



KOSSAN RUBBER INDUSTRIES BHD  
(Company No.: 48166-W)



**Business Stability** With  
Long Term **Sustainable Growth**

ANNUAL  
REPORT  
**2013**

# CORPORATE VISION

To be the world class market leader in rubber products driven by technological advancement, people value and continual improvement to deliver long term and sustainable growth

# CORPORATE MISSION

# K O S S A N

Keeping a healthy growth through teamwork

Opting to be competitive through the provision of good services and quality innovative products.

Striving towards our own vision with full commitment and dedication.

Stepping up the welfare, competency and professionalism of our employees

Aspiring creativity and innovation in our entire business processes.

Navigating towards a sustainable low carbon foot print economy.

# CONTENTS

|    |   |    |   |
|----|---|----|---|
| 1  | Corporate Information                             | 36 | Statements of Profit or Loss and Other Comprehensive Income |
| 2  | Financial Highlights                              | 37 | Consolidated Statements of Changes in Equity                |
| 3  | Chairman's Statement                              | 38 | Statements of Changes in Equity                             |
| 6  | Managing Director's Review of Operation           | 39 | Statement of Cash Flows                                     |
| 9  | Directors' Profile                                | 41 | Notes to the Financial Statements                           |
| 12 | Corporate Governance Statement                    | 85 | Statement by Directors                                      |
| 24 | Corporate Social Responsibility                   | 85 | Statutory Declaration                                       |
| 25 | Statement of Responsibility by Directors          | 86 | Independent Auditors' Report                                |
| 26 | Statement on Risk Management And Internal Control | 88 | List of Properties  |
| 29 | Report of the Audit Committee                     | 90 | Statistics on Shareholdings                                 |
| 32 | Directors' Report                                 | 93 | Notice of Annual General Meeting Proxy Form                 |
| 35 | Statements of Financial Position                  |    |   |



# Corporate Information

## BOARD OF DIRECTORS

**Dato' Haji Mokhtar Bin Haji Samad**  
(Chairman)

**Dato' Lim Kuang Sia**  
(Managing Director / Chief Executive Officer)

**Lim Kuang Yong**

**Lim Kuang Wang**  
(resigned on 26.8.2013)

**Lim Leng Bung (Alternate to Lim Kuang Wang)**  
(resigned on 26.8.2013)

**Lim Kwan Hwa**  
(retired on 25.6.2013)

**Dato' Tai Chang Eng @ Teh Chang Ying**  
(retired on 25.6.2013)

**Tong Siew Choo**

**Lee Choo Hock**  
(appointed on 26.8.2013)

**Tan Kong Chang**  
(appointed on 26.8.2013)

**Lim Siau Tian**  
(appointed on 26.8.2013)

**Lim Siau Hing**  
(appointed on 26.8.2013)

**Lim Ooi Chow**  
(appointed on 26.8.2013)

## COMPANY SECRETARIES

Chia Ong Leong (MIA 4797)  
Chia Yew Ngo (LS 1831)

## BUSINESS AND REGISTERED ADDRESS

Wisma Kossan,  
Lot 782, Jalan Sungai Putus,  
Off Batu 3 ¾ Jalan Kapar,  
42100 Klang, Selangor Darul Ehsan  
Tel : 03-3291 2657  
Fax : 03-3291 2903  
E-mail : kossan@kossan.com.my  
Website : www.kossan.com.my

## AUDITORS

KPMG  
Chartered Accountants  
Level 10, KPMG Tower,  
8, First Avenue, Bandar Utama,  
47800 Petaling Jaya,  
Selangor Darul Ehsan

## PRINCIPAL BANKERS

Bank Muamalat (Malaysia) Berhad  
Cooperatieve Centrale Raiffeisen –  
Boerenleenbank B.A  
(Labuan Branch)  
Hong Leong Bank Berhad  
OCBC Bank (Malaysia) Berhad

## SHARE REGISTRAR

Symphony Share Registrars Sdn. Bhd.  
Level 6, Symphony House,  
Block D13, Pusat Dagangan Dana 1,  
Jalan PJU 1A/46,  
47301, Petaling Jaya,  
Selangor Darul Ehsan  
Tel : 03-7841 8000  
Fax : 03-7841 8008  
Website : www.Symphony.com.my

## STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities  
Berhad

## INVESTOR RELATIONS

Edward Yip  
Tel : 03-3290 2580  
Fax : 03-3291 2903  
Email : edwardyip@kossan.com.my

# Financial Highlights

| Operation (RM Million)<br>for the year ended 31 December | 2009    | 2010      | 2011      | 2012      | 2013      |
|--|---------|-----------|-----------|-----------|-----------|
| Revenue  | 842.135 | 1,046.887 | 1,089.969 | 1,234.001 | 1,307.292 |
| Profit Before Taxation                                   | 85.828  | 140.651   | 112.290   | 138.451   | 180.134   |
| Profit Attributable to Equity Shareholders               | 66.679  | 113.376   | 89.192    | 102.163   | 136.422   |
| Dividend per share(%)                                    | 18.0    | 16.0      | 14.0      | 24.0      | 14.0      |

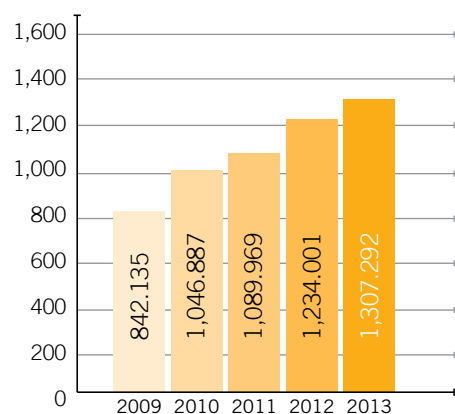
| Balance Sheet (RM Million) | 2009    | 2010    | 2011    | 2012    | 2013    |
|----------------------------|---------|---------|---------|---------|---------|
| Share Capital              | 79.933  | 159.867 | 159.867 | 159.867 | 319.734 |
| Shareholders' Funds        | 358.999 | 442.597 | 531.159 | 604.599 | 704.941 |
| Net Asset per share (RM)   | 2.24*   | 1.38**  | 1.69**  | 0.97*** | 1.13*** |

\* NA per share is calculated based on 159,866,976 shares at RM0.50 each

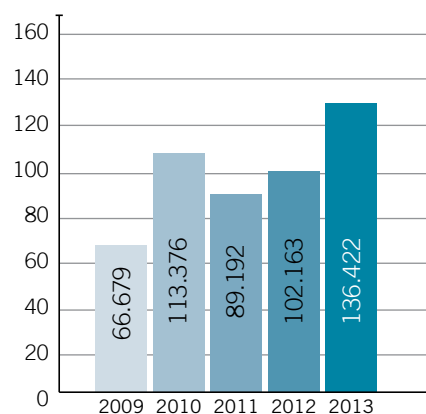
\*\* NA per share is calculated based on 319,733,952 shares at RM 0.50 each

\*\*\* NA per share is calculated based on 639,467,904 shares at RM0.50 each

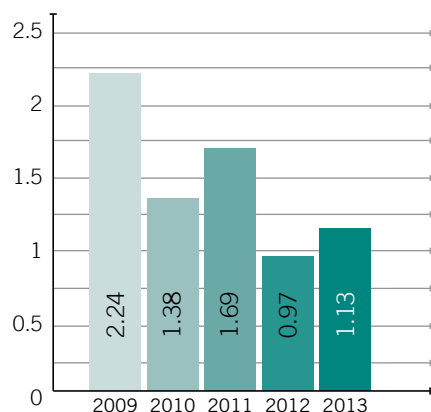
**REVENUE  
(RM MILLION)**



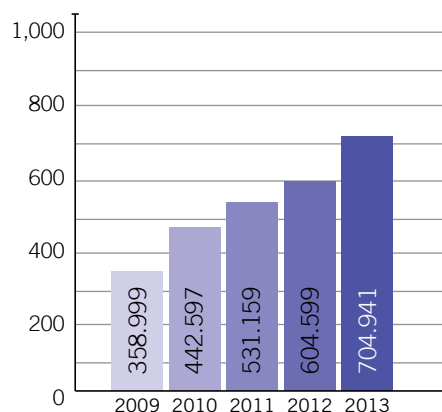
**PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS  
(RM MILLION)**



**NET ASSET PER SHARE  
(RM)**



**SHAREHOLDERS' FUNDS  
(RM MILLION)**



# Chairman's Statement

## DEAR VALUED SHAREHOLDERS,

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and audited financial statements of Kossan Rubber Industries Bhd. and the Group for the financial year ended 31 December 2013.

## ECONOMIC AND INDUSTRY LANDSCAPE

FY2013 was another sluggish year with global GDP growing at a slower pace of 3.0%, compared to 3.1% recorded in 2012. Fiscal drag in the US due to debt ceiling and delayed agreement on the budget which led to US government shutdown in October 2013, resulted in slower than expected GDP growth of 1.9% for the year compared to 2.8% achieved in 2012, despite improved US labor and housing data. In the final quarter of 2013, the Eurozone finally emerged from a prolonged recession with a GDP growth of 0.1% versus a contraction of 0.4% in 2012. On the domestic front, the Malaysian GDP continued to grow steadily at a rate of about 5.0% in 2013 and overall sentiment is considered upbeat with inflationary pressure under controlled and Bank Negara Malaysia ("BNM") holding interest rate steady at 3.0% since May 2011. The glove industry continuously under pressure due to escalating production cost after the implementation of minimum wage policy effective 1 July 2013 and recent tariff hikes in utilities.



“ Despite the challenging operating environment, I am pleased to report that the Group has achieved record growth in revenue and earnings for FY2013. During the year, Kossan reported a 30.1% growth in earnings which tops all its peers within the glove manufacturing industry. In this current market environment, this is a strong validation of Kossan's business strategies. ”

Despite the challenging operating environment, I am pleased to report that the Group has achieved record growth in revenue and earnings for FY2013. During the year, Kossan reported a 30.1% growth in profit before taxation which tops all its peers within the glove manufacturing industry. In this current market environment, this is a strong validation of Kossan's business strategies. The Group even moved further to put up three ("3") new plants to cater for overwhelming orders for its new thin version of nitrile gloves launched during the year and invested further to acquire more industrial land banks for its' next phase of expansion.

## FINANCIAL PERFORMANCE

It has been a superb year for Kossan with the Group achieving profit before taxation (PBT) of RM180.13 million, a jump of 30.1% on the back of revenue totaling RM1.31 billion in FY2013. Revenue of RM1.31 billion was 5.9% higher as compared to its preceding year's RM1.23 billion. In this financial year, our Glove Division registered a marginal 4.6% increase in sales value on the back of 16% increase in actual quantity of gloves sold. This mismatch was largely due to cheaper selling prices arising from lower raw material costs. The Technical Rubber Products ("TRP") division has delivered an equally strong growth of sales by 13.4% with higher sales in infrastructure and automotive products. This set of commendable performance further validates management's well thought business strategy and strong execution capability against the challenging operating landscape due to soaring production cost and stiffer competition. Including this financial year, the Group is in the 18th year of unbroken profitability record since its first debut in Bursa Malaysia in 1996.

Equally important is the strength of the Group's balance sheet, and I am pleased to inform that it has grown stronger with total assets spurt 11.7% upwards to RM1.11 billion from RM989.94 million in the preceding year. The net gearing ratio improved significant from 16.0% in FY2012 to current year's 10.0%. Out of the total interest bearing bank borrowings of RM150.03 million in the current financial year, approximately 75% are short term in nature comprising trade facilities which is essential for our export driven business. The Group also continues to maintain a healthy cash and bank balance, which stood at RM100.6 million as at December. This reflects the Group's superior earnings capability by consistently generating solid returns from its ongoing business expansion. Another notable achievement was the 16.5% growth in our net assets per share attributable to shareholders of the company. Net asset per share was 113 sen in the current year as compared to 97 sen in its preceding financial year. The Return on Assets ("ROA") and Return on Equity ("ROE") improved to 12.7% and 19.4% respectively versus 10.6% and 17.0% in FY2012.

# Chairman's Statement (continued)

I am also very pleased to note that, despite it being a challenging year, the strategic business measures adopted by the Group all these years such as R&D efforts, continuous improvement in its production processes, more effective cost-savings activities, new and innovative products, more refined product-mix with higher output on better margin products, successful marketing approach and strategies; reliable customer delivery and sound risk management system have blended well and yielded notable and sustainable returns. This will remain the Group's main focus to ensure we deliver to our shareholders uninterrupted and growing returns in their investments.

## CORPORATE DEVELOPMENTS

- (a) We have completed a bonus issue of 319,733,952 ordinary shares on the basis of one (1) bonus share for every one (1) existing share held in the Company in November 2013. With the completion of this bonus issue exercise, the number of shares quoted on Bursa Malaysia has been enlarged to 639,467,904 shares. Since the Company first debuted in the stock exchange in 1996, our shareholders have been rewarded with five rounds of bonus shares including this. The Company has also reissued its treasury shares totaling 1,114,400 shares in the open market on Bursa Securities between 11th to 31st October 2013.
- (b) In line with the Group's master expansion program, the Group has acquired three (3) plots of freehold land in the Klang Valley with a total land size of 82 acres through its wholly-owned subsidiaries Ideal Quality Sdn. Bhd. and Perusahaan Getah Asas Sdn. Bhd. for RM75.5 million.

## DELIVERING VALUE TO SHAREHOLDERS

The ultimate measure of a company's success is through the consistent enrichment of its shareholders. With this belief, the delivery of uninterrupted returns to shareholders remains a high priority for the Group.

During the year under review, Kossan has on 19 December distributed an interim tax-exempt dividend of 3.5 sen or 7% per ordinary share of 50 sen in conjunction with the financial result announcement for the third quarter ended 30 September 2013. Total dividend paid was RM22.38 million.

The Board has recommended paying a final tax-exempt dividend of 3.5 sen per ordinary share amounting to RM22.38 million for FY2013 and this final dividend is subject to shareholders' approval at the forthcoming 34th Annual General Meeting. Total dividend declared for the year will be 7.0 sen per ordinary share amounting to RM44.76 million should the final tax-exempt dividend be approved by shareholders at the forthcoming Annual General Meeting.

This is the 18th consecutive year that Kossan has declared dividends to shareholders since its listing on Bursa Malaysia in 1996.

In 2013, Kossan share price increased by 157.1% from RM1.68 (adjusted for bonus issue) as at the end of 2012 to RM4.32 as at the end of 2013. Excluding dividend paid, a shareholder of Kossan share would have enjoyed a total return of 157.1% for 2013, based on the price of Kossan share as at end of 2013.

## CORPORATE SOCIAL RESPONSIBILITY

The Group has long recognized and acknowledged the importance of a corporate culture that emphasizes good corporate social responsibility ("CSR") and corporate citizenship. Besides driving sustainable profit growth and interrupted returns for the shareholders, the Group also undertakes reasonable amount of CR activities to uphold the betterment of its employees' welfare, sustainability of the industry and well being of the community surrounding us during the year under review. As the Group continues to expand its operations, it will strive to further broaden and deepen its sustainability and CSR endeavours. The Group's countless efforts on CSR speak loud its commitment to uphold its Vision.



# Chairman's Statement (continued)



For more information on how we are advancing sustainable development in CSR, please refer to our Corporate Social Responsibility Statement on page 24 of this Annual Report.

## MOVING FORWARD

The Group has performed remarkably well in 2013 despite the challenging operating environment. Moving into 2014, we may have started the year with a cautious outlook on the back of growing competition attributed to rapid capacity expansion and high production cost arising from increases in utilities costs which include gas and electricity. While we acknowledge the tougher operating environment, we will continue to stay focus on our business targets and chart our own direction of growth. We will also continue to leverage on our technological capability to stay competitive in our business. With all the efforts and good business strategies, I am optimistic that the Group will perform better and deliver stronger earnings in 2014.

## ACKNOWLEDGEMENT

Despite it being a challenging year, with relatively high production cost and growing competition during the year under review, the Group has managed to record the strongest earnings growth in the glove manufacturing industry. In this respect, I wish to thank the senior management and all the employees for putting in their great efforts, commitment, perseverance, passion and hard work in contributing to this impressive performance.

Three of our executive directors Mr. Lim Kuang Wang (and his alternate, Mr. Lim Leng Bung), Mr. Lim Kwan Hwa and one independent non executive director Dato' Tai Chang Eng @ Teh Chang Ying who have served the board and contributed immensely to the growth of the Group in the last 19 years have withdrawn from the board during the year. I wish to take this opportunity to express my sincere thanks and appreciation to them for their excellent contributions and invaluable advices to the Group. Meantime, do let me welcome Messrs. Tan Kong Chang, Lim Siau Tian, Lim Siau Hing and Lim Ooi Chow to the board as executive directors and Mr. Lee Choo Hock as an independent non executive director. Equipped with strong educational background and blended with exposures in banking, accounting, finance, engineering, quality control, business development and marketing fields, I have strong confident that my newly appointed board members will be able to contribute effectively to the Group.

I also wish to thank all our valued customers, suppliers, business partners, bankers, shareholders, government authorities, research analysts and members of the press and media for your continued strong support, confidence, trust and contributions to our success during the past year.

## DATO' HAJI MOKHTAR BIN HAJI SAMAD

Chairman

30 May 2014

# 6 Managing Director's Review of Operation



**“ THE GOOD RUN IN FY2012 CONTINUED INTO FY2013 WITH PROFIT BEFORE TAXATION GREW BY 30.1% TO RM180.13 MILLION COMPARED TO RM138.45 MILLION OF IN THE PRECEDING YEAR. PRODUCTION VOLUME FOR BOTH GLOVE AND TECHNICAL RUBBER PRODUCTS (“TRP”) RECORDED IMPRESSIVE INCREASE DESPITE THE CHALLENGING OPERATING ENVIRONMENT AND INTENSIFIED COMPETITION. I MUST SAY THAT OUR EFFORTS AND HARD WORK PAID OFF WHEN THE GROUP REPORTED THE STRONGEST EARNINGS GROWTH IN THE GLOVE INDUSTRY. ”**

The good run in FY2012 continued into FY2013 with profit before taxation grew by 30.1% to RM180.13 million compared to RM138.45 million of in the preceding year. Production volume for both glove and technical rubber products (“TRP”) recorded impressive increase despite the challenging operating environment and competition. I must say that our efforts and hard work paid off when the Group reported the strongest earnings growth in the glove industry. This momentous achievement is the direct result of five (“5”) key strategic measures adopted by the Group in the area of research & development, automation, production process optimization, business process computerization and investing in human capital. This is the 18th consecutive year that Kossan has delivered uninterrupted profitability since listed in 1996 and this underpins Management’s commitment towards creating and delivering long term returns to its shareholders.

## EXAMINATION GLOVE DIVISION

For the year under review, the actual quantity of gloves produced and sold increased by approximately 16% while the sales in value registered a marginal 4.6% growth. The non-reflective sales value was attributed to lower raw material prices in both natural rubber (“NR”) and nitrile butadiene rubber (“NBR”) which have tumbled by 15% and 22% respectively since the end of FY2012.

Sales growth from clean room segment becomes more apparent as more customers approved and accepted our clean room gloves and clean room disposables. Despite the revenue contribution from this clean room segment is relatively small, approximately 2.6% of the total glove sales, the growth potential is voluminous and with our continuous marketing efforts to penetrate wider market place, we have strong confidence that contribution will turn more significant in the coming years.

We added some 1.5 billion pieces of gloves in the current year and as of December 2013, our production capacity stood at 16.0 billion pieces and as usual, Kossan operates with high utilization rate of above 85% consistently all these years. On top of adding new production lines, we continue to carry out revamp works on the existing lines and upgrading the facilities on all our production floors to ensure high productivity at all time and optimizing the input resources. During the year, we have also converted more production capacity into producing nitrile gloves which yield better profit margins compared to natural rubber. The production mix for NBR and NR stood at 55% and 45% respectively at the end of December 2013.

For the past 12 months, we have channeled reasonable amount of resources to advance the degree of automation on our production floors to reduce reliance on general workers and to arrest rising wages arising from the implementation of minimum wage in July 2013. With more routine processes being automated and computerized, overall quality of our output becomes more consistent with lower reject rate. Unnecessary production wastage which means higher cost, due to human errors is also being capped. Concerted efforts have also been placed to develop various systems and mechanisms that enable optimization in utilities consumption including water, electricity and gas.

Another notable achievement is the invention of the industry’s lightest weight NBR powder free glove. This new 3 gram NBR glove comes with good barrier properties and distinctive strength and it is another technology breakthrough that Kossan has achieved in its R&D road map. Since its maiden launch and introduction to our customers in early 2014, the reception to these 3 gram weight powder free gloves had been overwhelming. We are expediting the construction of our new plants to ensure early and timely delivery to our supportive customers of this new generation thin version NBR gloves. Again, we create value for our customers by making the glove thin, unique and yet able to meet various regulatory specifications. We manage to bring savings on logistic cost as the glove loadings per container is now higher and for the same quantity of gloves will require lower frequency of shipments as compared with thicker gloves.



# Managing Director's **Review Of Operation** (continued)

As for production capacity expansion, we have started the construction of three (3) new plants at two (2) different locations in June 2013. These 3 plants are installed with 17 double-formers high output and efficient production lines and are capable of producing a minimum of 42,000 pieces of gloves per hour. Once completed in August 2014, these 3 plants will enlarge our existing production capacity to 22 billion pieces. Currently, one of the 3 plants has been completed in March 2014 and has commenced its maiden production in April 2014.

All our hard work and efforts paid off when our profit margins continue to expand in four ("4") consecutive quarters despite higher production cost compared to the previous year after the implementation of the minimum wage policy and increasing chemical cost. We are confident that this positive note will continue in 2014 when the synergistic effects gradually developed and the new production capacity starts to fill up expanding orders.

## **TECHNICAL RUBBER PRODUCTS ("TRP")**

Our TRP business did equally well with revenue grew by 13.4% to RM160.27 million for the year under review. Our infrastructure and automotive products were key contributors to this impressive growth.

During the year under review, Kossan was awarded a contract to supply some 2,000 pieces of seismic bearings for the Second Penang Bridge project. The Second Penang Bridge, spanning 23.5km, is currently the longest bridge in Southeast Asia and was completed in November 2013. The bearings for the bridge not only protect the bridge from earthquakes but also provide significant cost savings as the technologies used lessen the need to strengthen the existing piling system. Our success story does not end here. With this mega bridge project as a strong reference and the well recognized technical capability Kossan enjoyed in the rubber products field, we have also recently won contracts to supply bearings to our country's MRT projects. Besides supplying to local market, our bearings are also sold to Indonesia and Middle-East countries.

Operating with the largest compounding capacity of 10,000 metric tons per annum and coupled with our track records in supplying various high technical input rubber products for the last 30 years to both local and overseas markets, we are confident Kossan will continue to stand in a strong position to tap on greater business opportunities on the back of economy recovery in the West in 2014.

## **PROSPECTS**

The glove industry will remain buoyant as the world demand for gloves is growing. Gloves are not only confined for medical application but also being widely used in many other applications including food, household, industrial and general usage. On the back of stable raw material prices and increasing demand for various rubber products riding on the global economy recovery trail, despite at slow pace, we are confident that 2014 will be another exciting year for Kossan and the entire glove industry.

On the flip side, the glove industry will continue to face pressure arising from escalating production cost and growing competition moving into 2014 and beyond. The production cost has been consistently on the rise since the implementation of minimum wage policy effective July 2013 and increase in electricity tariff by 17% effective January 2014. This situation is expected to worsen further when we have to factor in another 20% increase in natural gas price in May 2014.

As far as Kossan is concerned, we are vigilant to the current tough operating environment where production costs are on the rise, growing competition, heightening risk of overcapacity, pricing pressures and ever rising quality requirement from our customers. In our business philosophy, we often take all these challenges as an opportunity to improve ourselves and fortify our position further within the glove industry. Our performance in 2013 where we have delivered record earnings growth is the best evidence of our capability to ride through all these business challenges.

We will continue to place great emphasis and allocate sufficient financial resources to boost our internal strength through continuous improvement programs on cost reduction, product quality improvement, develop new unique products; and reaching out into wider market place. To achieve that, we have been focusing on five (5) key areas which formed the backbone of Kossan's overall strengths:

### **1. Research and Development ("R&D")**

R&D continued to be the driving force in our business. It is the key strength that transforms and differentiates us from our peers and enables us to bring value added and unique products to our customers with fair prices. Our R&D team comprises qualified and well experienced engineers and chemists. The R&D team is focusing on new product development, product quality and process improvement and developing high speed efficient production dipping lines.

# Managing Director's **Review Of Operation** (continued)

## 2. **Automation**

More financial resources have been placed to advance the degree of production process automation from latex compounding, production dipping and glove stripping to final glove packing. Automation is the key and long term solution to reduce reliance on unskilled labors and to arrest the impact from increasing wages. Automation is also able to minimize costly human errors and unnecessary rejects or wastages besides bringing consistency in product quality.

## 3. **Production Process Optimization**

In order to address the escalating production cost attributed to higher utilities cost (electricity, gas and water) and raw materials, we have invested in various technologies, sophisticated equipments and human resources to optimize and bring down the consumption of utilities and raw materials.

## 4. **Business Process Computerization**

For more efficient and effective business process, we have in-house developed software and acquired SAP computer software systems to undertake day to day stringent and routine processes control. This improves overall human efficiencies and helps in eliminating redundant and non value added processes.

## 5. **Investing in Human Capital**

We continued to invest and develop our human capital. Acknowledging the shortage of talents in the country, we need to develop and train our employees in order to defend our leading position in the glove industry. Being a progressive employer, Kossan has a comprehensive human capital management program that was developed to attract and retain the right people, nurture talents and groom future leaders. We engaged extensive and effective trainings for our employees to help them keep abreast of current trends and build up the competency skills in order to perform their tasks more effectively.

The glove industry has evolved into a technology driven type of industry and in the future, glove manufacturers will need to compete in technology in order to survive in business. Acknowledging the importance of technology, we want to invest more in technology particularly in the areas of high speed and efficient dipping lines, latex formulation technology, advanced production process technology and overall plant automation and computerization in order to stay ahead in competition.

## **ACKNOWLEDGEMENT**

To all our stakeholders, including our shareholders, our valued customers, business associates, regulatory bodies, various authorities, research analysts and Kossan employees, a big thank you for your confidence in Kossan and continuous support rendered. With a clear purpose : BUSINESS STABILITY WITH LONG TERM SUSTAINABLE GROWTH, coupled with our dynamic and practical business model and committed management team, we are confident of riding through all business headwinds ahead and scale even greater heights.

Wholeheartedly, I hope all employees of Kossan will continue with your strong and thoughtful spirit in such trying times. We must be ready to change and remain committed to our mission to deliver to our stakeholders with sustainable growth in value. Most importantly, we have to stay focused and hold on firmly to our strength as a team to drive our company forward.

## **DATO' LIM KUANG SIA**

Managing Director/Chief Executive Officer

30 May 2014

# Directors' Profile

## **DATO' HAJI MOKHTAR BIN HAJI SAMAD**

Dato' Haji Mokhtar Bin Haji Samad, a Malaysian aged 66, was appointed the Non-Executive Chairman of Kossan on 22 February 2002. Dato', an Independent Director, is the Chairman of the Audit Committee and a member of the Nominating Committee and the Remuneration Committee.

Besides Kossan, Dato' is the Independent Non Executive Chairman of Luxchem Corporation Berhad, a company listed on the Main Market of Bursa Securities. Dato's is currently the President of Persatuan Kontraktor Melayu Malaysia, Yang Di Pertua, Persatuan Kontraktor Melayu Malaysia, Wilayah Persekutuan, and a board member of Construction Industry Development Board. Dato' also sits on the board of Minat Megah Sdn. Bhd.

Dato' does not have any family relationship with any director and/ or major shareholder of Kossan or any business arrangements involving Kossan.

Dato' has not been convicted of any offences within the past 10 years.

## **DATO' LIM KUANG SIA**

Dato' Lim Kuang Sia, ("Dato' KS Lim") a Malaysian aged 62, was appointed the Managing Director/ Chief Executive Officer of Kossan on 22 February 2002. Dato', a founder Director of Kossan, graduated from Nanyang University in Singapore with a Bachelor of Science (Chemistry) degree. Dato' also graduated from the University of London with a postgraduate Diploma in Chemical Engineering (University College) and a Master in Chemical Engineering (Imperial College).

Other than Kossan, Dato' has no directorship in any other public company. Dato' sits on the boards of several private companies including being a member of the Board of Trustees of the Malaysian Rubber Export Promotion Council, a council member of the Klang Chinese Chamber of Commerce and a member of the Board of Directors of the following private independent schools: Pin Hwa High School, Chung Hua Independent High School, Hin Hua High School and Kwang Hua Private High School. Dato' is the President of the Klang and Coast Teochew Association and Vice President of The Federated Teochew Association of Malaysia.

Dato' KS Lim is a member of the Remuneration Committee.

Dato' KS Lim is an indirect substantial shareholder by virtue of his substantial shareholding in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan. Dato' is also the beneficial owner of 763,776 shares in Kossan.

Dato' has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

Dato' has not been convicted of any offences within the past 10 years.

## **LIM KUANG YONG**

Mr. Lim Kuang Yong, ("KY Lim"), a Malaysian aged 67, was appointed to the Board of Kossan on 22 October 1979. He has more than 20 years business experience in marine hardware. He currently oversees the Gloves Division.

Other than Kossan, he has no directorship in any other public company. He sits on the boards of several private companies.

Mr. KY Lim is an indirect substantial shareholder by virtue of his substantial shareholding in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan.

He has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

**TONG SIEW CHOO**

Madam Tong Siew Choo, a Malaysian aged 53, was appointed to the Board of Kossan on 22 February 2002 as an Independent Non Executive Director. She is a Chartered Accountant with membership in the Malaysian Institute of Accountants and the Malaysian Association of Certified Public Accountants. She is the senior partner of an audit firm.

She is a member of the Audit Committee, the Nominating Committee and the Remuneration Committee.

Other than Kossan, she has no directorship in any other public company.

She holds 59,904 shares in Kossan.

She does not have any family relationship with any director and/ or major shareholder of Kossan and does not have any business arrangements involving Kossan.

She has not been convicted of any offences within the last 10 years.

**LEE CHOO HOCK**

Mr. Lee Choo Hock, a Malaysian aged 61, was appointed to the Board of Kossan on 26 August 2013 as an Independence Non Executive Director. He is a Chartered Accountant with membership in the Malaysian Institute of Accountants and the Institute of Chartered Accountants (England and Wales).

He is the Chairman of the Risk Management Committee and a member of the Audit Committee and the Nominating Committee.

Mr. Lee qualified as an accountant in 1980 and has experience in accounting and tax. He worked at Malayan Banking Berhad from 1983 until his retirement in 2008. His experience with Malayan Banking includes internal audit, information technology, branch supervisory, retail banking, products development and market research, treasury and computerisation. He was Head of Finance in Malayan Banking from 1997 until his retirement in 2008.

Besides Kossan, Mr. Lee is an independent non executive director of HSBC Bank (Malaysia) Berhad.

Mr. Lee does not hold any shares in Kossan and does not have any family relationship with any director and/or major shareholder of Kossan or have any business arrangements involving Kossan.

Mr. Lee has not been convicted of any offences within the past 10 years.

**TAN KONG CHANG**

Mr. Tan Kong Chang, a Malaysian aged 47, was appointed to the Board of Kossan on 26 August 2013 as an Executive Director. Mr. Tan graduated with a Bachelor of Architecture degree from the University of Southwestern Louisiana, USA in 1992. He was a Project Architect with DEG Akitek Sdn. Bhd from 1992 to 1995 and Project Manager with KYM Holdings Berhad from 1996 to 1997. Since 1998 he was with Perusahaan Getah Asas Sdn. Bhd., a wholly owned subsidiary of Kossan, where he gained experiences in administration, human resources, research & development, costing, plant operations and quality control.

Other than Kossan, Mr. Tan has no directorship in any other public company. He sits on the boards of several private companies, including subsidiaries of Kossan.

Mr. Tan does not hold any shares in Kossan and does not have any family relationship with any directors and/or major shareholder of Kossan or any business arrangement involving Kossan.

Mr. Tan has not been convicted of any offences within the past 10 years.

## Directors' Profile (continued)

### LIM SIAU TIAN

Mr. Lim Siau Tian (Lawrence), a Malaysian aged 41, was appointed to the Board of Kossan on 26 August 2013 as an Executive Director. Mr. Lawrence graduated with a Bachelor of Marketing degree from University of Central Oklahoma, USA in 1998.

After his graduation, he was involved in the trading of medical disposables in the USA from 1998 to 2003, culminating in his appointment as operation and marketing manager. He joined Kossan's glove division on 2003 and was promoted to marketing general manager in 2008.

Other than Kossan, Mr. Lawrence has no directorship in any other public company. He sits on the boards of several private companies, including subsidiaries of Kossan.

Mr. Lawrence does not hold any share in Kossan and has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

He has not been convicted of any offences with the past 10 years.

### LIM SIAU HING

Mr. Lim Siau Hing ("SH Lim"), a Malaysian aged 41, was appointed to the Board of Kossan on 26 August 2013 as an Executive Director. Mr. SH Lim graduated with a Bachelor of Business Administration degree from the University of Central Oklahoma, USA in 1998.

Since his graduation, he has been with the Kossan Group overseeing quality control, process engineering, marketing (local and export) and operations. Currently he oversees the infrastructure rubber products operations at Doshin Rubber Products (M) Sdn. Bhd., a subsidiary of Kossan.

Other than Kossan, Mr. SH Lim has no directorship in any other public company. He sits on the boards of certain subsidiaries of Kossan.

Mr. SH Lim does not hold any shares in Kossan and has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company, other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

### LIM OOI CHOW

Mr. Lim Ooi Chow ("OC Lim"), a Malaysian aged 31, was appointed to the Board of Kossan on 26 August 2013 as an Executive Director. Mr. OC Lim graduated from Monash University, Australia in 2005 with a Bachelor Computer Science degree. He obtained his Master of International Business, also from Monash University in 2006.

His previous experience was as a Computer Engineer in Australia after his graduation. In 2007 he joined Kossan where he was involved in cost accounting, project management, information technology, production management and engineering processes.

Other than Kossan, Mr. OC Lim has no other directorship in any public company. He sits on the board of certain subsidiaries of Kossan.

Mr. OC Lim does not hold any shares in Kossan and has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company, other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

*Dato' Lim Kuang Sia and Mr. Lim Kuang Yong are siblings. Messrs Lim Siau Tian and Lim Ooi Chow are the sons of Mr. Lim Kuang Yong and Dato' Lim Kuang Sia respectively. Mr. Lim Siau Hing is a nephew of Dato' Lim Kuang Sia and Mr. Lim Kuang Yong. Messrs Lim Siau Tian, Lim Siau Hing and Lim Ooi Chow are cousins.*

# Corporate Governance Statement

The Board of Directors (“the Board”) of Kossan Rubber Industries Bhd. (“Kossan”) wishes to confirm that the Board had continuously endured to maintain the highest standards of Corporate Governance throughout the financial year ended 31 December 2013. In ensuring the application of the principles of Corporate Governance in its business activities, the Board regularly reviews and maintains all identifiable means to ensure that the Company’s Corporate Governance Standards complies with the Malaysian Code on Corporate Governance 2012 (the “Code”) and to that effect has put in place self regulating processes in the operating procedures of the Company.

The Board is pleased to present the Statement on Corporate Governance for the year ended 31 December 2013 outlining the application of the principles as set out in the Code.

## BOARD OF DIRECTORS

### 1. Establish Clear Roles and Responsibilities of the Board and Management

The ultimate decision making body in the Group is the Board of the holding company, Kossan. It has the responsibility of overall governance of the Group. Together with the subsidiaries’ boards, it takes full responsibility in ensuring businesses are carried out in compliance with governance practices and in a transparent and objective manner. Its overall objective is to enhance the value of its shareholders by achieving the strategic objectives of the Group with the implementation of the Code.

#### 1.1 Strengthen Composition Of The Board

The Board of Directors shall designate one of its members to serve as Chairman of the Board. The powers and responsibilities of the Chairman of the Board shall be set forth in the Board Charter, as supplemented from time to time by resolutions of the Board.

As at the date of this Annual Report, the Board is represented by nine Directors, six of whom are non independent executive directors, whilst three are independent non executive directors. The Chairman of the Board is an independent non-executive director and the Group Managing Director is an executive director.

The Board has no specific policy on setting targets on female candidates to be appointed to the Board. The Board currently has one female director who is an independent non-executive director. With the current composition, the Board feels that its members have the necessary knowledge, experience, requisite range of skills and competence to enable them to discharge their duties and responsibilities effectively. All directors on the Board are well qualified with many years of experience in their respective fields of expertise.

A brief profile of each Director is set out on page 9 to 11 of this Annual Report.

#### 1.2 Board Balance

The wide mix of different skill sets and professional diversity of the members provides an environment where deliberations draw a wide range of view points before a decision is arrived at. The Board of Kossan acknowledges that a well balanced board will benefit the organization in quickly appraising matters at hand and to competently arrive at decisions which will enhance the performance of the Group.

The Chairman of the Board is an independent non-executive director with clear and distinct separation in his duties and responsibilities from those of the Group Managing Director, who is an executive director.

The Board is satisfied that it has achieved an optimal size that reflects the needs of the kind of businesses the Group is involved in as well as the diversity of the Company’s shareholders, employees, customers, stakeholders and communities. The Kossan Board has their independent directors, in compliance with the Bursa’s Main Market Listing Requirements, which stipulates that no less than one third of the Board must be comprised of Independent Directors.

#### 1.3. Board Membership Criteria

The Nominating Committee works with the Board on an annual basis to determine the appropriate characteristics, skills, and experience required for the Board as whole and its individual members with the objective of having a Board with diverse backgrounds and experience in business. Characteristics expected of all Directors include independence, integrity, high personal and professional ethics, sound business judgement, and the ability and willingness to commit sufficient time to the Board.

# Corporate Governance Statement (continued)

In evaluating the suitability of individual Board members, the Board takes into account many factors, including skills, knowledge, expertise, experience, professionalism, time commitment to effectively discharge his/her role as a director, contribution, background, character, integrity and competence.

The Board evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best sustain and perpetuate the success of the Company's business and represent shareholders' interests through the exercise of sound judgment, using its diversity of experience. In determining whether to recommend a Director for re-election, the Nominating Committee also considers the Director's past attendance at meetings, participation in and contribution to the activities of the Board.

## 1.4. Role of Chairman and Group Managing Director

The Board has always ensured that the position of the Chairman and the Group Managing Director is not held by the same person. In this regards our Chairman, Dato' Haji Mokhtar Bin Haji Samad is an Independent Non-Executive member of the Board.

There is a clear and separate division of responsibility in the roles and duties of the Chairman and the Group Managing Director. The Group Managing Director is the officer involved in the day-to-day running of the affairs of the Group.

## 1.5. Board Responsibilities and Duties

The Board of Kossan has the ultimate responsibility in providing overall stewardship over the management of the companies in the Group. The Board ensures that Management has in place appropriate processes for risk assessment, management and internal controls and monitoring performance against set benchmarks. The Board works with Senior Management in advancing the interests of the Company.

At its meetings, the Board regularly reviews the business financial results, adopts and reviews risk management initiatives, oversees the implementation and effectiveness of internal control systems, and enforces the compliance of legal and statutory requirements within the Group.

The Board has delegated certain responsibilities to Board Committees which operate in accordance with the Terms of Reference approved by the Board and delegated the day to day management of the Business of the Group to the Group Managing Director and Management, subject to an agreed authority limit.

The Independent Non-Executive directors are active in their roles providing independent judgment and contributing actively in the deliberations on policies, providing unbiased and independent views when required. They also act to protect the interest of the minority shareholders in respect of policies and decisions deliberated by the Board.

The functions of the Board are summarized as follows:-

- reviewing and adopting strategic plans, including setting performance objectives and approving operating budgets for the Group and ensuring that the strategies promote sustainability;
- overseeing the conduct of the Company's businesses and build sustainable values for shareholders;
- reviewing the procedures to identify principal risks and ensuring the implementation of appropriate internal controls and mitigation measures;
- succession planning, including appointing, assessing, training, fixing the compensation of and where appropriate, replacing executive directors and senior management;
- developing and implementing a Corporate Disclosure Policy (including an investor relations programme or shareholder communications policy) for the Group; and
- reviewing the adequacy and the integrity of the Group's risk management and internal control systems and management information system, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

## 1.6. Board Evaluation

The Board believes in the process of full participation. Although the Board has not put in a structured evaluation mechanism, the Chairman encourages members to discuss any matters for deliberation with open feedback, constructive criticism and exchanging of information. All members of the Board Committees are evaluated on a yearly basis by the Nominating Committee before they are either re-appointed or rotated.

## 1.7. Reinforce Independence of the Board

## Tenure

The Board does not fix a maximum tenure limit for Directors as the Board is of the view that there are significant advantages to be gained from the long-serving Directors who possess tremendous insight and knowledge of the Company's affairs. Furthermore, the ability of a Director to serve effectively as an Independent Director is very much a function of his calibre, qualification, experience and personal qualities, particularly of his integrity and objectivity in discharging his responsibilities in good faith in the best interest of the Company and his duty to vigilantly safeguard the interests of the minority shareholders of the Company, has no direct relationship to his tenure as an Independent Director. Although term limits could help to ensure that there are fresh ideas and viewpoints available to the Board, they do pose the disadvantage of losing experienced Independent Directors who over time have developed better insight in the Company's and/or the Group's operations and therefore, provide an increasing contribution to the effectiveness of the Board as a whole. The Board therefore opined that imposing a fixed term limit for Independent Directors does not necessarily assure independence.

Details of Directors who are seeking to remain Independent at the coming Annual General Meeting and the basis or justifications as recommended by the Board are shown in the Notice of Annual General Meeting on page 93 to 97 of this Annual Report.

## Directors Independence

An Independent Director of the company is a Director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of the company. Without limiting the generality of the foregoing, an Independent Director is one who:

- is not an executive director of the company or any related corporation of the company;
- has not been within the last two (2) years and is not an officer (except as Independent Director) of the company or related corporation of the company;
- is not a major shareholder of the company, or any related corporation of the company;
- is not a relative of any executive director, officer or major shareholder of the company or its related corporation. For this purpose, "relative" means the spouse, parent, brother, sister, child (including adopted or step child) and the spouse of such brother, sister or child;
- is not acting as a nominee or representative of any executive director or major shareholder of the company or any of its related corporation; or
- is not engaged as a professional adviser by the company or any of its related corporation either personally or through a firm or company of which he is a partner, director or major shareholder, as the case may be.

**2. Foster Commitment of Directors**

## 2.1. Board Procedures

The Board meets on a scheduled basis at least five (5) times a year. Special Board meetings are held as and when the need arises to consider special matters.

The Kossan Board governs the subsidiary companies through the subsidiary boards. Scheduled Board meetings have structured agenda that are drawn up for the Board's deliberation and decision making. All Board meetings are set before the beginning of the year with firm dates, venue and time to enable Directors to plan their time to ensure full attendance.

The board members notify the Board or the Chairman before accepting new directorship in other public listed companies. The number of directorship held by each Director complied with Bursa's Main Market Listing Requirements.



# Corporate Governance Statement (continued)

The Board meetings also have a pre-determined set of matters for the Board's review. Among these are the financial performance of the Group and the operating performances. All Board papers for consideration and discussion will be circulated to members at least three (3) days prior to the meetings to ensure Directors have sufficient time to study them and be prepared for meaningful discussions.

The company secretary issues a notice of meeting prior to each Board meeting together with relevant Board papers and any corporate announcement for release to Bursa Malaysia. Management and professional advisor may be invited by the Board if there is a need for information or advice on matters that require expertise knowledge.

## 2.2. Number of Board Meetings and Directors Attendance

For the year under review, the Board held five regular meetings excluding the Annual General Meeting. The matter for review during these meetings included the financial performances of the Group, the quarterly performance and reporting, risk management matters, internal controls and reports of the committees of the Board.

All proceedings of the Board meetings are duly recorded and minuted clearly stating the issues discussed and decisions made. The following are details of the number of Board meetings held during the year 2013 and the record of Directors' attendance during those meetings:-

### Details Of Board Meetings

| Date of Meeting | Time      |
|-----------------|-----------|
| 25.02.2013      | 4.30 p.m. |
| 18.04.2013      | 4.00 p.m. |
| 27.05.2013      | 4.30 p.m. |
| 26.08.2013      | 5.30 p.m. |
| 22.11.2013      | 4.30 p.m. |

| Directors  | Position                                      | Number of Meetings Attended/Held |
|--|---|----------------------------------|
| Dato' Haji Mokhtar Bin Haji Samad                                  | Independent Non-Executive Chairman            | 5/5                              |
| Dato' Lim Kuang Sia  | Managing Director/<br>Chief Executive Officer | 5/5                              |
| Dato' Tai Chang Eng @<br>Teh Chang Ying<br>(retired on 25.06.2013) | Independent Non-Executive Director            | 3/3                              |
| Lim Kuang Yong   | Executive Director                            | 4/5                              |
| Lim Kuang Wang<br>(resigned on 26.08.2013)                         | Executive Director                            | 4/4                              |
| Lim Kwan Hwa<br>(retired on 25.06.2013)                            | Executive Director                            | 3/3                              |
| Tong Siew Choo   | Independent Non-Executive Director            | 5/5                              |
| Tan Kong Chang<br>(appointed on 26.08.2013)                        | Executive Director                            | 1/1                              |
| Lim Siau Tian<br>(appointed on 26.08.2013)                         | Executive Director                            | 1/1                              |
| Lim Siau Hing<br>(appointed on 26.08.2013)                         | Executive Director                            | 1/1                              |
| Lim Ooi Chow<br>(appointed on 26.08.2013)                          | Executive Director                            | 1/1                              |
| Lee Choo Hock<br>(appointed on 26.08.2013)                         | Independent Non-Executive Director            | 1/1                              |

# Corporate Governance Statement (continued)

## 2.3 Directors' Training and Education

All Directors of the Company have full opportunity to attend training through seminars, workshops and conferences. Directors are mindful and are further reminded at every Board meeting of the need to enhance competency by improving on their skills and knowledge to stay abreast with the ever-changing business environment, regulatory requirements and corporate governance developments. All members of the Board had attended the Mandatory Accreditation Program (MAP) required by Bursa Malaysia Securities Berhad.

The Board of the Company provides general guidelines for determining the training needs of each Director. Details of training attended by Directors during the financial year 2013 are as shown below:-

| No. | Directors           | Training/Conference/Seminar/Workshop Alludes   |
|-----|---------------------|--|
| 1.  | Dato' Lim Kuang Sia | (i) World Rubber Summit 2013 : 21-23 May 2013<br>(ii) National Rubber Summit 2013 : 23-24 October 2013<br>(iii) MICPA-Bursa Malaysia Business Forum 2013 : 19 November 2013<br>(iv) National Economic Outlook Conference 2014 – 2015 : 26-27 November 2013   |
| 2.  | Lim Ooi Chow        | (i) Mandatory Accreditation Programme for Directors of Public Listed Companies : 2-3 October 2013<br>(ii) MICPA –Bursa Malaysia Business Forum 2013 : 19 November 2013<br>(iii) National Economic outlook Conference 2014 - 2015 : 26-27 November 2013<br>(iv) Asean Economic Community 2015 Forum : 3 November 2013<br>(v) Annual Director Duties, Governance and Regulatory Updates : 22 April 2014  |
| 3.  | Tan Kong Chang      | (i) Mandatory Accreditation Programme for Directors of Public Listed Companies : 2-3 October 2013<br>(ii) Franklin Covey's seminar on "7 Habits of Highly Effective People" : 21-23 March 2013   |
| 4.  | Tong Siew Choo      | (i) Audit Committee Conference 2013 : 12 March 2013<br>(ii) Corporate Governance – Directors' Duties & Ethics : 27 June 2013<br>(iii) Companies Commission-Enforcement Updates : 20 August 2013<br>(iv) Quality Control in Practice : 29 August 2013<br>(v) National Budget 2013 : 31 October 2013<br>(vi) MICPA- Bursa Malaysia Business Forum 2013 : 19 November 2013<br>(vii) 10 Days Training on Good & Services Tax : January-February 2014<br>(viii) Audit Committee Conference 2014 : 20 March 2014   |
| 5.  | Lee Choo Hock       | (i) HSBC Bank (Malaysia) Bhd's training / briefings<br>(a) Updates on Bank Negara Malaysia\ (BNM) regulations-IFSA Bill, CMSA : 20 February 2013<br>(b) Financial Services Act & Islamic Financial Services Act : 12 April 2013<br>(c) New Guidelines on Sales Practices of Unlisted Capital Market Products : 24 April 2013<br>(d) Updates on BNM regulations- Currency Fixing Reference, Risk Governance Policy, Shariah Non Compliance Reporting : 24 April 2013<br>(e) Updates on BNM Guidelines- IFSA, Corporate Governance , etc : 24 July 2013<br>(f) Legal Implication of Personal Data Protection Act : 2 December 2013<br>(g) HBMY Induction Training : 19 February 2014<br><br>(ii) FIDE/FIDE-ICLIF<br>(a) Talk on "Personal Data Protection Act 2010" : 12 March 2013<br>(b) Forum on FSA & IFSA : 2 September 2013<br>(c) Managing Talent at Board & Management : 1 October 2013<br>(d) ICLIF Leadership Energy Summit Asia : 3-4 December 2013<br>(e) Asian Leadership Index-Defining Leadership in the Asian Century : 1 April 2014 |

# Corporate Governance Statement (continued)

| No. | Directors     | Training/Conference/Seminar/Workshop Alludes  |
|-----|---------------|---|
| 5.  | Lee Choo Hock | (iii) BNM<br>(a) Briefing on Annual Report 2012/Financial Stability & Payment System Report 2012 : 20 March 2013<br>(b) Anti Money Laundering/Counter Financing Transactions Conference : 25 April 2013<br>(c) BNM – FIDE Forum “Economic & Financial Services Sector- Trends & Challenges Moving Forward” : 24 March 2014<br><br>(iv) INCEIF<br>(a) Executive Forum on “ Towards Strengthening Corporate & Shariah Governance in Islamic Banks” : 26-27 August 2013<br>(b) Talk by Dr. Rowan Williams on “Human Priorities: The Urgency of an Ethical Economies” : 4 September 2013<br><br>(v) Audit Committee Conference 2014 : 20 March 2014 |
| 6.  | Lim Siau Tian | (i) Mandatory Accreditation Programme for Directors of Public Listed Companies : 2-3 October 2013   |
| 7.  | Lim Siau Hing | (i) Mandatory Accreditation Programme for Directors of Public Listed Companies : 2-3 October 2013<br>(ii) Annual Director Duties, Governance and Regulatory Updates : 22 April 2014   |

## 2.4. Supply of Information

The supply of information to the Board is managed in an orderly and timely manner. For matters that require detailed attention, the Board has empowered the committees to obtain all information that is required and to deliberate as well as to advise the Board of Kossan on the course of action. It is through these channels that the Board extends its policies and strategies to the respective managements. The Directors on the subsidiary Boards have the responsibility of ensuring that policies and directions of the Kossan board are kept in focus and strategies are implemented accordingly.

All Directors on the Board and Committees of the Board have full and unrestricted access to senior management and the company secretary on all matters requiring information for deliberation and any regulatory and administrative matters. Information provided to the Board are compiled into reports via the Board papers which are circulated to Directors in timely manner to enable them to discharge their duties and responsibilities effectively.

All Directors have the consent of the Board, whether acting as full Board or on individual capacity, to take independent professional advise at Company' expense, where necessary in furtherance of their duties.

## 2.5. Company Secretary

The Company Secretary of Kossan is a professional member of Malaysian Institute of Accountants who is suitably qualified, competent and capable of carrying out the duties required. The key roles of the Company Secretary include providing unhindered advice and services for the Directors, as and when the need arises, enhance the effective functioning of the Board, ensure regulatory compliance and ensure that Board procedures and applicable rules are observed.

## 3. Appointment and Re-election to the Board

### 3.1. Appointment to the Board

The Board has mandated the Nominating Committee with the responsibility of identifying, assessing and recommending suitable candidates for appointment to the Board and Board Committees. The Nominating Committee is comprised exclusively of non-executive independent directors.

# Corporate Governance Statement (continued)

The Nominating Committee carries out the assessment, evaluation of the potential candidates in respect of appropriate skills, knowledge, expertise, experience, professionalism and integrity.

The Nominating Committee only recommends a candidate but the authority of appointment lies with the full Board.

## 3.2. Re-election of Directors

The Company's Articles of Association provides that at least one third of the Directors including the Group Managing Director retire from the office at the Annual General Meeting. Any Directors appointed during the year to fill a casual vacancy will retire at the next Annual General Meeting any may offer themselves for re-election.

The Board has empowered the Nominating Committee to undertake the review of Directors seeking re-election. The Committee also reviews cases for re-appointment of Directors who retire in accordance with Section 129 of the Companies Act, 1965 and the retention of independent directors who has served cumulatively for more than nine years.

## 4. Directors' Remuneration

### 4.1. Directors Remuneration Policy

The Board adopts a remuneration policy that fairly supports the Directors undertaking responsibility and fiduciary duties to steer, grow and achieve the Company's long term strategies, thereby enhancing the value of its shareholders.

The Remuneration Committee is responsible for evaluating, deliberating and recommending to the Board the compensation and benefits that are fairly guided by market norms and industry practices for the business the Company is in.

The Remuneration Committee also assists the Board to put in place a framework and benchmark value for other compensation and benefits to Directors. It recommends the Directors' fee payable to members of the Board which is then deliberated and decided by the Board and before it is presented at the Annual General Meeting for shareholders' approval.

The Board and Remuneration Committee strive to put in place a fair structure of compensation suited for an organization of this size and market sector and business complexity to attract and retain directors who have the right calibre, skills and experience to contribute meaningfully towards the success of the business.

### 4.2. Basic Salaries and Fees

All non-executive directors receive an annual director's fee upon approval of shareholders at the Annual General Meeting. An executive director receives a remuneration package which includes a basic salary, discretionary bonus and other benefits-in-kind.

The Remuneration Committee and the Board strive to implement a formal and transparent procedure of remuneration for executive directors of the Company.

The remuneration package is reviewed annually by the Remuneration Committee in relation to the business strategy, long term objectives of the Company, market demand and supply, scale of responsibility, performance of the business and individual performance evaluation. All other benefits-in kind are specified in the contract of service. The benefits-in-kind include company car and driver, personal telecommunications facilities, club memberships, medical and dental coverage and vacation.

Details of directors' remuneration for the financial year ended 31 December 2013 are as follows:-

| Range of Remuneration     | Executive Director | Non-Executive Director |
|---------------------------|--------------------|------------------------|
| RM50,000 and below        | 0                  | 1                      |
| RM50,001 - RM 100,000     | 0                  | 2                      |
| RM350,001 - RM400,000     | 2                  | 0                      |
| RM650,001 - RM700,000     | 1                  | 0                      |
| RM850,001 - RM900,000     | 1                  | 0                      |
| RM2,150,001 - RM2,220,000 | 1                  | 0                      |
| RM3,700,000 - RM3,750,000 | 1                  | 0                      |

# Corporate Governance Statement (continued)

## 5. Board Committees

As part of its reporting structure the Kossan Board has put in place several committees to undertake specific duties of deliberating, evaluating on a continuous basis the mechanism, and framework of business processes that should be in place to ensure the achievement of business strategies and targets. Apart from monitoring the defined activities under their purview, these Committees would also undertake the Boards delegated role of detailed review of matters that require Board's deliberation and approval.

All such Committees have been empowered by the Board to oversee, monitor and to carry out the necessary detailed study and review of their respective areas of expertise and to provide feedback to the Board for its decision making.

The empowerment to these Committees is done by delegating its authority and defining its mutually exclusive scope of work in the Terms of Reference. Each Committee shall have a written charter of responsibilities, duties and authorities which shall be periodically reviewed by the Board.

During the year, the following Committees of the Board were in place:-

- Audit Committee
- Nominating Committee
- Remuneration Committee

### 5.1. Audit Committee

|   | Number of Meetings Attended/Held |
|---|----------------------------------|
| Dato' Haji Mokhtar Bin Haji Samad                               | 6/6                              |
| Dato' Tai Chang Eng @ Teh Chang Ying<br>(retired on 25.06.2013) | 4/4                              |
| Tong Siew Choo  | 6/6                              |
| Lee Choo Hock<br>(appointed on 26.08.2013)                      | 1/1                              |

The Audit Committee assists the Board in providing oversight on the Group's financial reporting, disclosure, regulatory compliance and monitoring of internal control processes within the Group. The Audit Committee reviews the quarterly financial results, unaudited and audited financial statements, internal and external audit reports as well as related party transactions.

Fuller details of the Audit Committee's Terms of Reference and its report for the year are presented on pages 29 to 31 of this Annual Report.

### 5.2 Nominating Committee

|   | Number of Meetings Attended/Held |
|---|----------------------------------|
| Dato' Haji Mokhtar Bin Haji Samad                               | 2/2                              |
| Dato' Tai Chang Eng @ Teh Chang Ying<br>(retired on 25.06.2013) | 1/1                              |
| Tong Siew Choo  | 2/2                              |
| Lee Choo Hock<br>(appointed on 26.08.2013)                      | 0                                |

The Nominating Committee oversees matters relating to the nomination of new Directors, annually review the required mix of skills, experience and other requisite qualities of Directors as well as the annual assessment of the effectiveness of the Board as a whole, its Committees and the contribution of each individual Director as well as identify candidates to fill board vacancies, and nominating them for approval by the Board.

In the case of position of Independent Non-Executive Directors, the Nominating Committee will also evaluate the candidates' ability to discharge such responsibility as expected of an Independent Non-Executive Director.

During the year, the Nomination Committee met twice to carry out its responsibilities.

## 5.3. Remuneration Committee

|   | <b>Number of Meetings Attended/Held</b> |
|---|---|
| Dato' Haji Mokhtar Bin Haji Samad                               | 1/1                                     |
| Dato' Tai Chang Eng @ Teh Chang Ying<br>(retired on 25.06.2013) | 0                                       |
| Dato' Lim Kuang Sia   | 1/1                                     |
| Tong Siew Choo  | 1/1                                     |

The Remuneration Committee is primarily responsible for recommending to the Board the remuneration of Executive Directors, Non-Executive Directors and Senior Management in all its forms, drawing from outside advice if necessary.

The level of remuneration should be aligned with the business strategy and long-term objectives of the Company, complexity of the Company's activities, and reflects the experience and level of responsibilities undertaken by the Executive Directors.

The determination of remuneration packages of Executive Directors and Non-Executive Directors should be a matter for the Board as a whole where the individuals concerned shall abstain from discussion of their own remuneration.

During the year, the Remuneration Committee met once to carry out its responsibilities.

**6. Code of Ethics and Conduct**

The Board acknowledges and emphasizes the importance of all Directors and employees maintaining the highest standards of corporate governance practice and ethical standards.

**7. Sustainability**

The Company recognises the importance of sustainability and its impact to the business. The Company is committed to implement sustainable practices and to exploring the benefits to the business whilst attempting to achieve the right balance between the needs of the wider community, the requirements of shareholders and stakeholders and economic success.

**8. Uphold Integrity in Financial Reporting by Company**

## 8.1. Financial Reporting

The Board is committed to providing a balanced, fair and comprehensive assessment of the Company's state of affairs in its financial statements. To ensure this, the Board has put in place adequate financial processes that are aimed at keeping the Group's accounting records and transactions in accordance with accepted accounting standards. This ensures the preparation of the annual financial statements that present a true and fair view of the state of affairs of the Group and Company at the reporting dates.

The Board of Kossan is also committed to ensure that it presents a balanced and comprehensive assessment of the operation and financial results of the Group on a quarterly basis via its interim financial reports. It releases the quarterly financial report promptly within the deadline established after each quarter of the year for public announcement together with the required disclosure of the Bursa Main Market Listing Requirements. These quarterly reports are published in a condensed format with full financial statements prepared and published in the Annual Report after the financial year end.

The Audit Committee assists the Board under its terms of reference in ensuring that the Financial Statements are prepared in accordance with approved applicable Malaysian Financial Reporting Standards and are in accordance with the provisions of the Companies Act, 1965.

The Statement of Directors' Responsibility in relation to the Audited Financial Statements is presented on page 25 of this Annual Report.

# Corporate Governance Statement (continued)

## 8.2. Internal Control

The Board maintains a sound system of Internal Control to manage the day-to-day running of the business activities of the Group. The internal control system is a mechanism of checks and balances in the operating and financial processes wherein the transactions and processes are carried out and are subjected to this self checking mechanism. The management of the companies have established such control mechanism within their Standard Operating Procedures to ensure its continuous and effective operations.

The Board has mandated the Audit Committee with the overall responsibility of ensuring adequacy, completeness and effectiveness of this internal control system. The Audit Committee undertakes periodic reviews and monitors the compliance to these systems via the Internal Audit Department who carries out audit checks on such control processes and provide feedback on its effectiveness and compliance at the operating level. Any weaknesses or variances reported by the Internal Auditor to the Audit Committee will be forwarded to management to rectify any weaknesses in those control processes.

The Internal Audit Department acts as a unit independent of management to carry out the audit of management processes and business transactions of the operating units by way of pre-approved audit programme and reports its findings back to the Audit Committee. This independent mechanism provides independent feedback of the accountability, adequacy and effectiveness of the system of internal controls in place, giving the assurance that the Board needs to fulfil its responsibility. The Internal Audit Function is complemented by a firm of outsourced internal auditor.

The Audit Committee monitors the feedback and reports of the Internal Audit Department for matters of non-compliance, weaknesses in internal control systems or the lack of it and monitors the implementation of any such inadequacies by the Management.

Full details of the Statement of Risk Management and Internal Control are presented on pages 26 to 28 of this Annual Report.

## 8.3. Relationship with Internal and External Auditors.

The Board maintains good working relationship with the external auditors of the Group, Messrs KPMG, through the Audit Committee. The Audit Committee acts as the platform used by both the external and internal auditors for communication and avenue to access the Board. The Audit Committee invites the external auditors to attend its meeting as and when required but at least twice a year when they intend to begin the final year audit and when they have completed their audit. The internal auditors meet the Committee at least four times a year. During such meeting the auditors highlights and discusses the nature, scope of the audit, audit programme, internal controls and problems that may require the attention of the Board.

In compliance to Bursa's Main Market Listing Requirements and Corporate Governance principles the Audit Committee reviews the scope of work, independence, objectivity and the feedback and results of the audits conducted by both the external and internal auditors.

The Board, through the Audit Committee, provides general guidelines governing the contracts for the provision of non-audit services which can be entered into by the external auditors. The Audit Committee has also obtained the confirmation from the external auditors of their independence.

The Audit Committee also makes arrangements to meet and discuss with the external and internal auditors separately without the presence of management on any matters relating to the Group and its audit activities.

## 9. Ensure Timely and High Quality Disclosure and Strengthen Relationship Between Company and Shareholders.

The Board is committed under its Corporate Governance obligation to have an effective channel of communication with shareholders and the investing public. It affirms that the primary channel to engage and communicate with its shareholders is during the Annual General Meeting.

During these general meetings, the Board provides an account of the affairs of the business that was undertaken by the Group and its future direction. The Annual Report is tabled at this meeting and the shareholders can engage the Board in productive dialogue.

## Corporate Governance Statement (continued)

In respect of the investing public, the Board has put in place an investor relations initiative where a page is dedicated to investor relations on the Company's corporate website ([www.kossan.com.my](http://www.kossan.com.my)) wherein official announcements made to Bursa are made available.

Furthermore, the Group Managing Director and the Investor Relations Manager arrange regular face to-face briefing and discussions with analysts and investors to provide information on developments and to take questions on matters relating to their interest.

The Company's Annual General Meeting is a crucial forum where the Company's shareholders meet to have discussions with the Board of Directors on the affairs of the business. Notice of the Annual General Meeting is sent out to shareholders at last 21 days ahead of the meeting date together with Financial Statements and agenda for the meeting.

The Board encourages all shareholders to attend the Annual General Meeting and to participate in its proceedings. Every opportunity is given to shareholders to seek clarification on the performance of the Company and the Group. The Chairman also shared with shareholders of the meeting responses to questions submitted in advance by the Minority Shareholder Watchdog Group (MSWG). All the resolutions set out in the Notice of the AGM were put to vote. The outcome of the AGM will be announced to Bursa Malaysia Securities Berhad on the same meeting day.

The Company will encourage the adoption of poll voting for all the resolutions at future AGM.

The full agenda of the 34th Annual General Meeting of Kossan is presented on page 93 to 97 of this Annual Report.

The Board confirms that the Group has made strong efforts of maintaining high standards of Corporate Governance throughout the year to seek to achieve the highest level of integrity and ethical standards in all its business dealings.

This statement is made in accordance with the resolution of the Board of Directors dated 23 May 2014.

Dato' Haji Mokhtar Bin Haji Samad  
Chairman

Dato' Lim Kuang Sia  
Managing Director/Chief Executive Officer



# Corporate Governance Statement (continued)

## OTHER INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS

### During the financial year under review

**(a) Executive Share Option Scheme (ESOS)**

The ESOS approved by shareholders in 2005 had not been implemented.

**(b) Utilization of proceeds**

The Company did not implement any fund raising exercise.

**(c) Share Buy-Back**

The shareholders of the Company approved the renewal of the Share Buy-Back Scheme at the 33rd Annual General Meeting held on 25 June 2013.

During the financial year ended 31 December 2013, the Company re-issued 1,114,400 treasury shares in October 2013 for RM 7,599,949 at prices between RM6.40 and RM7.07.

**(d) Options, Warrants or Convertible Securities exercised**

The Company did not issue any options, warrants or convertible securities.

**(e) American Depository Receipt (“ADR”) or Global Depository Receipt (“GDR”)**

The Company did not sponsor any ADR or GDR program.

**(f) Conflict of interest**

None of the Directors, other than those disclosed in the Directors’ Profile, have any family relationships with other Directors and/or major shareholders of the Company or have any personal interest in any business arrangements involving the Company.

**(g) Material Contracts**

The Company did not have any material contracts involving directors’ and major shareholders’ interest either still subsisting at the end of the financial year or, if not subsisting, entered into since the end of the previous financial year.

**(h) Sanctions and/or penalties**

The Company and its subsidiaries, Directors and management have not been imposed with any sanctions and/ or penalties by any regulatory bodies.

**(i) Non-audit fees**

Apart from the RM 279,000 audit fees paid to the external auditors, the Company also paid RM 10,000 in non audit fees for the year ended 31 December 2013.

**(j) Variation in results**

There is no material variance between the result for the financial year and the unaudited results previously announced by the Company.

**(k) Profit guarantee**

The Company did not issue any profit forecast or profit guarantee.

**(l) Revaluation policy**

The Company did not have a policy on revaluation of landed properties.

# Corporate Social Responsibility

The Group has long recognized and acknowledged the importance of a corporate culture that emphasize good corporate social responsibility (“CSR”) and corporate citizenship. While delivering sustainable and growing stakeholders value through the core business, the Group also contributes and provides for betterment of its employees’ welfare, sustainability of the industry and well being of the community surrounding us.

## WORKPLACE

In stepping up the welfare and professionalism of our employees, the Group has conducted trainings with emphasis on quality for the staff to improve further their leadership skills and work quality. Various in house and external trainings have been made available to relevant employees after having determined the area of improvement needed. In this respect, the Group has engaged an external consultant-trainer to facilitate the world renowned and highly acclaimed FranklinCovey’s signature program, The 7 Habits of Highly Effective People for the supervisory and managerial level employees during the year.

The Group employs a significant number of foreign and out-stationed workers; as such the Group has constructed or rented hostels within the vicinity of our plants to provide accommodation for this group of employees.

Health and safety are two major concerns at our workplace. On occupational safety, the Group strives to comply with all the Department of Occupational Safety and Health Malaysia (“DOSH”) standards on health and safety perspective. The Group complies with the Occupational Safety and Health Act (“OSHA”) strictly. The Group has also set up a Work Safety Committee to develop policies and maintain a safe and healthy workplace for all its employees, contractors and fellow visitors. All its workers on the production floors are made compulsory to attend trainings, safety meetings, inspections and prevention programs. These programs are aimed to alert employees on the importance of safety and hygiene conditions in the workplace.

All our employees are reasonably covered for any unforeseen mishaps through the various levels of insurance including coverage on medical, hospitalization benefits and critical illness besides the usual personal accident insurance.

## MARKET PLACE

In the market place, the Group practices strong leadership through sound corporate governance and ethical business conducts. Apart from adhering to rules and regulations, the Group has refreshed its principles and standards of good governance and business ethics in line with its commitment to effective corporate governance. On top of that, we remain supportive to our suppliers and treasure our business relationships with all our customers. As part of our effort to improve ourselves and grow together with our suppliers and customers, we conduct annual satisfaction surveys to draw feedbacks on our products and services and areas that require improvement.

## COMMUNITY

The Group continues to engage with the Community through donations to various charitable bodies and the underprivileged. Funds were also given out to private schools for their regular operating expenses, building funds and reading programs.

## Statement of **Responsibility by Directors**

The Directors are required by the Companies Act, 1965 (“the Act”) to prepare financial statements for each financial year which gives a true and fair view of the state of affairs of the Group and of the Company and the results and cash flow of the Group and of the Company for each financial year. As required by the Act and the Listing Requirements of Bursa Malaysia Securities Berhad, the financial statements have been prepared in accordance with applicable approved accounting standards in Malaysia and the provisions of the Act.

In preparing these financial statements, the Directors have:

- (a) adopted suitable accounting policies and applied them consistently;
- (b) made judgments and estimates that are reasonable and prudent; and
- (c) ensured that all applicable approved accounting standards have been followed.

The Directors have overall responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to ensure these financial statements comply with the Act. The Directors are also responsible and shall take such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This Statement of Responsibility by Directors is made in accordance with the resolution of the Board of Directors dated 23 May 2014

# Statement on Risk Management and Internal Control

## INTRODUCTION

Pursuant to paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors (Board) of listed issuers is required to provide a Statement on Risk Management and Internal Control of the Group in their Annual Report.

Set out below is the Board's Statement on Risk Management and Internal Control prepared in accordance with the "Statement on Risk Management & Internal Control – Guidelines for Directors of Public Listed Issuers" and Principle 6 and Recommendation 6.1 of the "Malaysian Code on Corporate Governance 2012".

## BOARD RESPONSIBILITY

The Board acknowledges and affirms their responsibility in establishing an effective governance, risk management and internal control system that would provide reasonable assurance that risks are managed effectively and efficiently within the Group's defined risk appetite and tolerance.

The Board in discharging their responsibilities is committed to maintaining a sound risk management and internal control system to safeguard shareholders' investments and the Group's assets as well as other stakeholders' interests.

The Group's risk management and internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Notwithstanding and due to the limitations that are inherent in any system of risk management and internal control, the system can only provide reasonable and not absolute assurance against material misstatement, losses or fraud.

The Board is assisted by Management in the implementation of the Board's policies and procedures on the system of risk management and internal control. Management is responsible, amongst others, implementing the process for identifying, evaluating, monitoring and reporting of risks and internal control; design, implement and monitor the risk management framework inline with the Group's business objectives and risk appetite; identify changes to risk and taking appropriate actions to mitigate and control these risks; and provide assurance to the Board that the risk management and internal control system is operating adequately and effectively.

## RISK MANAGEMENT

The Board recognizes that risk management and internal control forms an integral part of the Group's business operations and therefore has put in place a Risk Management framework for identifying, evaluating and managing the significant risks faced by the Group in its achievement of objectives and strategies.

The Risk Management framework contains the following key elements:

- A Risk management policy and guidelines outlining the risk strategy, risk management policy and risk management structure of the Group. The risk organization structure details the lines of reporting and responsibility of the Board, Audit Committee, Risk Management Committee, and Management levels. The risk management policy and guidelines is subject to review and improvement from time to time in order to enhance the risk management process and framework within the Group.
- A Risk register containing risk profiles of the business operations within the Group which have been developed and communicated to the Board. The development of such risk profiles involved identification of key risks facing by the Group's core business unit, the potential impact and likelihood of those risks occurring, the control effectiveness and the action plans being taken to manage those risks to the desired level.
- A Risk Management Committee, set-up with the overall responsibility for establishing a strategic approach to risk management within the Group. The Committee reviews the effectiveness of the Group's risk management in relation to the core strategic objectives of the Group, identifies and communicates to the Board and Management with regards to the changing and emerging risks and to formulate action plans to address key risks and control issues in accordance with their profiles of the Group. In line with the Group's existing organization model, the line management remains primarily responsible for the management of risk.

The Board believes that maintaining a sound system of risk management and internal control is premise on a clear understanding and appreciation of the aforementioned key elements of the Risk Management framework.

# Statement on Risk Management and Internal Control (continued)

## SYSTEM OF INTERNAL CONTROL

Whilst the Board focuses on effective risk oversight and setting the tone and culture towards an effective risk management and internal control structure, the management is entrusted with the implementation of the system of internal control encompassing the types of control including strategic, financial, operational, and compliance issues.

The key features and roles of the Board and management on the system of internal control are described as follows:-

- At quarterly board meetings, the Board members review the performance and profitability of the Group, discuss and deliberate on the business development, management, corporate issues and regulatory matters affecting the Group.
- Various Board Committees with formal terms of reference governing their functions and duties delegated by the Board have been established to assist the Board in overseeing internal controls and Board effectiveness.
- The Group Managing Director (GMD) plays a pivotal role in communicating the Board's expectations of the system of internal control to management. This is achieved through his active participation in the operations of the business as well as attendance at various scheduled management and operational level committee meetings where operational and financial risks are discussed and dealt with. The GMD will update the Board of any significant matters that require the latter's immediate attention.
- Clear defined organization structure defining the delegation of authority and responsibility of the management and reporting mechanism.
- Monthly review of the financial and manufacturing operational performance of business units including key performance indicators, productivity, efficiency and effectiveness. This includes evaluation of factors such as business, operational and key management issues impacting on their performance.
- Regular visits to business and manufacturing units by GMD, Executive Directors and Senior Management personnel.
- Review of quarterly financial results of the Group by the Audit Committee and the Board.
- Identify and review the risk elements that impact on the financial performances of the Group and establish mechanism to manage risk including and not limiting to volatility of foreign exchange rates, escalating cost of operations and competitive pricing of products.
- Quarterly review on the adequacy and integrity of the Group's internal control system and to follow-up on action plans by Management on the recommendations proposed by the internal audit function.

The existing system of internal control has been in place for the year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

## ASSURANCE MECHANISM

The Audit Committee (AC) is tasked with the duty of reviewing and monitoring the effectiveness of the Group's risk management and system of internal control. The AC is assisted by the Group's in-house internal audit department as well as an outsourced independent professional firm that reports directly to the AC, to ensure that significant risks are indentified and the adequacy and integrity of the Group's risk management and internal control system is in place and effective. The internal audit department performs periodic reviews of key business processes to identify and evaluate significant operational, financial and compliance risks including assessing the effectiveness and adequacy of the system of risk management and internal control.

For the year ended 31 December 2013, the Internal Audit function reviewed the adequacy and effectiveness of the internal control process and necessary actions have been/are being taken to remedy any significant failings or weaknesses for the financial year under review and up to the date of approval of this statement for inclusion in the annual report.

The AC reviewed the findings, recommendations, management response and action plans reported by the internal audit department and the independent professional firm and presented the AC's finding and recommendation to the Board on a quarterly basis.

The Board, through the AC, has reviewed the effectiveness of the Group's system of risk management and internal control. There were no significant risk management and internal control aspects that would have resulted in any material losses or contingencies that would require disclosure in the Group's Annual Report.

# Statement on Risk Management and Internal Control (continued)

The Board has received assurances from the GMD and the Senior Group Accountant that the Group's risk management and internal control system is operating adequately and effectively in all material aspects, based on the risk management and internal control system of the Group. Taking into consideration the information and assurances given, the Board is satisfied with the adequacy, integrity and effectiveness of the Group's system of risk management and internal control.

In addition, as part of the requirements of the ISO 9001, ISO 13485, ISO/TS 16949, MS ISO/IEC 17025 and ISO 14001 certifications, scheduled audits are being conducted internally as well as by external auditors from accredited certification bodies. Results of these audits are reported to the Quality Management Committee, which is chaired by the GMD.

## BOARD'S COMMITMENT

The Board remains committed towards keeping abreast with the ever-changing business environment in order to support the Group's business and size of operations. There were no material losses incurred during the current financial year as a result of weaknesses in internal control.

The Board and the Management, in striving for continuous improvement, have and will continue to put in place appropriate measures to further strengthen the Group's system of risk management and internal control environment.

This statement is made in accordance with a resolution of the Board of Directors dated 23 May 2014.

# Report of the **Audit Committee**

The Board of Directors have pleasure in submitting the report of the Audit Committee of the Board for the year ended 31 December 2013.

## **1. TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

### **1.1. Composition**

The Audit Committee shall consist of at least three Directors, all of whom are non executive and a majority of them are independent. The Chairman of the Audit Committee shall be an independent director.

### **1.2. Authority**

The Audit Committee shall have explicit authority to investigate any matter within its terms of reference, have full access to information and the resources which it needs to do so. The Committee shall be able to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.

### **1.3 Responsibility**

The Audit Committee shall be the focal point for communication between external auditors, internal auditors, Directors and management on matters in connection with financial accounting, reporting and controls. It shall also ensure that accounting policies and practices are adhered to by the Company and its subsidiaries.

### **1.4. Functions**

The duties of the Audit Committee shall include the following:

- (i) To consider the appointment of the external auditor and the audit fees and any questions of their resignation or dismissal;
- (ii) To discuss with the external auditor, before the audit commences, the nature and scope of the audit;
- (iii) To review the quarterly and year-end financial statements of the Company and the Group, focusing particularly on:
  - any changes in major accounting policies and practices;
  - significant adjustments arising from the audit;
  - significant and unusual events;
  - the going concern assumption;
  - compliance with approved accounting standards and other legal requirements;
- (iv) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss;
- (v) To review the external auditor's audit report, management letter and management's response;
- (vi) To review the assistance given by the employees of the Company and its subsidiaries to the external auditor;
- (vii) To consider the appointment of the internal auditor, their remuneration and any questions of their resignation or dismissal;
- (viii) To review the internal audit functions namely:
  - the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
  - the internal audit program and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal auditor;
  - the performance of the internal auditor, whose role includes the examination and evaluation of the Company's operations and their compliance with the relevant policies, codes and legislations;
- (ix) To consider any related party transactions and conflict of interest situations that may arise within the Company or Group;
- (x) To consider the major findings of internal investigations and management's response; and
- (xi) To consider other topics as defined by the Board.

# Report of the **Audit Committee** (continued)

## 1.5 Meeting and Minutes

- (i) The Audit Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
- (ii) The quorum for any meeting shall be at least two, the majority of whom must be independent Directors.
- (iii) The Secretary of the Committee shall be the Company Secretary.

## 2. COMPOSITION AND ATTENDANCE AT MEETINGS

The Audit Committee comprises the following members and details of attendance of each member at committee meetings held during the year ended 31 December 2013 are as follows:-

| Composition of the Committee  | Number of Meetings Attended/Held |
|---|----------------------------------|
| Dato' Haji Mokhtar Bin Haji Samad<br>(Chairman / Independent Non-Executive Director)                          | 6/6                              |
| Dato' Tai Chang Eng @ Teh Chang Ying (retired on 25.06.2013)<br>(Member / Independent Non-Executive Director) | 4/4                              |
| Tong Siew Choo<br>(Member / Independent Non-Executive Director)   | 6/6                              |
| Lee Choo Hock (appointed on 26.08.2013)<br>(Member / Independent Non-Executive Director)                      | 1/1                              |

The General Manager and the Senior Group Accountant were invited and attended all the meetings.

The Group's external auditors attended three (3) of the meetings. The outsourced internal auditors attended four (4) while the inhouse internal auditors attended three (3) of the meetings.

## 3. ACTIVITIES

The following activities were carried out by the Audit Committee during the year under review:

- (i) reviewed the annual audited financial statements of the Company/Group, semi annual returns and quarterly results of the Group prior to submission to the Board for approval;
- (ii) reviewed the Statement on Risk Management and Internal Control before submission to the Board for approval;
- (iii) reviewed and approved the annual Report of the Audit Committee;
- (iv) reviewed the terms of the Shareholders' Mandate for Recurrent Related Party Transactions ("RRPT") of a revenue or trading nature and be satisfied the review procedures are sufficient to ensure RRPT will be at arm's length and in accordance with the Group's normal commercial terms and not prejudicial to the shareholders or disadvantageous to the Group;
- (v) reviewed with external auditors their audit plan prior to the commencement of audit;
- (vi) discussed and reviewed the Group's financial year end statements with the external auditors including issues and findings noted in the course of the audit of the Group's financial statements;
- (vii) reviewed and discussed with internal auditors their evaluation of the system of risk management and internal control of the Group;
- (viii) reviewed the credit policy and risk management framework of the Group.
- (ix) reviewed and appraised the audit report submitted by the internal auditors. The audit reports covered all business sectors of the Group incorporating audit findings and recommendations on system and control weaknesses noted during the course of the audit;



## Report of the **Audit Committee** (continued)

- (x) reviewed the audit fees and remuneration payable to external and internal auditors;
- (xi) appraised the adequacy of actions and remedial measures taken by the management in resolving audit issues reported; and
- (xii) reviewed the viability and reasonableness of the acquisition of landed properties by the Group.

The Committee discharged its duties and responsibilities in accordance with its Terms of Reference.

#### **4. COST OF INTERNAL AUDIT**

The total cost incurred for the internal audit function of the Company and the Group for the financial year 2013 was RM219,000.

#### **5. REPORT TO THE EXCHANGE**

The Audit Committee did not see any matter in breach of the Main Market Listing Requirements that warrants reporting to Bursa Malaysia Securities Berhad.

Dato' Haji Mokhtar Bin Haji Samad  
Chairman  
Audit Committee

# Directors' Report

for the year ended 31 December 2013

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding, manufacturing and sales of rubber products and provision of management services to subsidiaries, whilst the principal activities of the subsidiaries are as stated in Note 4 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

## RESULTS

|                                      | Group<br>RM'000 | Company<br>RM'000 |
|--------------------------------------|-----------------|-------------------|
| Profit for the year attributable to: |                 |                   |
| Owners of the Company                | 136,422         | 166,426           |
| Non-controlling interests            | 3,633           | -                 |
|                                      | 140,055         | 166,426           |

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

## DIVIDENDS

Since the end of the previous financial year, the Company paid:

- i) a final dividend of 7.0 sen per ordinary share, tax exempted, totalling RM22,303,369 in respect of the year ended 31 December 2012 on 15 July 2013; and
- ii) an interim ordinary dividend of 3.5 sen per ordinary share, tax exempted, totalling RM22,381,376 in respect of the year ended 31 December 2013 on 19 December 2013.

The final ordinary dividend recommended by the Directors in respect of the year ended 31 December 2013 is 3.5 sen per ordinary share, tax exempted, totalling RM22,381,376.

## DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Dato' Lim Kuang Sia  
 Dato' Haji Mokhtar bin Haji Samad  
 Lim Kuang Yong  
 Tong Siew Choo  
 Lee Choo Hock (appointed on 26 August 2013)  
 Lim Ooi Chow (appointed on 26 August 2013)  
 Lim Siau Tian (appointed on 26 August 2013)  
 Lim Siau Hing (appointed on 26 August 2013)  
 Tan Kong Chang (appointed on 26 August 2013)  
 Dato' Tai Chang Eng @ Teh Chang Ying (retired on 25 June 2013)  
 Lim Kwan Hwa (retired on 25 June 2013)  
 Lim Kuang Wang (resigned on 26 August 2013)  
 Lim Leng Bung (alternate to Lim Kuang Wang) (resigned on 26 August 2013)

# Directors' Report

for the year ended 31 December 2013 (continued)

## DIRECTORS' INTERESTS

The interest and deemed interest in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

|                            | At<br>1.1.2013 | Number of ordinary shares of RM0.50 each |      |                | At<br>31.12.2013 |
|----------------------------|----------------|--|------|----------------|------------------|
|                            |                | Bought                                   | Sold | Bonus<br>issue |                  |
| <b>Direct interest</b>     |                |  |      |                |                  |
| Dato' Lim Kuang Sia        | 381,888        | -  | -    | 381,888        | 763,776          |
| Tong Siew Choo             | 29,952         | -  | -    | 29,952         | 59,904           |
| <b>Deemed interest</b>     |                |  |      |                |                  |
| Dato' Lim Kuang Sia        |                |  |      |                |                  |
| - ultimate holding company | 163,256,240    | -  | -    | 163,256,240    | 326,512,480      |
| - spouse                   | 522,248        | -  | -    | 522,248        | 1,044,496        |
| Lim Kuang Yong             |                |  |      |                |                  |
| - ultimate holding company | 163,256,240    | -  | -    | 163,256,240    | 326,512,480      |

By virtue of their interests in the shares of the Company, Dato' Lim Kuang Sia and Lim Kuang Yong are deemed interested in the shares of the subsidiaries during the financial year to the extent Kossan Rubber Industries Bhd. has an interest.

None of the other Directors holding office at 31 December 2013 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

## DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 27 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## ISSUE OF SHARES AND DEBENTURES

During the financial year, as approved by the shareholders at an Extraordinary General Meeting held on 21 October 2013, the Company increased its issued and paid-up share capital from RM159,866,976, consisting of 319,733,952 ordinary shares of RM0.50 each, to RM319,733,952, consisting of 639,467,904 ordinary shares of RM0.50 each, by the way of bonus issue of 319,733,952 new ordinary shares of RM0.50 each on the basis of one (1) bonus share for every one (1) existing ordinary share held by way of capitalisation of the Company's retained earnings.

Other than the abovementioned, there are no other changes in the authorised, issued and fully paid up share capital of the Company.

## OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

## SIGNIFICANT EVENT

The significant event during the financial year is disclosed in Note 28 to the financial statements.

# Directors' Report

for the year ended 31 December 2013 (continued)

## OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate allowance made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2013 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....  
Dato' Lim Kuang Sia

.....  
Lim Kuang Yong

Klang, Selangor Darul Ehsan

Date: 23 April 2014

# Statements of Financial Position

at 31 December 2013

|   | Note | Group          |                | Company        |                |
|---|------|----------------|----------------|----------------|----------------|
|   |      | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Assets</b>   |      |                |                |                |                |
| Property, plant and equipment                             | 3    | 600,539        | 514,366        | 36,782         | 34,268         |
| Investments in subsidiaries                               | 4    | -              | -              | 21,874         | 21,474         |
| Other investments   | 5    | 116            | 116            | 116            | 116            |
| Deferred tax assets                                       | 6    | -              | 22             | -              | -              |
| Goodwill  | 7    | 4,926          | 4,926          | -              | -              |
| <b>Total non-current assets</b>                           |      | 605,581        | 519,430        | 58,772         | 55,858         |
| Inventories   | 8    | 148,782        | 148,980        | 15,100         | 14,678         |
| Current tax assets  |      | 3,531          | 1,386          | 1,048          | 603            |
| Trade and other receivables                               | 9    | 242,945        | 216,998        | 254,954        | 118,602        |
| Prepayments   |      | 4,578          | 3,298          | 386            | 206            |
| Cash and cash equivalents                                 | 11   | 100,601        | 99,845         | 50,976         | 68,344         |
| <b>Total current assets</b>                               |      | 500,437        | 470,507        | 322,464        | 202,433        |
| <b>Total assets</b>                                       |      | 1,106,018      | 989,937        | 381,236        | 258,291        |
| <b>Equity</b>   |      |                |                |                |                |
| Share capital   |      | 319,734        | 159,867        | 319,734        | 159,867        |
| Share premium   |      | 4,151          | 11             | 4,151          | 11             |
| Translation reserve                                       |      | 855            | (150)          | -              | -              |
| Treasury shares   |      | -              | (3,460)        | -              | (3,460)        |
| Retained earnings   |      | 380,201        | 448,331        | 38,344         | 76,470         |
| <b>Total equity attributable to owners of the Company</b> | 12   | 704,941        | 604,599        | 362,229        | 232,888        |
| <b>Non-controlling interests</b>                          |      | 17,069         | 12,790         | -              | -              |
| <b>Total equity</b>                                       |      | 722,010        | 617,389        | 362,229        | 232,888        |
| <b>Liabilities</b>  |      |                |                |                |                |
| Loans and borrowings                                      | 13   | 49,385         | 38,255         | 265            | 291            |
| Deferred tax liabilities                                  | 6    | 55,897         | 49,844         | 3,941          | 4,341          |
| <b>Total non-current liabilities</b>                      |      | 105,282        | 88,099         | 4,206          | 4,632          |
| Loans and borrowings                                      | 13   | 119,586        | 160,746        | 538            | 2,787          |
| Current tax liabilities                                   |      | 10,031         | 9,064          | -              | -              |
| Trade and other payables                                  | 14   | 142,071        | 114,639        | 13,944         | 17,984         |
| Derivative financial liabilities                          | 10   | 7,038          | -              | 319            | -              |
| <b>Total current liabilities</b>                          |      | 278,726        | 284,449        | 14,801         | 20,771         |
| <b>Total liabilities</b>                                  |      | 384,008        | 372,548        | 19,007         | 25,403         |
| <b>Total equity and liabilities</b>                       |      | 1,106,018      | 989,937        | 381,236        | 258,291        |

The notes on pages 41 to 84 are an integral part of these financial statements.

# 36

## Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2013

|  | Note | Group          |                | Company        |                |
|--|------|----------------|----------------|----------------|----------------|
|  |      | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Revenue</b>   | 15   | 1,307,292      | 1,234,001      | 286,444        | 153,140        |
| Other income   |      | 2,762          | 2,696          | 1,875          | 848            |
| Changes in inventories of<br>finished goods and work-in-progress     |      | (1,873)        | (12,003)       | (960)          | (74)           |
| Raw materials and consumables used                                   |      | (735,410)      | (767,279)      | (54,342)       | (55,008)       |
| Goods purchased for resale   |      | (1,370)        | (663)          | (13,558)       | (7,174)        |
| Staff costs  |      | (170,592)      | (139,511)      | (34,249)       | (26,190)       |
| Depreciation of property, plant and equipment                        | 3    | (50,983)       | (45,102)       | (3,215)        | (3,575)        |
| Other expenses`  |      | (165,497)      | (128,354)      | (17,319)       | (15,768)       |
| <b>Results from operating activities</b>                             |      | 184,329        | 143,785        | 164,676        | 46,199         |
| Finance costs  | 16   | (6,884)        | (6,407)        | (73)           | (78)           |
| Finance income   | 19   | 2,689          | 1,073          | 1,665          | 767            |
| <b>Profit before tax</b>   |      | 180,134        | 138,451        | 166,268        | 46,888         |
| Tax (expense)/credit   | 18   | (40,079)       | (33,679)       | 158            | (1,293)        |
| <b>Profit for the year</b>   |      | 140,055        | 104,772        | 166,426        | 45,595         |
| <b>Other comprehensive income, net of tax</b>                        |      |                |                |                |                |
| <b>Items that may be reclassified subsequently to profit or loss</b> |      |                |                |                |                |
| Foreign currency translation differences for<br>foreign operations   |      | 1,651          | (306)          | -              | -              |
| <b>Other comprehensive income for the year, net of tax</b>           |      | 1,651          | (306)          | -              | -              |
| <b>Total comprehensive income for the year</b>                       |      | 141,706        | 104,466        | 166,426        | 45,595         |
| <b>Profit attributable to:</b>                                       |      |                |                |                |                |
| Owners of the Company  |      | 136,422        | 102,163        | 166,426        | 45,595         |
| Non-controlling interests  |      | 3,633          | 2,609          | -              | -              |
| <b>Profit for the year</b>   |      | 140,055        | 104,772        | 166,426        | 45,595         |
| <b>Total comprehensive income attributable to:</b>                   |      |                |                |                |                |
| Owners of the Company  |      | 137,427        | 102,010        | 166,426        | 45,595         |
| Non-controlling interests  |      | 4,279          | 2,456          | -              | -              |
| <b>Total comprehensive income for the year</b>                       |      | 141,706        | 104,466        | 166,426        | 45,595         |
| <b>Basic earnings per ordinary share (sen)</b>                       | 20   | 21.33          | 16.00          |                |                |

The notes on pages 41 to 84 are an integral part of these financial statements.

# Consolidated Statements of Changes in Equity

for the year ended 31 December 2013

| Group  | Note | Attributable to owners of the Company |                            |                                  |                              |                               | Total<br>RM'000 | Non-<br>controlling<br>interests<br>RM'000 | Total<br>equity<br>RM'000 |
|--|------|---------------------------------------|----------------------------|----------------------------------|------------------------------|-------------------------------|-----------------|--|---------------------------|
|  |      | Share<br>capital<br>RM'000            | Share<br>premium<br>RM'000 | Translation<br>reserve<br>RM'000 | Treasury<br>shares<br>RM'000 | Retained<br>profits<br>RM'000 |                 |  |                           |
| <b>At 1 January 2012</b>   |      | 159,867                               | 11                         | 3                                | (3,460)                      | 374,738                       | 531,159         | 9,480                                      | 540,639                   |
| Foreign currency translation<br>differences from<br>foreign operations |      | -                                     | -                          | (153)                            | -                            | -                             | (153)           | (153)                                      | (306)                     |
| Total other comprehensive income<br>for the year                       |      | -                                     | -                          | (153)                            | -                            | -                             | (153)           | (153)                                      | (306)                     |
| Profit for the year  |      | -                                     | -                          | -                                | -                            | 102,163                       | 102,163         | 2,609                                      | 104,772                   |
| Total comprehensive income<br>for the year                             |      | -                                     | -                          | (153)                            | -                            | 102,163                       | 102,010         | 2,456                                      | 104,466                   |
| Changes in ownership interest<br>in a subsidiary                       |      | -                                     | -                          | -                                | -                            | 106                           | 106             | 854  | 960                       |
| Dividends to owners of the Company                                     | 21   | -                                     | -                          | -                                | -                            | (28,676)                      | (28,676)        | -  | (28,676)                  |
| <b>At 31 December 2012 / 1 January 2013</b>                            |      | 159,867                               | 11                         | (150)                            | (3,460)                      | 448,331                       | 604,599         | 12,790                                     | 617,389                   |
| Foreign currency translation<br>differences from foreign operations    |      | -                                     | -                          | 1,005                            | -                            | -                             | 1,005           | 646  | 1,651                     |
| Total other comprehensive income<br>for the year                       |      | -                                     | -                          | 1,005                            | -                            | -                             | 1,005           | 646  | 1,651                     |
| Profit for the year  |      | -                                     | -                          | -                                | -                            | 136,422                       | 136,422         | 3,633                                      | 140,055                   |
| Total comprehensive income<br>for the year                             |      | -                                     | -                          | 1,005                            | -                            | 136,422                       | 137,427         | 4,279                                      | 141,706                   |
| Issue of bonus shares  | 12   | 159,867                               | -                          | -                                | -                            | (159,867)                     | -               | -  | -                         |
| Sale of treasury shares  | 12   | -                                     | 4,140                      | -                                | 3,460                        | -                             | 7,600           | -  | 7,600                     |
| Dividends to owners of the Company                                     | 21   | -                                     | -                          | -                                | -                            | (44,685)                      | (44,685)        | -  | (44,685)                  |
| <b>At 31 December 2013</b>   |      | 319,734                               | 4,151                      | 855                              | -                            | 380,201                       | 704,941         | 17,069                                     | 722,010                   |

Note 12.1 Note 12.2 Note 12.3 Note 12.4

The notes on pages 41 to 84 are an integral part of these financial statements.

# 38

## Statements of Changes in Equity

for the year ended 31 December 2013

| Company                                       | Note | Attributable to owners of the Company |                         |                           |                             | Total equity<br>RM'000 |
|---|------|---------------------------------------|-------------------------|---------------------------|-----------------------------|------------------------|
|   |      | Share capital<br>RM'000               | Share premium<br>RM'000 | Treasury shares<br>RM'000 | Retained earnings<br>RM'000 |                        |
| <b>At 1 January 2012</b>                      |      | 159,867                               | 11                      | (3,460)                   | 59,551                      | 215,969                |
| Total other comprehensive income for the year |      | -                                     | -                       | -                         | -                           | -                      |
| Profit for the year                           |      | -                                     | -                       | -                         | 45,595                      | 45,595                 |
| Total comprehensive income for the year       |      | -                                     | -                       | -                         | 45,595                      | 45,595                 |
| Dividends to owners of the Company            | 21   | -                                     | -                       | -                         | (28,676)                    | (28,676)               |
| <b>At 31 December 2012/1 January 2013</b>     |      | 159,867                               | 11                      | (3,460)                   | 76,470                      | 232,888                |
| Total other comprehensive income for the year |      | -                                     | -                       | -                         | -                           | -                      |
| Profit for the year                           |      | -                                     | -                       | -                         | 166,426                     | 166,426                |
| Total comprehensive income for the year       |      | -                                     | -                       | -                         | 166,426                     | 166,426                |
| Issue of bonus shares                         | 12   | 159,867                               | -                       | -                         | (159,867)                   | -                      |
| Sale of treasury shares                       | 12   | -                                     | 4,140                   | 3,460                     | -                           | 7,600                  |
| Dividends to owners of the Company            | 21   | -                                     | -                       | -                         | (44,685)                    | (44,685)               |
| <b>At 31 December 2013</b>                    |      | 319,734                               | 4,151                   | -                         | 38,344                      | 362,229                |
|   |      | Note 12.1                             | Note 12.2               | Note 12.4                 | Note 12.5                   |                        |

The notes on pages 41 to 84 are an integral part of these financial statements.



# Statements of Cash Flows

for the year ended 31 December 2013

|   | Note | Group          |                | Company        |                |
|---|------|----------------|----------------|----------------|----------------|
|   |      | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Cash flows from operating activities</b>                                   |      |                |                |                |                |
| Profit before tax   |      | 180,134        | 138,451        | 166,268        | 46,888         |
| <i>Adjustments for:</i>   |      |                |                |                |                |
| Depreciation of property, plant and equipment                                 | 3    | 50,983         | 45,102         | 3,215          | 3,575          |
| Dividend income   | 15   | -              | -              | (160,000)      | (41,000)       |
| Finance costs   | 16   | 6,884          | 6,407          | 73             | 78             |
| Loss/(Gain) on disposal of property, plant and equipment                      | 19   | 7              | (770)          | (181)          | (35)           |
| Finance income  | 19   | (2,689)        | (1,073)        | (1,665)        | (767)          |
| Property, plant and equipment written off                                     | 19   | 474            | 145            | -              | 9              |
| Gain on partial disposal of shares in a subsidiary                            | 19   | -              | -              | -              | (351)          |
| Net of unrealised derivatives   | 19   | 7,038          | -              | 319            | -              |
| Net of unrealised foreign exchange differences                                | 19   | (79)           | (1,994)        | -              | -              |
| <b>Operating profit before changes in working capital</b>                     |      |                |                |                |                |
| Change in inventories   |      | 198            | 14,799         | (422)          | 2,075          |
| Change in trade and other receivables, prepayments and other financial assets |      | (22,569)       | (61,552)       | (136,532)      | 5,127          |
| Change in trade and other payables  |      | 27,758         | 11,084         | (4,040)        | 7,632          |
| <b>Cash generated from/(used in) operations</b>                               |      |                |                |                |                |
| Dividends received  |      | -              | -              | 160,000        | 41,000         |
| Interest received   |      | 2,689          | 1,073          | 1,665          | 767            |
| Interest paid   |      | (6,884)        | (6,407)        | (73)           | (78)           |
| Tax paid  |      | (35,182)       | (23,665)       | (687)          | (1,101)        |
| <b>Net cash from/(used in) operating activities</b>                           |      |                |                |                |                |
|   |      | 208,762        | 121,600        | 27,940         | 63,819         |
| <b>Cash flows from investing activities</b>                                   |      |                |                |                |                |
| Proceeds from disposal of property, plant and equipment                       |      | 994            | 1,490          | 301            | 35             |
| Acquisition of property, plant and equipment                                  | (ii) | (119,821)      | (82,829)       | (5,351)        | (547)          |
| Acquisition of a subsidiary   | 26   | - @            | -              | -              | -              |
| Proceeds from disposal of shares in a subsidiary                              | 4    | -              | 960            | -              | 960            |
| Increase in investments in subsidiaries                                       |      | -              | -              | (400)          | (31)           |
| <b>Net cash (used in)/from investing activities</b>                           |      |                |                |                |                |
|   |      | (118,827)      | (80,379)       | (5,450)        | 417            |
| <b>Cash flows from financing activities</b>                                   |      |                |                |                |                |
| Dividends paid to owners of the Company                                       | 21   | (44,685)       | (28,676)       | (44,685)       | (28,676)       |
| Decrease in deposits pledged  |      | 700            | -              | -              | -              |
| Repayment of hire purchase liabilities  |      | (9,966)        | (9,726)        | (357)          | (248)          |
| Repayment of long-term borrowings   |      | (12,259)       | (6,485)        | -              | -              |
| Proceeds from long-term borrowings  |      | 14,563         | 46,259         | -              | -              |
| (Repayment of)/Proceeds from other borrowings                                 |      | (41,669)       | 3,339          | (408)          | (357)          |
| Proceeds from sale of treasury shares   |      | 7,600          | -              | 7,600          | -              |
| <b>Net cash (used in)/from financing activities</b>                           |      |                |                |                |                |
|   |      | (85,716)       | 4,711          | (37,850)       | (29,281)       |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                   |      |                |                |                |                |
| Effect of exchange rate fluctuations on cash held                             |      | 78             | 10             | -              | -              |
| Cash and cash equivalents at 1 January  |      | 93,678         | 47,736         | 66,336         | 31,381         |
| <b>Cash and cash equivalents at 31 December</b>                               |      |                |                |                |                |
|   | (i)  | 97,975         | 93,678         | 50,976         | 66,336         |

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# Statements of Cash Flows

for the year ended 31 December 2013 (continued)

**i) Cash and cash equivalents**

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

|                        | Note | Group          |                | Company        |                |
|------------------------|------|----------------|----------------|----------------|----------------|
|                        |      | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Cash and bank balances | 11   | 69,345         | 18,563         | 45,976         | 62,344         |
| Short term deposits    | 11   | 31,256         | 81,282         | 5,000          | 6,000          |
| Bank overdrafts        | 13   | (2,370)        | (5,211)        | -              | (2,008)        |
|                        |      | 98,231         | 94,634         | 50,976         | 66,336         |
| Less: Deposits pledged | 11   | (256)          | (956)          | -              | -              |
|                        |      | 97,975         | 93,678         | 50,976         | 66,336         |

**ii) Acquisition of property, plant and equipment**

During the year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM137,383,000 (2012: RM87,071,000) and RM5,849,000 (2012: RM767,000) respectively of which RM17,562,000 (2012: RM4,242,000) and RM498,000 (2012: RM220,000) respectively were acquired by means of hire purchase.

The notes on pages 41 to 84 are an integral part of these financial statements.

# Notes to the Financial Statements

Kossan Rubber Industries Bhd. is a public limited liability company incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the principal place of business and registered office of the Company is as follow:

## Principal place of business/Registered office

Wisma Kossan  
Lot 782, Jalan Sungai Putus  
Off Batu 3 ¾, Jalan Kapar  
42100 Klang  
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”). The financial statements of the Company as at and for the financial year ended 31 December 2013 do not include other entities.

The Company is principally involved in investment holding, manufacturing and sales of rubber products and provision of management services to subsidiaries, whilst the principal activities of the subsidiaries are as stated in Note 4 to the financial statements.

The ultimate holding company during the financial year was Kossan Holdings (M) Sdn. Bhd. which was incorporated in Malaysia.

These financial statements were authorised for issue by the Board of Directors on 23 April 2014.

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

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

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) which will become effective in future reporting periods but have not been adopted by the Group and the Company:

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014**

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014**

- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*

#### **MFRSs, Interpretations and amendments effective for a date yet to be confirmed**

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- MFRS 9, *Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The initial application of the abovementioned standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company.

MASB has also issued the following new and revised MFRSs, amendments and interpretations which are not yet effective, but for which is not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

**1. BASIS OF PREPARATION (continued)****(a) Statement of compliance (continued)****MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014**

- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- IC Interpretation 21, *Levies*

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014**

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

**(c) Functional and presentation currency**

These financial statements are presented in Ringgit Malaysia (“RM”), which is the Company’s functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

**(d) Use of estimates and judgements**

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 6 – deferred tax assets
- Note 7 – measurement of the recoverable amounts of cash-generating units

**2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

**(a) Basis of consolidation****(i) Subsidiaries**

Subsidiaries are entities, including unincorporated entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group adopted MFRS 10, *Consolidated Financial Statements* in the current financial year. This resulted in changes to the following policies:

- Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the previous financial years, control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

# Notes to the Financial Statements (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of consolidation (continued)

#### (i) Subsidiaries (continued)

- Potential voting rights are considered when assessing control only when such rights are substantive. In the previous financial years, potential voting rights are considered when assessing control when such rights are presently exercisable.
- The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. In the previous financial years, the Group did not consider de facto power in its assessment of control.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 10. The adoption of MFRS 10 has no significant impact to the financial statements of the Group.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

#### (ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

#### (iii) Acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

#### (iv) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(a) Basis of consolidation (continued)****(v) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) Foreign currency****(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

**(ii) Operations denominated in functional currencies other than Ringgit Malaysia**

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2011 (the date when the Group first adopted MFRS) which are treated as assets and liabilities of the Company. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of gains or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR in equity.

# Notes to the Financial Statements (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments

#### (i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

#### (ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

##### *Financial assets*

#### (a) *Financial assets at fair value through profit or loss*

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

#### (b) *Loans and receivables*

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

#### (c) *Available-for-sale financial assets*

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss.

On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)****(c) Available-for-sale financial assets (continued)**

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(i)(i)).

**Financial liabilities**

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

**(iii) Derecognition**

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**(d) Property, plant and equipment****(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date and in accordance to Note 2(q).



# Notes to the Financial Statements (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Property, plant and equipment (continued)

#### (i) Recognition and measurement (continued)

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

#### (ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### (iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

|  |              |
|--|--------------|
| • Buildings                                  | 50 years     |
| • Plant and machinery                        | 5 - 10 years |
| • Motor vehicles                             | 5 years      |
| • Factory renovation                         | 10 years     |
| • Factory furniture and equipment            | 10 years     |
| • Electrical installation                    | 10 years     |
| • Office furniture, equipment and renovation | 10 years     |

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

### (e) Leased assets

#### (i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(e) Leased assets (continued)****(ii) Operating lease**

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised on the statement of financial position.

Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

**(iii) Hire purchase**

Property, plant and equipment held under hire purchase are capitalised and depreciated over their estimated useful lives, and the corresponding obligation relating to the remaining capital payments are treated as liability.

**(f) Intangible assets****Goodwill**

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is measured based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

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

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**(h) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

# Notes to the Financial Statements (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Impairment

#### (i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset amount is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in the profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

#### (ii) Other assets

The carrying amounts of other assets (except for inventories and deferred tax asset) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(i) Impairment (continued)****(ii) Other assets (continued)**

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

**(j) Equity instruments**

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

**(i) Issue expenses**

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

**(ii) Ordinary shares**

Ordinary shares are classified as equity.

**(iii) Repurchase, disposal and reissue of share capital (treasury shares)**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statement of changes in equity.

Where treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

Where treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

**(iv) Distributions of assets to owners of the Company**

The Group measures a liability to distribute assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting period and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

**(k) Employee benefits****(i) Short-term employee benefits**

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

# Notes to the Financial Statements (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Employee benefits (continued)

#### (i) Short-term employee benefits (continued)

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### (l) Revenue and other income

#### (i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discount and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

#### (ii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

#### (iii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

### (m) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

**(o) Earnings per ordinary share**

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding adjusted for own shares held for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**(p) Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

**(q) Fair value measurement**

From 1 January 2013, the Group adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

# Notes to the **Financial Statements** (continued)

## 2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

### (q) **Fair value measurement (continued)**

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

In accordance with the transitional provision of MFRS 13, the Group applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Group's assets or liabilities other than the additional disclosures.

## 3. PROPERTY, PLANT AND EQUIPMENT

| Group                                  | Freehold |           | Plant and Motor |          | Factory renovation | Factory furniture and equipment | Electrical installation | Office furniture, equipment and renovation | Plant and machinery under construction | Building under construction | Total   |
|--|----------|-----------|-----------------|----------|--------------------|---------------------------------|-------------------------|--|--|-----------------------------|---------|
|  | land     | Buildings | machinery       | vehicles |                    |                                 |                         |  |  |                             |         |
| <b>Cost</b>                            |          |           |                 |          |                    |                                 |                         |  |  |                             |         |
| At 1 January 2012                      | 74,899   | 137,459   | 416,226         | 9,890    | 7,700              | 7,456                           | 3,536                   | 9,413                                      | 14,604                                 | 8,033                       | 689,216 |
| Additions                              | 11,327   | 347       | 11,976          | 5,593    | 564                | 753                             | 1,055                   | 479  | 39,485                                 | 15,492                      | 87,071  |
| Disposals                              | -        | -         | (926)           | (1,771)  | -                  | (3)                             | -                       | (20)                                       | -                                      | -                           | (2,720) |
| Write-off                              | -        | -         | (1,604)         | (293)    | (70)               | (93)                            | (152)                   | (363)                                      | -                                      | -                           | (2,575) |
| Reclassification                       | (16)     | 6,703     | 43,437          | -        | -                  | 1,384                           | -                       | 229  | (45,715)                               | (6,022)                     | -       |
| Effect of movements in exchange rates  | -        | 5         | 25              | -        | -                  | -                               | -                       | 1  | -                                      | -                           | 31      |
| At 31 December 2012/<br>1 January 2013 | 86,210   | 144,514   | 469,134         | 13,419   | 8,194              | 9,497                           | 4,439                   | 9,739                                      | 8,374                                  | 17,503                      | 771,023 |
| Additions                              | 26,724   | 1,285     | 22,325          | 2,523    | 52                 | 1,795                           | 9                       | 2,006                                      | 53,130                                 | 27,534                      | 137,383 |
| Disposals                              | -        | -         | (1,858)         | (1,488)  | (260)              | -                               | -                       | -  | -                                      | -                           | (3,606) |
| Write-off                              | -        | -         | (8,175)         | -        | -                  | -                               | -                       | (16)                                       | -                                      | -                           | (8,191) |
| Reclassification                       | 70       | 17,608    | 34,268          | -        | -                  | 1,335                           | -                       | 325  | (29,043)                               | (24,563)                    | -       |
| Effect of movements in exchange rates  | 811      | 76        | 794             | -        | -                  | -                               | -                       | 22   | -                                      | -                           | 1,703   |
| At 31 December 2013                    | 113,815  | 163,483   | 516,488         | 14,454   | 7,986              | 12,627                          | 4,448                   | 12,076                                     | 32,461                                 | 20,474                      | 898,312 |
| <b>Accumulated depreciation</b>        |          |           |                 |          |                    |                                 |                         |  |  |                             |         |
| At 1 January 2012                      | -        | 5,813     | 190,655         | 7,490    | 2,918              | 2,949                           | 1,861                   | 4,294                                      | -                                      | -                           | 215,980 |
| Charge for the year                    | -        | 3,273     | 38,056          | 1,263    | 447                | 684                             | 513                     | 866  | -                                      | -                           | 45,102  |
| Disposals                              | -        | -         | (218)           | (1,771)  | -                  | (1)                             | -                       | (10)                                       | -                                      | -                           | (2,000) |
| Write-off                              | -        | -         | (1,509)         | (293)    | (67)               | (84)                            | (152)                   | (325)                                      | -                                      | -                           | (2,430) |
| Effect of movements in exchange rates  | -        | 3         | 11              | -        | -                  | -                               | (10)                    | 1  | -                                      | -                           | 5       |
| At 31 December 2012/<br>1 January 2013 | -        | 9,089     | 226,995         | 6,689    | 3,298              | 3,548                           | 2,212                   | 4,826                                      | -                                      | -                           | 256,657 |
| Charge for the year                    | -        | 3,478     | 42,670          | 2,042    | 443                | 909                             | 500                     | 941  | -                                      | -                           | 50,983  |
| Disposals                              | -        | -         | (1,200)         | (1,348)  | (57)               | -                               | -                       | -  | -                                      | -                           | (2,605) |
| Write-off                              | -        | -         | (7,707)         | -        | -                  | -                               | -                       | (10)                                       | -                                      | -                           | (7,717) |
| Effect of movements in exchange rates  | -        | 60        | 379             | -        | -                  | -                               | -                       | 16   | -                                      | -                           | 455     |
| At 31 December 2013                    | -        | 12,627    | 261,137         | 7,383    | 3,684              | 4,457                           | 2,712                   | 5,773                                      | -                                      | -                           | 297,773 |
| <b>Carrying amounts</b>                |          |           |                 |          |                    |                                 |                         |  |  |                             |         |
| At 1 January 2012                      | 74,899   | 131,646   | 225,571         | 2,400    | 4,782              | 4,507                           | 1,675                   | 5,119                                      | 14,604                                 | 8,033                       | 473,236 |
| At 31 December 2012/<br>1 January 2013 | 86,210   | 135,425   | 242,139         | 6,730    | 4,896              | 5,949                           | 2,227                   | 4,913                                      | 8,374                                  | 17,503                      | 514,366 |
| At 31 December 2013                    | 113,815  | 150,856   | 255,351         | 7,071    | 4,302              | 8,170                           | 1,736                   | 6,303                                      | 32,461                                 | 20,474                      | 600,539 |



Notes to the **Financial Statements** (continued)**3. PROPERTY, PLANT AND EQUIPMENT (continued)**

| <b>Company</b>                         | <b>Freehold land<br/>RM'000</b> | <b>Buildings<br/>RM'000</b> | <b>Plant and machinery<br/>RM'000</b> | <b>Motor vehicles<br/>RM'000</b> | <b>Factory renovation<br/>RM'000</b> | <b>Office furniture and equipment<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|---------------------------------|-----------------------------|---------------------------------------|----------------------------------|--------------------------------------|--|-------------------------|
| <b>Cost</b>                            |                                 |                             |                                       |                                  |                                      |  |                         |
| At 1 January 2012                      | 10,116                          | 16,275                      | 48,327                                | 3,504                            | 133                                  | 2,191  | 80,546                  |
| Additions                              | -                               | -                           | 407                                   | 338                              | -                                    | 22   | 767                     |
| Disposal                               | -                               | -                           | (28)                                  | (84)                             | -                                    | -  | (112)                   |
| Write off                              | -                               | -                           | (9)                                   | (121)                            | -                                    | (20)   | (150)                   |
| Reclassification                       | (16)                            | 16                          | -                                     | -                                | -                                    | -  | -                       |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |
| At 31 December 2012/<br>1 January 2013 | 10,100                          | 16,291                      | 48,697                                | 3,637                            | 133                                  | 2,193  | 81,051                  |
| Additions                              | -                               | -                           | 3,627                                 | 1,049                            | -                                    | 1,173  | 5,849                   |
| Disposal                               | -                               | -                           | (165)                                 | (1,009)                          | -                                    | -  | (1,174)                 |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |
| At 31 December 2013                    | 10,100                          | 16,291                      | 52,159                                | 3,677                            | 133                                  | 3,366  | 85,726                  |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |
| <b>Accumulated depreciation</b>        |                                 |                             |                                       |                                  |                                      |  |                         |
| At 1 January 2012                      | -                               | 559                         | 39,336                                | 2,649                            | 133                                  | 784  | 43,461                  |
| Charge for the year                    | -                               | 437                         | 2,620                                 | 298                              | -                                    | 220  | 3,575                   |
| Disposal                               | -                               | -                           | (28)                                  | (84)                             | -                                    | -  | (112)                   |
| Write off                              | -                               | -                           | (9)                                   | (121)                            | -                                    | (11)   | (141)                   |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |
| At 31 December 2012/<br>1 January 2013 | -                               | 996                         | 41,919                                | 2,742                            | 133                                  | 993  | 46,783                  |
| Charge for the year                    | -                               | 437                         | 2,065                                 | 473                              | -                                    | 240  | 3,215                   |
| Disposal                               | -                               | -                           | (68)                                  | (986)                            | -                                    | -  | (1,054)                 |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |
| At 31 December 2013                    | -                               | 1,433                       | 43,916                                | 2,229                            | 133                                  | 1,233  | 48,944                  |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |
| <b>Carrying amounts</b>                |                                 |                             |                                       |                                  |                                      |  |                         |
| At 1 January 2012                      | 10,116                          | 15,716                      | 8,991                                 | 855                              | -                                    | 1,407  | 37,085                  |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |
| At 31 December 2012/<br>1 January 2013 | 10,100                          | 15,295                      | 6,778                                 | 895                              | -                                    | 1,200  | 34,268                  |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |
| At 31 December 2013                    | 10,100                          | 14,858                      | 8,243                                 | 1,448                            | -                                    | 2,133  | 36,782                  |
| <hr/>                                  |                                 |                             |                                       |                                  |                                      |  |                         |

Notes to the **Financial Statements** (continued)**3. PROPERTY, PLANT AND EQUIPMENT (continued)****3.1 Plant and machinery under hire purchase**

At 31 December 2013, the net carrying amount of plant and machinery under hire purchase was as follows:

|                     | Group          |                | Company        |                |
|---------------------|----------------|----------------|----------------|----------------|
|                     | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Plant and machinery | 29,373         | 27,371         | -              | -              |
| Motor vehicles      | 5,090          | 5,436          | 862            | 675            |
|                     | 34,463         | 32,807         | 862            | 675            |

**4. INVESTMENTS IN SUBSIDIARIES**

|                          | Company        |                |
|--------------------------|----------------|----------------|
|                          | 2013<br>RM'000 | 2012<br>RM'000 |
| Unquoted shares, at cost | 21,874         | 21,474         |

Details of the subsidiaries are as follows:

| Name of subsidiary   | Country of incorporation | Principal activities   | Effective ownership interest |           |
|--|--------------------------|--|------------------------------|-----------|
|  |                          |  | 2013<br>%                    | 2012<br>% |
| Perusahaan Getah Asas Sdn. Bhd.  | Malaysia                 | Manufacturing of latex examination gloves                      | 100                          | 100       |
| Hibon Corporation Sdn. Bhd. <sup>^</sup>                                 | Malaysia                 | Manufacturing and marketing of rubber based parts and products | 90.4                         | 90*       |
| Doshin Rubber Products (M) Sdn. Bhd.                                     | Malaysia                 | Manufacturing and dealing in rubber products                   | 70                           | 70        |
| Ideal Quality Sdn. Bhd.  | Malaysia                 | Manufacturing of latex examination gloves                      | 100                          | 100       |
| Kossan Engineering (M) Sdn. Bhd.   | Malaysia                 | Fabrication and installation of machinery                      | 100                          | 100       |
| Kossan International Sdn. Bhd. (formerly known as Top Calibre Sdn. Bhd.) | Malaysia                 | Investment holding   | 100                          | 100       |
| Kossan Sdn. Bhd.   | Malaysia                 | Investment holding   | 100                          | 100       |
| Premium Medical Product Sdn. Bhd.  | Malaysia                 | Investment holding   | 100                          | 100       |
| Cleanera (Malaysia) Sdn. Bhd.  | Malaysia                 | Trading of latex examination gloves and cleanroom products     | 100                          | 100       |
| Cleanera HK Limited <sup>+</sup>   | Hong Kong                | Investment holding and the manufacturing of cleanroom products | 55                           | 55        |

Notes to the **Financial Statements** (continued)**4. INVESTMENTS IN SUBSIDIARIES (continued)**

| Name of subsidiary  | Country of incorporation       | Principal activities  | Effective ownership interest |        |
|---|--------------------------------|---|------------------------------|--------|
|   |                                |   | 2013 %                       | 2012 % |
| KPH Logistics, Inc.#                                      | United States of America       | Distribution  | 100                          | 100    |
| KPH (San Francisco), LLC.#                                | United States of America       | Property holding  | 100                          | 100    |
| Kossan Labuan Bhd.#                                       | Labuan, Malaysia               | Dormant   | 100                          | 100    |
| Assurguard Sdn. Bhd.@                                     | Malaysia                       | Dormant   | 100                          | -      |
| <b>Subsidiary of Doshin Rubber Products (M) Sdn. Bhd.</b> |                                |   |                              |        |
| Quality Profile Sdn. Bhd.                                 | Malaysia                       | Manufacturing and dealing in rubber products                | 70                           | 70     |
| <b>Subsidiary of Cleanera HK Limited</b>                  |                                |   |                              |        |
| Dongguang Cleanera Cleanroom Products Company Limited+    | The People's Republic of China | Manufacturing and dealing in cleanroom products             | 55                           | 55     |
| <b>Subsidiary of Kossan Engineering (M) Sdn. Bhd.</b>     |                                |   |                              |        |
| Envi-Care Sdn. Bhd.                                       | Malaysia                       | Investment holding  | 100                          | 100    |
| <b>Subsidiary of Envi-Care Sdn. Bhd.</b>                  |                                |   |                              |        |
| Wear Safe (Malaysia) Sdn. Bhd.                            | Malaysia                       | Manufacturing of surgical, procedure and examination gloves | 100                          | 100    |
| <b>Subsidiary of Kossan Labuan Bhd.</b>                   |                                |   |                              |        |
| PT. Kossan Setia Jaya                                     | Republic of Indonesia          | Property holding  | 100                          | -      |

^ KRIB subscribed additional 100,000 ordinary shares of RM1.00 each in Hibon, issued at a premium of RM3 each, on 2 May 2013.

\* On 3 September 2012, the Company disposed 240,000 ordinary shares of RM1.00 each in Hibon which represent 10% of its issued and paid-up shares to Flexible Products Co., a company incorporated in United States of America, for a total cash consideration of RM960,000 as stated in the Sale and Purchase Agreement signed between the Company and the Purchaser.

# Not required to be audited under the laws of country of incorporation. The financial statements of the subsidiaries are consolidated based on management accounts.

@ The subsidiary was acquired in 10 June 2013.

+ Not audited by member firms of KPMG international.

**Material Non-controlling interest in subsidiaries**

There are no non-controlling interests that are material to the Group for the year ended 31 December 2013.

## 5. OTHER INVESTMENTS

|   | Group and Company<br>2013<br>RM'000 | 2012<br>RM'000 |
|---|-------------------------------------|----------------|
| <b>Non-current</b>                                      |                                     |                |
| Investment in club membership                           |                                     |                |
| - Available-for-sale financial assets at amortised cost | 116                                 | 116            |

## 6. DEFERRED TAX ASSETS AND LIABILITIES

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| Group                             | Assets         |                | Liabilities    |                | Net            |                |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                   | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Property, plant and equipment     | -              | -              | (53,966)       | (45,527)       | (53,966)       | (45,527)       |
| Revaluation on properties#        | -              | -              | (6,320)        | (6,478)        | (6,320)        | (6,478)        |
| Unutilised reinvestment allowance | 2,489          | 2,670          | -              | -              | 2,489          | 2,670          |
| Tax losses carry-forwards         | 164            | -              | -              | -              | 164            | -              |
| Derivatives                       | 1,759          | -              | -              | -              | 1,759          | -              |
| Other items                       | -              | -              | (23)           | (487)          | (23)           | (487)          |
| Tax assets/(liabilities)          | 4,412          | 2,670          | (60,309)       | (52,492)       | (55,897)       | (49,822)       |
| Set off of tax                    | (4,412)        | (2,648)        | 4,412          | 2,648          | -              | -              |
| Net tax assets/(liabilities)      | -              | 22             | (55,897)       | (49,844)       | (55,897)       | (49,822)       |

# This pertained to properties that the Group and the Company elected to apply the optional exemption to use previous revaluation or valuation at the date of transition to MFRSs as deemed cost under MFRSs in the financial year ended 31 December 2012.

Deferred tax assets and liabilities are offset where there is legally enforceable right to set off current tax assets against current tax liabilities and where the defined taxes relate to the same tax authority.

**Movement in temporary differences during the year**

| Group                                     | Property,<br>plant and<br>equipment<br>RM'000 | Revaluation<br>on properties<br>RM'000 | Unutilised<br>reinvestment<br>allowance<br>RM'000 | Tax loss<br>carry-<br>forwards<br>RM'000 | Derivatives<br>RM'000 | Other<br>item<br>RM'000 | Total<br>RM'000 |
|---|---|--|---|--|-----------------------|-------------------------|-----------------|
| At 1 January 2012                         | (38,762)                                      | (6,635)                                | 5,170   | 3  | 164                   | (61)                    | (40,121)        |
| Recognised in<br>profit or loss (Note 18) | (6,765)                                       | 157                                    | (2,500)   | (3)                                      | (164)                 | (426)                   | (9,701)         |
| At 31 December 2012/<br>1 January 2013    | (45,527)                                      | (6,478)                                | 2,670   | -  | -                     | (487)                   | (49,822)        |
| Recognised in<br>profit or loss (Note 18) | (8,439)                                       | 158                                    | (181)   | 164                                      | 1,759                 | 464                     | (6,075)         |
| At 31 December 2013                       | (53,966)                                      | (6,320)                                | 2,489   | 164                                      | 1,759                 | (23)                    | (55,897)        |

Notes to the **Financial Statements** (continued)**6. DEFERRED TAX ASSETS AND LIABILITIES (continued)****Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

|                         | Group<br>2013<br>RM'000 | 2012<br>RM'000 |
|-------------------------|-------------------------|----------------|
| Tax loss carry-forwards | 74                      | 67             |
|                         | 74                      | 67             |
| Tax at 25%              | 19                      | 17             |

The tax loss carry-forwards do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items in the end of the reporting period of certain subsidiaries as the Group is uncertain of the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

**Recognised deferred tax assets and liabilities**

| Company                       | Assets         |                | Liabilities    |                | Net            |                |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                               | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Property, plant and equipment | -              | -              | (3,285)        | (3,582)        | (3,285)        | (3,582)        |
| Revaluation on properties#    | -              | -              | (736)          | (759)          | (736)          | (759)          |
| Derivatives                   | 80             | -              | -              | -              | 80             | -              |
|                               | 80             | -              | (4,021)        | (4,341)        | (3,941)        | (4,341)        |

# This pertained to properties that the Company elected to apply the optional exemption to use previous revaluation or valuation at the date of transition to MFRSs as deemed cost under MFRSs in the financial year ended 31 December 2012.

**Movement in temporary differences during the year**

| Company                                | Property,<br>plant and<br>equipment<br>RM'000 | Revaluation<br>on properties<br>RM'000 | Derivatives<br>RM'000 | Total<br>RM'000 |
|--|---|--|-----------------------|-----------------|
| 1 January 2012                         | (3,543)                                       | (783)                                  | -                     | (4,326)         |
| Recognised in profit or loss (Note 18) | (39)  | 24                                     | -                     | (15)            |
| At 31 December 2012/1 January 2013     | (3,582)                                       | (759)                                  | -                     | (4,341)         |
| Recognised in profit or loss (Note 18) | 296   | 24                                     | 80                    | 400             |
| At 31 December 2013                    | (3,286)                                       | (735)                                  | 80                    | (3,941)         |

**7. GOODWILL**

| Group<br>Cost                                       | RM'000 |
|---|--------|
| At 1 January 2012                                   | 4,926  |
| Acquisitions through business combinations          | -      |
| At 31 December 2012/1 January 2013/31 December 2013 | 4,926  |

**7. GOODWILL (continued)****7.1 Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

|                           | Group          |                |
|---------------------------|----------------|----------------|
|                           | 2013<br>RM'000 | 2012<br>RM'000 |
| Technical rubber products | 864            | 864            |
| Cleanroom products        | 4,062          | 4,062          |
| Total                     | 4,926          | 4,926          |

**Key assumptions used in recoverable amount**

For the purpose of impairment testing, the carrying amounts are allocated to the individual entities which are the cash-generating units ("CGU"). Recoverable amount of each CGU is estimated based on its value-in-use. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on past experiences, actual operating results and financial budgets approved by management covering a 5-year (2012:5-year) period.

The key assumptions for the computation of value-in-use of goodwill, pertained to cleanroom entity, include the following:

- The revenue growth in the 5-year (2012:5-year) cash flow projection is estimated at a compounded annual growth rate of 25% supported by historical trend (2012: 25%).
- The terminal value was estimated using the perpetuity growth model, with a growth rate to perpetuity of 2% (2012: 2%).
- A pre-tax discount rate of 11.0% (2012: 12.0%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on an industry average weighted average cost of capital.
- There will be no other significant changes in the government policies and regulations which will directly affect the investees' businesses. The inflation for the operating expenses is in line with the estimated gross domestic product growth rate for the country based on the past trends.

The key assumptions represent management's assessment of future trends in the glove industry and are based on both external sources and internal sources (historical data).

The Group believes that no reasonably foreseeable changes in the above key assumptions that would cause the carrying values of these CGUs to materially exceed their recoverable amounts other than changes in the prevailing operating environment of which the impact is not ascertainable.

**8. INVENTORIES**

|                  | Group          |                | Company        |                |
|------------------|----------------|----------------|----------------|----------------|
|                  | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Raw materials    | 40,286         | 38,683         | 8,774          | 7,392          |
| Work-in-progress | 4,168          | 4,878          | 2,957          | 3,722          |
| Finished goods   | 104,328        | 105,419        | 3,369          | 3,564          |
| Total            | 148,782        | 148,980        | 15,100         | 14,678         |

Notes to the **Financial Statements** (continued)**9. TRADE AND OTHER RECEIVABLES**

|                                      | Note | Group          |                | Company        |                |
|--------------------------------------|------|----------------|----------------|----------------|----------------|
|                                      |      | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Trade</b>                         |      |                |                |                |                |
| Trade receivables                    |      | 218,589        | 205,090        | 24,648         | 19,933         |
| Less : Allowance for impairment loss |      | (509)          | (1,434)        | (77)           | (55)           |
|                                      |      | 218,080        | 203,656        | 24,571         | 19,878         |
| -----                                |      |                |                |                |                |
| Amount due from subsidiaries         | 9.1  | -              | -              | 1,108          | 4,227          |
| Amount due from related parties      | 9.1  | 3,482          | 231            | -              | 231            |
|                                      |      | 221,562        | 203,887        | 25,679         | 24,336         |
| -----                                |      |                |                |                |                |
| <b>Non-trade</b>                     |      |                |                |                |                |
| Amount due from subsidiaries         | 9.1  | -              | -              | 227,363        | 90,948         |
| Amount due from related parties      | 9.1  | 770            | 147            | 246            | -              |
| Other receivables                    |      | 12,781         | 6,562          | 1,350          | 208            |
| Refundable deposits                  |      | 7,832          | 6,402          | 316            | 3,110          |
|                                      |      | 21,383         | 13,111         | 229,275        | 94,266         |
|                                      |      | 242,945        | 216,998        | 254,954        | 118,602        |

**9.1 Amount due from subsidiaries and related parties**

The trade receivables due from subsidiaries and related parties are subject to normal trade terms.

The non-trade receivables due from subsidiaries and related parties are unsecured, interest free and repayable on demand.

**10. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)**

| Group   | Nominal<br>value<br>RM'000 | 2013             |                       | 2012                       |                  |                       |
|---|----------------------------|------------------|-----------------------|----------------------------|------------------|-----------------------|
|   |                            | Assets<br>RM'000 | Liabilities<br>RM'000 | Nominal<br>value<br>RM'000 | Assets<br>RM'000 | Liabilities<br>RM'000 |
| Derivatives held for trading at fair value through profit or loss |                            |                  |                       |                            |                  |                       |
| - Forward exchange contracts                                      | 303,939                    | -                | (7,038)               | 285,706                    | -                | -                     |
| <b>Company</b>  |                            |                  |                       |                            |                  |                       |
| Derivatives held for trading at fair value through profit or loss |                            |                  |                       |                            |                  |                       |
| - Forward exchange contracts                                      | 12,754                     | -                | (319)                 | 14,770                     | -                | -                     |

Forward exchange contracts are used to manage the foreign currency exposures arising from the Group's receivables and payables denominated in currencies other than the functional currencies of Group entities. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period and are utilised subsequent to year-end.

Notes to the **Financial Statements** (continued)**11. CASH AND CASH EQUIVALENTS**

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Cash and bank balances                  | 69,345         | 18,563         | 45,976         | 62,344         |
| Short term deposits with licensed banks | 31,256         | 81,282         | 5,000          | 6,000          |
|   | 100,601        | 99,845         | 50,976         | 68,344         |

Included in deposits with licensed banks of the Group are amounts of RM256,000 (2012: RM956,000) pledged to the banks for banking facilities granted to the Group.

**12. CAPITAL AND RESERVES****12.1 Share capital**

|                                | Group and Company        |                                     |                          |                                     |
|--------------------------------|--------------------------|-------------------------------------|--------------------------|-------------------------------------|
|                                | Amount<br>2013<br>RM'000 | Number<br>of shares<br>2013<br>'000 | Amount<br>2012<br>RM'000 | Number<br>of shares<br>2012<br>'000 |
| Authorised:                    |                          |                                     |                          |                                     |
| Ordinary shares of RM0.50 each |                          |                                     |                          |                                     |
| At 1 January / 31 December     | 1,000,000                | 2,000,000                           | 1,000,000                | 2,000,000                           |
| Issued and fully paid:         |                          |                                     |                          |                                     |
| Ordinary shares of RM0.50 each |                          |                                     |                          |                                     |
| At 1 January                   | 159,867                  | 319,734                             | 159,867                  | 319,734                             |
| Issue of bonus shares          | 159,867                  | 319,734                             | -                        | -                                   |
| At 31 December                 | 319,734                  | 639,468                             | 159,867                  | 319,734                             |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

The movements in each category of reserves are disclosed in the statement of changes in equity.

**12.2 Share premium**

Share premium comprises the premium paid on subscription of shares in the Company over and above the par value of the shares.

**12.3 Translation reserve**

Translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

**12.4 Treasury shares**

The shareholders of the Company, by an ordinary resolution passed in a general meeting held on 25 June 2013 (2012: 21 June 2012), approved the Company's plan to repurchase its own shares. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.



# Notes to the Financial Statements (continued)

## 12. CAPITAL AND RESERVES (continued)

### 12.4 Treasury shares (continued)

During the financial year, the Company re-issued 1,114,400 treasury shares, with carrying amount of RM3,459,787, by resale in open market. The average resale price of the treasury shares was RM6.82 per share. The total consideration received amounting to RM7,599,949, resulting in gain on sales of treasury shares of RM4,140,162, which has been recognised in equity.

Details of the resale of treasury shares were as follows:

|             | Average<br>resale<br>price<br>RM | Highest<br>resale<br>price<br>RM | Lowest<br>resale<br>price<br>RM | Number of<br>treasury<br>shares<br>resold | Total<br>consideration<br>received<br>RM |
|-------------|----------------------------------|----------------------------------|---------------------------------|---|--|
| <b>2013</b> |                                  |                                  |                                 |   |  |
| October     | 6.819                            | 7.070                            | 6.400                           | 1,114,400                                 | 7,599,949                                |

At 31 December 2013, the Company does not hold any treasury shares. (2012: 1,114,400)

### 12.5 Retained earnings

The Finance Act 2007 introduced a single tier dividend distribution system with effect from year of assessment 2008. Pursuant to Schedule 9 – Transitional and Savings provisions of the Income Tax Act, 1967, the Company can distribute dividends out of its Section 108 balance until the amount is fully utilised but any remaining balance as at 31 December 2013 will be disregarded as at 1 January 2014.

## 13. LOANS AND BORROWINGS

|                              | Group          |                | Company        |                |
|------------------------------|----------------|----------------|----------------|----------------|
|                              | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Non-current</b>           |                |                |                |                |
| Term loans (unsecured)       | 37,862         | 35,682         | -              | -              |
| Hire purchase liabilities    | 11,523         | 2,573          | 265            | 291            |
|                              | 49,385         | 38,255         | 265            | 291            |
| <b>Current</b>               |                |                |                |                |
| Term loan (unsecured)        | 14,548         | 12,650         | -              | -              |
| Revolving credit (unsecured) | 42,809         | 40,004         | -              | -              |
| Bank overdraft (unsecured)   | 2,370          | 5,211          | -              | 2,008          |
| Trade finance (unsecured)    | 52,444         | 94,112         | 146            | 554            |
| Hire purchase liabilities    | 7,415          | 8,769          | 392            | 225            |
|                              | 119,586        | 160,746        | 538            | 2,787          |
|                              | 168,971        | 199,001        | 803            | 3,078          |

### 13.1 Term loans

Term loans consisting of:

- Unsecured MYR denominated term loan of RM0.137 million (2012: RM0.721 million) representing a 7-year term loan obtained in 2007 with monthly repayment installments, and bears interest rates of Bank Lending Rate ("BLR")+0.75% per annum,
- Unsecured MYR denominated term loan of RM12.189 million (2012: RM16.093 million) representing a 7-year term loan obtained in 2009 with monthly repayment installments, and bears interest rates of Bank Lending Rate ("BLR")+0.75% per annum,

**13. LOANS AND BORROWINGS (continued)****13.1 Term loans (continued)**

- (c) Unsecured USD denominated term loan of RM26.244 million (2012: RM30.625 million) representing a 5-year term loan obtained in 2012 with semi-annual repayment installments, and bears interest rates of 4.75% per annum,
- (d) Unsecured MYR denominated 5-year loan of RM13.840 million, obtained in 2013 with monthly repayment installments, and bears interest rates of 4.75% per annum, and
- (e) Unsecured MYR denominated term loan of RM Nil (2012: RM0.893 million) representing 7-year term loan obtained in 2007 with monthly repayment installments, and bears interest rate of 4.75%, which has been fully settled at the end of the reporting period.

**13.2 Hire purchase liabilities**

Hire purchase liabilities are payable as follows:

|                            | Minimum<br>lease<br>payments<br>2013<br>RM'000 | Interest<br>2013<br>RM'000 | Principal<br>2013<br>RM'000 | Minimum<br>lease<br>payments<br>2012<br>RM'000 | Interest<br>2012<br>RM'000 | Principal<br>2012<br>RM'000 |
|----------------------------|--|----------------------------|-----------------------------|--|----------------------------|-----------------------------|
| <b>Group</b>               |  |                            |                             |  |                            |                             |
| Less than one year         | 8,244  | (829)                      | 7,415                       | 9,134  | (365)                      | 8,769                       |
| Between one and five years | 12,099   | (576)                      | 11,523                      | 2,670  | (97)                       | 2,573                       |
|                            | 20,343   | (1,405)                    | 18,938                      | 11,804   | (462)                      | 11,342                      |
| <b>Company</b>             |  |                            |                             |  |                            |                             |
| Less than one year         | 414  | (22)                       | 392                         | 245  | (20)                       | 225                         |
| Between one and five years | 272  | (7)                        | 265                         | 301  | (10)                       | 291                         |
|                            | 686  | (29)                       | 657                         | 546  | (30)                       | 516                         |

**14. TRADE AND OTHER PAYABLES**

|  | Note | Group          |                | Company        |                |
|--|------|----------------|----------------|----------------|----------------|
|  |      | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Trade</b>                           |      |                |                |                |                |
| Trade payables                         |      | 90,829         | 75,095         | 6,224          | 3,915          |
| Amount due to related parties          | 14.1 | -              | 73             | -              | 73             |
| Amount due to a subsidiary             | 14.1 | -              | -              | -              | 239            |
|  |      | 90,829         | 75,168         | 6,224          | 4,227          |
| <b>Non-trade</b>                       |      |                |                |                |                |
| Amount due to ultimate holding company | 14.2 | 3              | 3              | -              | -              |
| Amount due to subsidiaries             | 14.1 | -              | -              | 7              | 9,720          |
| Amount due to related parties          | 14.1 | 3,638          | 3,347          | 208            | -              |
| Other payables                         |      | 18,963         | 14,953         | 1,178          | 337            |
| Accrued expenses                       |      | 28,638         | 21,168         | 6,327          | 3,700          |
|  |      | 51,242         | 39,471         | 7,720          | 13,757         |
|  |      | 142,071        | 114,639        | 13,944         | 17,984         |

# Notes to the Financial Statements (continued)

## 14. TRADE AND OTHER PAYABLES (continued)

### 14.1 Amounts due to related parties and subsidiaries

The trade amounts due to related parties and subsidiary are subject to normal trade terms.

The non-trade amounts due to related parties and subsidiaries are unsecured, interest free and repayable on demand.

### 14.2 Amount due to ultimate holding company

The non-trade amount due to ultimate holding company is unsecured, interest free and repayable on demand.

## 15. REVENUE

|                 | Group          |                | Company        |                |
|-----------------|----------------|----------------|----------------|----------------|
|                 | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Sales of goods  | 1,307,292      | 1,234,001      | 122,044        | 112,140        |
| Dividend income | -              | -              | 160,000        | 41,000         |
| Management fees | -              | -              | 4,400          | -              |
|                 | 1,307,292      | 1,234,001      | 286,444        | 153,140        |

## 16. FINANCE COSTS

|                      | Group          |                | Company        |                |
|----------------------|----------------|----------------|----------------|----------------|
|                      | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Interest expense on: |                |                |                |                |
| - Bank overdraft     | 79             | 73             | 18             | 19             |
| - Hire purchase      | 566            | 742            | 36             | 24             |
| - Term loans         | 2,860          | 1,946          | -              | -              |
| - Trade finance      | 2,558          | 3,136          | 19             | 35             |
| - Revolving credit   | 821            | 510            | -              | -              |
|                      | 6,884          | 6,407          | 73             | 78             |

## 17. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

|                                 | Group          |                | Company        |                |
|---------------------------------|----------------|----------------|----------------|----------------|
|                                 | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Directors                       |                |                |                |                |
| - Fees                          | 166            | 170            | 166            | 170            |
| - Remuneration                  | 12,529         | 9,918          | 3,885          | 3,469          |
|                                 | 12,695         | 10,088         | 4,051          | 3,639          |
| Other key management personnel: |                |                |                |                |
| - Remuneration                  | 4,250          | 3,598          | 2,204          | 1,812          |

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

**18. TAX EXPENSE***Recognised in profit or loss*

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Current tax expense</b>                                  |                |                |                |                |
| Current year  | 39,016         | 28,056         | 1,349          | 1,684          |
| Over provision in prior year                                | (5,097)        | (4,088)        | (1,107)        | (406)          |
| Overseas – current provision                                | 85             | 10             | -              | -              |
|   | 34,004         | 23,978         | 242            | 1,278          |
| <b>Deferred tax expense</b>                                 |                |                |                |                |
| Origination and reversal of temporary differences           | 4,237          | 8,125          | 36             | 25             |
| Under/(Over) provision in prior year                        | 1,838          | 1,576          | (436)          | (10)           |
|   | 6,075          | 9,701          | (400)          | 15             |
| Total tax expense/(credit)                                  | 40,079         | 33,679         | (158)          | 1,293          |
| <b>Reconciliation of effective tax expense</b>              |                |                |                |                |
| Profit before tax   | 180,134        | 138,451        | 166,268        | 46,888         |
| Tax at Malaysian tax rate of 25% (2012: 25%)                | 45,033         | 34,613         | 41,567         | 11,722         |
| Effect of tax rates in foreign jurisdiction                 | (167)          | 1              | -              | -              |
| Non-deductible expenses                                     | 3,033          | 1,991          | 423            | 237            |
| Tax incentives  | (4,562)        | (416)          | (581)          | -              |
| Income not subject to tax                                   | -              | -              | (40,000)       | (10,250)       |
| Utilisation of previously unrecognised temporary difference | -              | (38)           | -              | -              |
| Deferred tax not recognised                                 | 2              | 1              | -              | -              |
| Others  | (1)            | 39             | (24)           | -              |
|   | 43,338         | 36,191         | 1,385          | 1,709          |
| (Over)/Under provided in prior year                         |                |                |                |                |
| - income tax expense  | (5,097)        | (4,088)        | (1,107)        | (406)          |
| - deferred tax expense                                      | 1,838          | 1,576          | (436)          | (10)           |
|   | 40,079         | 33,679         | (158)          | 1,293          |

Notes to the **Financial Statements** (continued)**19. PROFIT FOR THE YEAR**

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Profit for the year is arrived at after charging:</b>                      |                |                |                |                |
| Impairment loss on trade receivables (Note 23.4)                              | 450            | 55             | 29             | 55             |
| Auditors' remuneration  |                |                |                |                |
| - statutory audit   | 279            | 254            | 85             | 83             |
| - other services  | 10             | 10             | 10             | 10             |
| Depreciation on property, plant and equipment (Note 3)                        | 50,983         | 45,102         | 3,215          | 3,575          |
| Personnel expenses (including key management personnel):                      |                |                |                |                |
| - Contributions to Employees' Provident Fund                                  | 6,747          | 6,137          | 1,913          | 1,664          |
| - Wages, salaries and others  | 163,845        | 133,374        | 32,336         | 24,526         |
| Property, plant and equipment written off                                     | 474            | 145            | -              | 9              |
| Loss on disposal of property, plant and equipment                             | 7              | -              | -              | -              |
| Realised loss on foreign exchange   | 23             | 13             | -              | -              |
| Unrealised fair value changes on derivatives                                  | 7,038          | -              | 319            | -              |
| Rental of premises  | 2,805          | 1,943          | 931            | 886            |
| <b>and after crediting:</b>   |                |                |                |                |
| Realised gain on foreign exchange   | 5,016          | 11,245         | 961            | 651            |
| Unrealised foreign exchange gain on receivables and loans and borrowings, net | 79             | 1,994          | -              | -              |
| Gain on disposal of property, plant and equipment                             | -              | 770            | 181            | 35             |
| Gain on disposal of shares in a subsidiary                                    | -              | -              | -              | 351            |
| Interest on short term deposits received                                      | 2,689          | 1,073          | 1,665          | 767            |
| Rental income   | 604            | 422            | 226            | 206            |
| Bad debts recovered   | 80             | -              | -              | -              |

**20. EARNINGS PER ORDINARY SHARE****Basic earnings per share**

The calculation of basic earnings per share at 31 December 2013 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

|   | Group          |                |
|---|----------------|----------------|
|   | 2013<br>RM'000 | 2012<br>RM'000 |
| Profit for the year attributable to owners of the Company | 136,422        | 102,163        |
| <b>Weighted average number of ordinary shares</b>         |                |                |
|   | 2013<br>'000   | 2012<br>'000   |
| Issued ordinary shares at 1 January                       | 319,734        | 319,734        |
| Effect of treasury shares                                 | -              | (1,114)        |
| Effect of bonus issue in October 2013                     | 319,734        | 319,734        |
| Weighted average number of ordinary shares at 31 December | 639,468        | 638,354        |

Notes to the **Financial Statements** (continued)**20. EARNINGS PER ORDINARY SHARE (continued)***Weighted average number of ordinary shares (continued)*

|                          | 2013<br>Sen | Group | 2012<br>Sen |
|--------------------------|-------------|-------|-------------|
| Basic earnings per share | 21.33       |       | 16.00       |

There is no dilution in earnings per share as there is no potential diluted ordinary share.

**21. DIVIDENDS**

Dividends recognised in the current year by the Company are:

|                       | Sen<br>per share<br>(tax exempt) | Total<br>amount<br>RM'000 | Date of payment |
|-----------------------|----------------------------------|---------------------------|-----------------|
| <b>2013</b>           |                                  |                           |                 |
| Final 2012 ordinary   | 7.00                             | 22,303                    | 15.07.2013      |
| Interim 2013 ordinary | 3.50                             | 22,382                    | 19.12.2013      |
|                       |                                  | 44,685                    |                 |
| <b>2012</b>           |                                  |                           |                 |
| Final 2011 ordinary   | 4.00                             | 12,745                    | 18.07.2012      |
| Interim 2012 ordinary | 5.00                             | 15,931                    | 21.12.2012      |
|                       |                                  | 28,676                    |                 |

After the reporting period the following dividends were proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval by the owners of the Company.

|                     | Sen<br>per share<br>(tax exempt) | Total<br>amount<br>RM'000 |
|---------------------|----------------------------------|---------------------------|
| <b>2013</b>         |                                  |                           |
| Final 2013 ordinary | 3.50                             | 22,382                    |

**22. OPERATING SEGMENTS**

The Group has four (4) reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group Managing Director (Group MD) reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Technical rubber products
- Gloves (other than cleanroom gloves)
- Cleanroom products
- Others

Other operations of the Group mainly comprise investment holding and engineering services which are not of sufficient size to be reported separately.

# Notes to the Financial Statements (continued)

## 22. OPERATING SEGMENTS (continued)

Performance is measured based on segment profit before tax as included in the internal management reports that are reviewed by the Group MD. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

### Segment assets

The total segment asset is measured based on all assets of a segment, as included in the internal management reports that are reviewed by the Group MD. Segment total asset is used to measure the return of assets of each segment.

### Segment liabilities

The total of segment liability is measured based on all liabilities of a segment, as included in the internal management reports that are reviewed by the Group MD.

### Segment capital expenditure

Segment capital expenditure is the total cost incurred during the financial year to acquire property, plant and equipment.

### Geographical segments

The cleanroom segment is managed on a worldwide basis, but operates manufacturing facilities and sales offices in Malaysia and Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of the sales offices. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments, other investments, deferred tax assets and goodwill.

| <b>Group Revenue</b>                     | <b>2013<br/>RM'000</b> | <b>2012<br/>RM'000</b> |
|--|------------------------|------------------------|
| Sales office located in Malaysia         |                        |                        |
| - for local market                       | 71,601                 | 89,563                 |
| - for export market                      | 1,211,773              | 1,125,634              |
| Sales office located outside of Malaysia | 23,918                 | 18,804                 |
|  | 1,307,292              | 1,234,001              |
| <b>Non-current assets</b>                |                        |                        |
| Located in Malaysia                      | 562,712                | 486,644                |
| Located outside of Malaysia              | 37,827                 | 27,722                 |
|  | 600,539                | 514,366                |

### Major customers

There were no major customers with revenue equal or more than 10% of the Group's total revenue for the year ended 31 December 2013 and 31 December 2012.

## 22. OPERATING SEGMENTS (continued)

| Business segments  | Technical rubber products |                | Gloves         |                | Cleanroom products |                | Others         |                | Total          |                |
|--|---------------------------|----------------|----------------|----------------|--------------------|----------------|----------------|----------------|----------------|----------------|
|  | 2013<br>RM'000            | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000     | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Total external revenue                                     | 160,268                   | 141,317        | 1,117,401      | 1,068,478      | 29,533             | 22,145         | 90             | 2,061          | 1,307,292      | 1,234,001      |
| <b>Segment results</b>                                     | 15,015                    | 14,838         | 168,164        | 126,962        | 1,331              | 143            | (181)          | 1,842          | 184,329        | 143,785        |
| Finance costs  |                           |                |                |                |                    |                |                |                | (6,884)        | (6,407)        |
| Finance income   |                           |                |                |                |                    |                |                |                | 2,689          | 1,073          |
| Tax expense  |                           |                |                |                |                    |                |                |                | (40,079)       | (33,679)       |
| <b>Profit for the year</b>                                 |                           |                |                |                |                    |                |                |                | 140,055        | 104,772        |
| <b>Segment assets</b>                                      | 193,179                   | 185,349        | 863,459        | 755,763        | 25,481             | 18,895         | 23,899         | 29,930         | 1,106,018      | 989,937        |
| <b>Segment liabilities</b>                                 | 31,956                    | 23,242         | 343,451        | 341,268        | 2,586              | 1,821          | 6,014          | 6,217          | 384,007        | 372,548        |
| <i>Included in the measure of segment assets are:</i>      |                           |                |                |                |                    |                |                |                |                |                |
| Capital expenditure  | 14,382                    | 2,865          | 113,395        | 71,393         | 119                | 1,451          | 8,233          | 11,362         | 136,129        | 87,071         |
| <i>Included in the measure of segment liabilities are:</i> |                           |                |                |                |                    |                |                |                |                |                |
| Depreciation   | 6,189                     | 6,481          | 43,931         | 38,310         | 783                | 306            | 80             | 5              | 50,983         | 45,102         |

## 23. FINANCIAL INSTRUMENTS

## 23.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- Loans and receivables ("L&R");
- Financial liabilities measured at amortised cost ("FL");
- Fair value through profit or loss ("FVTPL")
  - Held for trading ("HFT"); and
- Available-for-sale financial assets ("AFS").

| Group<br>2013                    | Carrying<br>amount<br>RM'000 | L&R/<br>(FL)<br>RM'000 | FVTPL<br>-HFT<br>RM'000 | AFS<br>RM'000 |
|----------------------------------|------------------------------|------------------------|-------------------------|---------------|
| <b>Financial assets</b>          |                              |                        |                         |               |
| Other investments                | 116                          | -                      | -                       | 116           |
| Trade and other receivables      | 242,945                      | 242,945                | -                       | -             |
| Cash and cash equivalents        | 100,600                      | 100,600                | -                       | -             |
|                                  | 343,661                      | 343,545                | -                       | 116           |
| <b>Financial liabilities</b>     |                              |                        |                         |               |
| Loans and borrowings             | (168,971)                    | (168,971)              | -                       | -             |
| Trade and other payables         | (142,071)                    | (142,071)              | -                       | -             |
| Derivative financial liabilities | (7,038)                      | -                      | (7,038)                 | -             |
|                                  | (318,080)                    | (311,042)              | (7,038)                 | -             |



Notes to the **Financial Statements** (continued)**23. FINANCIAL INSTRUMENTS (continued)****23.1 Categories of financial instruments (continued)**

| <b>Group</b>                     | <b>Carrying amount</b> | <b>L&amp;R/ (FL)</b> | <b>FVTPL -HFT</b> | <b>AFS</b>    |
|----------------------------------|------------------------|----------------------|-------------------|---------------|
| <b>2012</b>                      | <b>RM'000</b>          | <b>RM'000</b>        | <b>RM'000</b>     | <b>RM'000</b> |
| <b>Financial assets</b>          |                        |                      |                   |               |
| Other investments                | 116                    | -                    | -                 | 116           |
| Trade and other receivables      | 216,998                | 216,998              | -                 | -             |
| Cash and cash equivalents        | 99,845                 | 99,845               | -                 | -             |
|                                  | 316,959                | 316,843              | -                 | 116           |
| <b>Financial liabilities</b>     |                        |                      |                   |               |
| Loans and borrowings             | (199,001)              | (199,001)            | -                 | -             |
| Trade and other payables         | (114,639)              | (114,639)            | -                 | -             |
|                                  | (313,640)              | (313,640)            | -                 | -             |
| <b>Company</b>                   |                        |                      |                   |               |
| <b>2013</b>                      |                        |                      |                   |               |
| <b>Financial assets</b>          |                        |                      |                   |               |
| Other investments                | 116                    | -                    | -                 | 116           |
| Trade and other receivables      | 254,954                | 254,954              | -                 | -             |
| Cash and cash equivalents        | 50,976                 | 50,976               | -                 | -             |
|                                  | 306,046                | 305,930              | -                 | 116           |
| <b>Financial liabilities</b>     |                        |                      |                   |               |
| Loans and borrowings             | (803)                  | (803)                | -                 | -             |
| Trade and other payables         | (13,944)               | (13,944)             | -                 | -             |
| Derivative financial liabilities | (319)                  | -                    | (319)             | -             |
|                                  | (15,066)               | (14,747)             | (319)             | -             |
| <b>2012</b>                      |                        |                      |                   |               |
| <b>Financial assets</b>          |                        |                      |                   |               |
| Other investments                | 116                    | -                    | -                 | 116           |
| Trade and other receivables      | 118,602                | 118,602              | -                 | -             |
| Cash and cash equivalents        | 68,344                 | 68,344               | -                 | -             |
|                                  | 187,062                | 186,946              | -                 | 116           |
| <b>Financial liabilities</b>     |                        |                      |                   |               |
| Loans and borrowings             | (3,078)                | (3,078)              | -                 | -             |
| Trade and other payables         | (17,984)               | (17,984)             | -                 | -             |
|                                  | (21,062)               | (21,062)             | -                 | -             |

**23. FINANCIAL INSTRUMENTS (continued)****23.2 Net gains and losses arising from financial instruments**

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Net gains/(losses) on:   |                |                |                |                |
| Financial assets and liabilities of fair value through profit or loss: |                |                |                |                |
| - Forward foreign currency contracts                                   | (7,038)        | -              | (319)          | -              |
| Loans and receivables  | 7,311          | 14,244         | 2,597          | 1,363          |
| Financial liabilities measured at amortised cost                       | (6,884)        | (6,407)        | (73)           | (78)           |
|  | (6,611)        | 7,837          | 2,205          | 1,285          |

**23.3 Financial risk management**

The Group and the Company have exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

**23.4 Credit risk**

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from loans and advances to subsidiaries and financial guarantees given to banks for credit facilities granted to subsidiaries.

**Receivables**

*Risk management objectives, policies and processes for managing the risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. It is the Group's policy that local customers who wish to trade on credit terms are subject to credit verification procedures, and hence there is no requirement for collateral. New overseas customers will be required either to trade in advance telegraphic transfer or letter of credits issued by reputable banks in countries where the customers are based. Once they become regular customers and proven to be creditworthy, these customers will be assigned a credit term approved by management and letter of credit will no longer be required.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables, especially for established subsidiaries, are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the collectability of the receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

Notes to the **Financial Statements** (continued)**23. FINANCIAL INSTRUMENTS (continued)****23.4 Credit risk (continued)****Receivables (continued)***Impairment losses*

The Group maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

| <b>Group</b>                | <b>Gross<br/>RM'000</b> | <b>Individual<br/>impairment<br/>RM'000</b> | <b>Net<br/>RM'000</b> |
|-----------------------------|-------------------------|---|-----------------------|
| <b>2013</b>                 |                         |   |                       |
| Not past due                | 176,518                 | -   | 176,518               |
| Past due 0 – 30 days        | 21,704                  | -   | 21,704                |
| Past due 31 – 120 days      | 15,665                  | (220)                                       | 15,445                |
| Past due more than 120 days | 4,702                   | (289)                                       | 4,413#                |
|                             | <hr/>                   |   |                       |
|                             | 218,589                 | (509)                                       | 218,080               |
| <hr/>                       |                         |   |                       |
| <b>2012</b>                 |                         |   |                       |
| Not past due                | 172,532                 | -   | 172,532               |
| Past due 0 – 30 days        | 12,042                  | -   | 12,042                |
| Past due 31 – 120 days      | 13,535                  | -   | 13,535                |
| Past due more than 120 days | 6,981                   | (1,434)*                                    | 5,547#                |
|                             | <hr/>                   |   |                       |
|                             | 205,090                 | (1,434)                                     | 203,656               |
| <hr/>                       |                         |   |                       |
| <b>Company</b>              |                         |   |                       |
| <b>2013</b>                 |                         |   |                       |
| Not past due                | 4,767                   | -   | 4,767                 |
| Past due 0 – 30 days        | 6,895                   | -   | 6,895                 |
| Past due 31 – 120 days      | 11,438                  | -   | 11,438                |
| Past due more than 120 days | 1,548                   | (77)  | 1,471#                |
|                             | <hr/>                   |   |                       |
|                             | 24,648                  | (77)  | 24,571                |
| <hr/>                       |                         |   |                       |
| <b>2012</b>                 |                         |   |                       |
| Not past due                | 6,080                   | -   | 6,080                 |
| Past due 0 – 30 days        | 5,968                   | -   | 5,968                 |
| Past due 31 – 120 days      | 7,570                   | -   | 7,570                 |
| Past due more than 120 days | 315                     | (55)  | 260#                  |
|                             | <hr/>                   |   |                       |
|                             | 19,933                  | (55)  | 19,878                |
| <hr/>                       |                         |   |                       |

\* Allowance for impairment loss, totalling RM1.3 million, is made in respect of customers whose debts are doubtful due to their financial difficulties and defaults in payments.

# No allowance for impairment loss has been made for debts past due more than 120 days as the debts are recoverable and there are receipts subsequent to the year-end.

**23. FINANCIAL INSTRUMENTS (continued)****23.4 Credit risk (continued)**

The movements in the allowance for impairment losses during the financial year were:

|                             | Group          |                | Company        |                |
|-----------------------------|----------------|----------------|----------------|----------------|
|                             | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| At 1 January 2013           | 1,434          | 1,387          | 55             | 8              |
| Impairment loss recognised  | 450            | 55             | 29             | 55             |
| Impairment loss written off | (1,375)        | (8)            | (7)            | (8)            |
| At 31 December 2013         | 509            | 1,434          | 77             | 55             |

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

**Financial guarantees**

*Risk management objectives, policies and processes for managing the risk*

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

*Exposure to credit risk, credit quality and collateral*

The maximum exposure to credit risk amounts to RM168,970,000 (2012: RM199,001,000) representing the outstanding banking facilities of the subsidiaries as at the end of the reporting period. The Company provides financial guarantees to banks for credit facilities extended to certain subsidiaries. The fair value of such financial guarantees is not expected to be material as the probability of the subsidiaries defaulting on the credit lines is remote.

At the financial year end, there were no indications that any subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

**Intercompany loans and advances**

*Risk management objectives, policies and processes for managing the risk*

The Company provides management services and unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statements of financial position.

Management services and loans and advances are only provided to subsidiaries which are wholly owned by the Company.

*Impairment losses*

As at the end of the reporting period, there was no indication that the loans and advances to the subsidiaries are not recoverable.

**23.5 Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables and loans and borrowings.

Notes to the **Financial Statements** (continued)**23. FINANCIAL INSTRUMENTS (continued)****23.5 Liquidity risk (continued)**

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

*Maturity analysis*

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

| Group                                       | Carrying amount<br>RM'000 | Contractual interest rate<br>% | Contractual cash flows<br>RM'000 | Under 1 year<br>RM'000 | 1 – 2 years<br>RM'000 | 2 – 5 years<br>RM'000 | More than 5 years<br>RM'000 |
|---|---------------------------|--------------------------------|----------------------------------|------------------------|-----------------------|-----------------------|-----------------------------|
| <b>2013</b>                                 |                           |                                |                                  |                        |                       |                       |                             |
| <i>Non-derivative financial liabilities</i> |                           |                                |                                  |                        |                       |                       |                             |
| Term loans (unsecured)                      | 52,410                    | 4.75 – 7.69                    | 57,801                           | 17,346                 | 29,546                | 10,909                | -                           |
| Bank overdraft (unsecured)                  | 2,370                     | 7.40 – 7.85                    | 2,370                            | 2,370                  | -                     | -                     | -                           |
| Revolving credit (unsecured)                | 42,809                    | 2.56 – 2.83                    | 42,809                           | 42,809                 | -                     | -                     | -                           |
| Trade finance (unsecured)                   | 52,444                    | 3.29 – 3.44                    | 52,444                           | 52,444                 | -                     | -                     | -                           |
| Hire purchase liabilities                   | 18,938                    | 2.25 – 3.50                    | 20,343                           | 8,244                  | 6,894                 | 5,116                 | 89                          |
| Trade and other payables                    | 142,071                   | -                              | 142,071                          | 142,071                | -                     | -                     | -                           |
|   | 311,042                   |                                | 317,838                          | 265,284                | 36,440                | 16,025                | 89                          |
| <i>Derivative financial liabilities</i>     |                           |                                |                                  |                        |                       |                       |                             |
| Foreign currency contracts (gross settled): |                           |                                |                                  |                        |                       |                       |                             |
| Inflow                                      | -                         | -                              | (303,939)                        | (303,939)              | -                     | -                     | -                           |
| Outflow                                     | 7,038                     | -                              | 310,977                          | 310,977                | -                     | -                     | -                           |
|   | 318,080                   |                                | 324,876                          | 272,322                | 36,440                | 16,025                | 89                          |
| <b>2012</b>                                 |                           |                                |                                  |                        |                       |                       |                             |
| <i>Non-derivative financial liabilities</i> |                           |                                |                                  |                        |                       |                       |                             |
| Term loans (unsecured)                      | 48,332                    | 4.75 – 8.03                    | 54,597                           | 15,322                 | 13,236                | 26,039                | -                           |
| Bank overdraft (unsecured)                  | 5,211                     | 7.30 – 7.38                    | 5,211                            | 5,211                  | -                     | -                     | -                           |
| Revolving credit (unsecured)                | 40,004                    | 2.56 – 2.83                    | 40,004                           | 40,004                 | -                     | -                     | -                           |
| Trade finance (unsecured)                   | 94,112                    | 3.29 – 3.47                    | 94,112                           | 94,112                 | -                     | -                     | -                           |
| Hire purchase liabilities                   | 11,342                    | 1.98 – 3.50                    | 11,804                           | 9,134                  | 2,079                 | 591                   | -                           |
| Trade and other payables                    | 114,639                   | -                              | 114,639                          | 114,639                | -                     | -                     | -                           |
|   | 313,640                   |                                | 320,367                          | 278,422                | 15,315                | 26,630                | -                           |
| <i>Derivative financial liabilities</i>     |                           |                                |                                  |                        |                       |                       |                             |
| Foreign currency contracts (gross settled): |                           |                                |                                  |                        |                       |                       |                             |
| Inflow                                      | -                         | -                              | (285,706)                        | (285,706)              | -                     | -                     | -                           |
| Outflow                                     | -                         | -                              | 285,706                          | 285,706                | -                     | -                     | -                           |
|   | 313,640                   |                                | 320,367                          | 278,422                | 15,315                | 26,630                | -                           |

**23. FINANCIAL INSTRUMENTS (continued)****23.5 Liquidity risk (continued)**

| Company                                     | Carrying amount<br>RM'000 | Contractual interest rate<br>% | Contractual cash flows<br>RM'000 | Under 1 year<br>RM'000 | 1 – 2 years<br>RM'000 | 2 – 5 years<br>RM'000 | More than 5 years<br>RM'000 |
|---|---------------------------|--------------------------------|----------------------------------|------------------------|-----------------------|-----------------------|-----------------------------|
| <b>2013</b>                                 |                           |                                |                                  |                        |                       |                       |                             |
| <i>Non-derivative financial liabilities</i> |                           |                                |                                  |                        |                       |                       |                             |
| Trade finance (unsecured)                   | 146                       | 3.29                           | 146                              | 146                    | -                     | -                     | -                           |
| Hire purchase liabilities                   | 657                       | 2.27 – 2.90                    | 686                              | 414                    | 243                   | 29                    | -                           |
| Trade and other payables                    | 13,944                    | -                              | 13,944                           | 13,944                 | -                     | -                     | -                           |
|   | 14,747                    |                                | 14,776                           | 14,504                 | 243                   | 29                    | -                           |
| <i>Derivative financial liabilities</i>     |                           |                                |                                  |                        |                       |                       |                             |
| Foreign currency contracts (gross settled): |                           |                                |                                  |                        |                       |                       |                             |
| Inflow                                      | -                         | -                              | (12,754)                         | (12,754)               | -                     | -                     | -                           |
| Outflow                                     | 319                       | -                              | 13,073                           | 13,073                 | -                     | -                     | -                           |
|   | 15,066                    |                                | 15,095                           | 14,823                 | 243                   | 29                    | -                           |
| <b>2012</b>                                 |                           |                                |                                  |                        |                       |                       |                             |
| <i>Non-derivative financial liabilities</i> |                           |                                |                                  |                        |                       |                       |                             |
| Bank overdraft (unsecured)                  | 2,008                     | 7.30 – 7.38                    | 2,008                            | 2,008                  | -                     | -                     | -                           |
| Trade finance (unsecured)                   | 554                       | 3.32 – 3.47                    | 554                              | 554                    | -                     | -                     | -                           |
| Hire purchase liabilities                   | 516                       | 1.98 – 2.90                    | 546                              | 245                    | 301                   | -                     | -                           |
| Trade and other payables                    | 17,984                    | -                              | 17,984                           | 17,984                 | -                     | -                     | -                           |
|   | 21,062                    |                                | 21,092                           | 20,791                 | 301                   | -                     | -                           |
| <i>Derivative financial liabilities</i>     |                           |                                |                                  |                        |                       |                       |                             |
| Foreign currency contracts (gross settled): |                           |                                |                                  |                        |                       |                       |                             |
| Inflow                                      | -                         | -                              | (14,770)                         | (14,770)               | -                     | -                     | -                           |
| Outflow                                     | -                         | -                              | 14,770                           | 14,770                 | -                     | -                     | -                           |
|   | 21,062                    |                                | 21,092                           | 20,791                 | 301                   | -                     | -                           |

**23.6 Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect the Group's financial position or cash flows.

**23.6.1 Currency risk**

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD).

*Risk management objectives, policies and processes for managing the risk*

The Group uses forward foreign currency contracts to hedge its foreign currency risk. Most of the forward foreign currency contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward foreign currency contracts are rolled over at maturity.

In respect of other monetary assets and liabilities held in currencies other than RM, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

# Notes to the Financial Statements (continued)

## 23. FINANCIAL INSTRUMENTS (continued)

### 23.6.1 Currency risk (continued)

As at the end of reporting date, forward foreign currency contracts entered into with the following amounts:

#### Forward foreign currency contracts used to hedge receivables

| Hedged item       | Amount to be received<br>USD'000 | Group Average contract rate | Equivalent<br>RM'000 | Amount to be received<br>USD'000 | Company Average contract rate | Equivalent<br>RM'000 |
|-------------------|----------------------------------|-----------------------------|----------------------|----------------------------------|-------------------------------|----------------------|
| <b>2013</b>       |                                  |                             |                      |                                  |                               |                      |
| Trade receivables | 94,123                           | 3.2292                      | 303,939              | 3,954                            | 3.2256                        | 12,754               |
| <b>2012</b>       |                                  |                             |                      |                                  |                               |                      |
| Trade receivables | 92,455                           | 3.0902                      | 285,706              | 4,788                            | 3.0848                        | 14,770               |

#### Exposure to foreign currency risk

The Group's significant exposure to foreign currency (a currency which is other than the functional currencies of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

|   | Group<br>Denominated in USD |                | Company<br>Denominated in USD |                |
|---|-----------------------------|----------------|-------------------------------|----------------|
|   | 2013<br>RM'000              | 2012<br>RM'000 | 2013<br>RM'000                | 2012<br>RM'000 |
| Trade receivables   | 203,940                     | 188,971        | 29,109                        | 22,007         |
| Trade payables  | (24,518)                    | (13,542)       | (186)                         | (561)          |
| Loans and borrowings  | (82,813)                    | (70,767)       | -                             | -              |
| Derivatives held for trading at fair value through profit or loss | (7,038)                     | -              | (319)                         | -              |
| <b>Exposure in the statements of financial position</b>           | <b>89,571</b>               | <b>104,662</b> | <b>28,604</b>                 | <b>21,446</b>  |

#### Currency risk sensitivity analysis

A 5% strengthening of Ringgit Malaysia against USD at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remained constant.

|                | Equity         |                | Profit or loss |                |
|----------------|----------------|----------------|----------------|----------------|
|                | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Group</b>   |                |                |                |                |
| USD            | -              | -              | (3,359)        | (3,925)        |
| <b>Company</b> |                |                |                |                |
| USD            | -              | -              | (1,073)        | (804)          |

A 5% weakening of Ringgit Malaysia against USD at the end of the reporting period would have equal but opposite effect on equity and post-tax profit or loss respectively, on the basis that all other variables remained constant.

The exposure to currency risk other than USD is not material and hence, sensitivity analysis is not presented.

**23. FINANCIAL INSTRUMENTS (continued)****23.6.2 Interest rate risk**

The Group's investments in fixed-rate debt securities and its fixed-rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

*Risk management objectives, policies and processes for managing the risk*

The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

*Exposure to interest rate risk*

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period were:

|                                  | Note | Group          |                | Company        |                |
|----------------------------------|------|----------------|----------------|----------------|----------------|
|                                  |      | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| <b>Fixed rate instruments</b>    |      |                |                |                |                |
| Deposits with licensed banks     | 11   | 31,256         | 81,282         | 5,000          | 6,000          |
| Term loans - unsecured           | 13   | (40,084)       | (30,625)       | -              | -              |
| Hire purchase liabilities        | 13   | (18,938)       | (11,342)       | (657)          | (516)          |
| Revolving credits - unsecured    | 13   | (42,809)       | (40,004)       | -              | -              |
| Trade finance - unsecured        | 13   | (52,444)       | (94,112)       | (146)          | (554)          |
|                                  |      | (123,019)      | (94,801)       | 4,197          | 4,930          |
| <b>Floating rate instruments</b> |      |                |                |                |                |
| Term loans - unsecured           | 13   | (12,326)       | (17,707)       | -              | -              |
| Bank overdraft - unsecured       | 13   | (2,370)        | (5,211)        | -              | (2,008)        |
|                                  |      | (14,696)       | (22,918)       | -              | (2,008)        |

*Interest rate risk sensitivity analysis*

*(a) Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedge instruments under a fair value hedged accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

*(b) Cash flow sensitivity analysis for variable rate instruments*

A change of 50 (2012: 50) basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

|                           | Profit or Loss              |                             |                             |                             |
|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                           | Group                       |                             | Company                     |                             |
|                           | 50 bp<br>increase<br>RM'000 | 50 bp<br>decrease<br>RM'000 | 50 bp<br>increase<br>RM'000 | 50 bp<br>decrease<br>RM'000 |
| <b>2013</b>               |                             |                             |                             |                             |
| Floating rate instruments | (55)                        | 55                          | -                           | -                           |
| <b>2012</b>               |                             |                             |                             |                             |
| Floating rate instruments | (86)                        | 86                          | (8)                         | 8                           |



# Notes to the Financial Statements (continued)

## 23. FINANCIAL INSTRUMENTS (continued)

### 23.7 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Group's investment in club membership due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

|                                    | Fair value of financial instruments carried at fair value |         |         |         | Fair value of financial instruments not carried at fair value |         |          |          | Total fair value<br>RM'000 | Carrying amount<br>RM'000 |
|------------------------------------|---|---------|---------|---------|---|---------|----------|----------|----------------------------|---------------------------|
|                                    | RM'000  | RM'000  | RM'000  | RM'000  | RM'000  | RM'000  | RM'000   | RM'000   |                            |                           |
|                                    | Level 1   | Level 2 | Level 3 | Total   | Level 1   | Level 2 | Level 3  | Total    |                            |                           |
| <b>2013</b>                        |   |         |         |         |   |         |          |          |                            |                           |
| <b>Group</b>                       |   |         |         |         |   |         |          |          |                            |                           |
| <b>Financial liabilities</b>       |   |         |         |         |   |         |          |          |                            |                           |
| Hire purchase liabilities          | -   | -       | -       | -       | -   | -       | (19,424) | (19,424) | (19,424)                   | (18,938)                  |
| Forward foreign currency contracts | -   | (7,038) | -       | (7,038) | -   | -       | -        | -        | (7,038)                    | (7,038)                   |
| Term loans (unsecured)             | -   | -       | -       | -       | -   | -       | (52,160) | (52,160) | (52,160)                   | (52,410)                  |
|                                    | -   | (7,038) | -       | (7,038) | -   | -       | (71,584) | (71,584) | (78,622)                   | (78,386)                  |
| <b>2013</b>                        |   |         |         |         |   |         |          |          |                            |                           |
| <b>Company</b>                     |   |         |         |         |   |         |          |          |                            |                           |
| <b>Financial liabilities</b>       |   |         |         |         |   |         |          |          |                            |                           |
| Hire purchase liabilities          | -   | -       | -       | -       | -   | -       | (663)    | (663)    | (663)                      | (657)                     |
| Forward foreign currency contracts | -   | (319)   | -       | (319)   | -   | -       | -        | -        | (319)                      | (319)                     |
|                                    | -   | (319)   | -       | (319)   | -   | -       | (663)    | (663)    | (982)                      | (976)                     |
| <b>2012</b>                        |   |         |         |         |   |         |          |          |                            |                           |
| <b>Group</b>                       |   |         |         |         |   |         |          |          |                            |                           |
| <b>Financial liabilities</b>       |   |         |         |         |   |         |          |          |                            |                           |
| Hire purchase liabilities          | -   | -       | -       | -       |   |         | (11,670) |          | (11,670)                   | (11,342)                  |
| Term loans (unsecured)             | -   | -       | -       | -       |   |         | (48,402) |          | (48,402)                   | (48,332)                  |
|                                    | -   | -       | -       | -       |   |         | (60,072) |          | (60,072)                   | (59,674)                  |
| <b>2012</b>                        |   |         |         |         |   |         |          |          |                            |                           |
| <b>Company</b>                     |   |         |         |         |   |         |          |          |                            |                           |
| <b>Financial liabilities</b>       |   |         |         |         |   |         |          |          |                            |                           |
| Hire purchase liabilities          | -   | -       | -       | -       |   |         | (767)    |          | (767)                      | (516)                     |

\* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

#### Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

#### Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

**23. FINANCIAL INSTRUMENTS (continued)****23.7 Fair value information (continued)****Level 2 fair value**

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities either directly or indirectly.

*Derivatives*

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

**Transfer between Level 1 and Level 2 fair values**

There has been no transfer between Level 1 and Level 2 fair values during the financial year. (2012: no transfer in either direction).

**Level 3 fair value**

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

*Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. For hire purchase, the market rate of interest is determined by reference to hire purchase agreements.

*Interest rates used to determine fair value*

The interest rates used to discount estimated cash flows, when applicable, are as follows:

|                           | 2013        | 2012        |
|---------------------------|-------------|-------------|
| Hire purchase liabilities | 2.25 – 3.50 | 1.98 – 3.50 |
| Loans and borrowings      | 2.26 – 7.85 | 2.56 – 8.03 |

**24. CAPITAL MANAGEMENT**

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The debt-to-equity ratios at 31 December 2013 and at 31 December 2012 were as follows:

|   | Group          |                |
|---|----------------|----------------|
|   | 2013<br>RM'000 | 2012<br>RM'000 |
| Total borrowings (Note 13)                | 168,971        | 199,001        |
| Less: Cash and cash equivalents (Note 11) | (100,600)      | (99,845)       |
| Net debt                                  | 68,371         | 99,156         |
| Total equity                              | 704,941        | 604,599        |
| Debt-to-equity ratio                      | 0.10           | 0.16           |

# Notes to the Financial Statements (continued)

## 24. CAPITAL MANAGEMENT (continued)

There were no changes in the Group's approach to capital management during the financial year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25% of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

## 25. CAPITAL AND OTHER COMMITMENTS

|                                      | 2013<br>RM'000 | 2012<br>RM'000 |
|--------------------------------------|----------------|----------------|
| <b>Group</b>                         |                |                |
| <b>Property, plant and equipment</b> |                |                |
| Within one year:                     |                |                |
| Contracted but not provided for      | 53,498         | 44,074         |
|                                      | <hr/>          | <hr/>          |
| <b>Company</b>                       |                |                |
| <b>Property, plant and equipment</b> |                |                |
| Within one year:                     |                |                |
| Contracted but not provided for      | -              | -              |
|                                      | <hr/>          | <hr/>          |

## 26. ACQUISITIONS

In previous year, the Group had completed the following acquisition:

### 26.1 Acquisition of subsidiary – Assurguard Sdn. Bhd.

The Group acquired 2 shares in Assurguard Sdn. Bhd. ("Ass") for RM2 satisfied in cash. The Group intends to expand their production lines once the licenses are granted.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

|   | 2013<br>RM |
|---|------------|
| <b>Fair value of consideration transferred</b>              |            |
| Cash and cash equivalents                                   | 2          |
|   | <hr/>      |
| <b>Identifiable assets acquired and liabilities assumed</b> |            |
|   | 2013<br>RM |
| Cash and cash equivalents                                   | 2          |
| Other payables and accruals                                 | (54,205)   |
|   | <hr/>      |
|   | (54,203)   |
|   | <hr/>      |

## 27. RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Notes to the **Financial Statements** (continued)**27. RELATED PARTIES (continued)**

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel includes all the Directors of the Group, and certain members of senior management of the Group.

The significant related party transactions of the Group and the Company, other than key management personnel compensation (see Note 17), are as follows:

| Group   | Transactions<br>amount for the<br>year ended<br>31 December |                |
|---|---|----------------|
|   | 2013<br>RM'000  | 2012<br>RM'000 |
| <b>Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries</b> |   |                |
| <b><i>Kossan Chemical Industries (M) Sdn. Bhd.</i></b>                      |   |                |
| Rental expense  | (1,399)   | (1,332)        |
| <b><i>Kossan Holdings (M) Sdn. Bhd.</i></b>                                 |   |                |
| Rental expense  | (104)   | (3)            |
| <b><i>Pleasure Latex Products Sdn. Bhd.</i></b>                             |   |                |
| Rental income*  | 108   | 108            |
| <b><i>Kossan Paint (M) Sdn. Bhd.</i></b>                                    |   |                |
| Sales*  | 508   | 290            |
| Purchase of consumables, raw materials and property, plant and equipment    | (511)   | (2,419)        |
| <b><i>Pan Asian Corporation Sdn. Bhd.</i></b>                               |   |                |
| Rental expense  | (648)   | (617)          |
| <b><i>HT Ceramics (M) Sdn. Bhd.</i></b>                                     |   |                |
| Sales*  | 4   | 8              |
| Purchase of property, plant and equipment                                   | (3,092)   | (759)          |
| <b><i>Kossan F.R.P. Industries (M) Sdn. Bhd.</i></b>                        |   |                |
| Sales*  | 6   | 4              |
| Purchase of consumables   | (208)   | (249)          |
| <b>Company</b>  |   |                |
| <b>Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries</b> |   |                |
| <b><i>Kossan Chemical Industries (M) Sdn. Bhd.</i></b>                      |   |                |
| Rental expense  | (634)   | (672)          |
| <b><i>Pleasure Latex Products Sdn. Bhd.</i></b>                             |   |                |
| Rental income   | 108   | 108            |
| <b><i>Kossan Paint (M) Sdn. Bhd.</i></b>                                    |   |                |
| Sales*  | 508   | 290            |
| Purchase of consumables   | (39)  | (56)           |
| <b><i>Pan Asian Corporation Sdn. Bhd.</i></b>                               |   |                |
| Rental expense  | (361)   | (344)          |

Notes to the **Financial Statements** (continued)**27. RELATED PARTIES (continued)**

| Company  | Transactions<br>amount for the<br>year ended<br>31 December |                |
|--|---|----------------|
|  | 2013<br>RM'000  | 2012<br>RM'000 |
| <b>Transactions with corporations in which Directors have financial interest</b> |   |                |
| <b><i>HT Ceramics (M) Sdn. Bhd.</i></b>  |   |                |
| Sales*   | 4   | 8              |
| <b><i>Kossan F.R.P. Industries (M) Sdn. Bhd.</i></b>                             |   |                |
| Sales*   | 6   | 4              |

\* There are no allowances for impairment loss being provided in respect of the related balances outstanding at year end and no impairment loss made during the year.

Balances with ultimate holding company and related parties at the end of reporting period are disclosed in Note 9 and Note 14 to the financial statements.

The terms and conditions for the above transactions are based on normal trade terms. All the amounts outstanding are interest-free, unsecured and expected to be settled with cash.

**28. SIGNIFICANT EVENT****28.1 Issue of bonus shares and sale of treasury shares**

Pursuant to an Extraordinary General Meeting held on 21 October 2013, the Company issued 319,733,952 new ordinary shares of RM0.50 each as bonus shares on the basis of one (1) bonus share for every one (1) existing ordinary share held.

In the same month, the Company re-issued 1,114,400 treasury shares, amounting to RM3,459,787, by resale in open market as disclosed in Note 12.4.

Notes to the **Financial Statements** (continued)**29. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS AND LOSSES**

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2013, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Total retained earnings of the Company and its subsidiaries: |                |                |                |                |
| - realised   | 416,876        | 466,938        | 31,837         | 73,345         |
| - unrealised   | (23,187)       | (8,180)        | 3,207          | 3,125          |
|  | 393,689        | 458,758        | 35,044         | 76,470         |
| Less: Consolidation adjustments                              | (13,488)       | (10,427)       | -              | -              |
| Total group retained profits as per consolidated accounts    | 380,201        | 448,331        | 35,044         | 76,470         |

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

## Statement by **Directors** pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 35 to 83 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as of 31 December 2013 and of their financial performances and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 29 on page 84 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....  
**Dato' Lim Kuang Sia**

.....  
**Lim Kuang Yong**

Klang, Selangor Darul Ehsan

Date: 23 April 2014

## Statutory **Declaration** pursuant to Section 169(16) of the Companies Act, 1965

I, **Lee Hon Chee**, the officer primarily responsible for the financial management of Kossan Rubber Industries Bhd., do solemnly and sincerely declare that the financial statements set out on pages 35 to 84 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Klang, Selangor Darul Ehsan on 23 April 2014.

.....  
**Lee Hon Chee**

Before me:

**Goh Cheng Teak**  
No. B204

Commissioner for Oaths,  
Klang

# Independent Auditors' Report

to the members of Kossan Rubber Industries Bhd.

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Kossan Rubber Industries Bhd., which comprise the statements of financial position as at 31 December 2013 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flow of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 35 to 83.

### *Directors' Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial positions of the Group and of the Company as of 31 December 2013 and of their financial performances and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b) We have considered the accounts and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 4 to the financial statements.
- c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.



# Independent **Auditors' Report**

to the members of Kossan Rubber Industries Bhd. (continued)

## **OTHER REPORTING RESPONSIBILITIES**

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 29 on page 84 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

## **OTHER MATTERS**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

### **KPMG**

Firm Number: AF 0758  
Chartered Accountants

### **Abdullah Abu Samah**

Approval Number: 2013/06/14(J)  
Chartered Accountant

Petaling Jaya,

Date: 23 April 2014

# List of Properties

as at 31 December 2013

| Location   | Description  | Date of Acquisition/<br>Valuation* | Age of Building                               | Land Area      | Tenure   | Existing Use                      | Net Book Value<br>2013<br>RM'000 |
|--|--|------------------------------------|---|----------------|----------|-----------------------------------|----------------------------------|
| HSD 27360 PT12772<br>No 14 Lrg Sg Puloh<br>Tmn Klg Utama 42100 Klang                         | 1 unit double<br>storey link house                           | 24/03/1995*                        | 20 yrs  | 990 sq.ft      | Freehold | Staff<br>quarters                 | 67                               |
| HSD 27361 PT12773<br>No 16 Lrg Sg Puloh<br>Tmn Klg Utama 42100 Klang                         | 1 unit double<br>storey link house                           | 24/03/1995*                        | 20 yrs  | 990 sq.ft      | Freehold | Staff<br>quarters                 | 67                               |
| Lot 754 Jalan Hj Sirat<br>42100 Klang  | Industrial land<br>Factory                                   | 01/01/2011*                        | -<br>19 yrs                                   | 246,550 sq.ft  | Freehold | -<br>Factory                      | 7,691<br>7,159                   |
| Lot 782 Jalan Sg Putus<br>42100 Klang  | Industrial land<br>Factory and office<br><br>5 storey office | 01/01/2011*                        | -<br>Factory-26 yrs<br>Office-19 yrs<br>6 yrs | 47,480 sq.ft   | Freehold | -<br>Factory/<br>Office<br>Office | 1,109<br>1,215<br>3,558          |
| HSM 21404 Lot 16632<br>Jalan Meru 41050 Klang  | Industrial land<br>Factory/office                            | 24/03/1995*                        | -<br>24 yrs                                   | 6,055 sq. mtr  | Freehold | -<br>Factory/office               | 1,042<br>1,288                   |
| GM 551 Lot 2401 Batu 17<br>Jln Sungai Sembilang<br>45800 Jeram                               | Industrial land<br>Factory                                   | 01/01/2011*                        | -<br>15 yrs                                   | 94,895 sq.ft   | Freehold | -<br>Factory                      | 1,300<br>2,584                   |
| HSM 3930 PT 5708<br>(a) (formerly Lot 2796)  | Industrial land<br>Factory                                   | 01/01/2011*                        | -<br>11 yrs                                   | 213,916 sq.ft  | Freehold | -<br>Factory                      | 3,836<br>4,494                   |
| (b) (formerly Lot 1365)<br>Jln Sungai Sembilang<br>45800 Jeram                               | Industrial land<br>Factory/Office<br>Factory                 | 01/01/2011*                        | -<br>15 yrs<br>6 yrs                          | 217,800 sq.ft  | Freehold | -<br>Factory/Office<br>Factory    | 1,114<br>6,806<br>4,568          |
| HSM 15410 PT 21715 &<br>HSM 15405 PT 15708<br>24 Jln Pengasah 4<br>Off Jln Kapar 42100 Klang | 1 unit 1 1/2 storey<br>light industrial<br>building          | 03/04/2003                         | 20 yrs  | 174 sq.mtr     | Freehold | Hostel                            | 206                              |
| HS (M) 1168 PT 476<br>Batu 15 1/4<br>Jalan Kapar Mukim Jeram                                 | Industrial land<br>Staff quarters                            | 27/02/2003                         | -<br>10 yrs                                   | 5,527 sq.mtr   | Freehold | -<br>Staff quarters               | 355<br>242                       |
| HSM 4378 PT 7355 (formerly<br>Lot 6134 and 6135)<br>Batu 16 Jalan Klang, Jeram               | Industrial land<br>Factory                                   | 01/01/2011*                        | -<br>3 yrs                                    | 20,357 sq. mtr | Freehold | -<br>Factory                      | 2,241<br>7,558                   |
| Geran 244725 Lot 12262<br>(formerly Geran 40417 Lot 4761)<br>Mukim Jeram, Kuala Selangor     | Industrial land<br>Factory                                   | 19/05/2004                         | -<br>9 yrs                                    | 2.969 hectares | Freehold | -<br>Factory                      | 1,147<br>2,919                   |
| HSD 125449 Lot 6129,<br>5 1/4 Mile, Jln Hj Abdul Manan,<br>Jln Meru 41050 Klang              | Industrial land<br>Factory/Office                            | 01/01/2011*                        | -<br>7 yrs                                    | 37,411 sq. mtr | Freehold | -<br>Factory/Office               | 16,752<br>15,322                 |

# List of Properties

as at 31 December 2013 (continued)

| Location   | Description   | Date of Acquisition/<br>Valuation* | Age of Building                        | Land Area       | Tenure   | Existing Use            | Net Book Value<br>2013<br>RM'000 |
|--|---|------------------------------------|--|-----------------|----------|-------------------------|----------------------------------|
| Geran 173931 Lot 63617<br>(formerly HSD 116842<br>PT 54925)<br>Mukim Kapar Daerah Klang      | Industrial land<br>Factory                          | 01/01/2011*                        | -<br>under<br>construction             | 4.355 hectares  | Freehold | -<br>Factory            | 6,625<br>19,619                  |
| Geran 173929 Lot 63616<br>(formerly HSD 116841<br>PT 54924)<br>Mukim Kapar Daerah Klang      | Industrial land<br>Factory/Office                   | 01/01/2011*                        | -<br>Plant A - 3 yrs<br>Plant B - 2 yr | 4.544 hectares  | Freehold | -<br>Factory/<br>office | 6,800<br>16,043<br>6,199         |
| Geran 128405 Lot 24077<br>(formerly Lot PT 13726)<br>Jln Meru 41050 Klang                    | Industrial land<br>Factory                          | 01/01/2011*                        | -<br>6 yrs                             | 21,805 sq. mtr  | Freehold | -<br>Factory/Office     | 5,900<br>16,813                  |
| HSM 43179 PT 71276<br>(formerly GM 1724 & 1725<br>Lot 5068 & 5069)<br>Jalan Meru 41050 Klang | Industrial land<br>Factory/Office                   | 09/11/2010                         | -<br>1 yr                              | 21,105 sq. mtr  | Freehold | -<br>Factory/Office     | 10,405<br>18,793                 |
| Geran 45715 Lot 6130<br>Jln Meru 41050 Klang   | Industrial land<br>Factory                          | 01/01/2011*                        | -<br>5 yrs                             | 4.0519 hectares | Freehold | -<br>Factory            | 15,603<br>27,768                 |
| HSM 4233 PT 7201<br>(formerly Lot 1367)<br>Jalan Kapar Mukim Jeram                           | Vacant<br>agriculture<br>land                       | 21/07/2009                         | nil                                    | 0.8043 hectares | Freehold | Vacant                  | 836                              |
| GRN 52936 Lot 6104;<br>GRN 52937 Lot 6104;<br>GRN 52939 Lot 6108<br>Mukim Kapar              | Vacant<br>agriculture<br>land                       | 12/06/2013                         | nil                                    | 12.766 acres    | Freehold | Vacant                  | 21,460                           |
| Block 2 Zone C,<br>Guang Hui Industrial Park<br>Dongguan City<br>Guangdong China             | Factory/office<br>Constructed on<br>rented property | 30/06/2011                         | 9 yrs                                  | na              | Rental   | Factory/<br>office      | 342                              |
| 5100 E. 2nd Street<br>Benecia CA 94510<br>United States of America                           | Industrial land<br>and warehouse                    | 31/05/2012                         | 14 yrs                                 | 4.15 acres      | Freehold | Warehouse<br>and office | 12,076                           |
| J1, Utama Modern Industri<br>Blok AH No.2, Sukatani,<br>Serang Indonesia                     | Industrial land                                     | 22/03/2013                         | nil                                    | 22,000 sq. mtr  | Freehold | Vacant                  | 5,223                            |
|  |   |                                    |  |                 |          |                         | 285,145                          |

# Statistics on Shareholdings

as at 30 April 2014

Authorised Share Capital : RM1,000,000,000  
 Issued and Fully paid up : RM 319,733,952  
 Class of Shares : Ordinary shares of RM0.50 each  
 Voting Rights : One vote per ordinary share

## ANALYSIS OF SHAREHOLDINGS

| Size of Shareholdings                    | No. of Shareholders | % of Shareholders | No. of Shares | % of Issued Share Capital |
|--|---------------------|-------------------|---------------|---------------------------|
| Less than 100                            | 58                  | 1.22              | 1,157         | 0.00                      |
| 100 - 1,000                              | 861                 | 18.17             | 620,498       | 0.10                      |
| 1,001 - 10,000                           | 2,509               | 52.93             | 10,872,802    | 1.70                      |
| 10,001 - 100,000                         | 1,033               | 21.79             | 32,121,360    | 5.02                      |
| 100,001 to less than 5% of issued shares | 276                 | 5.83              | 285,339,607   | 44.62                     |
| 5% and above of issued shares            | 3                   | 0.06              | 310,512,480   | 48.56                     |
| Total                                    | 4,740               | 100.00            | 639,467,904   | 100.00                    |

## DIRECTORS' SHAREHOLDINGS

| No. | Name of Directors  | No. of Shares   |      | No. of Shares     |       |
|-----|--|-----------------|------|-------------------|-------|
|     |  | Direct Interest | %    | Indirect Interest | %     |
| 1   | Dato' Haji Mokhtar Bin Hj. Samad   | -               | -    | -                 | -     |
| 2   | Dato' Lim Kuang Sia<br>- Cimsec Nominees (Tempatan) Sdn Bhd<br>- CIMB for Lim Kuang Sia (PB) | 763,776         | 0.12 | 327,556,976       | 51.22 |
| 3   | Lim Kuang Yong   | -               | -    | 326,512,480       | 51.06 |
| 4   | Tan Kong Chang   | -               | -    | -                 | -     |
| 5   | Lim Siau Tian  | -               | -    | -                 | -     |
| 6   | Lim Siau Hing  | -               | -    | -                 | -     |
| 7   | Lim Ooi Chow   | -               | -    | -                 | -     |
| 8   | Tong Siew Choo   | 59,904          | 0.01 | -                 | -     |
| 9   | Lee Choo Hock  | -               | -    | -                 | -     |

# Statistics on Shareholdings

as at 30 April 2014 (continued)

## SUBSTANTIAL SHAREHOLDERS

| No. | Name of Substantial Shareholders  | No. of Shares | %     |
|-----|---|---------------|-------|
| 1   | Kossan Holdings (M) Sdn Bhd   | 326,512,480   | 51.06 |
|     | - Kossan Holdings (M) Sdn Bhd   | 236,357,536   |       |
|     | - Kossan Holdings (M) Sdn Bhd   | 34,154,944    |       |
|     | - Malaysia Nominees (Tempatan) Sdn Bhd  | 40,000,000    |       |
|     | Pledged Securities Account for Kossan Holdings (M) Sdn Bhd                      |               |       |
|     | - Amsec Nominees (Tempatan) Sdn Bhd   | 16,000,000    |       |
|     | Pledged Securities Account-AmBank (M) Berhad<br>for Kossan Holdings (M) Sdn Bhd |               |       |
| 2   | Employees Provident Fund Board  | 33,657,800    | 5.26  |
|     | - Citigroup Nominees (Tempatan) Sdn Bhd   | 25,535,000    |       |
|     | - Citigroup Nominees (Tempatan) Sdn Bhd   | 3,522,800     |       |
|     | - Citigroup Nominees (Tempatan) Sdn Bhd   | 3,000,000     |       |
|     | - Citigroup Nominees (Tempatan) Sdn Bhd   | 1,000,000     |       |
|     | - Citigroup Nominees (Tempatan) Sdn Bhd   | 600,000       |       |

## 30 LARGEST SHAREHOLDERS

| NO. | NAME OF SHAREHOLDERS   | NO. OF SHARES | %     |
|-----|--|---------------|-------|
| 1   | KOSSAN HOLDINGS (M) SDN BHD  | 236,357,536   | 36.96 |
| 2   | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD<br>PLEDGED SECURITIES ACCOUNT FOR KOSSAN HOLDINGS (M) SDN BHD (05-00042-000) | 40,000,000    | 6.26  |
| 3   | KOSSAN HOLDINGS (M) SDN BHD  | 34,154,944    | 5.34  |
| 4   | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>EMPLOYEES PROVIDENT FUND BOARD  | 25,535,000    | 3.99  |
| 5   | DB (MALAYSIA) NOMINEE (ASING) SDN BHD<br>SSBT FUND KG33 FOR INVESCO ASIA PACIFIC GROWTH FUND                               | 17,473,800    | 2.73  |
| 6   | AMSEC NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT -<br>AMBANK (M) BERHAD FOR KOSSAN HOLDINGS (M) SDN BHD     | 16,000,000    | 2.50  |
| 7   | TIAN SENN RESOURCES SDN BHD  | 12,620,000    | 1.97  |
| 8   | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD<br>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (DR)                       | 10,750,000    | 1.68  |
| 9   | AMSEC NOMINEES (TEMPATAN) SDN BHD<br>AMTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)              | 9,372,200     | 1.47  |
| 10  | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>EXEMPT AN FOR AIA BHD.  | 9,256,300     | 1.45  |
| 11  | CARTABAN NOMINEES (TEMPATAN) SDN BHD<br>EXEMPT AN FOR EASTSPRING INVESTMENTS BERHAD  | 7,961,200     | 1.24  |
| 12  | AMANAHRAYA TRUSTEES BERHAD<br>PUBLIC ISLAMIC OPPORTUNITIES FUND  | 4,576,200     | 0.72  |
| 13  | HSBC NOMINEES (ASING) SDN BHD<br>BNP PARIBAS SECS SVS PARIS FOR HI-KABL-FONDS  | 4,400,000     | 0.69  |

# Statistics on Shareholdings

as at 30 April 2014 (continued)

| NO.          | NAME OF SHAREHOLDERS   | NO. OF SHARES      | %            |
|--------------|--|--------------------|--------------|
| 14           | RUBY TECHNIQUE SDN BHD   | 4,350,000          | 0.68         |
| 15           | LIM HUI GUAN   | 3,966,000          | 0.62         |
| 16           | AMANAHRAYA TRUSTEES BERHAD<br>PUBLIC ISLAMIC SELECT TREASURES FUND   | 3,845,000          | 0.60         |
| 17           | DB (MALAYSIA) NOMINEE (ASING) SDN BHD<br>DEUTSCHE BANK AG SINGAPORE FOR THE NAVIS ASIA NAVIGATOR MASTER FUND | 3,703,900          | 0.58         |
| 18           | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)                          | 3,522,800          | 0.55         |
| 19           | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD<br>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LSF)        | 3,483,400          | 0.54         |
| 20           | CITIGROUP NOMINEES (ASING) SDN BHD<br>CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES                         | 3,463,700          | 0.54         |
| 21           | HSBC NOMINEES (ASING) SDN BHD<br>EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)            | 3,296,858          | 0.52         |
| 22           | DB (MALAYSIA) NOMINEE (ASING) SDN BHD<br>SSBT FUND 6B14 FOR LAZARD EMERGING MARKETS SMALL CAP EQUITY TRUST   | 3,288,900          | 0.51         |
| 23           | HSBC NOMINEES (ASING) SDN BHD<br>EXEMPT AN FOR THE BANK OF NEW YORK MELLON (MELLON ACCT)                     | 3,204,900          | 0.50         |
| 24           | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>EMPLOYEES PROVIDENT FUND BOARD (AM INV)                             | 3,000,000          | 0.47         |
| 25           | HSBC NOMINEES (ASING) SDN BHD<br>EXEMPT AN FOR CREDIT SUISSE SECURITIES (USA) LLC (PB CLIENT)                | 2,798,600          | 0.44         |
| 26           | KOPERASI PERMODALAN FELDA MALAYSIA BERHAD  | 2,786,700          | 0.44         |
| 27           | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD<br>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LGF)        | 2,490,000          | 0.39         |
| 28           | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR SUSY DING (CEB)                    | 2,440,000          | 0.38         |
| 29           | KUMPULAN WANG PERSARAAN (DIPERBADANKAN)  | 2,376,000          | 0.37         |
| 30           | CIMB GROUP NOMINEES (TEMPATAN) SDN BHD<br>AMTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY THEME FUND           | 2,340,100          | 0.37         |
| <b>TOTAL</b> |  | <b>482,814,038</b> | <b>75.50</b> |

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirty Fourth (34th) Annual General Meeting (“AGM”) of the Company will be held at Function Room 8, Mezzanine Floor, Setia City Convention Centre, 1, Jalan Setia Dagang AG U13/AG, Setia Alam, Seksyen U13, 40170 Shah Alam on Wednesday, 25 June 2014 at 10.30 a.m. for the following purposes:

## AGENDA

### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 together with the Reports of the Directors and the Auditors thereon.
2. To approve payment of a final tax exempt dividend of 3.5 sen per ordinary share of RM0.50 each for the financial year ended 31 December 2013. **(Ordinary Resolution 1)**
3. To approve the payment of Directors’ Fees amounting to RM 191,000 for the financial year ended 31 December 2013. (2012: RM170,000) **(Ordinary Resolution 2)**
4. To re-elect Mr. Lim Kuang Yong retiring by rotation pursuant to Article 108 of the Articles of Association and being eligible has offered himself for re-election **(Ordinary Resolution 3)**
5. To re-elect the following Directors retiring pursuant to Article 113 of the Articles of Association, and being eligible, have offered themselves for re-election:
  - (i) Lee Choo Hock **(Ordinary Resolution 4)**
  - (ii) Tan Kong Chang **(Ordinary Resolution 5)**
  - (iii) Lim Siau Tian **(Ordinary Resolution 6)**
  - (iv) Lim Siau Hing **(Ordinary Resolution 7)**
  - (v) Lim Ooi Chow **(Ordinary Resolution 8)**
6. To re-appoint KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 9)**

### SPECIAL BUSINESS

7. Proposed authority to allot shares pursuant to section 132D of the Companies Act, 1965 **(Ordinary Resolution 10)**

“THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to allot and issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company as at the date of this Annual General Meeting (“AGM”) and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next AGM of the Company.”
8. Proposed Renewal Of Shareholders’ Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature
 

“That pursuant to paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given for the renewal of the shareholders’ mandate for the Company and/or its subsidiaries (“Kossan Group”) to enter into recurrent related party transactions of a revenue or trading nature (“Proposed Renewal of Shareholders’ Mandate”), which are necessary for the day-to-day operations of Kossan Group to be entered into by Kossan Group provided such transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public, particulars of which are set out in Section 2.5 of the Circular to Shareholders of the Company dated 30 May 2014

# Notice of Annual General Meeting (continued)

- |       |   |                                 |
|-------|---|---------------------------------|
| (i)   | Kossan Holdings (M) Sdn. Bhd. and its subsidiaries          | <b>(Ordinary Resolution 11)</b> |
| (ii)  | Kossan F.R.P. Industries (M) Sdn. Bhd. and its subsidiaries | <b>(Ordinary Resolution 12)</b> |
| (iii) | HT Ceramic (M) Sdn. Bhd.                                    | <b>(Ordinary Resolution 13)</b> |

And that such approval conferred by the shareholders' mandate shall continue to be in force until-

- (a) the conclusion of the next Annual General Meeting ("AGM") of the Company following this AGM at which such mandate is passed, at which time it will lapse, unless by a resolution passed at such general meeting whereby the authority is renewed;
- (b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("Act") (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is the earlier

AND FURTHER THAT the Directors of the Company/ or any of them be and are/is(as the case may be) hereby authorised to complete and do all such acts and things (including executing such documents under the common seal in accordance with the provisions of the Articles of Association of the Company, as may be required ) as they may consider expedient or necessary to give effect to the Proposed Renewal of Shareholders' Mandate."

9. Proposed Renewal Of Shareholders' Mandate On Share Buy-Back ("Proposed Share Buy-Back") **(Ordinary Resolution 14)**

"That subject to the Companies Act, 1965 ("Act"), the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company's Articles of Association and other applicable laws, rules, regulations and guidelines of the relevant authorities, the Company be and is hereby authorised to utilise an amount not exceeding the total share premium account and retained profits of the Company to purchase such number of ordinary shares of RM0.50 each in the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit in the interest of the Company provided that the ordinary shares so purchased pursuant to this resolution shall in aggregate with the treasury shares, if any, as defined under Section 67A of the Act ("Treasury Shares") then still held by the Company not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company AND THAT such authority shall commence upon the passing of this resolution until the conclusion of the next annual general meeting of the Company unless earlier revoked or varied by a resolution of the shareholders of the Company at a general meeting AND THAT the Directors be and are hereby authorised to either cancel the shares so purchased or retain same as Treasury Shares and may distribute the Treasury Shares as share dividend or to sell same in a manner they deem fit and expedient in the best interest of the Company and in accordance with the Act, the applicable laws, rules, regulations and guidelines of Bursa Securities and any other regulatory authorities for the time being in force".

10. Retention of Independent Directors

- (a) Dato' Haji Mokhtar Bin Haji Samad

"That approval be and is hereby given to Dato' Haji Mokhtar Bin Haji Samad, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, to continue to act as an Independent Non-Executive Director of the Company and that the Board of Directors be authorised henceforth to determine, on a year to year basis, the continuation in office of Dato' Haji Mokhtar Bin Haji Samad as an Independent Non-Executive Director of the Company until such authority is revoked at a general meeting."

**(Ordinary Resolution 15)**



# Notice of Annual General Meeting (continued)

(b) Madam Tong Siew Choo

“That approval be and is hereby given to Madam Tong Siew Choo, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, to continue to act as an Independent Non-Executive Director of the Company and that the Board of Directors be authorised henceforth to determine on a year to year basis, the continuation in office of Madam Tong Siew Choo as an Independent Non-Executive Director of the Company until such authority is revoked at a general meeting.”  
(Ordinary Resolution 16)

**(Ordinary Resolution 16)**

11. To transact any other business of which due notice shall have been given in accordance with the Act.

## **NOTICE OF DIVIDEND PAYMENT**

NOTICE IS ALSO HEREBY GIVEN that the final tax exempt dividend of 3.5 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2013, if approved by members at the Annual General Meeting to be held on Wednesday, 25 June 2014, will be paid on 18 July 2014. The entitlement date for the dividend will be 3 July 2014.

A depositor shall qualify for entitlement only in respect of:

- (a) Shares transferred to the depositor's securities account before 4.00 p.m. on 3 July 2014 in respect of ordinary transfer; and
- (b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD  
**KOSSAN RUBBER INDUSTRIES BHD.**

**CHIA ONG LEONG**  
**CHIA YEW NGO**  
Company Secretaries  
Klang, Selangor Darul Ehsan

30 May 2014

# Notice of Annual General Meeting (continued)

## NOTES

### 1. Receiving of the Audited Financial Statements

Item 1 of the Agenda is intended for discussion only as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of the shareholders of the Audited Financial Statements. As such this item is not put forward for voting.

### 2. Proxy Form

- (i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.
- (ii) Where a member appoints two (2) proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
- (iii) A member who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, may appoint one(1) proxy in respect of each securities account.
- (iv) Where a member is an exempt authorised nominee which holds shares in the Company for multiple beneficial owners in one securities account (“omnibus account”) as defined under the Securities Industry (Central Depositories) Act 1991, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- (v) The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his attorney duly authorised in writing and in the case of a corporation, the instrument appointing a proxy must be under seal or under the hand of an officer or attorney duly authorised.
- (vi) Only members whose names appear in the Record of Depositors as at 18 June 2014 will be entitled to attend, speak and vote at the meeting or appoint a proxy to attend, speak and vote in his stead.
- (vii) To be valid, the original instrument appointing a proxy must be deposited at the Registered Office of the Company at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 3/4 Jalan Kapar, 42100 Klang, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting and any adjournment thereof.

### 3. Explanatory Notes on Special Business

#### (i) Proposed authority to allot shares pursuant to Section 132 D of the Companies Act, 1965

The proposed Ordinary Resolution 10, if passed, will empower the Directors from the conclusion of this AGM, to allot and issue up to a maximum of 10% of the issued share capital of the Company (excluding treasury shares) at the time of issue for such purposes as they consider would be in the best interest of the Company. This would eliminate any delay arising from and cost involved in convening a general meeting to obtain approval of the shareholders for such issuance of shares. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

This authority will provide flexibility to the Company for any possible fund raising exercise, including but not limited to placement of shares for purpose of funding investment projects, working capital and/or acquisition.

At this juncture, there is no decision to issue new shares. If there should be a decision to issue new shares after the general mandate is sought, the Company will make an announcement in respect thereof.

#### (ii) Proposed renewal of existing shareholders’ mandate for recurrent related party transactions of a revenue or trading nature (“Proposal”)

The proposed Ordinary Resolutions 11,12 and 13 are to seek shareholders’ approval on the related party transactions entered or to be entered into by the Kossan Group in the ordinary course of business. These are recurring transactions of a revenue or trading nature which are likely to occur with some degree of frequency and may arise at any time and from time to time. These transactions may be constrained by the time-sensitive nature and confidentiality of such transactions, and it may be impractical to seek shareholders’ approval on a case-by- case basis before entering into such related party transactions.

# Notice of Annual General Meeting (continued)

As such the Board is seeking an approval and renewal of shareholders' mandate pursuant to Part E, Paragraph 10.09 of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad for the related party transactions described in Section 2.5 of the Circular to shareholders dated 30 May 2014 to allow the Kossan Group to enter into such recurrent related party transactions, make at arm's length basis and on normal commercial terms, not more favourable to the related parties than those generally available to the public and which will not be to the detriment of the minority shareholders of the Company. Further details on the Proposal can be obtained from the Circular to shareholders of the Company dated 30 May 2014.

By obtaining the shareholders' mandate and the renewal of the same on an annual basis, the necessity to convene separate general meetings from time to time to seek shareholders' approval as and when such recurrent related party transactions occur would not arise. This would reduce substantial administrative time, inconvenience and expenses associated with the convening of such meetings, without compromising the corporate objective of the Kossan Group or adversely affecting the business opportunities available to the Kossan Group.

(iii) Proposed Renewal of Authority for Share Buy-back

The proposed Ordinary Resolution 14, if passed, will empower the Directors to purchase the Company's shares of up to a maximum of ten per cent (10%) of the issued and paid up share capital of the Company by utilising funds allocated out of retained profits and share premium accounts of the Company. Further information on the Proposed Renewal of Authority for Share Buy-back is set out in the Statement to Shareholders dated 30 May 2014, which is despatched together with the Company's 2013 Annual Report.

(iv) Retention of Independent Directors

The proposed Ordinary Resolutions 15 and 16 are to seek the shareholders' approval to retain directors who have served as Independent Non-Executive Directors of the Company for a cumulative term of more than nine (9) years. The Board and the Nominating Committee had assessed the independence of the following directors and recommends them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:-

- Resolution 15- Dato' Haji Mokhtar Bin Haj Samad
  - (a) Dato' has fulfilled the criteria under the definition of an Independent Director as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.
  - (b) Dato's vast experience in business will enable him to contribute objectively as well as judgement wise during Board deliberations.
  - (c) Dato' has performed his duty diligently and in the best interests of the Company and has always provided the Board balance required by providing the Board a check and balance on matters being deliberated by the Board.
- Resolution 16 – Madam Tong Siew Choo
  - (a) She has fulfilled the criteria under the definition of an Independent Director as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.
  - (b) Her vast experience in accounting, auditing and taxation will enable her to contribute with objective judgement during Board deliberations by bringing experience and technical expertise into business management and independent evaluation of judgement on businesses of the Company.
  - (c) She has performed her duty diligently and in the best interests of the Company and provides a broader view and independent assessment of matters deliberated at the Board.

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# Proxy Form



KOSSAN RUBBER INDUSTRIES BHD  
(COMPANY NO.: 48166-W)  
(INCORPORATED IN MALAYSIA)

**A.** I/We \_\_\_\_\_ (FULL NAME IN CAPITALS)  
of \_\_\_\_\_ (ADDRESS)  
being a member/members of KOSSAN RUBBER INDUSTRIES BHD, hereby appoint \_\_\_\_\_ (FULL NAME-FIRST PROXY)  
of \_\_\_\_\_ (ADDRESS)  
Where it is decided to appoint a second proxy, this section must also be completed. Otherwise it should be deleted.

**B.** I/We \_\_\_\_\_ (FULL NAME IN CAPITALS)  
of \_\_\_\_\_ (ADDRESS)  
being a member/members of KOSSAN RUBBER INDUSTRIES BHD, hereby appoint \_\_\_\_\_ (FULL NAME- SECOND PROXY)  
of \_\_\_\_\_ (ADDRESS)

or failing him/her THE CHAIRMAN OF THE MEETING as my/our first proxy, to vote for me/us and on my/our behalf, at the Thirty Fourth Annual General Meeting of the Company, to be held at Function Room 8, Mezzanine Floor, Setia City Convention Centre, 1, Jalan Setia Dagang AG U13/AG, Setia Alam, Seksyen U13, 40170 Shah Alam, Selangor Darul Ehsan on Wednesday, 25 June 2014 at 10.30 a.m. and at any adjournment thereof.

The proportions of my/our holdings to be represented by my/our proxies are as follows:-

|                |      |  |
|----------------|------|--|
| First Proxy A  | %    | In case of a vote by a show of hands, First Proxy A*/Second Proxy B* shall vote on my/our behalf |
| Second Proxy B | %    |  |
|                | 100% |  |

| Resolutions                  |  | First Proxy A |         | Second Proxy B |         |
|------------------------------|--|---------------|---------|----------------|---------|
|                              |  | For           | Against | For            | Against |
| <b>AS ORDINARY BUSINESS:</b> |  |               |         |                |         |
| Ordinary Resolution 1        | To approve final tax exempt dividend   |               |         |                |         |
| Ordinary Resolution 2        | To approve Directors' Fees amounting to RM191,000 for the financial year ended 31 December 2013.                                     |               |         |                |         |
| Ordinary Resolution 3        | To re-elect Lim Kuang Yong who retires in pursuant to Article 108 of the Company's Articles of Association.                          |               |         |                |         |
| Ordinary Resolution 4        | To re-elect Lee Choo Hock who retires in pursuant to Article 113 of the Company's Articles of Association.                           |               |         |                |         |
| Ordinary Resolution 5        | To re-elect Tan Kong Chang who retires in pursuant to Article 113 of the Company's Articles of Association                           |               |         |                |         |
| Ordinary Resolution 6        | To re-elect Lim Siau Tian who retires in pursuant to Article 113 of the Company's Articles of Association                            |               |         |                |         |
| Ordinary Resolution 7        | To re-elect Lim Siau Hing who retires in pursuant to Article 113 of the Company's Articles of Association                            |               |         |                |         |
| Ordinary Resolution 8        | To re-elect Lim Ooi Chow who retires in pursuant to Article 113 of the Company's Articles of Association                             |               |         |                |         |
| Ordinary Resolution 9        | To re-appoint Messrs KPMG as Auditors of the Company and to authorize the Directors to fix their remuneration.                       |               |         |                |         |
| <b>AS SPECIAL BUSINESS</b>   |  |               |         |                |         |
| Ordinary Resolution 10       | Proposed authority to allot shares pursuant to Section 132D of the Companies Act 1965  |               |         |                |         |
|                              | Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature ("Proposal") with: |               |         |                |         |
| Ordinary Resolution 11       | (i) Kossan Holdings (M) Sdn. Bhd. and its subsidiaries   |               |         |                |         |
| Ordinary Resolution 12       | (ii) Kossan FRP Industries (M) Sdn. Bhd and its subsidiaries   |               |         |                |         |
| Ordinary Resolution 13       | (iii) HT Ceramics (M) Sdn. Bhd.  |               |         |                |         |
| Ordinary Resolution 14       | Proposed renewal of mandate for share buy back   |               |         |                |         |
| Ordinary Resolution 15       | To retain Dato' Haji Mokhtar Bin Haji Samad as an Independent Non-Executive Director.  |               |         |                |         |
| Ordinary Resolution 16       | To retain Madam Tong Siew Choo as an Independent Non-Executive Director.   |               |         |                |         |
|                              | To transact any other business for which due notice shall have been given.   |               |         |                |         |

Please indicate with "X" on the spaces provided on how you wish your votes to be cast. In the absence of specific directions, your proxy will vote or abstain from voting at his discretion.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2014.

|                    |  |
|--------------------|--|
| CDS Account No.    |  |
| No. of Shares held |  |

\_\_\_\_\_  
Signature of Member(s)/Common Seal

Notes

- (i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.
- (ii) Where a member appoints two (2) proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
- (iii) A member who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, may appoint one (1) proxy in respect of each securities account.
- (iv) Where a member is an exempt authorised nominee which holds shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act 1991, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- (v) The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his attorney duly authorised in writing and in the case of a corporation, the instrument appointing a proxy must be under seal or under the had of an officer of attorney duly authorised.
- (vi) Only members whose names appear in the Record of Depositors as at 18 June 2014 will be entitled to attend and vote at the meeting or appoint a proxy to attend and vote in his stead.
- (vii) To be valid, the original instrument appointing a proxy must be deposited at the Registered Office of the Company at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 ¾, Jalan Kapar, 42100 Klang, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting and any adjournment thereof.

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STAMP

The Secretary  
**KOSSAN RUBBER INDUSTRIES BHD** (48166-W)

Wisma Kossan  
Lot 782, Jalan Sungai Putus,  
Off Batu 3¾, Jalan Kapar,  
42100 Klang, Selangor Darul Ehsan.

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KOSSAN RUBBER INDUSTRIES BHD  
(Company No.: 48166-W)

Wisma Kossan, Lot 782 Jalan Sungai Putus  
Off Batu 3¾, Jalan Kapar, 42100 Klang  
Selangor Darul Ehsan, Malaysia.  
Tel: 603 3291 2657  
Fax: 603 3291 2903  
email: [kossan@kossan.com.my](mailto:kossan@kossan.com.my)

[www.kossan.com.my](http://www.kossan.com.my)