



# ANNUAL REPORT 2016

***A lot of shareholders have been asking us these questions frequently.***

“what is the actual core business of the Group?”

“why do you call yourself Borneo Oil, whereas you are actually a Fast Food Franchise?”

“what has Borneo Oil got to do with Gold business?”

“Isn’t it time you change your name?”

**Here is our answer:-**

**History and Name Change**

The Company was originally known as Sugar Bun Services Corporation Berhad. It was listed in the then KLSE (Kuala Lumpur Stock Exchange) in 1997 as a Fast Food & Franchise Operator.

In 2006, there was a proposed reverse takeover (RTO) by a Singapore based energy company and at their request, the name change was effected to Borneo Oil Berhad.

Unfortunately, the proposed RTO collapsed and the Company continued with its Fast Food Franchise operations.

**The Group’s Business Philosophy**

Ever since the collapse of the RTO, the Board and the Management have been working tirelessly to restructure the Group’s businesses and finalize the underlying principles that will govern the Group’s direction. The principles of which are set out herein:-

If you are in business and are part of the business and economic community, only 4 real values will matter universally.

**Value # 1 : Real Property (represented by the colour yellow)**



Real property. The British coined the word “Real Property” to refer to land and land based property. It is Real, does not disappear into thin air, is a hedge against inflation and in the olden days, produced crops and food for humans. Today, it still holds true, in many forms, rental or crop yields, capital gains from sale and transactions and as a resource rich or development stock. Thus Real Property is a part of the Group’s long term investment principle. The Group holds a fairly large land bank of over 812.29 acres, some with limestone reserves of over 20,000,000 MT (Metric Tons).

**Value # 2- Gold mining / Gold Investments (represented by the colour White  & Black )**



Apart from Real Property, the Group also holds the principle that Gold is a wealth that has a perpetual value and form. An ounce of gold in Babylonian times (2,000 years BC) could purchase 360 loaves of bread and today an ounce of gold will still buy 360 loaves of bread in New York, the new Babylon (World Financial Centre).

From Bretton Woods to the 1973 Middle Eastern War (Yom Kippur War), currencies, in particular United States Dollar (USD) are no longer pegged to Gold. Since 1974, USD were printed against every drop of oil produced and that brought in the great inflation of the 70s and 80s and since then, Governments have been managing the economies by fiscal policies and stimulus. Through all that, the United States have ballooned it's debts from a mere USD500 billion to USD19 trillion, together with the mountain of debts issued by the EU and Japan, the amount is a staggering figure of almost USD40 trillion (USD9.3 trillion EU) (USD10.06 trillion Japan). All the debts are not backed up by anything except words of confidence, Hollywood and war.

Since the beginning of human civilization, only approximately 170,000 tons of Gold had been produced and not more than an average of 3,700 tons (including recycled Gold) of Gold is produced annually.

Gold is an element that will not disappear into thin air, nor will it change its structure through changes in the environment or temperature. It is, really the alpha and the omega of everything that is perpetual. Thus, Gold will eventually be treated with great respect once the economic world begins to search for an alternative to justify the huge mountain of debts that it has to deal with.

Venturing into Gold mining and the accumulation of Gold will be the Group's main emphasis for now until such time that the economic world will realize its fiscal follies. The Group will continue to ensure that its shares or papers will be backed by Gold. Currently as at 31 March 2016 the Group holds 18,863.14 ounce in gold inventory amounting to USD24,144,819.20 at USD1,280.00 per ounce (equivalent to RM94,164,794.00 at exchange rate of 3.9).



**Value # 3- Energy (represented by the colour red) **

The next principle of value, is production value. If you have to produce anything, energy is the main source of power, so investment in Sustainable and Renewable Energy will be an essential part of the long term strategy of the Group. Energy and power comprise between 10% to 30% of production cost. Having a technology to produce energy cheaply and perpetually will be the quest of the Group.

**Value # 4 – Franchise & Food Processing (represented by the colour Black  & White **

Even if you have or owned Real Property, Gold or Energy, the human race will forever require Food, and this is present in our Food Franchise operations. The Grab & Go Concept will help the Group set up and litter its network in every nook and corner, so that anything of value could be sold through its network, through the mobilization of the most driven sector of entrepreneurs (the middle income group who will have the greatest desire and drive to become rich).



The Group is in all the 4 values which are represented by its business activities in:-

- (A) Properties and property management and holding of resource based properties.
- (B) Gold mining, trading and accumulation.
- (C) Renewable and sustainable energy through the processing of renewable biomass from the palm oil industries in Malaysia and Indonesia which produces 85% of edible palm oil of the world.
- (D) Food franchise operations.

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# Corporate Information

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## BOARD OF DIRECTORS

### Tan Kok Chor

Chairman  
(Independent Non-Executive Director)

### Teo Kiew Leong

(Executive Director)

### Chan Keng Leong

(Executive Director)

### Michael Moo Kai Wah

(Independent Non-Executive Director)

### Seroop Singh Ramday

(Independent Non-Executive Director)

## AUDIT COMMITTEE

### Chairman

Tan Kok Chor  
(Independent Non-Executive Director)

### Member

Michael Moo Kai Wah  
(Independent Non-Executive Director)

### Member

Seroop Singh Ramday  
(Independent Non-Executive Director)

## COMPANY SECRETARIES

Chin Siew Kim (L.S. 000982)  
Chin Chee Kee (MIA 3040)

## REGISTERED OFFICE

1<sup>st</sup> & 2<sup>nd</sup> Floor, Victoria Point,  
Jalan OKK Awang Besar,  
87007, W.P. Labuan  
Tel : 087-410509  
Fax : 087-410515

## REGISTRAR

Labuan Corporate Services Sdn Bhd  
1<sup>st</sup> & 2<sup>nd</sup> Floor, Victoria Point,  
Jalan OKK Awang Besar,  
87007, W.P. Labuan  
Tel : 087-410748  
Fax : 087-410515

## AUDITORS

STYL Associates (AF-1929)  
Chartered Accountants  
902, 9<sup>th</sup> Floor, Block A,  
Damansara Intan, No.1,  
Jalan SS 20/27  
47400 Petaling Jaya,  
Selangor Darul Ehsan  
Tel : 03-77107876  
Fax : 03-77107870

## PRINCIPAL BANKERS

Alliance Bank Malaysia Berhad  
(88103-W)

Hong Leong Bank Berhad (97141-X)

HSBC Bank Malaysia Berhad  
(127776-V)

Malayan Banking Berhad (3813-K)

RHB Bank Berhad (6171-M)

Standard Chartered Bank Malaysia  
Berhad (115793-P)

Hong Leong Investment Bank  
Berhad (10209-W)

Public Bank Berhad (6463-H)

## SOLICITORS

Satem, Chai & Dominic Lai Advocates

Jaini Robert Lau & Rajjish

Chung & Associates

J. Ambrose & Partners

Foong & Partners

## STOCK EXCHANGE LISTING

Main Market  
Bursa Malaysia Securities Berhad

Stock Name : BORNOIL

Stock Code : 7036

## WEBSITE

[www.borneo-oil.com.my](http://www.borneo-oil.com.my)

# Chairman's Statement

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Another busy, productive and successful year for the group.

We went out to the market in April 2015 and proposed to raise over RM237 million via a Rights Issue cash call. Despite very difficult market conditions affected by 1MDB, Yuan's devaluation, crude oil price collapse and negative interest rates, our shareholders continued to give us the thumbs up and subscribed fully to the rights [in fact oversubscribed by 290,057,220 number of shares representing 12.53%]. For this, we take a big bow and say thank you fellow shareholders, we will of course in return endeavor our best to ensure that your investments will bring in many happy returns.

## PERFORMANCE REVIEW

### 1. FRANCHISE

The financial performance for 2016 is commendable. The franchise division has performed tremendously well, despite the slowdown in the economy and the advent of GST. The inclusion of Pezzo to the existing SugarBun outlets complimented the upsurge in revenue and boosted its profits to RM9.1million (2016); RM6.9 million(2015) from a revenue of RM46.4 million(2016) ; RM37.3 million (2015). A very fine performance indeed.

At the time of writing, the Group has a total of 85 SugarBun outlets and 43 pezzo outlets (both franchisees and company owned) respectively.

It has taken the division many years, in fact over 20 years to get the business model right. The management is now confident of moving forward globally with a new refined version of 'grab and go'. Significant plans are underway to expand our market presence around the region. The group will focus on building shareholders value as a priority going forward. Unlocking its value to our shareholders in the near future will be the emphasis for now.

### 2. GOLD

#### Gold

The Gold and Mining Division registered a revenue of RM34.4 million (2015) and RM60.9 million (2016) and a net profit of RM7.5 million (2015) and RM7.7 million (2016), very commendable indeed.

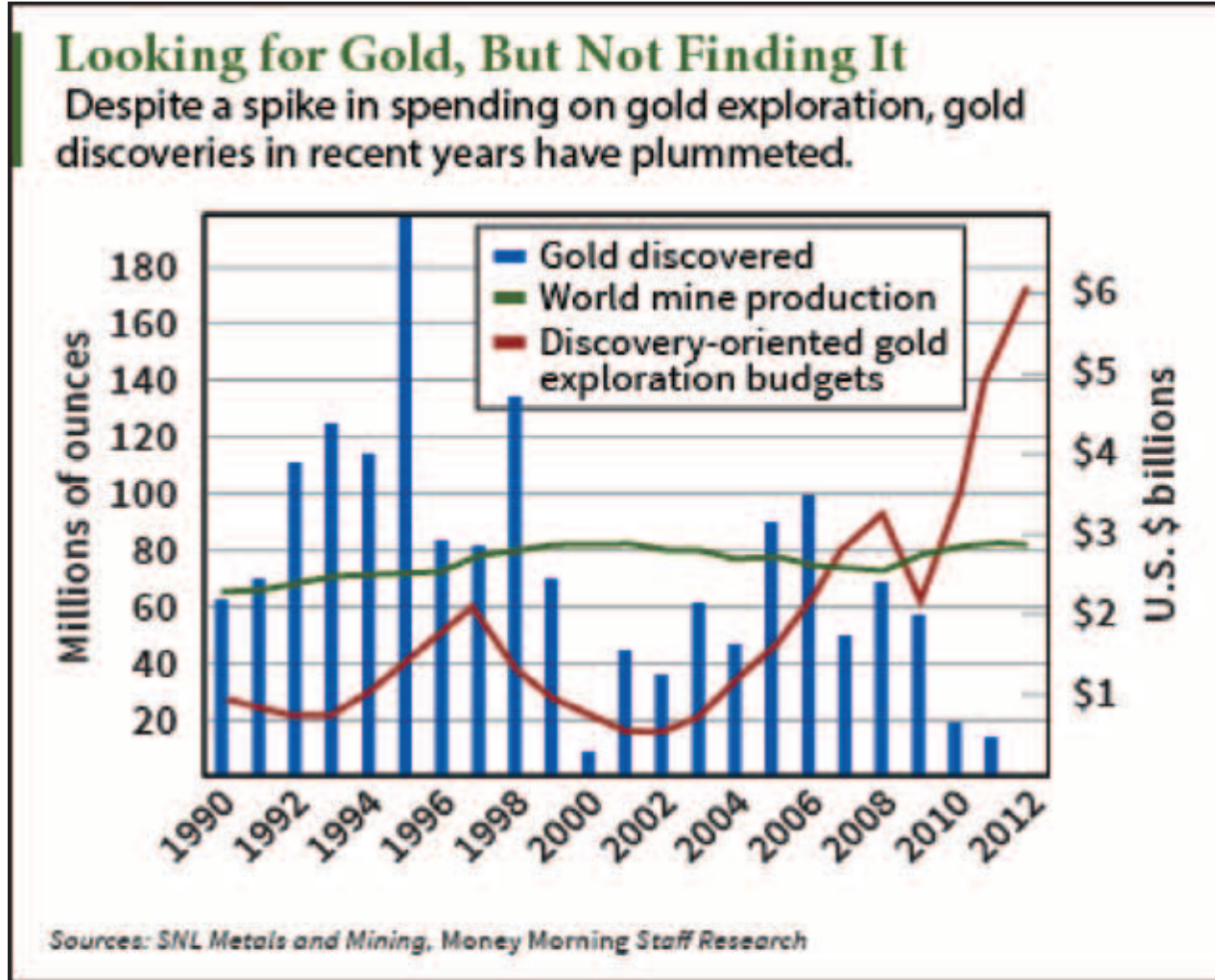
2015 was a very volatile year for global businesses. Greece went into default, crude oil price collapsed to below USD27 per barrel. The China stock market lost over 20% in capitalization and most other market were affected by the slowdown in China. Japan and the Euro Zone went into negative interest rate compounded by an immigrant crisis threatening the unity of the European Union. 2016 came in with a big sell down in the Shanghai and Hong Kong indices followed by devaluation of the Yuan, and in the face of all, gold shot up from USD1,050 to USD1,200 per ounce, then to USD1,285 and is trading above USD1,250 currently.

The mining division took advantage of the situation and unloaded some of its inventories and made some handsome profits. The rationale behind the inventories are two(2) fold;

- i) gold is trading below what we would call total costs. [Direct production cost, investment cost, development cost, all added up]
- ii) it is a scarce commodity and has a perpetual value attached to it.

Just study this graph and you will understand how difficult it is to get a gold mine into production and how underpriced it is. Global statistics shows despite how exploration budgets have increased significantly over the years, gold discoveries have instead been declining year to year.

Chairman's  
Statement (Cont'd)



2. GOLD (CONT'D)

Merapoh Mine

Mining operations in Merapoh have progressed steadily and have produced approximately 27.35kg over the last financial year. Most of the efforts have been spent on evaluating a massive presence of colluvial gold bearing soil and rocks. Intensive trenching, sampling and drilling is ongoing and barring any unforeseen circumstances a resource report will be out in the near future.

Bukit Ibam Mine

Up to date, approximately 1,200 hectares have been mapped.

A heap leaching pilot plant with full production capacity of 7,000 tons per cycle will be implemented once approval is granted for the process. We are confident we will recover more gold from this tenement and have set a realistic recovery target of 60% of gold from the gold bearing ores through a non toxic leaching process.



## Chairman's Statement (Cont'd)

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### 2. GOLD (CONT'D)

#### Inventory

The group holds the view that gold should be treated as a perpetual asset to back its shares and to be cashed only when there is profit or through the sale of it through gold convertibles. The group is now studying how best it is to utilize this inventory. As at 31 March 2016, the Group holds 18,863.14 ounce in gold inventory amounting to USD24,144,819.20 at USD1,280.00 per ounce (equivalent to RM94,164,794.00 at exchange rate of 3.9) .

### 3. PROPERTIES/ RESOURCES BASED PROPERTIES

The group currently owns a Land Bank of over 812 acres with some properties containing limestone reserves of over 20 million tons.

Plans are afloat to crush the overburden into aggregates as a feedstock to a clinker plant that is being planned for the eastern part of Sabah. Once the plant comes into operations, the group hopes to be the main supplier to this plant.

We are hopeful that the supply to this clinker plant will start to contribute significantly to the Group's revenue in the near future.

### 4. BOARD CHANGES

On behalf of the Board , I would like to take this opportunity to welcome Mr. Chan Keng Leong , who joined the Board as an Executive Director on 5 November 2015. Mr. Chan has very wide experience in the petroleum and renewable energy industry having served Petronas at a very Senior level for over 25 years.

### 5. DIVIDEND

The Board does not propose any payment of dividend for the financial year ended 31 January 2016 but will certainly revisit this issue in the next financial year.

### 6. ACKNOWLEDGEMENT

On behalf of the Board of Directors and its Management, I would like to express my sincere appreciation to:

- (a) our most valued shareholders, Hap Seng Insurance Services Sdn Bhd and Victoria Limited for their unwavering support, both morally and financially;
- (b) our customers, suppliers, bankers, advisors, business associates, management, staff at all levels, the relevant authorities and government agencies for their continual support, commitment, contribution and confidence in our Group; and

last but not least, to our ever faithful shareholders who have stood by us through thick and thin.

**Mr. Tan Kok Chor**

Chairman  
28 April 2016

# Director's Profile

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## Tan Kok Chor

Chairman

(Independent Non-Executive Director)

Mr. Tan Kok Chor, aged 66, was appointed to the Board of Borneo Oil Berhad on 21 August 2001. He has more than 10 years experience in legal line which involved litigation, conveyancing and preparing legal documentation and related matters. He holds various directorships in several other private limited companies, incorporated in Malaysia.

## Chan Keng Leong

(Executive Director)

Mr. Chan Keng Leong, aged 69 was appointed to the Board of Borneo Oil Berhad on 5 November 2015. He has been serving in Borneo Oil Berhad's subsidiaries in various senior managerial capacities since 2006 after retirement from Petronas where he has served for 29 years.

As an Executive Director of Borneo Oil Berhad, he has been entrusted to spearhead the renewable energy project and other new projects. He is expected to provide significant contributions to the management of these projects drawing from his vast domestic and international working experiences and exposure in broad spectrum of oil and gas, and petrochemical industries being served as Petronas Country Manager (Philippines), Chief Executive Officer ("CEO's"), Board Directors and General Managers during his long career with Petronas.

He will work with other Board members and also provide stewardship to the project teams to accomplish these projects.

## Teo Kiew Leong

(Executive Director)

Mr. Teo Kiew Leong, aged 51, obtained his college education at Graphic Design & Photography, Regent Fine Art & Design Academy, Kuala Lumpur. He joined the group in 1986.

In 1989, he headed the Graphic Department and work closely with both the project and marketing departments.

In 2002, he was involved and responsible for the New Kitchen settings and layout together with products development and implementation when the company revamped its existing traditional OSR Western Menu to introducing new Asian Cuisine Meals. This paradigm shift to create the differentiation and variety in menu offerings largely contributed to the success of the group today.

In June 2005, he was appointed the General Manager and subsequently the Executive Director since 2007. Under him, the Franchise division grew from 14 to over 85 outlets in less than 6 years.

## Director's Profile (Cont'd)

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### Seroop Singh Ramday (Independent Non-Executive Director)

Mr. Seroop Singh Ramday, aged 58, has over 30 years of international experience in a UK government Trade and Industry accredited management consultant since the late 1980's and is also listed on the 'National Business Link Consultants register'. He has been actively engaged on the UK government initiatives on developing UK SMEs within a board sector of industry in their global marketing strategy. This has included leading on international trade missions.

He is a United Nations / ITU registered independent expert on development projects having delivered UN assignments across Asia and Africa.

In the UK, he has worked very closely with one of the largest regional development authority 'Advantage West Midlands', Business Links, and the Department of Trade and Industry in the formulation of policy and the development and delivery of effective business support initiatives. He was Vice Chairman of the West Midlands Minority Ethnic Business Forum, a strategic body that advises the regional development authority, a founder board member of The Institute of Oriental Business in Birmingham and Executive Director of the Coventry and Warwickshire Minority Business Association.

Prior to returning to Malaysia in 2014, he set up and headed a novel research and technology company in the UK. He successfully engineered technology and collaborations with 2 Fortune 500 multinationals including securing global commercial licensing agreements.

### Michael Moo Kai Wah (Independent Non-Executive Director)

Mr. Michael Moo Kai Wah, aged 64 is a Non-Executive Director appointed to the Board of Borneo Oil Berhad on 15 January 2008. He obtained his college education at the University of Huddersfield, United Kingdom in 1977 in Business Studies.

He had more than 10 years working experience in the United Kingdom and in Malaysia in accounting, tax, audit and secretarial matters. He is also actively involved in his alma mater as board treasurer for the past 10 years.

# Statement on Corporate Governance

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The Board of Directors of Borneo Oil Berhad recognizes the importance of good Corporate Governance as the fundamental means in discharging its corporate responsibilities by ensuring that it is answerable not just to the Company's shareholders but to all its stakeholders.

The Board is therefore committed to the Malaysian Code of Corporate Governance 2012 ("the Code") and the main Market Listing Requirements of Bursa Malaysia Securities Berhad of adopting the high standards of corporate governance within the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and financial performance of the Group.

The Board is pleased to report to the shareholders the following statement on corporate governance and the extent of compliance with the best practices as prescribed by the Code during the financial year ended 31 January 2016.

## **(A) PRINCIPLE 1 - ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT**

### **I. The Board's Roles and Responsibilities**

The Company recognizes the importance of the Board in providing a sound base for good corporate governance in the operations of the Group.

The Group is headed by the Board that leads and manages the Group in an effective and responsible manner to fulfill its primary responsibility to shareholders for the welfare of the Company. Hence, the Board is responsible for the overall corporate governance of the Group, its strategic direction, establishing goals for management and monitoring the achievement of these goals and addressing the sustainability of the Group's business. The Board's other primary duties are to conduct regular review of the Group's business operations and performances, risk assessment and to ensure that effective controls and systems are in place to measure and manage business risks.

The Board assumes the following specific duties in the management of affairs of the Group:

- Establishing and reviewing the strategic direction of the Group;
- Overseeing and evaluating the conduct of the Group's business;
- Identifying principal risks and ensure that the risks are properly managed;
- Establishing a succession plan;
- Developing and implementing an investors relations programme or shareholder communication policy; and
- Reviewing the adequacy of the internal control policy.

The Board delegates the day-to-day management of the Company to the Chief Operation Officer (COO) and EDs (Executive Directors), but reserves for its consideration, significant matters such as the following:

- Annual budgets
- Approval of financial results
- Business plans and restructuring
- Issuance of securities
- Disposal or acquisition of undertakings and assets
- Appointment of key management persons

## Statement on Corporate Governance (Cont'd)

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### (A) PRINCIPLE 1 - ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT (CONT'D)

#### I. The Board's Roles and Responsibilities (Cont'd)

The Board has established the roles and responsibilities of the Independent Non-Executive Chairman which is distinct and separate from the duties and responsibilities of the COO and ED. This segregation between the duties of the Independent Non-Executive Chairman and the COO and ED ensures an appropriate balance of role, responsibility and accountability at Board level. The Board does not consider it necessary to nominate a recognized Senior Independent Non-Executive Director (NED) given the separation of the roles of the Chairman who is an Independent NED and the COO cum ED.

The Independent Non-Executive Chairman is primarily responsible for the orderly conduct and effective running of the Board, whilst the COO and ED have overall responsibility for the operating units, organizational effectiveness and implementation of the Board's policies and decision.

The Independent NEDs are not employees and they do not participate in the day-to-day management of the Company. In staying clear of any potential conflict of interest situation, the Independent Directors remain in a position to fulfill their responsibility to provide unbiased and independent views, advice and judgement.

A brief profile of each Director is presented on pages 9 to 10 of this Annual Report.

#### II. Board Meetings and Supply of Information

Board and Audit Committee meetings for the ensuing financial year are scheduled in advance in the last quarterly meeting of the current financial year to enable the management to plan ahead and ensure timely preparation of information for dissemination to the Directors. The Company Secretary, under the direction of the Chairman, ensures a balanced flow of information is disseminated for decisions to be made on an informed basis and for the effective discharge of the Board's responsibilities.

The agenda for the meetings of the Board are set by the Company Secretary in consultation with the Chairman and the other Board members. The Board has a regular schedule of matters which are typically on the agenda and reviewed during the course of the year.

Prior to the Board and Board Committee meetings, a formal and structured agenda, together with a set of Board and Board Committee papers and the relevant reports, are forwarded to all the Directors at least five (5) days prior to the Board and Board Committee meetings. All information and documents are provided on a timely manner so that members are given sufficient time to prepare and, where necessary, obtain additional information or clarification prior to the meeting to ensure effectiveness of the proceeding of the meeting. The Board papers, which are prepared and presented in concise and comprehensive manner that ensure a clear and adequate understanding of the subject matter, include, amongst others, the following:

- Minutes of the previous meeting;
- Quarterly and annual financial statements and reports;
- Internal audit plans and reports;
- Proposal for major investments and financial undertakings;
- Documentation on policies, procedures and control system; and
- Documents relating to ad-hoc development or issues.

Confidential papers or urgent proposals are presented and tabled at the Board meetings under supplemental agenda.

## Statement on Corporate Governance (Cont'd)

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### (A) PRINCIPLE 1 - ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT (CONT'D)

#### II. Board Meetings and Supply of Information (Cont'd)

The Chairman of the Audit Committee would inform to the Board meetings on salient views and conclusions of the Audit Committee meetings which deliberate on recommendation for Board's approval on actions that may be required to be taken by the management.

The Board firmly believes that effective deliberation and its decision making process is highly dependent on the quality of information furnished by the Management.

Every Director has full and unrestricted access to any information pertaining to the Group's affairs and business and to obtain the advice and services of the Company Secretary, management representative and, if deemed necessary and where appropriate, seek advice from other independent professional advisors and internal/external auditors for furtherance of their duties at the Company's expense. Senior management officers and external advisers may be invited to attend Board meeting when necessary, to furnish the Board with explanations and comments on the relevant agenda, items tabled at the Board meetings or to provide clarification on issue(s) that may be raised by any Director.

There is also a formal procedure approved by the Board for all Directors, whether acting a full Board or Board Committee, or in their individual capacity, to obtain independent professional advice, when necessary, at the Company's expense. Prior to engaging an independent advisor, approval must be obtained from the Chairman and, where applicable, the Chairman may circulate the need for external advice to the Board.

The minutes of Board and Audit Committee meetings are circulated together with the notice of the following meetings to Directors/ members for their perusal at least five (5) days before the meeting and to be confirmed as a correct record of the proceeding thereat at the commencement of the following Board/Committee meeting. The Directors/members may request for clarification or raise comments before the minutes are tabled for confirmation.

Any Director who has an interest in any transaction has a duty to declare immediately to the Board. An interested Director is required to abstain from deliberations and decisions of the Board on the transaction. In the event the transaction needs shareholders' approval, the interested Director is required to abstain from voting in respect of his shareholding and will also undertake to ensure that persons connected to him are to abstain from voting on the resolution.

#### III. Company Secretary

The key role of the Company Secretary is to provide unhindered advice and services for the Directors as and when the need arises, to enhance the effective functioning of the Board and to ensure regulatory compliance.

The Board is supported by a suitably qualified and competent Company Secretary in discharging his/her roles and responsibilities. Every Board member has ready and unrestricted access to the advice and services of the Company Secretary in ensuring the effective functioning of the Board. The Company Secretary also ensures compliance of Listing Requirements and related statutory obligations and procedures are followed and any deviation minimized.

The Company Secretary organizes and attends all Board and Board Committee meetings. All pertinent issues discussed at Board and Board Committee meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretary by way of minutes of meetings and are signed by the Chairman of the meeting and maintained in the statutory register at the registered office of the Company. He / She keeps the Board updated on regulatory developments if there is change, either by writing or briefing in the meeting.

## Statement on Corporate Governance (Cont'd)

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### (A) PRINCIPLE 1 - ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT (CONT'D)

#### IV. Code of Best Practice for Directors

The Board continues to adhere to the Code of Best Practice for Directors which sets out the standard of conduct expected of Directors with the aim to cultivate good ethical conduct that in turn promotes the values of transparency, integrity, accountability and social responsibility.

### (B) PRINCIPLE 2 - STENGTHEN COMPOSITION OF THE BOARD

#### 1.1 Board Evaluation

The effectiveness of the Board is assessed in the areas of the Board's responsibilities and composition, administration and conduct of meetings, communication and interaction with management and stakeholders and board engagement.

There is diversity among the Board, as it comprises of members from various professions and specialization in various fields including property development, management, marketing, administration, finance and accounting. This well-balanced pool of expertise contributes towards making the Board effective and competent in discharging their duties and responsibilities which, amongst others, include the following:

- Review the adequacy of the internal control systems
- Establish goals for management and monitor the achievement of these goals
- Approve financial results and declare/recommend dividends
- Review new investment and business ventures
- Approve annual budgets and capital expenditures
- Review and approve long and medium term strategic plans
- Approve the appointment and remuneration of Directors and Senior management staff

The roles and functions of the Board including the executive and non-executive Directors are clearly defined in the Board Charter which regulates how business is to be conducted by the Board in accordance with the principles of good Corporate Governance.

The Board acknowledges the recommendation of the Malaysian Code of Corporate Governance 2012 on the establishment of a gender diversity policy for the Board. There is no plan by the Board to implement a gender diversity policy or target, as the Group adheres to the practice of non-discrimination of any form, whether based on age, gender, race or religion, throughout the Group. This includes the selection of Board members. The Company believes in, and provides equal opportunity to candidates with merit. The Group is of the view that the suitability of a candidate for the Board is dependent on the candidate's skills, expertise, experience, character, time commitment, integrity and other qualities in meeting the needs of the Company, regardless of gender.

#### 1.2 Board balance

The Board currently has five (5) members, comprising:

- 1 Chairman, who is an Independent Non-Executive Director
- 2 Executive Directors, and
- 2 other Independent Non-Executive Directors,

## Statement on Corporate Governance (Cont'd)

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### **(B) PRINCIPLE 2 - STENGTHEN COMPOSITION OF THE BOARD (CONT'D)**

#### **1.2 Board balance (Cont'd)**

which fulfill the prescribed requirement for a minimum of 2 directors or 1/3 of the Board to be independent as stated in Chapter 15.02 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, as well as the requirement for a director who is a member of the Malaysian Institute of Accountants to sit in the Audit Committee. A brief profile of each of the Directors is also presented in this Annual Report.

The current composition of the Board is considered fairly balanced to complement itself in providing the industry-specific knowledge, technical and commercial experience. This balance enables the Board to provide clear and effective leadership to the Company and to bring informed and independent judgement to various aspects of the Company's strategies and performance.

The Independent Directors play an important role in ensuring impartiality of the Board's deliberations and decision-making process. The presence of Independent Directors fulfills a pivotal role in corporate governance accountability, as they provide unbiased and independent views and advice in ensuring that the strategies proposed by the executive members of the Board and management are fully deliberated and examined in the long-term interests of the Group, as well as the shareholders, employees, customers, business associates and the community as a whole.

#### **1.3 Appointment to the Board**

The procedures for appointments to the Board are formal and transparent.

Candidates for appointment to the Board as Independent Non Executive-Directors are selected after taking into consideration the mix of skills, experience and strength that would be relevant for the effective discharge of the Board's responsibilities. Potential candidates are evaluated based on their respective profiles as well as their character, integrity, professionalism, independence and also their ability to commit sufficient time and energy to the Company's matters.

#### **1.4 Directors' Training**

The Board fully supports the need for its members to further enhance their skills and knowledge on relevant new laws and regulations and changing commercial risk to keep abreast with the developments in the economy, industry, technology and the changing business environment within which the Group operates.

All the Directors have completed the Mandatory Accreditation Programme and Continuing Education Programme ("CEP") as required by Bursa Malaysia Securities Berhad. The Directors are mindful that they should receive continuous training in order to broaden their perspectives and equip them with the necessary skills to effectively discharge their duties as Directors of the Company.

In addition, the Directors were also briefed by the Company Secretary from time to time on updates and changes of statutory requirements such as amendments to Main Market Listing Requirements.

#### **1.5 Re-election of Directors**

The Company's Articles of Association provides that Directors newly appointed by the Board shall hold office until the next following Annual General Meeting ("AGM") and shall be eligible for re-election.

In accordance with the Company's Articles of Association, one third (1/3) of the directors shall retire from office and be eligible for re-election at each Annual General Meeting.



## Statement on Corporate Governance (Cont'd)

### (B) PRINCIPLE 2 - STENGTHEN COMPOSITION OF THE BOARD (CONT'D)

#### 1.5 Re-election of Directors (Cont'd)

The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who become Directors on the same day those to retire (unless they otherwise agree among themselves) shall be determined by lot.

Re-appointments are not automatic and all directors shall retire from office at least once in every three(3) years but shall be eligible for re-election by shareholders in the Annual General Meeting.

Pursuant to Section 129(2) of the Companies Act, 1965, the office of a Director of or over the age of seventy(70) years becomes vacant at the conclusion of every AGM unless he is re-appointed by a resolution passed at such an AGM of which no shorter notice than that required for the AGM has been duly given and by majority of not less than 75% of all members present and voting at such AGM.

In accordance with Bursa Malaysia Securities Berhad Main Market Listing Requirements, each member of the Board holds not more than ten(10) directorships in public listed companies and not more than fifteen(15) directorships in non-public listed companies. This ensures that the Board's commitment, resources and time are focused on the affairs of the Group to enable them to discharge their duties effectively

### 2. DIRECTOR'S REMUNERATION

The current remuneration of the Non-Executive Directors at Company level is based on a standard fee determined by the Board that reflects their expected roles and responsibilities and is subject to the approval of shareholders at the AGM. The Directors are also reimbursed reasonable expenses incurred by them in the course of carrying out their duties on behalf of the Company.

The remuneration of the Directors categorized into appropriate components for the Financial Year ended 31 January 2016 are as follows:

Category	EDs RM	Non-EDs RM	Total RM
Fees	69,000	93,500	162,500
Salaries	198,100	–	198,100
Incentives	3,684	–	3,684
<b>Total</b>	<b>270,784</b>	<b>93,500</b>	<b>364,284</b>

The number of Directors whose total remuneration falls within the following bands for the financial year ended 31 January 2016 are as follows:

Range of Remuneration	Number of Directors	
	Executive Directors	Non- Executive Directors
Below RM50,000	1	3
RM50,001 to RM100,000	–	–
RM100,001 to RM150,000	–	–
RM150,001 to RM200,000	–	–
Above RM200,000	1	–

## Statement on Corporate Governance (Cont'd)

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### **(C) PRINCIPLE 3 - REINFORCE INDEPENDENCE OF THE BOARD**

The Board is mindful on the importance of independence and objectivity in its decision making process which is in line with the Malaysian Code of Corporate Governance (MCCG) 2012.

The Board delegates to the Chairman who is supported by the Executive Management team, implements the Company's strategic plan, policies and decision adopted by the Board to achieve the Group's objective of creating long-term value for its shareholders through excelling in customer service and providing sustainable community, reputation and environment impact.

The Company's Independent Directors are required to be independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgment taking into account the interest, not only of the Company but also of shareholders, employees, customers and communities in which the Company conducts business.

Any Director who considers that he/she has or may have a conflict of interest or a material personal interest or a direct or indirect interest or relationship that could reasonably be considered to influence in a material way the Director's decisions in any matter concerning the Company, is required to immediately disclose to the Board and to abstain from participating in any discussion or voting on the respective matter.

During the financial year under review, the Board assessed the independence of its Independent Non-Executive Directors based on criteria set out in the Main Market Listing Requirement(MMLR) of Bursa Malaysia Securities Berhad.

The Board is aware of the recommended tenure of an Independent Director which should not exceed a cumulative term of nine(9) years as recommended by MCCG 2012 and that an Independent Director may continue to serve the Board if the Independent Directors is re-designated as a Non-Independent Non-Executive Director upon completion of nine(9) years tenure.

Furthermore, the Board must justify the decision and seek shareholders' approval at general meeting if the Board intends to retain the Director as Independent after the respective Independent Director has served a cumulative term of nine (9) years.

The Board further wishes to highlight that in accordance with the Company's Articles of Association, all the Directors are subject to retirement at the AGM every year.

### **(D) PRINCIPLE 4 - FOSTER COMMITMENT OF DIRECTORS**

The Board endeavours to meet at least four(4) times a year, at quarterly intervals which are scheduled well in advance before the end of the preceding financial year to facilitate the Directors in planning their meeting schedule for the year. Additional meetings are convened where necessary to deal with urgent and important matters that require attention of the Board. All Board meetings are furnished with proper agenda with due notice issued and board papers and reports are prepared by the Management to provide updates on financial, operational, legal and circulated prior to the meetings to all Directors with sufficient time to review them for effective discussions and decision making during the meetings.

All pertinent issues discussed at the Board meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretaries.

It is the Board's policy for Directors to notify the Chairman before accepting any new directorship notwithstanding that the MMLR allows a Director to sit on the board of five(5) listed issuers. Such notification is expected to include an indication of time that will be spent on the new appointment.

In order to enable Directors to sustain active participation in board deliberations, the Directors have access to continuing education programmes or trainings. The Director have devoted sufficient time to update their knowledge and enhance their skills through such trainings.

The Directors have also from time to time visited existing stores/outlets and or new sites to familiarize and have a thorough understanding of the Group's operations.

## Statement on Corporate Governance (Cont'd)

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### **(E) PRINCIPLE 5 - UPHOLD INTEGRITY IN FINANCIAL REPORTING**

The Board takes responsibility for presenting a balanced and understandable assessment of the Group's operations and prospects each time it releases its quarterly announcements and annual financial statements to shareholders. The Audit Committee reviews the information to be disclosed to ensure its accuracy and adequacy.

A statement by the Directors of their responsibilities for the financial statements is incorporated within the Director's Report and Statement by Directors.

#### **(a) Financial Reporting**

These financial statements are drawn up in accordance with the provisions of the Companies Act 1965, Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards and are reviewed by the Audit Committee prior to approval by the Board. In compliance with statutory requirements, the annual accounts are subjected to audit by an independent external auditor.

#### **(b) Related Party Transactions**

The Company practices an internal compliance framework in identifying and assessing related party transactions. The Board, through the Audit Committee reviews all related party transactions. A Director who has an interest in a transaction must abstain from deliberation and voting on the relevant resolution in respect of such transaction.

#### **(c) Internal Control**

The Directors acknowledge their responsibility for the Group's system of internal controls, which is designed to identify and manage the risks facing the business in pursuit of its objectives. The system of internal control covers management and financial risks, organizational, operational and compliance controls to safeguard shareholders' investments and the Group's assets. This system, by its nature, can only provide reasonable and not absolute assurance against misstatement or loss.

The Board undertakes ongoing reviews of the key operational and financial risks facing the Group's businesses together with those areas relating to compliance with laws and regulations. The monitoring arrangements in place give reasonable assurance that the structure of controls and operation is appropriate to the Company's and the Group's situation and that there is an acceptable level of risk throughout the Group's businesses.

The state of internal control within the Group and reports of the results are set out in the Statement on Risk Management and Internal Control.

#### **(d) Relationship with the Auditors**

The Company through the Audit Committee, has an appropriate and transparent relationship with the external auditors. In the course of the audit of the Group's financial statements, the external auditors will highlight to the Audit Committee, matters that require the Board's attention.

The Audit Committee had on certain meetings and on a separate session, met up with the external auditors without the presence of the Executive Directors and Management during the financial year ended 31 January 2016.

## Statement on Corporate Governance (Cont'd)

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### **(F) PRINCIPLE 6 - RECOGNISE AND MANAGE RISKS**

The Board recognizes the importance of a sound risk management framework and internal control system in order to safeguard the Group's assets and therefore, shareholders' investments in the Group.

The Board affirms its overall responsibility for the Group's system of internal controls. This includes reviewing the adequacy and integrity of financial, operational and compliance controls and risk management procedures within an acceptable risk profile. Since certain risks and threats are externally driven, unforeseen and beyond the Group's control, the system can only provide reasonable assurance against misstatement or loss.

The Board had put in place an ongoing process for identifying, evaluating and managing significant risks faced by the Group. The implementation and maintenance of the risk management process is carried out by the Risk Management Committee.

A Statement on Risk Management and Internal Control which provides an overview of the state of internal controls within the Group is set out in pages 25 to 29 of this Annual Report.

### **(G) PRINCIPLE 7 - ENSURE TIMELY AND HIGH QUALITY DISCLOSURE**

The Company recognizes the importance of effective and timely communication with shareholders and investors to keep them informed of the Group's latest financial performance and material business/corporate matters affecting the Company. It has put in place Corporate Disclosure Policies and Procedures to ensure communications to the public are timely, factual, accurate, complete, broadly disseminated in accordance with the Listing Requirements and other applicable laws.

The Company maintains a corporate website at [www.borneo-oil.com.my](http://www.borneo-oil.com.my) which provides information relating to the Group's background, products, annual reports, press releases, quarterly results and announcements made to Bursa Malaysia Securities Berhad.

### **(H) PRINCIPLE 8 - STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS**

It has always been the Group's practice to maintain good relationship with its shareholders. Major corporate developments and activities in the Group have always been duly and promptly announced to all shareholders, in line with Bursa Malaysia Securities Berhad's objectives of ensuring transparency and good corporate governance practices.

At every AGM, the Chairman sets out the Group's performance and major activities that were carried out by the Group during the financial year under review. Shareholders will have the opportunity to enquire and comment on the Group's performance and operations.

The Notice of the AGM is circulated at least twenty-one (21) days before the date of the AGM, if special Resolution required, to enable shareholders to go through the Annual Report and papers supporting the resolutions proposed. Shareholders are invited to ask questions on any of the resolutions as proposed before putting to vote by a show of hands.

The shareholders were informed of their right to demand for a poll. After all resolutions were duly passed and approved, the outcome of the AGM shall be announced to Bursa Malaysia Securities Berhad on the same meeting day.

## Statement on Corporate Governance (Cont'd)

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### OTHER ADDITIONAL COMPLIANCE INFORMATION

#### Share Buy-Back

The Company had obtained its shareholders' approval at the Extraordinary General Meeting to buy back shares of the Company.

Treasury shares relate to ordinary shares of the Company that are held by the Company. The amount consists of the acquisition costs of treasury shares net of proceeds received on their subsequent sale or issuance.

The Company acquired 164,040,000 (2015 : 6,786,000) shares in the Company through purchase from the open market during the financial year. The total amount paid to acquire the shares was RM25,929,487 (2015-RM5,026,256). The average cost paid for the shares repurchased was RM0.155 (2015- RM0.74) per share, including transaction costs. This was presented as a component within shareholder's equity.

As at 31 January 2016, the Company has 164,040,000 (2015:623,000) ordinary shares held as treasury shares.

#### i. Options, Warrants or Convertible Securities

The Company has not issued any options, warrants or convertible securities during the financial year, other than the granting/exercise of options under the Employees Share Option Scheme as disclosed in the Directors' Report.

The exercise period for the warrants 2008/2018 is ten years commencing from 29 February 2008 and expiring 28 February 2018.

The exercise period for the warrants 2015/2025 is ten years commencing from 9 November 2015 and expiring 8 November 2025.

#### ii. American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programme

During the financial year, the Group did not sponsor any ADR or GDR programme.

#### iii. Non-Audit Fees

The Non-audit fees paid/payable to the External Auditors, STYL Associates, Chartered Accountants (AF-1929) for the financial year ended 31 January 2016 amounted to RM110,000.

#### iv. Profit Guarantees

There were no profit guarantees given by the Group during the financial year ended 31 January 2016.

#### v. Variance in results

There were no material variances of 10% or more in the profit after tax and minority interest between the audited and unaudited results announced for the financial year ended 31 January 2016.

#### vi. Sanctions and/or Penalties

There were no public sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year ended 31 January 2016.

### COMPLIANCE STATEMENT

The Board has deliberated, reviewed and approved this Statement on Corporate Governance. The Board of Directors of Borneo Oil Group is satisfied that to the best of its knowledge, save for the above relevant explanations, the Company has applied the broad principles and recommendations of the Code throughout the financial year ended 31 January 2016. The Company will continue to strengthen its governance practices to safeguard the best interest of its shareholders and stakeholders.

# AUDIT

## Committee Report (In compliance with Paragraph 15.09(1)(a) of Bursa Malaysia Securities Berhad Main Market Listing Requirement)

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### MEMBERS OF THE AUDIT COMMITTEE

The Audit Committee was established in July 1999 to act as a committee for the Board of Directors. It comprises of 3 independent non-executive Directors as follows:

Tan Kok Chor	(Chairman)	<i>(Independent Non Executive Director)</i>
Michael Moo Kai Wah	(Member)	<i>(Independent Non Executive Director)</i>
Seroop Singh Ramday	(Member)	<i>(Independent Non Executive Director)</i>

### TERMS OF REFERENCE

#### Composition

The Audit Committee must comprise at least three (3) members and all members must be Non-Executive Directors, with the majority of whom are independent, including the Chairman. Any vacancy, resulting in there being no majority of independent Directors or number of members reduced to below three(3), shall be filled within three (3) months.

No alternate director shall be appointed as an Audit Committee member.

#### Meetings and Quorum

The Audit Committee shall meet at least four (4) times a year or at such meetings as the Chairman shall decide in order to fulfill its duties.

The Secretary of the Audit Committee shall be responsible, in conjunction with the Chairman, for

- i. drawing up the agenda and circulating to members of the Audit Committee or other members of the Board of Directors prior to each meeting;
- ii. keeping and recording minutes of the meeting.

The quorum for the Committee meeting shall consist of two (2) members of whom the majority of the members present shall be independent directors.

#### Authority

The Audit Committee is authorized by the Board of Directors to:-

1. investigate any activities within its terms of reference, having full and unrestricted access to any information pertaining to Borneo Oil Berhad and its group of companies ("Group");
2. seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Audit Committee;
3. have the necessary resources which are required to perform its duties and shall have direct communication channels with the external auditors, person(s) carrying out the internal audit function or activity and independent professional advice if it considers necessary;
4. carry out, upon the request of the external auditor, to convene meeting of the Audit Committee, excluding the attendance of the Executive Director if deemed necessary, to consider any matter the external auditor believes should be brought to the attention of the Board of Directors or shareholders;
5. promptly report such matter to Bursa Malaysia Securities Berhad where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements.

# Audit Committee Report (Cont'd)

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## TERMS OF REFERENCE (CONT'D)

### Duties and Responsibilities

The responsibilities and duties of the Audit Committee shall be to review with:-

#### 1. External Auditors

- i. To consider the appointment of the external auditors, the audit fee and any question in relation to resignation or dismissal of the external auditors before making recommendation to the Board.
- ii. To review and discuss with the external auditors, before the audit commences, the nature and scope of audit, and ensure coordination where more than one (1) audit firm is involved;
- iii. To discuss issues, problems and reservations arising from the interim and final audit, and any matter the auditors may wish to discuss and;
- iv. To review external auditors' audit plans, scope of their audits, the audit reports- management letters, major findings and management's responses thereof, and their evaluation of the Group's risk management and internal control system.
- v. To review the quarterly and annual financial statements of the Company and the Group for recommendation to the Board of Directors for approval, focusing particularly on:
  - Changes in or implementation of new accounting policies and practices;
  - Significant adjustments arising from the audit;
  - The going concern assumption; and
  - Compliance with the applicable approved accounting standards and other legal and regulatory requirements.

#### 2. Internal auditors

- i. To review the adequacy of the scope, functions, competency and resources of the internal auditors, and that it has the necessary authority to carry out its work;
- ii. To Review the internal audit programme, consider the major findings of internal audits and Management's responses, and ensure coordination between the internal and external auditors.
- iii. To review the audit reports.
- iv. To direct and where appropriate supervise any special project or investigation considered necessary.
- v. To prepare periodic reports to the Board summarizing the work performed in fulfilling the Audit Committee's primary responsibilities.
- vi. To determine the remit of internal audit function which reports directly to the Audit Committee. The internal audit function should be independent of the activities they audit and should be performed with impartiality, proficiency and due professional care.
- vii. Any other functions as may be agreed to by the Audit Committee and the Board of Directors, or as may be required or empowered by statutory legislation or guidelines issued by the relevant governing authorities.

# Audit Committee Report (Cont'd)

## ACTIVITIES OF THE AUDIT COMMITTEE DURING THE YEAR

The main activities carried out by the Audit Committee during the financial year 31 January 2016 include the following:-

### a. Attendance of Meetings

There were Four (4) Audit Committee meetings held during the financial year ended 31 January 2016. The details of attendance of each member at the Audit Committee meetings are as follows:

Name of Committee Members	No. of meetings attended
(i) Mr Tan Kok Chor (Chairman)	4/4
(ii) Mr Michael Moo Kai Wah (Member)	4/4
(iii) Mr Seroop Singh Ramday (Member) - Appointed on 24 <sup>th</sup> April 2015	3/4

### b. Financial Reporting

Review the quarterly and annual financial statements of the Group and of the Company for recommendation to the Board for approval, focusing particularly on:

- any changes in or implementation of major accounting policies and practices;
- Significant adjustments and unusual events arising from the audit;
- The going-concern assumption; and
- Compliance with applicable accounting standards, Listing Requirements of Bursa Malaysia and other legal and regulatory requirements.

### c. Internal Audit

- (i) Reviewed the annual audit plan to ensure adequate scope and coverage on the activities of the Company and the Group, taking into consideration the assessment of key risk areas; and
- (ii) Reviewed the internal audit reports, audit recommendations made and Management's responses thereof. Where appropriate, the Committee has directed action to be taken by Management to rectify and improve the risk management and internal control system and procedures, based on internal audit's recommendations and suggestions for improvement.

### d. External Audit

- (i) Reviewed the external auditors' scope of work and audit plan for the year;
- (ii) Reviewed with external auditors the results of the audit and the audit report in particular, and accounting issues and significant audit adjustments arising from the external audit; and
- (iii) Evaluated the performance of the external auditors and made recommendations to the Board of Directors on their appointment and remuneration.

### e. Risk Management

Reviewed the risk management activities and the adequacy and effectiveness of risk management, internal control and governance systems instituted in the Company and the Group.



## Audit Committee Report (Cont'd)

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### ACTIVITIES OF THE AUDIT COMMITTEE DURING THE YEAR (CONT'D)

f. Related Party Transactions

- review any related party transaction and conflict of interest situation that may arise within the Group and the Company to ensure that they are in the best interest of the Group; fair, reasonable and on normal commercial terms; and not detrimental to minority interest;
- Review the procedures of recurrent related party transactions undertaken by the Company and the Group; and
- Ensure full disclosure of all related party transactions and full compliance with periodic reporting and financial requirements.

g. Bursa Reporting

- Report promptly to Bursa Malaysia Securities Berhad if it is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements; and
- Review the application of corporate governance principles and the extent of the Group's compliance with the best practices as set out in the Code.

### INTERNAL AUDIT FUNCTIONS

The scope of internal audit covers the examination and evaluation of the adequacy and effectiveness of the Group's system of internal control, the efficiency of operations and the quality of performance in carrying out assigned responsibilities.

The Internal Auditors' primary function is to submit audit reports that highlight risk and control weaknesses and provide suitable recommendations for improvement to reassure senior management and the Audit Committee on the state of internal control of the Group.

The Group paid a total fee of RM103,500.00 for internal audit services rendered in respect of financial year ended 31 January 2016.

Further details on the internal audit functions are set out in the Statement on Risk Management and Internal Control of this Annual Report.

# Statement on Risk Management and Internal Control

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Pursuant to paragraph 15.26 (b) of Bursa Malaysia Securities Berhad's Main Market Listing Requirements, the Board of Directors of Borneo Oil Berhad is pleased to provide the following Statement on Risk management and Internal Control of the Group, which had been prepared in accordance with the guidelines on "Statement on Risk Management & Internal Control: Guidance for Directors of Listed Issuers".

## Board Responsibility

The Board acknowledges that it is ultimately responsible for the adequacy and effectiveness of the Group's systems of risk management and internal controls to safeguard all its stakeholders' interests and the Group's assets. This is vital to ensure that they are consistent with the overall Group's objectives with the help of the systems operated within an environment where losses and liabilities arising from risks, uncertainty and random events to be minimized, protected against and even avoided altogether. However, such a system is designed to manage the Group's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Group. Accordingly, the systems of risk management and internal controls can only provide reasonable but not absolute assurance against material misstatement of financial information and records or against financial losses or fraud.

## The Risk Management Process

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and has put in place a structured risk management framework which includes the following key elements:

- Guiding principles of the risk management framework;
- Approach to risk management;
- Approach in reviewing and monitoring significant risks;
- Regular review of the effectiveness of internal controls.

The framework and an internal control systems as integrated in the Group's operations and working culture are applied continuously throughout the year, to determine, evaluate and manage the significant risks of the Group. Hence, any significant risk arising from factors within the Group and from changes in business environment can be addressed on a timely basis. The risk management process is regularly reviewed with updating the system of internal controls when there are changes to the business environment or regulatory guidelines by the Board via the Audit Committee and in accordance with the Guidelines.

## 1. Risk Management

### a. Roles and Responsibilities

The Group adopts a decentralized approach to risk management, whereby all employees take ownership and accountability for risks at their respective levels. The process of risk management and treatment is the responsibilities of the Heads of Department.

A working group, comprising of key personnels from all departments provides risk management support to the top management for the Group as a whole. The role of the working group includes reporting on an annual basis, the status of the risk mitigation actions, new risks identified and risk that have been changed together with the corresponding controls. This report is submitted annually to the Internal Audit Committee for their oversight role on risk management and the Internal Audit Committee reports to the Board on any significant changes in the business and external environment which affect key risks.

The Finance Manager has provided the Board the assurance that the Group's risk management and internal control systems are operating adequately and effectively, in all material aspects, to ensure achievement of corporate objectives.

The Board is primarily responsible for strategic risks management while the responsibility to address all risks associated with the business operations rests with the top senior management.

## Statement on Risk Management and Internal Control (Cont'd)

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### The Risk Management Process (Cont'd)

#### 1. Risk Management (Cont'd)

##### b. Risk Identification and Assessment

Any emerging new risks will be identified and followed up with the implementation of the control action plans.

The Group's risk appetite defines the amount and types of risk that the Group is able and willing to accept in pursuit of the Group's business objectives. It also sets out the level of risk tolerance and limits to govern, manage and control the Group's risk taking activities. The management has been given a clear line of accountability and the delegated authorities have been established as part of internal control efforts through standard operating procedures.

There was no significant change in the database of risks and corresponding controls during the financial year ended 31 January 2016.

#### 2. Internal Control Function

##### a. The Internal Control Process

The internal control and monitoring procedures include:

- clearly defined systems and procedures, for key operational and financial departments, include maintaining of good operational and financial records and controls and producing an accurate and timely management information;
- control of key financial risks through clearly laid down authorization levels and proper segregation of accounting duties;
- detailed reporting of trading results, balance sheets and cash flow, with regular review by the management;
- regular independent internal audit activities to monitor compliance with procedures and assess the integrity of operational and financial information provided; and
- regular information provided to the management, covering financial performance and key indicators and cash flow performance.

The key elements of the Group's internal control system that is considered as an integral part of the assurance framework are described as follows:

- Organizational Structure

The Board has put in place an organizational structure with formally defined lines of responsibility and delegation of authority for the Board, Committees of the Board and the executive management of the Group's operating units.

The Board and Committees' meetings are held periodically on a scheduled basis to review the performance of the Group on financial and operational perspective, and to carry out their fiduciary duties and responsibilities. Potential business strategies are proposed by the Directors for the Board's review and approval.

## Statement on Risk Management and Internal Control (Cont'd)

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### The Risk Management Process (Cont'd)

#### 2. Internal Control Function (Cont'd)

##### a. The Internal Control Process (Cont'd)

The internal control and monitoring procedures include: (Cont'd)

- Audit Committee

The Audit Committee is responsible for monitoring, overseeing and evaluating the duties and responsibilities of the Internal and External Auditors as those duties and responsibilities relate to the organization's processes for controlling its operations. The Audit Committee also provide an oversight role in the risk management of the Group.

The Audit Committee meets quarterly to review the quarterly results, internal and external audit findings, discuss risk management plans and ensures weaknesses in controls highlighted are appropriately addressed by the Management.

- Internal Audit

The Internal Audit Department review and assess the significant risks and the adequacy and effectiveness of the risk management and internal control system of the Group. Where any significant weaknesses were identified, the Internal Audit Department, together with input from the Management, would recommend measures to improve the risk management and internal control accordingly.

As part of the ongoing process, the Internal Auditor has conducted detailed risk audits on the following areas as identified in the approved audit plan:

- (a) Review of business planning and strategic Management,
- (b) Review of credit assessment, granting of credit limits and terms,
- (c) Policies and procedures review on inventories management,
- (d) Review of sales and marketing strategies and development,
- (e) Review of cash sales monitoring recoverability,
- (f) Review of human resource management, and
- (g) Policies and procedures review on production planning and monitoring.

- Policies and Procedures

Policies and procedures regulating financial and operating activities are documented in Employee handbook manuals as the key framework for good internal control practices. These manuals are subject to regular reviews and updates to reflect the changing business risks and to resolve operational deficiencies, if any. The employees of the Group are aware of the objectives of the risk management and the need for the various checks and balances put in place as mentioned in the manual to achieve effective internal control.

## Statement on Risk Management and Internal Control (Cont'd)

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### The Risk Management Process (Cont'd)

#### 2. Internal Control Function (Cont'd)

##### b. Monitoring Process

- Authority Levels

The Board clearly defines delegated authority levels for revenue and capital expenditure. The approval of capital and revenue proposals exceeding authorized limits requires decision by the Board. Comprehensive appraisal procedures apply to all major investment decisions.

- Financial Performance

Interim financial results, annual budgets and forecasts are reviewed and approved by the Audit Committee, then final approval from the Board before released to Bursa Malaysia Securities Berhad. The variance between actual and budgeted results is analysed for effective management actions thereafter, and presented to the Audit Committee and the Board.

The full year's financial results and analysis of the Group's state of affairs are disclosed to shareholders after review and audit by the external auditors.

- Internal Compliance

The Group monitors compliance with its internal financial controls through management reviews and reports which are internally reviewed by key personnel. Updates of internal policies and procedures are undertaken to reflect changing risks or resolve operational deficiencies.

Internal audit visits are systematically arranged over specific periods to monitor and scrutinize compliance with procedures and assess the integrity of financial information provided.

- Accountability and Reporting

The Group has a clear line of accountability, approval and reporting procedures taking into consideration segregation of duties and other control procedures. These procedures are communicated throughout the Group.

In overseeing the Group's businesses, the Board continually strives for an appropriate balance between control and empowerment. Through the management's periodic review of performance and operational reports, as well as attending management meetings, the day-to-day affairs of the Group are closely monitored.

Regular Board meetings are held to discuss and decide on policies and major business matters, while the management Committees' discussions, briefings and meetings are held from time to time to:

- (i) Monitor and assess the business performance;
- (ii) Manage the operational controls;
- (iii) identify, discuss and resolve financial and key management issues;
- (iv) Review the risks and controls of the businesses;
- (v) Deliberate on the investment proposals;
- (vi) Discuss appropriate tax planning measure and plans;
- (vii) Consider issues of corporate governance and business practices, and
- (viii) Review and evaluate the information technology requirements and systems support of the various subsidiaries.

## Statement on Risk Management and Internal Control (Cont'd)

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### **Review of the Statement by External Auditors**

The External Auditors have reviewed this statement on Risk Management and Internal Control for inclusion in the annual report of the Group for the year ended 31 January 2016 and 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 and effectiveness of the risk management and internal control system. Their review was performed in accordance with Recommended Practice Guide ("RPG 5"): Guidance for Auditors on the Review of Directors' Statement on Internal Control, issued by the Malaysian Institute of Accountants. RPG 5 does not require the external auditors to, and they did not, consider whether this Statement covers all risk and controls, or to form an opinion on the effectiveness of the Group's risk and control procedures.

### **The Board's Conclusion**

The system of risk management and internal controls comprising the respective framework, management and monitoring processes as described in this Statement are considered appropriate. Based on inquiry, information and assurances provided by the Group, the Board is satisfied that the system of risk management and internal controls for the year under review was generally satisfactory. Measures are in place and continually being taken to ensure the ongoing adequacy and effectiveness of internal controls to safeguard the Group's assets and shareholders' investment.

There were no material losses that have arisen from any inadequacy or failure of the Group's internal control system which requires additional disclosure in the financial statements. The Board consistently believe that by maintaining a balanced achievement of its business objectives and operational efficiency, it will bring about a better and more effective performance and results of the Group.

The Board of Directors of Borneo Oil Berhad

Date: 28 April 2016

# Statement on Corporate Social Responsibility (CSR)

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The Board of Directors acknowledges that Corporate Social Responsibility (“CSR”) is the basis for building positive relationship towards the community, environment, its employees, customers, suppliers, shareholders and other stakeholders. Therefore, the continuance practice of CSR activities is strongly encouraged to ensure that people within and outside the Group benefited from the existence of the organization.

At present, the Group continues to focus on improving the health and safety as well as welfare of the employees and workers within the organization. In pursuit of its corporate objective, the Group is committed to conduct its business in an economical, social and environmental sustainable manner. The Group practices CSR as an integral part of its business operations.

Some of the Corporate Social Responsibility initiatives undertaken by the Group are as follows:

## **THE WORKPLACE**

The Directors believe that dedicated and competent workforce is the key to successful business operations of the Group. Therefore, the Directors value and care for all aspects of their well being and will continue to invest in human resource developments to ensure proper trainings are given to the employees to further enhance their skills and knowledge.

### **(a) Safer workplace**

The Directors are committed to provide a safe, healthy and quality working environment for the employees and customers and to minimize any preventable accidents and health hazards that may occur in any of the business premises.

The health and safety Committee has raised awareness of occupational health and safety issues and to foster culture of safety within the organization.

Safety talks were conducted by experienced staff to create awareness on the importance of personal safety and hygiene. Staff are also provided with the opportunity of attending safety training courses to further enhance their knowledge on health and safety at the workplace.

### **(b) Human resource development**

The Directors also ensure there are growth, development and progression opportunities for the employees through in-house training, seminar, workshops and talks. This will equip them with the latest job-related updates and learning.

The Company also provide the opportunity of department rotation to the employees where they are able to expand their knowledge, experience and expertise in various job scopes.

### **(c) Educational assistance and financial aids**

The Directors are committed in providing educational opportunities to the employees. Financial aids have been provided to the employees to support their quest for a loan during emergencies and to assist the less privileged.

## Statement on Corporate Social Responsibility (CSR) (Cont'd)

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### THE WORKPLACE (CONT'D)

#### (d) Employees' welfare

In appreciation of the employees' loyalty, valuable support and commitments to the Company, Long Service awards were presented to staffs who has work for more than 10 years with the Company.

Regular training, seminar, in-house trainings in various relevant fields were being conducted to enhance the employees' technical competency, productivity, leadership and management qualities.

Organize occasions for regular meet-ups between management and staff to foster better working relationships.

Regular gathering events are being organized by the event committee to celebrate festive seasons of each race and promote harmonize work environment in the Company.

#### (e) Healthy Lifestyle

In order to encourage the employees to adopt a healthy lifestyle, the Company has also subsidized and sponsor special goodies, food vouchers and prizes for certain events held.

### THE COMMUNITY

The Directors believe that Companies live within the community and they are inter-dependent of one another.

The Directors are committed to provide continuous support to various activities as carried out by the charitable organizations throughout Malaysia through sponsorship of food vouchers or pack meals and advertisement in magazine or mass media.

### THE ENVIRONMENT

The Directors are also committed to seek in the operation's continuous improvements to minimize any negative impact on the environment. They are to ensure that the business activities are conducted in compliance with approved applicable environmental rules and regulations.

The Directors recognizes the importance of environment in which the business is operated on and have placed their best effort in making it an environmental friendly place to work on.

#### (i) Save Energy

Employees are encouraged to switch off non-essential electrical machinery, equipment and appliance when not in use.

#### (ii) Save trees

The Company has invested on the information technology system to reduce the usage of paper in the daily operations and to practice recycling paper waste.

#### (iii) Recycle of waste

Waste materials were recycled back to production if they are reusable, otherwise it would be sold to scrap collectors who might be able to use them.



## Statement on Corporate Social Responsibility (CSR) (Cont'd)

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### **THE MARKET-PLACE**

The Group will continue with its efforts to enhance its shareholders value by way of engaging in ethical procurement procedures, enhancing good management practices, internal control systems, promoting information sharing and transparency, emphasizing on corporate accountability, corporate governance, reputation, business trust and integrity.

It is the Group's aim to provide quality products with reasonable price to the customers. The Directors believe in maintaining a high level of transparency in dealing with all stakeholders including shareholders, regulatory authorities, business partners, bankers, suppliers and local communities via various communication channels such as regular meeting, timely disclosure to Bursa Malaysia Securities Berhad, annual general meeting and annual report.

# Statement of Director's Responsibility for Preparing the Financial Statements

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**(Pursuant to Paragraph 15.27(a) of the Listing Requirements of Bursa Malaysia Securities Berhad (BMSB)).**

The Directors are responsible for the preparation of the financial statements of the Group which give a true and fair view of the state of affairs of the Group and of the Company as at 31 January 2016 and of the results and cash flows and changes in equity of the Group and of the Company for the financial year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), the Companies Act, 1965 in Malaysia and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

In preparing the financial statements of the Group and of the Company for the financial year ended 31 January 2016 as contained in this Annual Report, the Directors have:-

- adopted appropriate applicable approved accounting standards and policies, which were consistently applied;
- made judgments and estimates that are prudent and reasonable;
- prepared the financial statements on a going concern basis, unless they consider that to be inappropriate.

The Directors have the responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the Company and which enable them to ensure the financial statements comply with the provisions of the Companies Act, 1965.

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