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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty-second Annual General Meeting of the Company will be held at Latitude 2 & 3, Level 1, Hotel Armada Petaling Jaya, Lot 6, Lorong Utara C, Seksyen 52, 46200 Petaling Jaya, Selangor Darul Ehsan on Monday, 14 May 2018 at 3.00 p.m. for the following purposes:-

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 and the Reports of the Directors and the Auditors thereon.
(Please refer to Note 1.)
2. To approve the payment of Directors' fees and benefits payable up to RM164,500 for the period from 1 June 2018 until the conclusion of the next Annual General Meeting of the Company. **(ORDINARY RESOLUTION 1)**
3. To re-elect the following Directors retiring in accordance with the Company's Articles of Association:-
 - i) Tune Hee Hian Article 98 **(ORDINARY RESOLUTION 2)**
 - ii) Datuk Ng Bee Ken Article 98 **(ORDINARY RESOLUTION 3)**
4. To re-appoint Messrs. HLB Ler Lum as Auditors and to authorise the Board of Directors to fix their remuneration. **(ORDINARY RESOLUTION 4)**

AS SPECIAL BUSINESS

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

5. **ORDINARY RESOLUTION**
AUTHORITY TO ALLOT SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016

"THAT, subject always to the Companies Act 2016 ("the Act"), the Articles of Association of the Company and the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered, pursuant to Sections 75 and 76 of the Act, to allot shares in the Company from time to time at such price and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate number of shares allotted pursuant to this resolution does not exceed 10% of the total number of issued shares of the Company at the time of submission to the authority, and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company AND THAT the Directors be and are hereby also empowered to obtain the approval from Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation of the additional shares so allotted."

(ORDINARY RESOLUTION 5)
6. **AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES**

"THAT, subject always to the Companies Act 2016 ("the Act"), the provisions of the Memorandum and Articles of Association of the Company, the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and all other applicable laws, guidelines, rules and regulations as it may be amended, modified or re-enacted from time to time, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such amount of ordinary shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:

Notice of Annual General Meeting (cont'd)

6. AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES (cont'd)

- (i) the aggregate number of shares purchased does not exceed ten per centum (10%) of the total number of issued shares of the Company as quoted on Bursa Securities as at the point of purchase;
- (ii) the maximum fund to be allocated by the Company for the purpose of purchasing such number of ordinary shares shall not exceed the retained earnings of the Company. As at the latest financial year ended 31 December 2017, the audited retained earnings of the Company stood at RM21,594,566.00; and
- (iii) the authority conferred by this resolution will commence after the passing of this ordinary resolution and will continue to be in force until:
 - (a) the conclusion of the next AGM at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions;
 - (b) the expiration of the period within which the next AGM after that date is required by law to be held; or
 - (c) revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting, whichever occurs first.

AND THAT upon completion of the purchase(s) of the ordinary shares of the Company, the Directors of the Company be and are hereby authorised to deal with the ordinary shares so purchased in the following manners:-

- (i) to cancel the ordinary shares so purchased; or
- (ii) To retain the ordinary shares so purchased as treasury shares for distribution as dividend to shareholders and/or resell on Bursa Securities or subsequently cancelled; or
- (iii) To retain part of the ordinary shares so purchased as treasury shares and cancel the remainder; or
- (iv) In any other manner prescribed by the Act, rules, regulations and orders made to the Act, the ACE Market Listing Requirements of Bursa Securities and any other relevant authorities for the time being in force.

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

(ORDINARY RESOLUTION 6)

7. RETENTION OF MR. JAMES HENRY STEWART AS INDEPENDENT DIRECTOR

“THAT Mr. James Henry Stewart is hereby retained as Independent Non-Executive Director pursuant to the Malaysian Code on Corporate Governance.”

(ORDINARY RESOLUTION 7)

- 8. To transact any other business which may properly be transacted at an Annual General Meeting for which due notice shall have been given.

Notice of Annual General Meeting (cont'd)

By Order of the Board

LIM SECK WAH (MAICSA 0799845)

KONG MEI KEE (MAICSA 7039391)

Company Secretaries

Dated this 20th day of April 2018

Kuala Lumpur

Notes:

1. *The Audited Financial Statements are for discussion only as the Company's Articles of Association provides that the audited financial statements are to be laid in the general meeting.*
2. *For the purpose of determining a member who shall be entitled to attend, speak and vote at the Annual General Meeting, the Company shall be requesting the Record of Depositors as at 8 May 2018. Only a depositor whose name appears on the Record of Depositors as at 8 May 2018 shall be entitled to attend the said meeting or appoint proxies to attend, speak and vote in his/her stead.*
3. *A member entitled to attend and vote at the meeting is entitled to appoint up to two (2) proxies to attend and vote in his/her stead. All voting will be conducted by way of poll.*
4. (i) *Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, he/she may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the company standing to the credit of the said securities account.*
(ii) *Where a member of the Company is an exempt authorized 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 authorized nominee may appoint in respect of each omnibus account it holds.*
5. *Where a member appoints two (2) proxies to attend at the same meeting, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.*
6. *If the appointer is a corporation, this form must be executed under its Common Seal or under the hand of its attorney duly authorized.*
7. *The Form of Proxy must be deposited at the Registered Office of the Company at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.*
8. *Explanatory notes on Special Business*
 - 8.1 *The proposed Ordinary Resolution 5, if passed, will give the Directors of the Company the flexibility to allot new shares in the Company up to an amount not exceeding in total 10% of the total number of issued shares of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.*

The Company continues to consider opportunities to broaden its earnings potential. If any of the expansion/diversification proposals involves the allotment of new shares, the Directors, under certain circumstance when the opportunity arises, would have to convene a general meeting to approve the allotment of new shares even though the number involved may be less than 10% of the total number of issued shares.

In order to avoid any delay and costs involved in convening a general meeting to approve such allotment of shares, it is thus considered appropriate that the Directors be empowered to allot shares in the Company, up to any amount not exceeding in total 10% of the total number of issued shares of the Company at the time of submission, for such purposes. The renewed authority for allotment of shares will provide flexibility to the Company for the allotment of shares for the purpose of funding future investment, working capital and/or acquisitions.

No shares have been issued and allotted by the Company since obtaining the said authority from its shareholders at the last Annual General Meeting held on 24 May 2017.
 - 8.2 *The explanatory notes of the proposed Ordinary Resolution 6 are set out in the Share Buy-Back Statement dated 20 April 2018.*
 - 8.3 *The proposed Ordinary Resolution 7, if passed, will allow the Director, Mr. James Henry Stewart who has served the Company for a cumulative period of more than 9 years, to continue to act as Independent Non-Executive Director of the Company. The Board supports the re-appointment of Mr. James Henry Stewart as Independent Director for:-*
 - i) *He understands the business nature and office culture*
 - ii) *He provides the Board valuable advice and insight*
 - iii) *He actively participates in Board deliberations and decision making in an objective manner*
 - iv) *He upholds independent decision and challenges the management objectively.*



Profile of Directors

JAMES HENRY STEWART

(Canadian, Male, Aged 84)

James Henry Stewart was appointed as Independent Non-Executive Director of OpenSys on 6 November 2003. He was appointed as Chairman of the Board on 12 April 2012. He is a member of the Audit Committee and the Chairman of the Nomination Committee and Remuneration Committee.

He has more than 40 years of experience in the IT industry. His management expertise includes sales and marketing, human resource planning, financial management and customer relations. He was the Managing Director of NCR Corporation for South East Asia and responsible for the overall objectives of NCR Corporation subsidiaries in Thailand, Malaysia, Singapore, Philippines, Indonesia and Sri Lanka from 1995 to 1997. He was the Country Manager for NCR Malaysia from 1989 to 1996, Vice President Computer Systems Division for NCR Canada Ltd from 1986 to 1988 and Vice President, Product Development and Marketing for NCR Canada Ltd from 1984 to 1985. Prior to that, he occupied various management positions with NCR Canada Ltd from 1968 to 1984.

TAN KEE CHUNG

(Malaysian, Male, Aged 59)

Tan Kee Chung was appointed as Executive Director of OpenSys on 7 December 1995. He is a co-founder and the President and Chief Executive Officer of OpenSys.

He is responsible for the management of the business operations of the Company, business development and strategic planning.

He obtained his Bachelor of Science degree in Computer Science from the University of Brighton, United Kingdom in 1982 and he was also a Johor State Government Scholar. He has more than 30 years' experience, mainly in management, sales and marketing, in the IT industry. Prior to co-founding OpenSys, he was the Marketing Director of AT&T GIS from January 1993 to December 1995, General Systems Division Manager in NCR from January 1991 to December 1992, Financial Systems District Manager in NCR from January 1990 to December 1990, Major Accounts Manager in Digital Equipment Corporation from 1986 to 1989 and Major Accounts Sales Specialist in Rank Xerox Ltd, United Kingdom from 1982 to 1985. He was also a member of the AT&T GIS Leadership Advisory Council from 1993 to 1995.



Sitting from left to right: Tune Hee Hian, James Henry Stewart, Tan Kee Chung
Standing from left to right: Datuk Ng Bee Ken, Dato' Abdul Manap bin Abd Wahab, Chee Hong Soon

Profile of Directors (cont'd)

CHEE HONG SOON

(Malaysian, Male, Aged 58)

Chee Hong Soon was appointed as Executive Director of OpenSys on 7 December 1995. He is a co-founder and the Chief Financial Officer of OpenSys.

He primarily oversees the finance department of the Company. He obtained his Bachelor of Science degree in Physics from Universiti Malaya in 1983. He has more than 20 years' experience in transaction switching systems implementation, software application, database design, system migration and disaster recovery. Prior to cofounding OpenSys, he worked as a regional Enterprise Systems Consultant in AT&T GIS from 1990 to 1995 and Senior Systems Engineer in NCR from 1983 to 1989.

TUNE HEE HIAN

(Malaysian, Male, Aged 59)

Tune Hee Hian was appointed as Executive Director of OpenSys on 9 January 1996. He is a Senior Vice President of Business Development of OpenSys.

He is primarily responsible for the management of product development. He is also involved in providing business development support for the overseas market.

He holds a Bachelor of Science degree in Education and a Postgraduate Diploma in Computer Science from Universiti Malaya in 1984. He also holds a Master's Certificate in Project Management from George Washington University, Washington DC, USA, which he obtained in 1995. He was also a Certified Project Management Professional of the PMI and has more than 25 years of experience in software development, project management and implementation of online financial systems.

Prior to co-founding OpenSys, he worked as a Group Manager for Financial Systems in AT&T GIS from 1995 to 1996, as a Technical Consultant in NCR from 1992 to 1995, Systems Engineer in NCR from 1988 to 1991 and Instructor in Customer Education in NCR from 1984 to 1987.

Note: All the above-named Directors of the Company have no family relationship with any director or major shareholder of the Company; and have not been convicted of any offences within the past five (5) years (other than traffic offences, if any) and do not have any conflict of interest with the Company.

DATUK NG BEE KEN

(Malaysian, Male, Aged 64)

Datuk Ng Bee Ken was appointed as Independent Non-Executive Director of OpenSys on 1 July 2010. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

He holds a Bachelor of Law (Hons) from the University of Wales, Cardiff, a Master of Laws from King's College, University of London, and a Barrister at-Law from Lincoln's Inn. He also holds a Master of Science (Corporate Communication) from Universiti Putra Malaysia, an Associate of the Association of Costs & Executive Accountants, United Kingdom and is a Certified Mediator at the Malaysian Mediation Centre as accredited by the Malaysian Bar.

He is an Advocate and Solicitor of the High Court of Malaya since 1987, and presently is the Managing Partner of the law firm of Azri, Lee Swee Seng & Co. where he specializes in corporate law. Presently, he is the Chairman and an Independent Non-Executive Director of Sinotop Holdings Bhd, an Independent Non-Executive Director of Widetech (Malaysia) Bhd, Talam Transform Bhd and Yong Tai Bhd.

DATO' ABDUL MANAP BIN ABD WAHAB

(Malaysian, Male, Aged 61)

Dato' Abdul Manap Bin Abd Wahab was appointed as Independent Non-Executive Director and Chairman of Audit Committee of OpenSys on 31 October 2013. He is also a member of the Nomination Committee and Remuneration Committee.

He graduated with a Diploma in Accountancy from Universiti Teknologi MARA (UiTM) in 1978. In 1980, he obtained his Bachelor in Business Administration from Ohio University, United States of America. In 1993, he graduated with a Masters in Business Administration (Finance) from the University of Hull, UK. He started his career in 1980 with Malayan Banking Berhad ("Maybank") and served in various capacities throughout his tenure. He was the Head of Group Retail Marketing of Maybank before he left in 2002. From 2003 to 2004, he gave lectures, training and services as an independent consultant. He joined Bank Muamalat Malaysia Berhad as the Chief Executive Officer from 2005 to 2008. During that same period, he was also the President of the Association of Islamic Banks Malaysia. Throughout his banking tenure, he also served as a Director in Malaysian Electronic Payment System Sdn. Bhd. ("MEPS") and MEPS Currency Management Sdn. Bhd. He also sat on the audit committee of MEPS and served as a member of Program Development Panel in the International Centre for Education in Islamic Finance (INCEIF). He is also an Independent Non-Executive Director of Bermaz Auto Berhad.

Senior Management



Back row from left to right

Tham Kok Cheng
(Senior Vice President
- Business Process Re-engineering)

Tune Hee Hian
(Senior Vice President
- Business Development)

Leong Yoke Wai
(Senior Vice President - Hardware
Development & Integration)

Tan Kee Chung
(President / CEO)

Koh Lea Cheong
(Senior Vice President
- Business Process Outsourcing)

Eric Lim Swee Keah
(Chief Operating Officer)

Chee Hong Soon
(Chief Financial Officer)

Front row from left to right

Luke Sebastian
(Senior Vice President - Customer
Support)

Wong Siew Pooi
(Senior Vice President - Software
Development & Integration /
Cheque Processing Outsourcing)

Senior Management (cont'd)

TAN KEE CHUNG

(President and CEO)

(Malaysian, Male, Aged 59)

As detailed on page 5 - Profile of Directors in this Annual Report.

CHEE HONG SOON

(Chief Financial Officer)

(Malaysian, Male, Aged 58)

As detailed on page 6 - Profile of Directors in this Annual Report.

TUNE HEE HIAN

(Senior Vice President - Business Development)

(Malaysian, Male, Aged 59)

As detailed on page 6 - Profile of Directors in this Annual Report.

ERIC LIM SWEE KEAH

(Chief Operating Officer)

(Malaysian, Male, Aged 53)

Eric Lim holds a Bachelor Degree in Computer Science. He has over 27 years of working experience in sales, marketing and management. He was promoted to his current position on 1 April 2017.

LUKE SEBASTIAN

(Senior Vice President - Customer Support)

(Malaysian, Male, Aged 39)

Luke Sebastian holds a Bachelor in Computing (Honours) Degree. He has over 17 years of working experience in software application and self-service software design, development and support. He was promoted to his current position on 1 January 2017.

KOH LEA CHEONG

(Senior Vice President - Business Process Outsourcing)

(Malaysian, Male, Aged 51)

Koh Lea Cheong obtained a First Class Honours Degree in Applied Science. He has over 25 years of working experience in software application design, development and support. He was promoted to his current position on 1 January 2015.

LEONG YOKE WAI

(Senior Vice President - Hardware Development & Integration)

(Malaysian, Male, Aged 59)

Leong Yoke Wai holds a Bachelor of Computer Science Degree. He has over 33 years of working experience in self-service device software design, development and support and network configuration and support. He was appointed to his current position on 1 January 2015.

THAM KOK CHENG

(Senior Vice President - Business Process Re-engineering)

(Malaysian, Male, Aged 65)

Tham Kok Cheng holds a Master's Certificate in Commercial Project Management. He has 40 years of working experience in many areas of Information Technology including application software design, development and support and project management. He was appointed to his current position on 1 January 2018.

WONG SIEW POOI

(Senior Vice President - Software Development & Integration/ Cheque Processing Outsourcing)

(Malaysian, Female, Aged 43)

Wong Siew Pooi holds a Bachelor of Computer Science Degree. She has over 18 years of working experience in software application design, development and support. She was promoted to her current position in 1 January 2015.

Senior Management (cont'd)



Back row from left to right

Nor Shahrizah Mohd Zawawi
(Vice President
- Project Management Office)

Heng Ken Wei
(Vice President - Centre of Technology)

Hon Tian Yang
(Vice President - Systems & Network
Support)

Winnie Ong Poh Hong
(Vice President - Finance &
Administration)

Ooi Hock Ang
(Vice President - Business Process
Re-engineering / Quality Assurance)

Front row

Denis Koay Kar Hwa
(Vice President - Sales)

Not present

Shiyamala A/P Joeganathan
(Vice President - Software
Development & Integration)

Senior Management (cont'd)

DENIS KOAY KAR HWA

*(Vice President - Sales)
(Malaysian, Male, Aged 38)*

Denis Koay Kar Hwa holds a Bachelor of Science in Computing Degree. He has over 14 years of working experience in sales and marketing of Information Technology products. He was appointed to his current position on 1 January 2017.

HENG KEN WEI

*(Vice President - Centre of Technology)
(Malaysian, Male, Aged 42)*

Heng Ken Wei holds a Bachelor of Information Technology Degree. He has over 17 years of working experience in software application design, development and support. He was promoted to his current position on 1 January 2015.

HON TIAN YANG

*(Vice President - Systems & Network Support)
(Malaysian, Male, Aged 41)*

Hon Tian Yang holds a Bachelor of Computer Science Degree. He has over 16 years of working experience in systems design, configuration and support and network design, configuration and support. He was promoted to his current position on 1 January 2015.

NOR SHARIZAH MOHAMMED ZAWAWI

*(Vice President - Project Management Office)
(Malaysian, Female, Aged 44)*

Nor Shahrizah holds a Bachelor of Science in Information Systems Degree. She has over 17 years of working experience in software development and project management. She was promoted to her current position on 1 January 2015.

OUI HOCK ANG

*(Vice President - Business Process Re-engineering / Quality Assurance)
(Malaysian, Male, Aged 47)*

Ooi Hock Ang holds a Bachelor of Computer Science (Honours) Degree. He has over 21 years of working experience in software development and support and project management. He was appointed to his current position on 1 January 2018.

WINNIE ONG POH HONG

*(Vice President - Finance & Administration)
(Malaysian, Female, Aged 41)*

Winnie Ong holds a Degree in Accounting. She has over 19 years of working experience in the field of accounting. She was promoted to her current position on 1 January 2017.

SHIYAMALA JOEGANATHAN

*(Vice President - Software Development & Integration)
(Malaysian, Female, Aged 41)*

Shiyamala Joeganathan holds a Bachelor of Computer Science (Honours) Degree. She has over 17 years of working experience in application software design, development and support. She was promoted to her current position on 1 January 2015.

Note: None of the Senior Management staff holds directorship in public companies or public listed companies. None of the Senior Management staff has family relationship with any Director and/or major shareholder of the Company. None of the Senior Management staff has any conflict of interest with the Company. None of the Senior Management staff has been convicted for offences within the past 5 years or was publicly sanctioned or imposed with penalty by the relevant regulatory bodies during the financial year.

Corporate Information

BOARD OF DIRECTORS

James Henry Stewart
- Chairman, Independent Non-Executive Director

Tan Kee Chung
- Executive Director and Chief Executive Officer

Chee Hong Soon
- Executive Director

Tune Hee Hian
- Executive Director

Datuk Ng Bee Ken
- Independent Non-Executive Director

Dato' Abdul Manap Bin Abd Wahab
- Independent Non-Executive Director

COMPANY SECRETARIES

Lim Seck Wah (MAICSA 0799845)
Kong Mei Kee (MAICSA 7039391)

AUDIT COMMITTEE

- 1) Dato' Abdul Manap Bin Abd Wahab (*Chairman*)
- 2) James Henry Stewart
- 3) Datuk Ng Bee Ken

NOMINATION COMMITTEE

- 1) James Henry Stewart (*Chairman*)
- 2) Datuk Ng Bee Ken
- 3) Dato' Abdul Manap Bin Abd Wahab

REMUNERATION COMMITTEE

- 1) James Henry Stewart (*Chairman*)
- 2) Datuk Ng Bee Ken
- 3) Dato' Abdul Manap Bin Abd Wahab
(*appointed as member on 22 November 2017*)
- 4) Tan Kee Chung
(*ceased as member on 22 November 2017*)

REGISTERED OFFICE

Level 15-2, Bangunan Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: 03-2692 4271
Fax: 03-2732 5388

BUSINESS OFFICE

Level 26, Tower A
Pinnacle PJ
Jalan Utara C
46200 Petaling Jaya, Selangor
Tel: 03-7932 7888
Fax: 03-7932 7878
Web Site: www.myopensys.com

SHARE REGISTRAR

Mega Corporate Services Sdn. Bhd. (187984-H)
Level 15-2, Bangunan Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: 03-2692 4271
Fax: 03-2732 5388

AUDITORS

HLB Ler Lum (AF0276)
A member of HLB International
B-7-7, 7th Floor
Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur
Tel: 03-2161 2113
Fax: 03-2161 2119

PRINCIPAL BANKERS

Hong Leong Bank Berhad (97141-X)
Malayan Banking Berhad (3813-K)
Public Bank Berhad (6463-H)

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
ACE Market
Stock Code: 0040

Management Discussion & Analysis

The march towards a cashless society, it seems, is unstoppable.

Virtual payments are fast displacing cash. Fewer Nordic banks are using cash in their branches. India recently scrapped 86 percent of its banknotes. South Korea plans to stop minting coins by 2020. Young people especially, as well as the better off and better educated, are increasingly at ease in making payments via cards or mobile phones.

Perhaps the most famous example is that of beggars in China's big cities holding up signs with quick response (QR) codes to collect alms. With loose change becoming a rarity, charitable passers-by can make donations with their mobile phones through Alipay or WeChat Pay.

But wait!

In other advanced economies, including Austria, Germany, Japan, Singapore and Switzerland, cash is still king and shows no sign of abdicating. Globally, 85 percent of all payments are still made in cash ⁽¹⁾ "The cashless society, as appealing as it may sound, is probably just as elusive as the much vaunted paperless office", according to Yves Mersch, a member of the European Central Bank's executive board.

In tech-savvy Singapore, where almost everyone has a mobile phone, nine out of 10 people, still prefer to pay for everyday transactions the old-fashioned way – with cash. According to interviews conducted by Bloomberg in September 2017, some of the reasons why Singaporeans prefer cash are because it is more convenient than swiping a bank card or in case when they can use digital devices, machines sometimes break down and cannot process a payment.

In Japan, cash in circulation as a percentage of GDP increased to 20 percent in 2017 from 13.5 percent in 2000 and in the United States, it gained to 8.1 percent from 6.0 percent. In the Eurozone, it rose to 10.7 percent from 5.1 percent in 2002.

Similarly in Malaysia, most people have a relatively high dependence on cash for payment transactions. Last year, cash in circulation (CIC) grew 11.5 percent year on year to RM85.46 billion. Meanwhile, CIC per GDP, a measure of a country's reliance on cash for transactions, expanded from 6.62 percent to 6.95 percent. ⁽²⁾

One of main reasons why cash remains hugely popular is because cash is the only legal tender in every country in the world, with the exception of Sweden. Cash is accepted practicably by all traders, whereas there is no obligation to accept electronic payments. As interest rates fall – and even go negative in some places – cash is increasingly used as a store of value. Cash is the only payment instrument that guarantees the user's privacy and anonymity, while all electronic transactions are traceable.

In OpenSys, we believe that the migration of cash to digital payments will be a gradual process – an evolution rather than a revolution. We also believe that cash, cards and mobile payments will continue to coexist for many years to come although we will see more and more micro payments being made by mobile phones.

Based on our big data of approximately 500 bill payment kiosks deployed at the branches of six major telcos and utility companies nationwide over the last 18 months, we noticed that cash booked over 65 percent or 11.0 million of the total number of payment transactions worth RM1.86 billion. In contrast, credit and debit cards managed 21 percent or 3.7 million transactions worth RM1.24 billion, while cheques recorded 14 percent or 2.3 million transactions worth RM13.43 billion. It is pertinent to note that payment by cheques are mostly made by corporate customers hence the absolute amount collected via cheques significantly dwarfed that of cash or credit and debit cards.

Due to the complementary relationship between cash and digital payments, the ubiquitous automated teller machine (ATM) – which celebrated its golden 50th anniversary last year – is still ranked as the No. 1 self-service channel and interactive touchpoint with a bank, even among millennials and smartphone users. From its inaugural installation at Barclays Bank in North London in June 1967, the ATM can now be found everywhere – from the most modern cities to the loneliest outposts, including a mountaintop in the Himalayas.

Globally, the number of ATMs is growing by 280 units per day and the total number of ATMs installed is projected to reach 4.0 million by 2021⁽³⁾ Even in China, where non-cash payment hit a penetration rate of 42.2 percent as at end 2016 – fuelled by growth in mobile payments – the number of ATMs grew 44.1 percent year-on-year to reach a total of 840,800 units in 2015. The compound average growth rate (CAGR) of ATMs in China is 27.2 percent from 2007-2015. It is projected that China will have 1.5 million units of ATMs by 2020 ⁽⁴⁾

Management Discussion & Analysis (cont'd)

As the number of ATMs increase, they have also stepped up in sophistication to keep up with modern times. Today's ATMs are a far cry from that first installed ATM at Barclays Bank. In addition to dispensing cash, today's advanced machines can accept cash and cheques; issue prepaid cards, stamps and lottery tickets; grant loans and take payments of almost any kind; calculate and convert one nation's currency into another; remit money to a relative halfway around the world; and most impressively, perform these functions with better than 99 percent reliability.

In the foreseeable future, ATMs will continue to evolve and remain relevant by adopting mobile technologies to cater to millennials and Gen Z. There are already ATMs today that allow customers to perform cardless ATM withdrawals using their mobile phones. Not long from now, customers will sign into ATMs using their fingerprints, pictures of eyes or faces, or voice recognition that are stored on their mobile phones, which will then transmit a code to the ATMs to do the necessary banking transactions.

It would not be inaccurate to consider the ATM as the original "Fintech" disruptor because before it came along, the banks were very traditional and dependent on a lot of human resource to operate. The ATM basically transformed the "brick-and-mortar" bank branch by automating cash withdrawals so that human resources can be redeployed more efficiently to assist and educate customers on the banks' products and services.

While the ATM provides many upsides to banks as well as their customers, the downside is that it is expensive to set up and operate an ATM infrastructure. In addition to high capital expenditure in hardware, software and network, the cost of cash represents the largest single segment of operating expenses for ATMs.

To mitigate the high cost of cash, the technology trend in recent years is to merge the separate functions of cash-dispensing or cash-deposit into dual-function machines called cash recycling machines (CRM). CRMs can accept cash from depositors and dispense them to withdrawers so that the cash is essentially "recycled" – resulting in lower cost of ownership in the area of unused cash float, cash maintenance, cash handling and space rental. Besides savings of 25-30 percent in capital expenditure and operational cost, CRMs also provide better service levels to the banks' customers because they have higher uptimes due to the automatic replenishment of cash in the machines.

OpenSys technology partner in the CRM market is OKI Electric Japan. OKI invented and pioneered the use of cash recycling technology more than thirty years' ago in 1982. Due to its first mover advantage, OKI is currently one of the leading suppliers of CRMs in Japan, China, India, Indonesia, Russia, South Korea, Taiwan and Brazil.



Management Discussion & Analysis (cont'd)

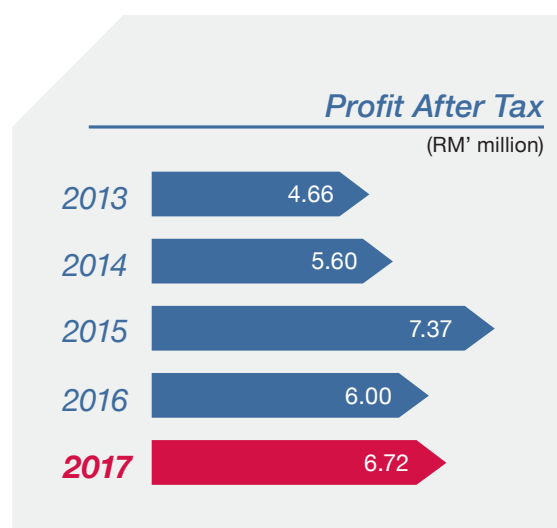
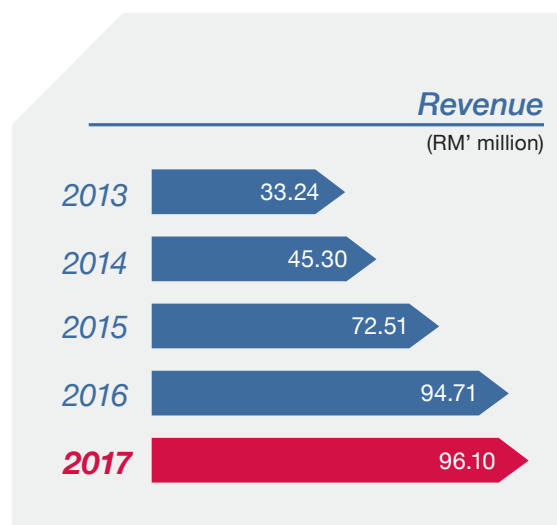
Since we introduced our CRMs into the marketplace in 2014, we have hitherto installed over 2,500 CRMs in Malaysia – making us the industry leader with a market share of approximately 80 percent. Our critical success factors can be attributed to having a superior cash recycling technology, better software applications and more reliable after-sale support vis-à-vis our competitors.

Besides our CRM success, OpenSys provides business process outsourcing (BPO) for bill payment kiosks to utility, insurance and telecommunication companies in Malaysia. Our bill payment kiosks allow customers to use cash, cheques, credit or debit cards to pay for bills, reload prepaid cards and renew insurance policies.

OpenSys is also the leading supplier of cheque-deposit machines and image-based cheque processing systems in Malaysia. Our image-based cheque processing system uses cheque scanners and software applications to capture cheque images and data at bank branches and send them to the central bank for cheque clearing and settlement. This paperless process saves the banking industry hundreds of millions of ringgit per year.

OpenSys has four business revenue models, namely (i) outright sales, (ii) software services, (iii) outsourcing services and (iv) maintenance services. In outright sales, our CRMs and cheque deposit machines are sold directly to the financial institutions. In software services, we provide software development services to our customers when they need modification to their application software due to changes in their business or regulatory requirements. In outsourcing services, we provide bill payment kiosks to utility, insurance and telecommunication companies over a contract period of 3-5 years. The customers pay a rental for the machines plus a click charge for each transaction. In maintenance services, the banks pay us an annual maintenance fee of 10-12 percent based on the selling price of the machines that we sold to them. In return, we service and repair the machines to ensure high availability and optimum uptime. It is important to note that all our customers are blue chip companies. Due to the size of these companies, the collection risk for our trade receivables is very low.

For the financial year ended 31 December 2017, our revenue marginally increased 1.5 percent to RM96.10 million from a corresponding period in 2016 largely due to robust sales of CRMs and more transaction volume from our outsourcing business. Meanwhile, our profit after tax rose 11.8 percent to RM6.72 million as compared to the year before.



Moving forward ⁽⁵⁾, there is a huge latent demand for CRMs in Malaysia. Most banks are now fully aware of the technological and cost benefits of CRMs compared with ATMs or cash deposit machines (CDMs). Most of them are planning to replace their ATMs or CDMs with CRMs when their equipment reaches the end of their life-span, which are typically 8 to 10 years. In addition to obsolescence, other factors such as end of vendor support for software operating systems, regulatory changes and compliance to international standards, may shorten the replacement cycle for ATMs and CDMs.

Management Discussion & Analysis (cont'd)

Currently, the total number of ATMs and CDMs in Malaysia is approximately 17,500 units with an annual growth rate of about 5 percent. Over the last 4 years, the penetration rate of CRMs has increased to approximately 20 percent of the total installed base, largely due to the efforts of OpenSys. If the banks in Malaysia start to install CRMs at their new branches, or replace their older ATMs and CDMs with CRMs, OpenSys is in a prime position to profit from it. Considering that we have an excellent track record, we are optimistic that we will continue to win more market share than our competition.

Our outsourcing business in providing bill payment kiosks to utility, insurance and telecommunication companies continues to remain strong. Not unlike banks, these institutions are transforming their branches to be leaner, friendlier and more efficient by pushing mundane tasks to self-service kiosks. In doing so, they can free up their valuable human resources to perform more sales and marketing related activities with their customers. The companies that are currently using our bill payment kiosks are progressively installing more machines as time progresses.

In the near future, we will be introducing new solutions in Fintech – which is a broad buzzword for businesses that leverage new technology to deliver financial services that are cheaper, faster and more convenient to customers by reducing the use of intermediaries between producers and consumers. We have been keeping a watchful eye over this exciting area over the last two years by doing a lot of research and development to ensure that we can take advantage of the paradigm shift when it happens.

Our Fintech strategy is to work closely with financial institutions to “disrupt” themselves before they get disrupted and to navigate the dreaded “tipping point” of business cycles. It is our belief that despite the scaremongering, Fintech would eventually be just another product(s) that will be offered by your favourite bank that leverages modern technology. An Uber-like or Airbnb-like disruption by startup companies is unlikely to happen because the banking industry is ultimately based on trust, and requires regulatory oversight to protect the consumer.

Our continued commitment to new product development allows us to be more responsive to changes in technology, industry standards and customer expectations while mitigating any effects of product obsolescence. The carrying book value of our development expenditure for the year ended 31 December 2017 is RM0.18million.

We currently own one floor of office property at Pinnacle PJ and another three-storey shop office property at Putra Heights with an estimated value of RM10.0 million and RM3.0 million respectively. The property at Pinnacle PJ is used as our corporate headquarters whereas the property at Putra Heights is mainly used for the assembly of our cheque deposit machines and CRMs.

With regard to creating value for our esteemed shareholders, we have consistently paid semi-annual dividends to our shareholders for the last 7.5 years since July 2010. In October 2015, we gave a bonus issue of 74.47 million new ordinary shares on the basis of one bonus share for every three existing OpenSys shares to our shareholders. The next dividend payment is on 18 April 2018. As our cashflow is particularly healthy, we are confident that our dividend plan is sustainable subject to unforeseen circumstances that might be beyond our control.

The Board of Directors would like take this opportunity to extend our gratitude and appreciation to our shareholders, customers, suppliers and business partners for the invaluable support that you give to OpenSys.

We would also like to thank each and every member of our management and staff for their dedication and commitment to grow with our Company, without which our success would not be possible.

Notes:

- (1) International Monetary Fund, June 2017
- (2) The Edge Malaysia, August 2017
- (3) ATM Marketplace –“ATM Future Trends 2017”
- (4) China Automated Teller Machine (ATM) Industry Report, 2016-2020
- (5) Forward-looking statements are based on our current beliefs, expectations and assumptions, which may not prove to be accurate, and involve a number of known and unknown risks and uncertainties, many of which are out of OpenSys’ control. Forward-looking statements are not guarantees of future performance, and there are a number of important factors that could cause actual outcomes and results to differ materially from the results contemplated by such forward-looking statements.