years | Rubber & other crops plantation | 523.940 | | 10,121 |
| 4 | PN 39, Lot No : 2035, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold 46 years | Rubber & other crops plantation | 1,268.108 | | 24,494 |
| 5 | PN 40, Lot No : 2038, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold 46 years | Rubber & other crops plantation | 288.877 | | 5,580 |
| | | | Building | 8,149.55 sq metres | | |

**SUMMARY OF PROPERTIES OWNED
BY MSM GROUP AS AT 31 DECEMBER 2016**

| No. | Name of Registered owner/ Beneficial owner Lot. no/Leasehold period | Ownership | Existing Use | Land Area (hectares unless otherwise stated) | Approximate age of Plant & Building (years) | NBV as at 31/12/2016 (RM'000) |
|--|---|---|------------------------------------|--|--|--|
| MSM PERLIS SDN BHD (PLANTATION) (continued) | | | | | | |
| 6 | PN 41, Lot No : 2041, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold 46 years | Rubber & other crops plantation | 92.202 | | 1,781 |
| 7 | PN 43, Lot No : 2037, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold 46 years | Rubber & other crops plantation | 277.178 | | 5,354 |
| 8 | H.S.(D) 8549, PT 4363, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold 46 years | Rubber & other crops plantation | 953.743 | | 18,423 |
| | | | Bulding | 8,735.39 sq metres | | |
| 9 | H.S.(D) 8550, PT 4364, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold-46 years | Rubber & other crops plantation | 10.001 | | 193 |
| 10 | HS (D) 145, PT, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold-46 years | Rubber & other crops plantation | 1,027.862 | | 19,912 |
| 11 | HS (D) 2587, PT349, Mukim Chuping, Perlis | MSM Perlis Sdn Bhd (Plantation)/ Leasehold-57 years | Experimental station | 12.841 | | 254 |
| | | | Building | 713.68 sq metres | | |

SUMMARY OF PROPERTIES LEASED BY MSM GROUP

AS AT 31 DECEMBER 2016

| No. | Name of Lessor/Lessee or Landlord/ Tenant or Grantor/Grantee Lot. No./Postal address | Description of property/Existing use | Built-up area/ Land area (square metre unless otherwise stated) | Tenure/ date of expiry | Rental per annum (Unless otherwise stated) (RM unless otherwise stated) |
|-----|---|---|---|---|--|
| 1 | H.S.(D) 28162, Lot 286, Bandar Prai, Daerah Seberang Perai Tengah, Pulau Pinang – Plot A & B. 798, Main Road, 13600 Prai, Penang | Property erected with molasses tanks, refined sugar warehouse, raw sugar warehouse, container parking area, railway lines and packaging materials warehouse. | 3,471.5/97,494 square feet | A lease for 30 years/Expiring on 30 November 2024 with option to renew for another 30 years. | 26,323.00 |
| 2 | H.S.(D) 28162, Lot 286, Bandar Prai, Daerah Seberang Perai Tengah, Pulau Pinang – Plot D 798, Main Road, 13600 Prai, Penang | Property erected with raw warehouse and miscellaneous materials warehouse | 5,374.7/96,140 square feet | A lease for 14 years/Expiring on 31 May 2018 with option to renew for another 10 years. | 30,764.00 |
| 3 | H.S.(D) 28162, Lot 286, Bandar Prai, Daerah Seberang Perai Tengah, Pulau Pinang – Plot C 798, Main Road, 13600 Prai, Penang | Property erected with raw warehouse and miscellaneous materials warehouse | 4,119.7/60,575 square feet | A lease for 30 years/Expiring on 30 November 2024 with option to renew for another 30 years. | 16,355.00 |
| 4 | H.S. (D) 28137, Lot 287, Bandar Prai, Daerah Seberang Perai Tengah, Pulau Pinang 798, Main Road, 13600 Prai, Penang | Property erected with raw warehouse and miscellaneous materials warehouse | 72,451.4/605,484 square feet | A lease for 30 years/Expiring on 30 November 2024 with option to renew for another 30 years. | 163,480 |
| 5 | Penang Port Commission (as lessor)/ Kilang Gula Felda Perlis Sdn Bhd (as lessee) Bulk Cargo Terminal, 13600 Prai, Penang | Storage godown/ Currently used as a storage facility for refined sugar and raw sugar | 7,580.12/ Not Applicable | A lease for 22 years/Expiring on 31 January 2025 | RM0.84 per square metre per month |
| 6 | Level 44, Menara Felda, Platinum Park, 11 Persiaran KLCC 50088 Kuala Lumpur | Office space/ currently used as MSM's administrative office in KL | 15,631 square feet | A lease for 3 years/ Expiring on 22 November 2019 | 120,358.70 per month |
| 7 | PLO 46, Land at Tanjung Langsat Industrial Complex, Mukim Sungai Tiram, Johor Bharu | Facility for Sugar Refinery | 2,205,442.80 square feet | A lease for 60 years | RM40.00 psf |

LIST OF TOP 10 PROPERTIES OWNED BY MSM GROUP

AS AT 31 DECEMBER 2016

PROPERTIES OWNED BY OUR GROUP

| No. | Name of Registered owner/ Beneficial owner Lot. no/Leasehold period | Acquisition Date | Ownership | Existing Use | Land Area (hectares unless otherwise stated) | Age of Plant & Building (years) | NBV as at 31/12/2016 (RM'000) |
|-----|--|------------------|-----------------------|---|--|---------------------------------|-------------------------------|
| 1 | PN 39, Lot No: 2035, Bukit Merah, Chuping | 21.05.2011 | Leasehold 46 years | Rubber & other crops plantation | 1,268.108 | – | 24,494 |
| 2 | H.S.(D) 31965, PT 34447, Mukim Batu, Daerah Gombak, Negeri Selangor | 30.8.2002 | Freehold | Facility for sugar distribution and storage | 1.10543 | 15 | 23,334 |
| | Lot 61, Jalan BRP 8/1. Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor | | | Building | 9,010 sq metres | | |
| 3 | H.S.(D) 31964, PT 34446, Mukim Batu, Daerah Gombak, Negeri Selangor | 15.9.1993 | Freehold | Facility for sugar distribution and storage | 1.214 | 24 | 20,091 |
| | Lot 60, Jalan BRP 8/1. Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor | | | Building | 903 sq metres | | |
| 4 | HS (D) 145, PT, Chuping, Chuping | 21.05.2011 | Leasehold 46 years | Rubber & other crops plantation | 1,027.862 | – | 19,912 |
| 5 | H.S.(D) 8549, PT 4363, Padang Mayat, Chuping | 21.05.2011 | Leasehold 46 years | Rubber & other crops plantation | 953.743 | – | 18,423 |
| 6 | PN 37, Lot No : 2040, Kampong Baru, Chuping | 21.05.2011 | Leasehold 46 years | Rubber & other crops plantation | 523.940 | – | 10,121 |
| 7 | PN 40, Lot No : 2038, Mukim Chuping, Perlis | 21.05.2011 | Leasehold 46 years | Rubber & other crops plantation | 288.877 | – | 5,580 |
| | | | | Building | 8,149.55 sq metres | – | |
| 8 | PN 43, Lot No : 2037, Air Hujan, Chuping | 21.05.2011 | Leasehold | Rubber & other crops plantation | 277.178 | – | 5,354 |
| 9 | H.S.(D) 119796, PT121676, Mukim Kelang, Daerah Klang, Selangor | 24.4.2013 | Leasehold | Vacant land | 10,670 sq metres | – | 5,106 |
| 10 | H.S.(D) 119797, PT121677, Mukim Kelang, Daerah Klang, Selangor | 24.4.2013 | Leasehold | Vacant land | 9,697 sq metres | – | 4,642 |

GROUP CORPORATE DIRECTORY

HEAD OFFICE

1. **MSM Malaysia Holdings Berhad** (935722-K)
Level 44, Menara Felda, Platinum Park
No. 11, Persiaran KLCC
50088 Kuala Lumpur, Malaysia

Tel : +603 2181 5018
Fax : +603 2181 5015
2. **MSM Prai Berhad** (3573-D)
Level 44, Menara Felda, Platinum Park
No. 11, Persiaran KLCC
50088 Kuala Lumpur, Malaysia

Tel : +603 2181 4818
Fax : +603 2181 4825 (Accounts)
: +603 2181 4812/4827 (Marketing)
3. **MSM Logistics Sdn Bhd** (208409-P)
CP 18, Suite 13.02, 13th Floor, Central Plaza
34, Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia

Tel : +603 2110 1213/2145 9022/2866
Fax : +603 2145 6022
4. **MSM Sugar Refinery (Johor) Sdn. Bhd.** (1139464-W)
Postal Address: Level 44, Menara Felda, Platinum Park
No. 11, Persiaran KLCC
50088 Kuala Lumpur, Malaysia

Tel : +603 2181 5018
Fax : +603 2181 5015

FACTORY

5. **MSM Prai Berhad** (3573-D)
798, Main Road, 13600 Prai, Seberang Prai
Pulau Pinang, Malaysia

Tel : +604 388 8888
Fax : +604 390 8122/399 9140
6. **MSM Perlis Sdn Bhd** (10776-K)
Postal Address: P.O Box 42
01700 Kangar, Perlis, Malaysia
Address : Mukim Chuping, 02500 Chuping
Perlis, Malaysia

Tel : +604 944 1301/1302/1303
Fax : +604 944 1027/1311

WAREHOUSE

7. **MSM Prai Berhad** (3573-D)
Lot No.61, Jalan BRP 8/1
Kawasan Perusahaan Bukit Rahman Putra
47000 Sungai Buloh, Selangor, Malaysia

Tel : +603 6157 6358
Fax : +603 6157 5358
8. **MSM Prai Berhad** (3573-D)
No. 5, Jalan Bakti, Kawasan Perindustrian Larkin
80350 Johor Bahru, Johor, Malaysia

Tel : +607 238 3687
Fax : +607 238 3766

PLANTATION

9. **MSM Perlis Sdn Bhd** (10776-K)
Postal Address : P.O. Box 40
01700 Kangar, Perlis, Malaysia
Address : KM23, Jalan Kilang Gula Chuping
02400 Beseri, Perlis, Malaysia

Tel : +604 944 1002
Fax : +604 944 1211

TRADING

10. **MSM Trading International DMCC** (DMCC28344)
Unit No. 404 & 405, Jumeirah Bay X3
Cluster X, Jumeirah Lakes Tower (JLT), Dubai
United Arab Emirates
Email : trading@msmsugar.com

Tel : +971 455 74635
Fax : +971 455 29125

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Sixth (6th) Annual General Meeting of MSM Malaysia Holdings Berhad (“MSM” or “the Company”) will be held at Banquet Hall 1, Level B2, Menara Felda, Platinum Park, No. 11, Persiaran KLCC, 50088 Kuala Lumpur, Malaysia on Monday, 15 May 2017, at 11.00 a.m., or any adjournment thereof, for the following purposes:

AGENDA

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon.
Please refer to Explanatory Note 1
2. To approve the payment of a Final Dividend of 4 sen per ordinary share, under single-tier system, in respect of the financial year ended 31 December 2016. **(Resolution 1)**
Please refer to Explanatory Note 2
3. To approve the payment of Directors’ fees of RM1,322,031 in respect of the financial year ended 31 December 2016. **(Resolution 2)**
Please refer to Explanatory Note 3
4. To approve the payment of a portion of Directors’ fees payable to the Non-Executive Directors up to an amount of RM1,350,000 from 1 January 2017 until the next Annual General Meeting of the Company. **(Resolution 3)**
Please refer to Explanatory Note 4
5. To approve the payment of benefits payable to the Non-Executive Directors up to an amount of RM1,780,000 from 1 January 2017 until the next Annual General Meeting of the Company. **(Resolution 4)**
Please refer to Explanatory Note 5
6. To re-elect the following Directors who retire by rotation in accordance with Article 93 of the Company’s Articles of Association and who, being eligible, offers themselves for re-election:
 - i) Datuk Lim Thean Shiang **(Resolution 5)**
 - ii) Dato’ Hajjah Rosni Haji Zahari **(Resolution 6)***Please refer to Explanatory Note 6*
7. To re-appoint Dato’ Zainal Haji Ismail as Director of the Company. **(Resolution 7)**
Please refer to Explanatory Note 6
8. To re-elect Dato’ Mohammad Fakhruddin Haji Mohd Ariff who retires in accordance with Article 99 of the Company’s Articles of Association. **(Resolution 8)**
Please refer to Explanatory Note 6
9. To re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company for the financial year ending 31 December 2017 and to authorise the Board of Directors to determine their remuneration. **(Resolution 9)**
Please refer to Explanatory Note 7

As Special Business

To consider and if thought fit, to pass the following as Ordinary Resolution:

10. **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR THE EXISTING RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE FOR MSM HOLDINGS' GROUP OF COMPANIES ("MSM HOLDINGS GROUP") AND PROPOSED SHAREHOLDERS' MANDATE FOR THE NEW RECURRENT AND RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE FOR THE MSM HOLDINGS GROUP** **(Resolution 10)**

"THAT, subject always to the Companies Act, 2016 ("Act"), the Memorandum and Articles of Association (now known as the Constitution pursuant to the Act) of MSM Holdings, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), other applicable laws, guidelines, rules and regulations, and the approval of the relevant governmental/regulatory authorities (where applicable), approval be and is hereby given to the Company and its subsidiaries to enter into all arrangements and/or transactions involving the interests of the related parties as specified in Appendix 1 of the Circular to the Shareholders dated 20 April 2017, provided that such arrangements and/or transactions are:

- (i) recurrent transactions of a revenue or trading nature;
- (ii) necessary for the day-to-day operations;
- (iii) carried out in the ordinary course of business on normal commercial terms which are not more favourable to the related parties than those generally available to the public; and
- (iv) not detrimental to the minority shareholders of the Company;

("Proposed Mandates");

AND THAT the Proposed Mandates shall commence immediately upon passing of this ordinary resolution and continue to be in force until:

- (a) the conclusion of the next Annual General Meeting ("AGM") of the Company following this AGM, at which time the Proposed Mandates will lapse, unless the Proposed Mandates are renewed by a resolution passed at the next AGM of the Company; or
- (b) the expiration of the period within which the next AGM is required by law to be held; or
- (c) the Proposed Mandates are revoked or varied by a resolution passed by the Shareholders of the Company in a general meeting of the Company,

whichever is the earlier;

AND FURTHER THAT authority be and is hereby given to the Directors of the Company and/or its subsidiaries to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary to give effect to such transactions as authorised by this resolution and the Proposed Mandates."

Please refer to Explanatory Note 8

11. **AUTHORITY FOR DIRECTORS TO ALLOT AND ISSUE SHARES PURSUANT TO SECTION 75 OF THE COMPANIES ACT, 2016** **(Resolution 11)**

"THAT, pursuant to Section 75 of the Companies Act, 2016 and subject always to the Company's Articles of Association, the Listing Requirements and approvals of the relevant government/regulatory authorities, the Directors be and are hereby authorised to allot and issue 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 to be allotted and issued pursuant to this resolution does not exceed ten percent (10%) of the issued share capital of the Company as at the date of such allotment **AND THAT** the Directors be and are also hereby authorised to obtain all necessary approvals from the relevant authorities for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next AGM of the Company."

Please refer to Explanatory Note 9

12. To transact any other business of the Company for which due notice shall be given in accordance with the Company's Articles of Association and the Companies Act, 2016.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN THAT subject to the approval of shareholders at the 6th Annual General Meeting of the Company to be held on 15 May 2017, a final dividend of 4 sen per ordinary share, under single-tier system, in respect of the financial year ended 31 December 2016 will be paid on 13 June 2017 to the shareholders. The entitlement date for the said dividend shall be 29 May 2017.

FURTHER NOTICE IS HEREBY GIVEN THAT a depositor shall qualify for entitlement to the dividend only in respect of:

- i. Shares transferred into the Depositor's securities account before 4.00 p.m. on 29 May 2017 in respect of ordinary transfers; and
- ii. Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

ABD RASHID ATAN (MIA 18390)

KOO SHUANG YEN (MIA 7556)

Company Secretaries

Kuala Lumpur

20 April 2017

NOTES

1. Proxy

- (i) A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. **Where a member appoints more than one (1) proxy, to attend, participate, speak and vote at the same meeting, each proxy appointed shall represent a minimum of 100 shares and such appointment shall be invalid unless the member specifies the proportion of his shareholding to be represented by each proxy.**
- (ii) Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (onmbus 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. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 (SICDA) which is exempted from compliance with provisions of subsection 25A(1) of SICDA.
- (iii) 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.
- (iv) The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation either under its common seal, or the hand of its officer or its duly authorised attorney. An instrument appointing a proxy to vote at a meeting shall be deemed to include the power to demand or join in demanding a poll on behalf of the appointor. A proxy may but need not be a Member of the Company and a Member may appoint any person to be his proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the member to speak at a meeting.

- (v) The instrument appointing a proxy shall be deposited at the Share Registrar of the Company at Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan **no later than Sunday, 14 May 2017 at 1.00 p.m.**, and in default the instrument of Proxy shall not be treated as valid.

2. Members entitled to attend

For purposes of determining a member who shall be entitled to attend the 6th Annual General Meeting, the Company shall be requesting from Bursa Malaysia Depository Sdn Bhd, in accordance with Article 58 of the Company's Articles of Association and Section 34(1) of SICDA, to issue a General Meeting Record of Depositors as at 3 May 2017. **Only a depositor whose name appears on the General Meeting Record of Depositors as at 3 May 2017 shall be eligible to attend, speak and vote at the AGM or appoint a proxy(ies) to attend, speak and/or vote on their behalf.**

3. Registration of Members/Proxies

Registration of members/proxies attending the meeting **will start at 8.30 a.m. on the day of the meeting and will remain open until such time as may be determined by the Chairman of the meeting.** Members/proxies are required to produce original MyKad or valid passport for registration and requested to be punctual as the registration for attendance will be closed **to facilitate the commencement of poll voting.**

4. Voting

Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), all resolutions set out in the Notice of the 6th AGM of MSM will be put to vote by poll. Poll Administrator and Independent Scrutineers will be appointed respectively to conduct the polling via e-voting process and to verify the results of the poll.

EXPLANATORY NOTES ON ORDINARY BUSINESS

Explanatory Note 1:

Audited Financial Statements for the Financial Year Ended 31 December 2016

This is meant for presentation and discussion only as under the provisions of Section 340(1)(a) of the Companies Act, 2016 ("Act") and Article 130 of the Company's Articles of Association, the Audited Financial Statements do not require the final approval of shareholder and hence, will not be put for voting.

Explanatory Note 2:

Resolution 1 – Declaration of a Final Single Tier Dividend

With reference to Section 131 of the Act, a company may only make a distribution to the shareholders out of profits of the company available if the company is solvent. On 22 March 2017, the Board had considered the amount of dividend and decided to recommend the same for the shareholders' approval.

The Directors of the Company are satisfied that the Company will be solvent as it will be able to pay its debts as and when the debts become due within twelve (12) months immediately after the distribution is made on 13 June 2017 in accordance with the requirements under Section 132(2) and (3) of the Act.

Pursuant to Paragraph 8.26 of the MMLR, the Final Single Tier Dividend, if approved, will be paid to no later than three (3) months from the date of the shareholders' approval.

Explanatory Note 3:

Resolution 2 – Payment of Directors' Fees for the Financial Year Ended 31 December 2016

Please refer to page 167 of the Notes to the Financial Statements in the 2016 Annual Report for the amount of Directors' Fees to be approved at the 6th AGM. The detailed amount of the Directors' Fees is set out in the Corporate Governance Statement on pages 86 to 87 of this Annual Report.

Section 230(1) of the Act provides amongst others, that the fees of the Directors and any benefits payable to the Directors of a listed company and its subsidiaries shall be approved at a general meeting. In this respect, the Board agreed that the shareholders' approval shall be sought at the 6th AGM on the Directors' remuneration in three (3) separate resolutions as below:

- **Resolution 2** on payment of Directors' fees in respect of the preceding year 2016;
- **Resolution 3** on payment of a portion of Directors' fees payable to the Non-Executive Directors from 1 January 2017 until the next AGM ("Relevant Period"); and
- **Resolution 4** on payment of Directors' benefits payable to the Non-Executive Directors in respect of the Relevant Period.

Explanatory Note 4:

Resolution 3 – Directors' Fees Payable to the Non-Executive Directors

The proposed Ordinary Resolution 3, if passed, will allow the Company to pay a portion of Directors' fees of RM20,000.00 per month to the Non-Executive Chairman and RM5,000.00 per month to the Non-Executive Directors from 1 January 2017 until the next AGM of the Company.

Explanatory Note 5:

Resolution 4 – Directors' Benefits Payable to the Non-Executive Directors

The benefits payable comprises of meeting allowances, medical expenses, insurance coverage, benefits-in-kind, other allowances and other claimable benefits to the Non-Executive Chairman and Non-Executive Directors.

In determining the estimated total amount of benefits payable for the Directors, the Board considered various factors including the number of scheduled meetings for the Board, Board Committees and Board of subsidiaries as well as the number of Directors involved in these meetings including anticipated new appointment of Directors to the Board and Board Committees.

The estimated amount of RM1,780,000 for the Relevant Period is derived from a total of RM1,186,000 for the financial year 2017 and RM594,000 for the period from 1 January 2018 until the next AGM in 2018.

Payment of the benefits payable will be made by the Company and its subsidiaries on a monthly basis and/or as and when incurred if the proposed Resolution 4 is passed at the 6th AGM. The Board is of the view that it is just and equitable for the Directors to be paid benefits payable on a monthly basis and/or as and when incurred, particularly after they have discharged their responsibilities and rendered their services to the Company and its subsidiaries throughout the Relevant Period.

Explanatory Note 6:

Resolution 5, 6, 7 & 8 – Re-election of Directors who retire in accordance with (i) Article 93 and (ii) Re-appointment of Director and (iii) Article 99 of the Company's Articles of Association

- (i) Article 93 of the Company's Articles of Association states that at every AGM, at least one-third (1/3) of the Directors for the time being shall retire from office. In addition, all Directors shall retire from office at least once every three years. A retiring Director shall be eligible for re-election.

The independence of Datuk Lim Thean Shiang and Dato' Hajjah Rosni Haji Zahari, who have served as Independent Non-Executive Directors of the Company has been assessed by the Nomination and Remuneration Committee and also affirmed by the Board to continue to act as Independent Non-Executive Directors of the Company. Both the two (2) Directors standing for re-election have not exceeded the nine (9) years tenure as Independent Directors.

NOTICE OF ANNUAL GENERAL MEETING

- (ii) With the coming into force the Act on 31 January 2017, there is no age limit for directors.

At the 5th AGM of the Company held on 10 May 2016, Dato' Zainal Haji Ismail, who is above the age of 70, was appointed pursuant to Section 129 of the Companies Act, 1965 to hold office until the conclusion of the 6th AGM. His term of office will end at the conclusion of the 6th AGM and he has offered himself for re-appointment.

The proposed Ordinary Resolution 7, if passed, will enable Dato' Zainal Haji Ismail to continue to act as Director of the Company and he shall subject to retirement by rotation at a later date.

- (iii) Article 99 of the Company's Articles of Association stipulates that a Director appointed by the Board shall hold office until the conclusion of the next AGM of the Company and shall be eligible for re-election.

Dato' Mohammad Fakhruddin Haji Mohd Ariff, who was appointed during the financial year, has successfully completed his Mandatory Accreditation Programmes pursuant to the provision of the MMLR.

The Board recommended the re-election and re-appointment of the Directors above at the 6th AGM. All Directors standing for re-election and re-appointment have abstained from deliberations and decisions on their own eligibility to stand for re-election and re-appointment at the relevant Nomination and Remuneration Committee and Board meetings, and will continue to abstain from deliberations and decisions on their own eligibility to stand for re-election and re-appointment at the 6th AGM.

Explanatory Note 7:

Resolution 9 – Re-appointment of Auditors

The present auditors, Messrs. PricewaterhouseCoopers (PwC), has indicated their willingness to continue their services for another year. The Audit Committee and the Board have considered the re-appointment of PwC as Auditor of the Company and have collectively agreed that PwC has met the relevant criteria prescribed by Paragraph 15.21 of the MMLR.

Abstention from Voting

- (i) All the Non-Executive Directors who are shareholders of the Company will abstain from voting on Ordinary Resolution 2, 3 and 4 concerning Directors' Fees and benefits payable at the 6th AGM.
- (ii) The Directors referred to in Ordinary Resolutions 5, 6, 7 and 8, who are shareholders of the Company will abstain from voting on the resolution in respect of her/his re-election and re-appointment at the 6th AGM.

EXPLANATORY NOTES ON SPECIAL BUSINESS

Explanatory Note 8:

Resolution 10 - Proposed Renewal of Shareholders' Mandate And Proposed New Shareholders' Mandate ("Proposed Mandates")

The proposed Resolution 10, if passed, will enable the Company and/or its subsidiary companies to enter into recurrent transactions involving the interests of the Related Parties, which are of a revenue or trading nature and necessary for the Group's day-to-day operations, subject to the transactions being carried out in the ordinary course of business on terms not favourable than those generally available to the public and are not detrimental to the minority shareholders of the Company.

Detailed information on the Proposed Mandates is set out in the Circular to Shareholder dated 20 April 2017.

Explanatory Note 9:

Resolution 11 - Authority to Directors to allot and issue shares

The proposed Resolution 11 is a new general mandate to be obtained from the Shareholders of the Company at the 6th AGM and, if passed, will empower the Directors pursuant to Section 75 of the Companies Act, 2016 to allot and issue ordinary shares in the Company of up to an aggregate amount not exceeding ten percent (10%) of the issued share capital of the Company as at the date of such allotment of shares without having to convene a general meeting.

This general mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next annual general meeting of the Company. The general mandate from shareholders is to provide the Company flexibility to undertake any share issuance during the financial year without having to convene a general meeting.

The rationale for this proposed mandate is to allow for possible share issue and/or fund raising exercises including placement of shares for the purpose of funding current and/or future investment projects, working capital and/or acquisitions as well as in the event of any strategic opportunities involving equity deals which may require the Company to allot and issue new shares on an urgent basis and thereby reducing administrative time and costs associated with the convening of additional shareholders meeting(s). In any event, the exercise of the mandate is only to be undertaken if the Board considers it to be in the best interest of the Company.

STATEMENT ACCOMPANYING NOTICE OF THE 6TH ANNUAL GENERAL MEETING (PURSUANT TO PARAGRAPH 8.27(2) OF THE MMLR)

1. DIRECTORS WHO ARE STANDING FOR RE-ELECTION AND RE-APPOINTMENT AT THE 6TH AGM

- (a) Directors standing for re-election pursuant to Article 93 and 99 of the Company's Articles of Association and Section 205(3)(b) of the Companies Act, 2016:
- Datuk Lim Thean Shiang
 - Dato' Hajjah Rosni Haji Zahari
 - Dato' Mohammad Fakhruddin Haji Mohd Ariff
- (b) Director standing for re-appointment
- Dato' Zainal Haji Ismail

The profile of the abovementioned Directors who are standing for re-election (as per Resolutions 5 to 8 as stated above) at the 6th AGM of the Company are set out from pages 74 to 76 of this Annual Report.

Save for Dato' Hajjah Rosni Haji Zahari and Dato' Zainal Haji Ismail, none of the above Directors has any interest in the securities of the Company or its subsidiaries. The details of their shareholdings in the Company are set out in page 127 of this Annual Report.

2. ORDINARY RESOLUTION ON AUTHORITY TO DIRECTORS TO ALLOT AND ISSUE SHARES

Details on the authority to Directors to allot and issue shares in the Company pursuant to Section 75 of the Companies Act, 2016 are provided under the Explanatory Note 9 on special business in the Notice of the 6th AGM set out on page 210 of this Annual Report.



ADMINISTRATIVE DETAILS

FOR THE SIXTH (6TH) ANNUAL GENERAL MEETING ("AGM") OF MSM MALAYSIA HOLDINGS BERHAD ("THE COMPANY")

Event: 6th AGM
Date: 15 May 2017
Time: 11.00 a.m.
Venue: Banquet Hall 1 ("Meeting Hall")
Level B2, Menara Felda, Platinum Park,
No. 11, Persiaran KLCC, 50088 Kuala Lumpur

PROXY

1. The instrument appointing a proxy shall be deposited at the Share Registrar of the Company at Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan **no later than Sunday, 14 May 2017 at 1.00 p.m.**, and in default the instrument of Proxy shall not be treated as valid.
2. Only original duly executed Form of Proxy is acceptable. The duly executed Form of Proxy submitted via fax or email is not acceptable.
3. If you have submitted your Form of Proxy prior to the meeting and subsequently decided to attend the meeting yourself, please inform the Help Desk to cancel the Proxy Form.

CORPORATE MEMBER

Any corporate member who wishes to appoint a representative instead of a proxy to attend to this AGM should lodge the certificate of appointment under the seal of the corporation at the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan **no later than Sunday, 14 May 2017 at 1.00 p.m.**, and in default the instrument of Proxy shall not be treated as valid.

ENTITLEMENT TO ATTEND, SPEAK AND VOTE

Only shareholders' whose names appear in the Record of Depositors as at 3 May 2017 (General Meeting Record of Depositors) shall be entitled to attend, speak and vote at the AGM or appoint proxies to attend, speak and vote on such shareholders' behalf.

REGISTRATION

1. Registration of members/proxies attending the Meeting **will start at 8.30 a.m on the day of the meeting and will remain open until such time as may be determined by the Chairman of the meeting to facilitate the commencement of poll voting.**
2. Please read the signage to ascertain which registration area to register yourself for the Meeting and join the queue accordingly.
3. Please produce your ORIGINAL MYKad or valid passport (for non-Malaysian) during registration to the registration staff for verification. Only original MYKad or valid passport will be accepted as for purposes of identity verification. Please make sure you collect your MYKad or passport thereafter.
4. No person will be allowed to register on behalf of another person even with the original MYKad or valid passport of that other person.
5. The registration counter will handle only verification of identity and registration. If you have any clarification or enquiry, please proceed to the Help Desk.

HELP DESK

1. Please proceed to the Help Desk for any clarification or enquiry.
2. The Help Desk will also handle revocation of proxy's appointment.

IDENTIFICATION WRISTBAND

1. Upon verification and registration, you will be given an identification wristband for you to enter to the Meeting Hall.
2. The identification wristband has to be worn during the whole duration of the AGM. There will be no replacement in the event that you lose or misplace the identification wristband.
3. No person will be allowed to enter the Meeting Hall without wearing the identification wristband.

VOTING PROCEDURE

1. The voting at the AGM will be conducted on a poll.
2. Poll Administrator and Independent Scrutineers will be appointed respectively to conduct the polling via e-voting process and to verify the results of the poll.
3. All attendees at the AGM will be briefed and/or guided accordingly by the Poll Administrator before the commencement of and during the voting process.

SEATING ARRANGEMENT FOR THE AGM

1. Free seating. All shareholders/proxies will be allowed to enter the Meeting Hall starting from 10.15 a.m. onwards.
2. All shareholders/proxies are encouraged to be seated at least five (5) minutes before the commencement of the AGM.

DOOR GIFTS

1. As a token of appreciation, each member or proxy who is present at the AGM will be entitled to one (1) door gift only upon registration (per head count), irrespective of the number of members he/she represents.
2. A door gift coupon will be provided upon registration. Please bring your door gift coupon to the Door Gifts Counter to collect your door gift.

REFRESHMENTS

Each shareholder or proxy who is present at the AGM will be entitled to one (1) food voucher only upon registration (per head count), irrespective of the number of members he/she represents.

PERSONAL BELONGINGS

Please take care of your personal belongings. The organiser will not be held responsible for any item that has gone missing.

PARKING

MSM provides free parking only at Naza Tower located next to Menara Felda from 7.00a.m. to 4.30p.m. Please produce your parking ticket during registration for validation.

ENQUIRIES

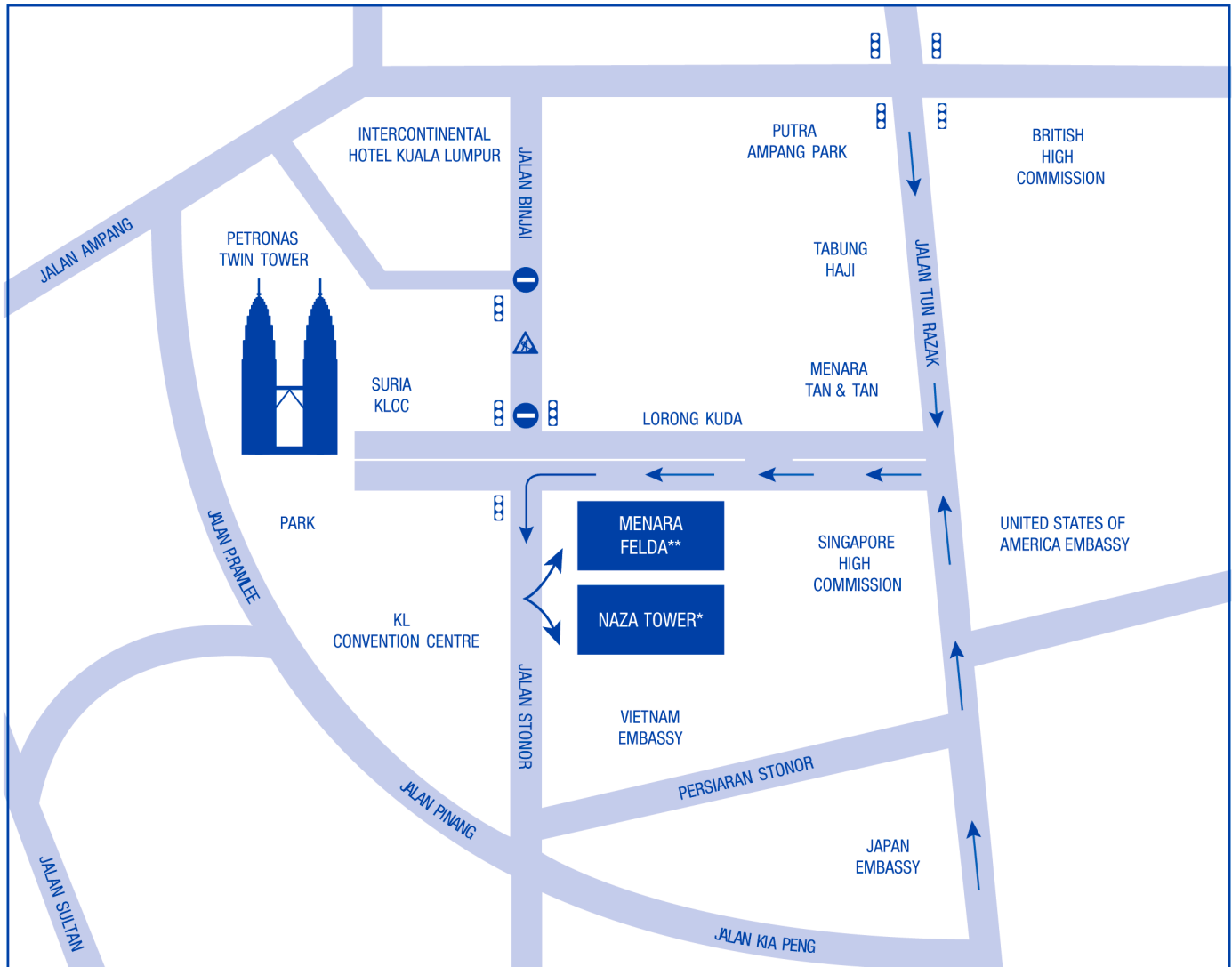
Contact details for queries from shareholders pertaining to the registration and Proxy Form are as follows:-

Tel (Help Desk): +603 7849 0777
Fax: +603 7841 8151/8152

ANNUAL REPORT 2016

The Annual Report 2016 is available on Bursa Malaysia Berhad's website at www.bursamalaysia.com under Company Announcements of MSM Malaysia Holdings Berhad and also at the Company's website at www.msmsugar.com.

LOCATION MAP FOR AGM & PARKING



* PARKING FOR AGM AT NAZA TOWER

** VENUE FOR AGM AT MENARA FELDA

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PROXY FORM



| |
|---------------------------|
| CDS Account No. |
| |
| No. of Shares held |
| |

I/We _____
(Full name in BLOCK LETTERS as per Identity Card (MYKAD/Passport/Certificate of Incorporation))

MYKAD/Passport No. (for non-Malaysian only)/Company No. : _____ of

(Address in full)

telephone no. _____ being a member of **MSM MALAYSIA HOLDINGS BERHAD**

("the Company"), hereby appoint _____
(Full name of proxy in BLOCK LETTERS as per MYKAD/Passport)

MYKAD/Passport No. (for non-Malaysian only): _____ of _____

(Address in full)

and/or failing him/her _____
(Full name of proxy in BLOCK LETTERS as per MYKAD/Passport)

MYKAD/Passport No. (for non-Malaysian only): _____ of _____

(Address in full)

and failing the abovenamed proxies, the Chairman of the Meeting, as my/our proxy/proxies to attend and vote for me/us on my/our behalf at the Sixth (6th) Annual General Meeting of the Company to be held at Banquet Hall 1, Level B2, Menara Felda, Platinum Park, No. 11, Persiaran KLCC, 50088 Kuala Lumpur on Monday, 15 May 2017 at 11.00 a.m. and at any adjournment thereof. My/our proxy is to vote as indicated below:

| NO. | AGENDA | RESOLUTION | FOR | AGAINST |
|--------------------------|--|------------|-----|---------|
| 1 | To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon. | | | |
| ORDINARY BUSINESS | | | | |
| 2 | To approve the payment of a Final Dividend of 4 sen per ordinary share, under single-tier system, in respect of the financial year ended 31 December 2016. | 1 | | |
| 3 | To approve the payment of Directors' fees of RM1,322,031 in respect of the financial year ended 31 December 2016. | 2 | | |
| 4 | To approve the payment of a portion of Directors' fees payable to the Non-Executive Directors up to an amount of RM1,350,000 from 1 January 2017 until the next Annual General Meeting of the Company. | 3 | | |
| 5 | To approve the payment of benefits payable to the Non-Executive Directors up to an amount of RM1,780,000 from 1 January 2017 until the next Annual General Meeting of the Company. | 4 | | |
| 6 | (i) To re-elect Datuk Lim Thean Shiang who retires in accordance with Article 93 of the Company's Articles of Association. | 5 | | |
| | (ii) To re-elect Dato' Hajjah Rosni Haji Zahari who retires in accordance with Article 93 of the Company's Articles of Association. | 6 | | |
| 7 | To re-appoint Dato' Zainal Haji Ismail as Director of the Company. | 7 | | |
| 8 | To re-elect Dato' Mohammad Fakhruddin Haji Mohd Ariff who retires in accordance with Article 99 of the Company's Articles of Association. | 8 | | |
| 9 | To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2017, and to authorise the Board of Directors to determine their remuneration. | 9 | | |
| SPECIAL BUSINESS | | | | |
| 10 | Proposed Renewal of Shareholders' Mandate and Proposed New Shareholders' Mandate ("Proposed Mandates"). | 10 | | |
| 11 | Authority to Directors to allot and issue shares | 11 | | |

(Please indicate with an "X" in the space whether you wish your votes to be cast for or against the resolutions. In the absence of such specific instructions, your proxy will vote or abstain as he thinks fit).

Dated this _____ day of _____ 2017.

The proportions of my/our holding to be represented by my/our proxies are as follows :

| | No. of shares | Percentage |
|--------------|---------------|-------------|
| First Proxy | | |
| Second Proxy | | |
| Total | | 100% |

 Signature(s)/Common Seal of Member(s)

Notes:

1. A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. Where a member appoints more than one (1) proxy, to attend and vote at the same meeting, each proxy appointed shall represent a minimum of 100 shares and such appointment shall be invalid unless the member specifies the proportion of his shareholding to be represented by each proxy.
2. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (omnibus account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 (SICDA) which is exempted from compliance with provisions of subsection 25A(1) of SICDA.
3. 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.
4. The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation either under its common seal, or the hand of its officer or its duly authorised attorney. An instrument appointing a proxy to vote at a meeting shall be deemed to include the power to demand or join in demanding a poll on behalf of the appointor. A proxy may but need not be a Member of the Company and a Member may appoint any person to be his proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the member to speak at a meeting.
5. The instrument appointing a proxy shall be deposited at the Share Registrar of the Company at Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan no later than Sunday, 14 May 2017 at 1.00 p.m., and in default the instrument of Proxy shall not be treated as valid.
6. **Members entitled to attend**
Only members registered in the General Meeting Record of Depositors as at 3 May 2017 shall be entitled to attend the Annual General Meeting or appoint a proxy/(ies) to attend and vote/ or vote on their behalf.
7. **Registration of Members/Proxies**
Registration of members/proxies attending the meeting will start at 8.30 a.m. on the day of the meeting and will remain open until such time as may be determined by the Chairman of the meeting. Members/proxies are required to produce original MyKad or valid passport for registration and requested to be punctual as the registration for attendance will be closed to facilitate the commencement of poll voting.
8. **Voting**
Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the 6th AGM of MSM will be put to vote by poll.

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Share Registrar
Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
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