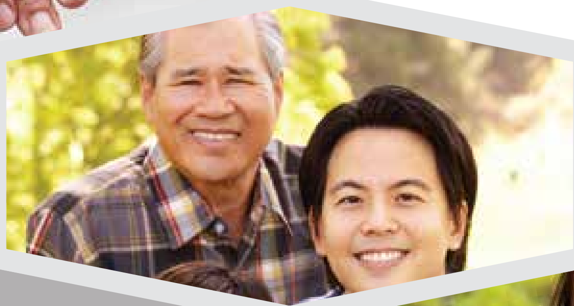
KOSSAN

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

Annual Report 2012



Business Stability With Long Term Sustainable Growth

Corporate Mission

K Keeping a healthy growth through teamwork

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

S Striving to reduce Malaysia's dependence on imported rubber goods

S Stepping up the welfare and professionalism of our employees

A Aspiring to develop more high technology products

N Navigating towards Malaysia's vision 2020

QEC 23010)

Certificate No: KLR 0403696

Hibon Certificate : ISO 14001:2004
Certificate No: KLR 6015621

Hibon Certificate : ISO/TS 16949:2009
Certificate No: KLR 6012731

0086

KOSSAN LATEX INDUSTRIES (M) SDN. BHD.
ISO 13485:2003
Certificate No: MD 509126

Contents

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

Lim Kwan Hwa

Dato' Tai Chang Eng @ Teh Chang Ying

Tong Siew Choo

Lim Leng Bung
(Alternate to Lim Kuang Wang)

Heng Bak Tan (retired on 21.6.2012)

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

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

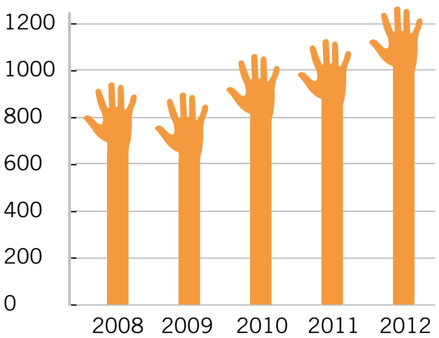
Financial Highlights

Operation (RM Million) for the year ended 31 December	2008	2009	2010	2011	2012
Revenue	897.194	842.135	1,046.887	1,089.969	**1,234.001**
Profit Before Taxation	72.906	85.828	140.651	112.290	**138.451**
Profit Attributable to Equity Shareholders	58.639	66.679	113.376	89.192	**102.163**
Dividend per share(%)	12.0	18.0	16.0	14.0	**24.0**

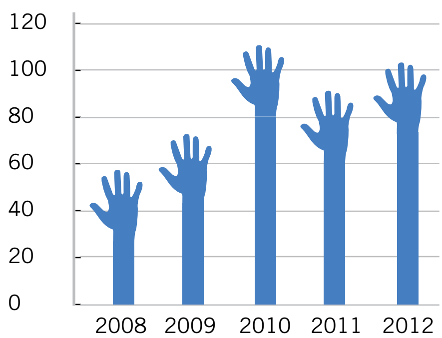
Balance Sheet (RM Million)	2008	2009	2010	2011	2012
Share Capital	79.933	79.933	159.867	159.867	**159.867**
Shareholders' Funds	298.883	358.999	442.597	531.159	**604.599**
Net Asset per share (RM)	1.87*	2.24*	1.38**	1.69**	**1.89****

* 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

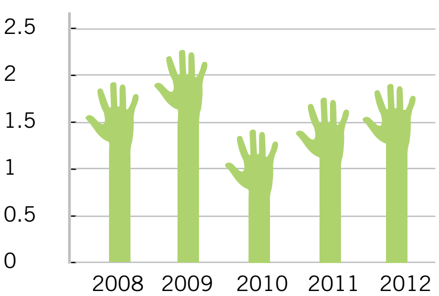
REVENUE
(RM MILLION)



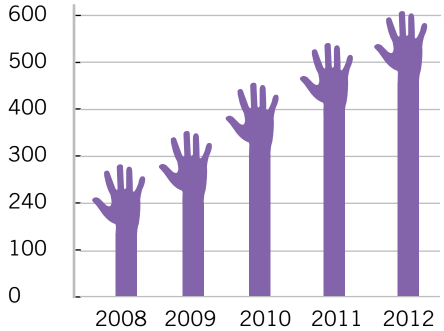
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS
(RM MILLION)



NET ASSET PER SHARE
(RM)



SHAREHOLDERS' FUNDS
(RM MILLION)



SEVENTEEN YEARS OF CONSECUTIVE GROWTH

OPERATING ENVIRONMENT

FY 2012 was another challenging year. The business and investment environment were affected by the continuing economic crisis in the Eurozone and the global economic slowdown. All these have contributed to a lower global trade and investments. Despite this challenging economy condition, the demand for gloves remained robust and saw a healthy growth in 2012 where most of the gloves makers in Malaysia reported encouraging performance in both revenue and earnings.

SEVENTEEN YEARS OF CONSECUTIVE GROWTH

The Group achieved another record performance for the financial year under review with higher sales at RM1.23 billion, grew by 13% compared to RM1.09 billion in FY2011. The earning performance was even better with profit before taxation grew by 23.3% at RM138.45 million compared to the previous year's RM112.29 million. The improved performance in revenue and overall profitability was significantly attributed to higher glove demand across all our product-mix, more effective cost control and better production efficiency coupled with our concerted efforts in capacity expansion and unparalleled research and development. This set of commendable performance marks the Group's 17th year of unbroken profitability record since its listing in the Bursa Malaysia in 1996, amidst the backdrop of stiffer competition and escalating production costs.

The Group's balance sheet continues to grow from strength to strength. Kossan's total assets has expanded by 16% to RM989.94 million, an increased of RM137.21 million from RM852.73 million in FY2011. Compared to its previous year, total cash in hand almost doubled to RM99.84 million from RM51.62 million a year ago. Despite a net increase of RM39.0 million in total bank borrowings to RM199.0 million, the Group's net gearing, lowered to 16% in the current financial year as compared to 20% in FY2011. This reflects the Group's superior earnings capability by consistently delivering solid returns from its ongoing business expansion. The most interesting achievement was the consistent growth in the Group's shareholders' funds since listing in 1996. Shareholders' funds have grown to RM604.60 million from RM531.16 million a year ago.

It is noteworthy to note that the strategic business measures consistently adopted by the Group all these year such as cost-savings measures, continuous improvement in production processes, better product-mix, effective marketing approach and strategies and reliable customer delivery services have blended well and yielded solid and uninterrupted returns. All these ingredients are essential to ensure our shareholders enjoy continuous and sustainable growth in their investments.

SIGNIFICANT DEVELOPMENT

Preparing for next phase of business growth

The Group had undertaken the following corporate activities to prepare for next phase of business growth:

(a) Incorporation of new wholly-owned subsidiaries:

i. KPH Logistic Inc., a limited company in the State of Texas, United States of America was formed on 17 November 2012 with an initial subscription of USD5,000;

ii. KPH (San Francisco), a limited company in the State of California, United States of America was formed on 26 April 2012 with an initial subscription of USD5,000;
iii. Kossan Labuan Berhad was formed on 2 November 2012 with an issued capital of USD1.00;
iv. PT Kossan Setia Jaya, a limited company incorporated under the law of Republic of Indonesia on 30 January 2013; and

(b) Acquisition of new land bank:

i. Perusahaan Getah Asas Sdn. Bhd., a wholly owned subsidiary of the Group had on 18 February 2013 announced a proposed acquisition of a piece of freehold industrial land measuring approximately 56 acres for a total cash consideration of RM35.37 million. The future expansion on this land will potentially lift the Group's existing glove production capacity from 16 billion pieces to 32 billion pieces by 2018; and

ii. A wholly owned subsidiary of the Group, Kossan Latex Industries (M) Sdn. Bhd. proposed an acquisition of a piece of freehold agriculture land measuring approximately 3 acres for a total cash consideration of RM4.70 million.

DELIVERING VALUE TO SHAREHOLDERS

The Group's ultimate measure of success is its consistent enrichment of its shareholders. A promise and delivery of long term and sustainable shareholder values remain the Group's main priority. Our ability to consistently deliver high financial performance, as seen through its 17 years of unbroken profitability track record underpins the value of the investment to shareholders of Kossan Group.

The Board has recommended paying a final tax-exempt dividend of 7.0 sen per ordinary share amounting to RM22.30 million for FY2012. The proposed final dividend is subject to shareholder's approval at the forthcoming 33rd Annual General Meeting.

The Group has on 22 November 2012 declared an interim tax-exempt dividend of 5.0 sen per ordinary share in conjunction with the financial result announcement for third quarter ended 30 September 2012. The net dividend of RM15.93 million was paid on 21 December 2012.

Total dividend declared for the year will be 12.0 sen per ordinary share amounting to RM38.23 million or a total payout of 36.5% (24.6% for FY2011) should the final tax-exempt dividend of 7.0 sen approved by shareholders at the forthcoming Annual General Meeting.

The Group has consistently rewarded its shareholders with increased payouts from the Group's after tax profits year after year and even 4 rounds of bonus shares. Depending on the Group's performance, the Group endeavours to maintain and even increase dividend payouts in the years to come.

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. While delivering sustainable and growing stakeholders value through the core business, the Group also contributes and provides for the betterment of its employee's welfare, the industry and the community.

For more information on how we are advancing sustainable development in CSR, please refer to our Corporate Social Responsibility Statement on page 21 of this Annual Report.

MOVING FORWARD

Kossan ended the 2012 financial year with a set of remarkable performance despite the challenging operating environment. Moving into 2013, we may have started the year with a cautious outlook in view of the higher production cost due mainly to the implementation of the minimum wage policy which took effect on 1 January 2013. The impending increase in gas and tariff prices is expected to exacerbate further the already tough operating environment.

Recognizing the challenges going forward, the Group continues to stay focus on the business targets and charting our path of growth. More resources will be allocated to advance the degree of automation on the production floor aiming to reduce the reliance on low skilled labors and create greater productivity. By focusing on producing a more stringent and higher value added products such as nitrile examination, surgical and cleanroom gloves, we hope to elevate the Group's resiliency in taking on various business challenges and continue to perform better.

APPRECIATION

On behalf of the Group, I wish to express my appreciation and thanks to all our valued customers, suppliers, business associates, bankers, the regulatory authorities, investment analysis and members of the press and media for your continued support, confidence, trust and contributions during the past year.

To the Management team and employee of Kossan, I wish to place on record my heartfelt gratitude for your invaluable contributions, loyalty, diligence and whole-hearted commitment that have indeed contributed to the continuing success of the Group.

Last but not least, I also wish to convey my sincere appreciation to all our shareholders for their confidence and continuous support of Kossan.

DATO' HAJI MOKHTAR BIN HAJI SAMAD

Chairman

30 May 2013

Managing Director's Review of Operation

2012 WAS A DYNAMIC AND AN OUTSTANDING YEAR FOR KOSSAN GROUP WITH A 13% INCREASE IN NEW SALES AND A 23.3% LEAP IN PROFIT BEFORE TAX FROM THE PRECEDING YEAR

2012 was a dynamic and outstanding year for Kossan Group with a 13% increase in sales revenue and a 23.3% increase in profit before tax compared to the preceding year despite the challenging operating environment and stiff competition. The impressive sales and profit figures are a direct result of several key strategic measures adopted by the Group since the past few years in the area of research and development, process automation and optimization, business process computerization and relentless efforts placed on employee training. This is the 17th consecutive year that Kossan has delivered uninterrupted profitability since listing in 1996 and reflects the management's commitment towards delivering long term and sustainable growth to its shareholders.

I am proud to report that both gloves and technical rubber products ("TRP") divisions of the Group have continued to perform well this year.

Gloves Division

The growth in revenue and profit was mainly due to higher quantity of glove sold as we added new glove capacities through the new 9 production lines which commenced production in second half of the fiscal year as planned and with this expansion, total installed capacity has expanded to approximately 15 billion pieces per year. Softening latex prices year-on-year by a drop of 26%, increased production efficiencies across our production floors, stringent cost control coupled with optimum product-mix are the key factors to our better performance in the fiscal year.

As for the clean-room products, sales increased by some 30% as a result of our concerted marketing efforts in penetrating into new market segment. Despites the increased sales, profitability was still low and was within Management's expectation due to more financial resources allocated for ongoing development cost. Nevertheless, the Group is upbeat with the performance in 2013 as its clean-room gloves have been approved by more customers.

Technical Rubber Products ("TRPs") Division

The good run in our TRPs division continued into year 2012. Revenue and profits grew strongly by some 8% and 49% respectively. The growth in Operating Profit, from RM10.47 million in FY2011 to RM15.61 million was due mainly to lower raw material costs, significant improvement in production efficiencies, better cost control and greater penetration into overseas markets. Moving into 2013, we believe that our TRPs division will continue to perform better by riding on increased demands for infrastructure rubber products and automotive component parts from overseas.

MOVING FORWARD

We are confident that the future of the glove industry is bright as the world demand for gloves is growing. This is riding on the fact that the glove is not meant solely for medical application but is also used in non-medical application nowadays, including food industry, household and other industrial applications.

Backed by the positive outlook and the strength of the Group's balance sheet, we continue to expand our production capacity further to cope with increasing orders from our customers overseas. For 2013, our production capacity is expected to expand further by some 20% through our 9 production lines of surgical glove which commenced production in early March and some capacity spilled over from the 9 new glove lines which run in the second half of 2012. Even with that, we have never stopped to expand. We have put in place two expansion programs for gloves which will enlarge our existing installed capacity by another 30% and these expansion programs are expected to complete by early 2014.

For next phase of business expansion and growth, the Group has acquired a plot of freehold industrial land measuring approximately 56 acres in Klang Valley in February 2013. This strategically located land bank is sufficient to keep the Group busy for the next 3 years from 2015 onward and will strengthen its position further as a prominent glove manufacturer in the world market. With such commendable business continuation and growth planning, it is clear that, the management has always focused to create continual and uninterrupted values to all its shareholders.

The glove industry, like many other industries in Malaysia faces various challenges such as fierce competition from vinyl gloves, unhealthy price war, escalating production cost due mainly to Government's minimum wage policy for labors effective 1 January 2013, impending upward revision for gas prices and tariffs, increasing raw material cost and more stringent quality requirements. As far as the Group is concerned, we are fully aware of these challenges upfront and we have the strength to prepare ourselves ahead to take on these challenges in order to sustain our business growth as what we have done over the last 30 years.

In order to create long term and uninterrupted returns to our shareholders, we believed, we have to always embark on continuous improvement and transformation to build a strong and resilience platform for the Group to ride through all the fore mentioned business challenges. The following key areas will remain the Group's key focus going forward:

a. Research and development to develop new products;
b. Improving existing production and its processes;
c. Production automation to reduce the headcount of manual labors and bringing consistency in product quality and minimize human errors which can be costly;
d. Process optimization to reduce production cost including energy, utilities, raw material consumptions with the aim to increase overall production efficiencies;
e. Business process computerization aiming to improve human efficiency with elimination of redundant and non-value added processes;
f. Investment in human capital that give priority in employee training and self development; and
g. Developing new world market for our products.

INVESTOR RELATIONS

The extensive investor relations activities of the Kossan Group form a channel of communications with shareholders, investors and the investment community broadly, both in Malaysia and internationally. To us, it is particularly important to maintain an active level of dialogue and communication with shareholders and investors in the light of the current financial crisis affecting global markets and the extremely volatile market conditions as this allows shareholders and investors to monitor their investment more closely with all the accurate information.

OUR EMPLOYEES

Good employees are the key ingredients to our Group's success. Our strength lies in having a group of highly competent staff united by a strong corporate culture and high spirit of teamwork. This gives us the great leverage in executing our business strategies to achieve the intended corporate goals. Being a progressive employer, a comprehensive human capital management program has been developed to attract and retain the right people, nurture talents and groom future leaders. Extensive and effective trainings have been made available for our personnel to help them to keep abreast of current trends and developments in their professional fields, technical skills and personal development.

OUR CUSTOMERS

Maintaining excellent customer service and practising professionalism in our business undertakings are part of our success. This is in line with our Corporate Vision. Over the years, significant measures and efforts had been made to ensure that all our customers are satisfied with our products and services rendered, such as adopting the shortest possible response time to customer's feedbacks, timely delivery and good quality assurance. Our efforts had won us good recognition and strong trust from our customers and suppliers. We shall reinforce this belief that Kossan products are synonymous with quality, timely delivery and excellent customer service.

ACKNOWLEDGEMENT

To all our stakeholders, including our shareholders, customers, business associates, regulatory bodies, various authorities, research analysts and employees, a big thank you for your confidence in our Group 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 believe we can weather through the challenges ahead and scale even greater heights.

Wholeheartedly, I wish all employees of the Kossan Group 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 shareholders and customers with sustainable growth in value. Most importantly, we have to stay focused and hold on firmly to our strength as a Group to drive the Group forward.

DATO' LIM KUANG SIA

Managing Director/Chief Executive Officer

30 May 2013

DATO' HAJI MOKHTAR BIN HAJI SAMAD

Dato' Haji Mokhtar Bin Haji Samad, a Malaysian aged 65, 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' is currently the President, Persatuan Kontraktor Melayu Malaysia, Yang Di Pertua, Persatuan Kontraktor Melayu Malaysia, Wilayah Persekutuan, a board member of Construction Industry Development Board, a member of the Advisory Committee of Dewan Peniaga Melayu Malaysia, Kuala Lumpur, Deputy Chairman, Majlis Pembangunan Usahawan Wilayah Persekutuan and Executive Chairman of Konsortium Kontraktor Melayu (Wilayah) Sdn. Bhd. Besides the above, Dato' also sits on the boards of several private companies.

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 61, 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 and Vice President of the Klang Chinese Chamber of Commerce. Dato' is the President of the Klang and Coast Teochew Association.

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 381,888 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 66, was appointed to the Board of Kossan on 22 October 1979. He has more than 20 years business experience in marine hardware. He is in charge of 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.

LIM KUANG WANG

Mr. Lim Kuang Wang, ("KW Lim"), a Malaysian aged 64, was appointed to the Board of Kossan on 27 May 1995. He has more that 20 years business experience in trading and manufacturing. He is involved in 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. KW Lim is an indirect substantial shareholder by virtue of his substantial shareholding in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan. He also holds 718,848 shares in his own name.

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.

LIM KWAN HWA

Mr. Lim Kwan Hwa, ("KH Lim") a Malaysian aged 62, was appointed to the Board of Kossan on 27 May 1995. He is involved in 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. KH 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.

LIM LENG BUNG

Mr. Lim Leng Bung, ("LB Lim"), a Malaysian aged 50, was appointed to the Board of Kossan on 27 May 1995 as an alternate to Mr Lim Kuang Wang. He heads the technical rubber products division in Kossan.

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

Mr. LB 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.

DATO' TAI CHANG ENG @ TEH CHANG YING

Dato' Tai Chang Eng @ Teh Chang Ying, a Malaysian aged 67, was appointed to the Board of Kossan on 12 August 1996. Dato', an Independent Non Executive Director, is the Chairman of the Nominating Committee and the Remuneration Committee and a member of the Audit Committee. Dato' is the Deputy Chairman, Board of Visitors, of the Klang General Hospital.

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

Dato' holds 229,520 shares in Kossan.

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

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

TONG SIEW CHOO

Madam Tong Siew Choo, a Malaysian aged 52, 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 and the Nominating Committee.

She holds 29,952 shares in Kossan.

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

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

Dato' Lim Kuang Sia and Messrs Lim Kuang Yong, Lim Kuang Wang, Lim Kwan Hwa and Lim Leng Bung are siblings.

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 2012. 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 2012 outlining the application of the principles as set out in the Code.

BOARD OF DIRECTORS

1. Established 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 resolution of the Board.

As at the date of this Annual Report, the Board is represented by seven Directors, four of whom are non-independent Directors representing the largest shareholder, whilst three are independent 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 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 have gained extensive experience with their many years of experience and also as professionals 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 companies.

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 the optimal size of Board that reflects the need of the kind of businesses the Company 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 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.

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 perpetuate the success of the Company's business and represent shareholder 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 Group Managing Director. The Group Managing Director is the officer involved in the day-to-day running of the affairs of the Company.

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 systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

1.6. Board Evaluation

The Board believes in 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 107 to 111 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 listing companies. The number of directorship held by each Director complied with Bursa's Main Market Listing Requirements.

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 2012 and the record of Directors' attendance during those meetings:-

Details Of Board Meetings

Date of Meeting	Time
23.02.2012	4.15 p.m.
19.04.2012	4.15 p.m.
24.05.2012	4.00 p.m.
23.08.2012	4.30 p.m.
22.11.2012	4.30 p.m.

Directors	Position	Attendance
Dato' Haji Mokhtar Bin Haji Samad	Independent Non-Executive Chairman	5/5
Dato' Lim Kuang Sia	Managing Director/ Chief Executive Officer	5/5
Dato' Tai Chang Eng @ Teh Chang Ying	Independent Non-Executive Director	4/5
Lim Kuang Yong	Executive Director	4/5
Lim Kuang Wang	Executive Director	5/5
Lim Kwan Hwa	Executive Director	5/5
Heng Bak Tan (retired on 21/6/2012)	Non-Independent Non-Executive Director	3/3
Tong Siew Choo	Independent Non-Executive Director	5/5

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 member 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 trainings attended by Directors during the financial year ended 2012 are as shown below:

	Seminar/Training/Conference Attended
(A) Dato' Lim Kuang Sia (Managing Director/Chief Executive Officer)	(i) International Rubber Technology And Economic Congress 2012 (ii) National Entrepreneurs Convention 2012 (iii) Vibrant Selangor 2012
(B) Mdm. Tong Siew Choo (Independent Non-Executive Director)	(i) Interest Scheme – The Next Generation Wealth Generator (ii) SSM National Conference 2012 (iii) Seminar Percukaian Kebangsaan 2012

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 of 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.

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.

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.

Apart from their annual remuneration the Directors are also paid an attendance allowance to defray their travel expenses and related cost for attending the Board or Committee Meetings.

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. The 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.

Details of directors' remuneration for the financial year ended 31 December 2012 are as follows:-

Range of Remuneration	Executive Director	Non-Executive Director
RM50,000 and below		1
RM50,001 - RM 100,000		2
RM1,150,001 - RM1,200,000	3	
RM1,500,001 - RM1,550,000	1	
RM2,300,001 - RM2,350,000	1	

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	5/5
Dato' Tai Chang Eng @ Teh Chang Ying	4/5
Tong Siew Choo	5/5

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 26 to 27 of this Annual Report.

5.2 Nominating Committee

	Number of Meetings Attended/Held
Dato' Haji Mokhtar Bin Haji Samad	1/1
Dato' Tai Chang Eng @ Teh Chang Ying	1/1
Tong Siew Choo	1/1

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 once to carry out its responsibilities.

5.3. Remuneration Committee

	Number of Meetings Attended/Held
Dato' Haji Mokhtar Bin Haji Samad	1/1
Dato' Tai Chang Eng @ Teh Chang Ying	1/1
Dato' Lim Kuang Sia	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 the accepted accounting standards. This ensures the preparation of the annual financial statement 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 provision of the Companies Act, 1965.

The Statement of Directors' Responsibility in relation to the Audited Financial Statements is presented on page 22 of this Annual Report.

8.2. Internal Control

The Board maintains a sound system of Internal Controls 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 systems. 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 Head of Internal Audit Department who is a professional member of The Institute of Internal Auditors Malaysia ("IIAM") is suitably qualified, competent and capable to carry out the duties required. 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 fullfil 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, weakness in internal control systems or the lack of it and monitors the implementation any such inadequacies by the Management.

Full details of the Statement of Risk Management and Internal Control are presented on pages 23 to 25 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.

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) 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 for the Annual General Meeting is sent out to shareholders at last 21 days ahead of the meeting date together with Financial Statement 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 resolution 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 33rd Annual General Meeting of Kossan is presented on page 107 to 111 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 27 May 2013.

Dato' Haji Mokhtar Bin Haji Samad
Chairman

Dato' Lim Kuang Sia
Managing Director/Chief Executive Officer

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 32nd Annual General Meeting held on 21 June 2012.

During the financial year ended 31 December 2012, the Company did not purchase any shares from the open market. None of the treasury shares held were resold or cancelled during the financial year. The number of shares retained as treasury shares as at 31 December 2012 was 1,114,400 ordinary shares of RM0.50 each.

(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 254,000 audit fees paid to the external auditors, the Company also paid RM10,000 in non audit fees for the year ended 31 December 2012.

(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 emphasizes good corporate social responsibility ("CSR") and corporate citizenship. While delivering sustainable and growing stakeholder value through the core business, the Group also contributes and works for the betterment of the employee welfare, market place and community.

Workplace

The Group believes that human capital development is very important to ensure that the Group has the right and relevant skill set and knowledge in ensuring business sustainability and growth. As such, the Group has conducted trainings with emphasis on quality for the staff to improve further their quality of work. Health and Safety at the workplace is also another area of importance to the Group.

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

On occupational safety, the Group strives to comply with all the Department of Occupational Safety and Health Malaysia ("DOSH") standards on health and safety. The Group complies with the Occupational Safety and Health Act ("OSHA") strictly. The Group has set up a Work Safety Committee to develop policies and maintain a safe and healthy workplace for all its employees, contractors and visitors. Regular trainings, meetings, inspections and prevention programs are carried out to continuously alert the employees on the importance of the safety and hygiene conditions of the workplace.

Market place

As we consider CSR part of good corporate governance, we are fully supportive of our local suppliers and treasure our relationships with our key customers. We conduct annual satisfaction surveys as part of our efforts to improve our products, services and relationship.

Community

At the corporate level, the Group donates to various charitable bodies and private schools for their regular expenses as well as building funds.

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 27 May 2013.

INTRODUCTION

Pursuant to paragraph 15.26(b) of the Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors (Board) is required to provide a Statement on Risk Management and Internal Control of the Group during the year to be included in its Annual Report.

Set out below is the Board's Statement on Risk Management and Internal Control prepared in accordance with the guidelines as set out in the "Statement on Risk Management & Internal Control – Guidelines for Directors of Public Listed Issuers".

RESPONSIBILITY

The Board acknowledges its responsibility for the governance of risk and controls including, amongst others, establishing an appropriate control environment and framework as well as reviewing its adequacy and effectiveness, thus providing reasonable assurance that risks are managed within the Group's defined risk appetite and tolerance.

The Board in discharging its 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 risks register containing risk profile of the business units 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 policy and guidelines manual which outline mainly the risk management strategies and policies and risk management structure in term of the lines of reporting and responsibility at the Board, Audit Committee, Risk Management Committee, and Management levels. This document is subject to review and improvement from time to time in order to enhance the risk management process and framework within the Group; and

- A Risk Management Committee, set-up with the responsibility to identify and communicate to the Board and Management with regards to the changing and emerging risks of the Group and formulates action plans to address key risks and control issues in line with their risk profiles of the Group.

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

SYSTEM OF INTERNAL CONTROL

The Board, whilst focusing on effective risk oversight and setting the tone and culture towards effective risk management and internal control, it has entrusted to management 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 management on the system of internal control are described as follows:-

- The Board members receive timely information pertaining to performance and profitability of the Group through quarterly Board papers, which include business development, management and corporate issues for discussion and deliberation.

- The MD plays a pivotal role in communicating the Board's expectations of the system of internal control to management. This is achieved, on a day-to-day basis, 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 MD 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 MD, 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.

OTHER 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 Group's internal audit function that is outsourced to an independent professional firm, reports directly to and assist the AC in discharging its duties to ensure that significant risks are identified and the adequacy and integrity of the Group's risk management and internal control system is in place and effective. In addition, the Group has as internal audit department to perform 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.

The AC reviewed the findings, recommendations, management response and action plans reported by the internal audit department and the independent professional firm and presents 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.

The Board has received assurances from the Group MD and the CFO 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 MD.

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 signed in accordance with a resolution of the Board of Directors dated 27 May 2013.

The Board of Directors have pleasure in submitting the report of the Audit Committee of the Board for the year ended 31 December 2012.

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, the resources which it needs to do so, and have full access to information. 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 the 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, 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.

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 2012 are as follows:-

Composition of the Committee	Attendance
Dato' Haji Mokhtar Bin Haji Samad (Chairman/ Independent Non-Executive Director)	5/5
Dato' Tai Chang Eng @ Teh Chang Ying (Member / Independent Non-Executive Director)	4/5
Tong Siew Choo (Member / Independent Non-Executive Director)	5/5

The General Manager and the 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 two (2) of the meetings.

3. ACTIVITIES

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

(a) 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;

(b) reviewed the Statement on Risk Management and Internal Control before submission to the Board for approval;

(c) reviewed and approved the annual report of the Audit Committee;

(d) 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;

(e) reviewed with external auditors their audit plan prior to commencement of audit;

(f) 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;

(g) reviewed and discussed with internal auditors their evaluation of the system of risk management and internal control of the Group;

(h) review and approved the Internal Audit plan prior to commencement of audit;

(i) 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;

(j) reviewed the audit fees and remuneration payable to external and internal auditors; and

(k) appraised the adequacy of actions and remedial measures taken by the management in resolving audit issues reported.

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 2012 was RM95,088.

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 2012

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 2012.

PRINCIPLE ACTIVITIES

The Company is principally engaged in investment holding and manufacturing and sales of rubber products, 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 RM'000	COMPANY RM'000
Profit for the year attributable to:		
Owners of the Company	102,163	45,595
Non-controlling interests	2,609	-
	104,772	45,595

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 4.0 sen per ordinary share, tax exempted, totalling RM12,744,798 in respect of the year ended 31 December 2011 on 18 July 2012; and

ii) an interim ordinary dividend of 5.0 sen per ordinary share, tax exempted, totalling RM15,930,998 in respect of the year ended 31 December 2012 on 21 December 2012.

The final ordinary dividend recommended by the Directors in respect of the year ended 31 December 2012 is 7.0 sen per ordinary share, tax exempted, totalling RM 22,303,369.

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
Dato' Tai Chang Eng @ Teh Chang Ying
Lim Kuang Yong
Lim Kuang Wang
Lim Kwan Hwa
Lim Leng Bung (alternate to Lim Kuang Wang)
Tong Siew Choo
Heng Bak Tan (retired on 21 June 2012)

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:

	Number of ordinary shares of RM0.50 each				
	At 1.1.2012	Bought	Sold	Bonus Issue	At 31.12.2012
Direct Interest					
Dato' Lim Kuang Sia	381,888	-	-	-	381,888
Lim Kuang Wang	718,848	-	-	-	718,848
Dato' Tai Chang Eng @ Teh Chang Ying	229,520	-	-	-	229,520
Tong Siew Choo	29,952	-	-	-	29,952
Deemed Interest					
Dato' Lim Kuang Sia					
- ultimate holding company	165,456,240	500,000	2,700,000	-	163,256,240
- spouse	522,248	-	-	-	522,248
Lim Kuang Yong					
- ultimate holding company	165,456,240	500,000	2,700,000	-	163,256,240
Lim Kuang Wang					
- ultimate holding company	165,456,240	500,000	2,700,000	-	163,256,240
Lim Kwan Hwa					
- ultimate holding company	165,456,240	500,000	2,700,000	-	163,256,240
Lim Leng Bung					
- ultimate holding company	165,456,240	500,000	2,700,000	-	163,256,240

By virtue of their interests in the shares of the Company, all Directors except for Dato' Tai Chang Eng @ Teh Chang Ying, Dato' Haji Mokhtar bin Haji Samad and Tong Siew Choo, 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 2012 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

There were no other changes in the authorised, issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

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 EVENTS

The significant events during the financial year are disclosed in Note 28 to the financial statements.

SUBSEQUENT EVENTS

The subsequent events after the financial year are disclosed in Note 29 to the financial statements.

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

OTHER STATUTORY INFORMATION (cont'd)

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 2012 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 Wang

Klang, Selangor Darul Ehsan

Date: 18 April 2013

Statements of Financial Position
for the year ended 31 December 2012

	Note	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
Assets							
Property, plant and equipment	3	514,366	473,236	450,423	34,268	37,085	40,372
Investments in subsidiaries	4	-	-	-	21,474	22,052	8,442
Other investments	5	116	116	116	116	116	116
Deferred tax assets	6	22	46	136	-	-	-
Goodwill	7	4,926	4,926	864	-	-	-
Total non-current assets		519,430	478,324	451,539	55,858	59,253	48,930
Inventories	8	148,980	163,779	123,657	14,678	16,753	14,805
Current tax assets		1,386	1,379	1,030	603	780	763
Trade and other receivables	9	216,998	155,966	144,793	118,602	123,850	89,077
Prepayments and other assets		3,298	1,557	2,137	206	86	98
Derivative financial assets	10	-	96	3,586	-	-	-
Cash and cash equivalents	11	99,845	51,624	91,509	68,344	33,084	73,124
Total current assets		470,507	374,401	366,712	202,433	174,553	177,867
Total assets		989,937	852,725	818,251	258,291	233,806	226,797
Equity							
Share capital		159,867	159,867	159,867	159,867	159,867	159,867
Share premium		11	11	11	11	11	11
Translation reserve		(150)	3	(46)	-	-	-
Treasury shares		(3,460)	(3,460)	(3,031)	(3,460)	(3,460)	(3,031)
Retained earnings		448,331	374,738	320,594	76,470	59,551	51,645
Total equity attributable to owners of the Company		604,599	531,159	477,395	232,888	215,969	208,492
Non-controlling interests		12,790	9,480	2,018	-	-	-
Total equity	12	617,389	540,639	479,413	232,888	215,969	208,492
Liabilities							
Loans and borrowings	13	38,255	25,997	27,659	291	308	540
Deferred tax liabilities	6	49,844	40,167	38,412	4,341	4,326	4,617
Total non-current liabilities		88,099	66,164	66,071	4,632	4,634	5,157
Loans and borrowings	13	160,746	133,965	150,096	2,787	2,850	3,725
Current tax liabilities		9,064	8,498	9,542	-	-	-
Trade and other payables	14	114,639	102,707	113,129	17,984	10,353	9,423
Derivative financial liabilities	10	-	752	-	-	-	-
Total current liabilities		284,449	245,922	272,767	20,771	13,203	13,148
Total liabilities		372,548	312,086	338,838	25,403	17,837	18,305
Total equity and liabilities		989,937	852,725	818,251	258,291	233,806	226,797

The notes on pages 39 to 98 are an integral part of these financial statements.

Statements of profit or loss and other comprehensive income

for the year ended 31 December 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Revenue	15	1,234,001	1,089,969	153,140	139,414
Other income		4,418	10,420	2,264	2,409
Changes in inventories of finished goods and work-in-progress		(51,285)	34,006	(74)	2,278
Raw materials and consumables used		(727,997)	(754,037)	(55,008)	(57,426)
Goods purchased for resale		(663)	(3,873)	(7,174)	(221)
Staff costs		(139,511)	(109,355)	(26,190)	(24,266)
Depreciation of property, plant and equipment	3	(45,102)	(40,910)	(3,575)	(3,698)
Other expenses		(129,003)	(106,465)	(16,417)	(14,477)
Results from operating activities		144,858	119,755	46,966	44,013
Finance costs	16	(6,407)	(7,465)	(78)	(83)
Profit before tax		138,451	112,290	46,888	43,930
Income tax expense	18	(33,679)	(21,701)	(1,293)	(976)
Profit for the year	19	104,772	90,589	45,595	42,954
Other comprehensive income, net of tax					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		(306)	3	-	-
Other comprehensive income for the year, net of tax		(306)	3	-	-
Total comprehensive income for the year		104,466	90,592	45,595	42,954
Profit attributable to:					
Owners of the Company		102,163	89,192	45,595	42,954
Non-controlling interests		2,609	1,397	-	-
Profit for the year	19	104,772	90,589	45,595	42,954
Total comprehensive income attributable to:					
Owners of the Company		102,010	89,195	45,595	42,954
Non-controlling interests		2,456	1,397	-	-
Total comprehensive income for the year		104,466	90,592	45,595	42,954
Basic earnings per ordinary share (sen)	20	32.06	27.99		

The notes on pages 39 to 98 are an integral part of these financial statements.

Consolidated statements of changes in equity
for the year ended 31 December 2012

		← *Attributable to owners of the Company* →							
		← *Non-distributable*			→ *Distributable*				
Group	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Translation reserve RM'000**	**Treasury shares RM'000**	**Retained earnings RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
At 1 January 2011		159,867	11	(46)	(3,031)	320,594	477,395	2,018	479,413
Reserve realised upon disposal of a subsidiary		-	-	46	-	-	46	-	46
Foreign currency translation differences from foreign operations		-	-	3	-	-	3	-	3
Total other comprehensive income for the year		-	-	3	-	-	3	-	3
Profit for the year		-	-	-	-	89,192	89,192	1,397	90,589
Total comprehensive income for the year		-	-	3	-	89,192	89,195	1,397	90,592
Non-controlling interests arising from acquisition of a new subsidiary	26	-	-	-	-	-	-	4,914	4,914
Changes in ownership interests in a subsidiary		-	-	-	-	-	-	1,151	1,151
Dividends to owners of the Company	21	-	-	-	-	(35,048)	(35,048)	-	(35,048)
Share buy-back	12	-	-	-	(429)	-	(429)	-	(429)
At 31 December 2011/1 January 2012		159,867	11	3	(3,460)	374,738	531,159	9,480	540,639
Foreign currency translation differences from foreign operations		-	-	(153)	-	-	(153)	(153)	(306)
Total other comprehensive income for the year		-	-	(153)	-	-	(153)	(153)	(306)
Profit for the year		-	-	-	-	102,163	102,163	2,609	104,772
Total comprehensive income for the year		-	-	(153)	-	102,163	102,010	2,456	104,466
Changes in ownership interests in a subsidiary	28	-	-	-	-	106	106	854	960
Dividends to owners of the Company	21	-	-	-	-	(28,676)	(28,676)	-	(28,676)
At 31 December 2012		159,867	11	(150)	(3,460)	448,331	604,599	12,790	617,389
		Note 12.1	Note 12.2	Note 12.3	Note 12.4				

The notes on pages 39 to 98 are an integral part of these financial statements.

Statements of changes in equity
for the year ended 31 December 2012

Company	Note	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Retained earnings RM'000	Total equity RM'000
		Attributable to owners of the Company				
		Non-distributable			*Distributable*	
At 1 January 2011		159,867	11	(3,031)	51,645	208,492
Total other comprehensive income for the year		-	-	-	-	-
Profit for the year		-	-	-	42,954	42,954
Total comprehensive income for the year		-	-	-	42,954	42,954
Dividends to owners of the Company	21	-	-	-	(35,048)	(35,048)
Share buy-back	12	-	-	(429)	-	(429)
At 31 December 2011/1 January 2012		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)
At 31 December 2012		159,867	11	(3,460)	76,470	232,888
		Note 12.1	Note 12.2	Note 12.4	Note 12.5	

The notes on pages 39 to 98 are an integral part of these financial statements.

Statements of Cash Flows
for the year ended 31 December 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cash flows from operating activities					
Profit before tax		138,451	112,290	46,888	43,930
Adjustments for:					
Depreciation of property, plant and equipment	3	45,102	40,910	3,575	3,698
Dividend income	15	-	-	(41,000)	(40,000)
Finance costs	16	6,407	7,465	78	83
Gain on disposal of property, plant and equipment	19	(770)	(71)	(35)	(11)
Finance income	19	(1,060)	(1,588)	(767)	(1,034)
Property, plant and equipment written off	19	145	635	9	-
Gain on partial disposal of shares in a subsidiary	19	-	-	(351)	-
Net of unrealised derivatives	19	-	656	-	-
Net of unrealised foreign exchange differences	19	(1,994)	(1,268)	-	-
Negative goodwill	19	-	52	-	-
Operating profit before changes in working capital		186,281	159,081	8,397	6,666
Change in inventories		14,799	(36,709)	2,075	(1,948)
Change in trade and other receivables, prepayments and other financial assets		(61,552)	(994)	5,127	(35,861)
Change in trade and other payables		11,094	(13,148)	7,632	2,032
Cash generated from/(used in) operations		150,622	108,230	23,231	(29,111)
Dividends paid	21	(28,676)	(35,048)	(28,676)	(35,048)
Interest received		1,060	1,588	767	1,034
Interest paid		(6,407)	(7,465)	(78)	(83)
Income tax paid		(23,665)	(21,395)	(1,101)	(1,285)
Net cash from/(used in) operating activities		92,934	45,910	(5,857)	(64,493)
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment		1,490	87	35	14
Acquisition of property, plant and equipment	(ii)	(82,829)	(39,784)	(547)	(415)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	26	-	(8,816)	-	(9,176)
Proceeds from rights issue in a subsidiary		-	1,152	-	-
Proceeds from disposal shares in a subsidiary		960	-	960	-
Increase in investments in subsidiaries		-	-	(31)	(4,434)
Dividend received		-	-	41,000	40,000
Net cash (used in)/from investing activities		(80,379)	(47,361)	41,417	25,989
Cash flows from financing activities					
Increase in deposits pledged		-	(265)	-	-
Repayment of finance lease liabilities		(9,726)	(18,932)	(248)	(248)
Repayment of borrowings		(6,485)	(11,846)	(357)	(708)
Proceed from borrowings		49,598	-	-	-
Repurchase of treasury share		-	(429)	-	(429)
Net cash from/(used in) financing activities		33,387	(31,472)	(605)	(1,385)
Net increase/(decrease)in cash and cash equivalents		45,942	(32,923)	34,955	(39,889)
Cash and cash equivalents at 1 January		47,736	80,659	31,381	71,270
Cash and cash equivalents at 31 December	(i)	93,678	47,736	66,336	31,381

The notes on pages 39 to 98 are an integral part of these financial statements.

i) Cash and cash equivalents

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

		Group		Company	
	Note	**2012 RM'000**	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Cash and bank balances	11	18,563	32,308	62,344	24,084
Short term deposits	11	81,282	19,316	6,000	9,000
Bank overdrafts	13	(5,211)	(2,932)	(2,008)	(1,703)
		94,634	48,692	66,336	31,381
Less: Deposits pledged	11	(956)	(956)	-	-
		93,678	47,736	66,336	31,381

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 RM87,071,000 (2011: RM59,594,000) and RM767,000 (2011: RM415,000) respectively of which RM4,242,000 (2011: RM19,810,000) and RM220,000 (2011: Nil) respectively were acquired by means of finance leases.

The notes on pages 39 to 98 are an integral part of these 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 year ended 31 December 2012 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 year ended 31 December 2012 do not include other entities.

The Company is principally involved in investment holding and manufacturing and sales of rubber products, 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.

The financial statements were authorised for issue by the Board of Directors on 18 April 2013.

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. These are the Group's and the Company's first financial statements prepared in accordance with MFRS and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied.

In the previous years, the financial statements of the Group and the Company were prepared in accordance with Financial Reporting Standards ("FRS"). The financial impacts on transition to MFRSs are disclosed in Note 30.

The Group and the Company have early adopted the amendments to MFRS 101, *Presentation of Financial Statements* which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statements of profit or loss and other comprehensive income.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012
- Amendments to MFRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013
- MFRS 10, *Consolidated Financial Statements*
- MFRS 11, *Joint Arrangements*
- MFRS 12, *Disclosure of Interests in Other Entities*
- MFRS 13, *Fair Value Measurement*
- MFRS 119, *Employee Benefits (2011)*
- MFRS 127, *Separate Financial Statements (2011)#*
- MFRS 128, *Investments in Associates and Joint Ventures (2011)*
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine#*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards – Government Loans#*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)#*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013 (continued)
- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*
- Amendments to MFRS 11, *Joint Arrangements: Transition Guidance#*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance#*

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 127, Separate Financial Statements (2011): Investment Entities@*
- *Amendments to MFRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015
- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2012 and 1 January 2013, except for those standards marked with "#" which is not applicable to the Group and the Company.

- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014, except for those standards marked with "@".

- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

The initial application of other standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements upon their first adoption.

(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.

1. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with Malaysian Financial Reporting Standards ("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 in preparing the opening MFRS statements of financial position of the Group and of the Company at 1 January 2011 (the transition date to MFRS framework), 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. Control exists when the Company 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. In assessing control, potential voting rights that presently are exercisable are taken into account.

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.

Acquisitions on or after 1 January 2011
For acquisitions on or after 1 January 2011, 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 acquire; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; 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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations (continued)

Acquisitions on or after 1 January 2011 (continued)

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.

Acquisitions before 1 January 2011

As part of its transition to MFRS, the Group elected not to restate those business combinations that occurred before the date of transition to MFRSs, i.e. 1 January 2011. Goodwill arising from acquisitions before 1 January 2011 has been carried forward from the previous FRS framework as at the date of transition.

(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.

(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 investees 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.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

(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 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 the profit 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.

(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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial assets **(continued)**

(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.

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 unquoted equity instruments whose fair values 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.

2. Significant accounting policies (continued)

(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. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

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 are 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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

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.

(ii) Operating lease

Leases, where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the Group's statements 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.

(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.

2. Significant accounting policies (continued)

(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.

(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 financial asset's recoverable 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.

2. Significant accounting policies (continued)

(i) Impairment (continued)

(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 to sell. 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.

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 issue of equity 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.

2. Significant accounting policies (continued)

(j) Equity instruments (continued)

(iv) Distributions of non-cash assets to owners of the Company

The Group measures a liability to distribute non-cash 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.

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. Once the contributions have been paid, the Group has no further payment obligations.

(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.

2. Significant accounting policies (continued)

(m) Borrowing costs (continued)

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.

(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 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.

3. Property, plant and equipment

Group	Freehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Factory renovation RM'000	Factory furniture and equipment RM'000	Electrical installation RM'000	Office furniture, equipment and renovation RM'000	Plant and machinery under construction RM'000	Building under construction RM'000	Total RM'000
Cost											
At 1 January 2011	65,520#	113,051#	348,758	9,240	5,106	5,303	3,437	7,916	43,833	20,286	622,450
Acquisition through business combination	-	1,064	6,869	-	-	-	-	185	-	-	8,118
Additions	9,379	1,847	12,468	911	1,070	606	99	808	24,373	8,033	59,594
Disposals	-	-	(13)	(380)	-	-	-	(8)	-	-	(401)
Write-off	-	-	(672)	(41)	-	-	-	-	-	-	(713)
Transfer	-	21,517	48,635	160	1,524	1,547	-	505	(53,602)	(20,286)	-
Effect of movements in exchange rates	-	(20)	181	-	-	-	-	7	-	-	168
At 31 December 2011/ 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)
Transfer	(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	86,210	144,514	469,134	13,419	8,194	9,497	4,439	9,739	8,374	17,503	771,023
Accumulated depreciation											
At 1 January 2011	-	2,040	153,373	7,016	2,272	2,243	1,605	3,478	-	-	172,027
Acquisition through business combination	-	679	2,664	-	-	-	-	122	-	-	3,465
Charge for the year	-	3,107	34,607	895	646	706	256	693	-	-	40,910
Disposals	-	-	(1)	(380)	-	-	-	(4)	-	-	(385)
Write off	-	-	(37)	(41)	-	-	-	-	-	-	(78)
Effect of movements in exchange rates	-	(13)	49	-	-	-	-	5	-	-	41
At 31 December 2011/ 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	-	9,089	226,995	6,689	3,298	3,548	2,212	4,826	-	-	256,657
Carrying amounts											
At 1 January 2011	65,520	111,011	195,385	2,224	2,834	3,060	1,832	4,438	43,833	20,286	450,423
At 31 December 2011/ 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	86,210	135,425	242,139	6,730	4,896	5,949	2,227	4,913	8,374	17,503	514,366

#See Note 30.4 (a)(iii)

3. Property, plant and equipment (continued)

Company	Freehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Factory renovation RM'000	Office furniture and equipment RM'000	Total RM'000
Cost							
At 1 January 2011	10,116#	16,275#	48,090	3,475	133	2,119	80,208
Additions	-	-	237	98	-	80	415
Disposals	-	-	-	(69)	-	(8)	(77)
At 31 December 2011/ 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	-	-	-	-	-
At 31 December 2012	10,100	16,291	48,697	3,637	133	2,193	81,051
Accumulated depreciation							
At 1 January 2011	-	122	36,599	2,411	133	571	39,836
Charge for the year	-	437	2,737	307	-	217	3,698
Disposals	-	-	-	(69)	-	(4)	(73)
At 31 December 2011/ 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)
At 31 December 2012	-	996	41,919	2,742	133	993	46,783
Carrying amounts							
At 1 January 2011	10,116	16,153	11,491	1,064	-	1,548	40,372
At 31 December 2011/ 1 January 2012	10,116	15,716	8,991	855	-	1,407	37,085
At 31 December 2012	10,100	15,295	6,778	895	-	1,200	34,268

#See Note 30.4 (a)(iii)

3. Property, plant and equipment (continued)

3.1 Leased plant and machinery

At 31 December 2012, the net carrying amount of leased plant and machinery was as follows:

	Group			Company		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Plant and machinery	27,371	49,807	65,849	-	-	124
Motor vehicles	5,436	1,249	1,213	675	650	859
	32,807	51,056	67,062	675	650	983

3.2 Security

The carrying amounts of the following property, plant and equipment have been pledged to the banks for credit facilities granted to the Group and the Company (see Note 13):

	Group			Company		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Freehold land and building	-	97,759	99,500	-	12,736	12,900

4. Investments in subsidiaries

	Company		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Unquoted shares, at cost	21,474	22,052	8,442

4. Investments in subsidiaries (continued)

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
Kossan Latex Industries (M) Sdn. Bhd.	Malaysia	Manufacturing of latex examination gloves	100	100	100
Perusahaan Getah Asas Sdn. Bhd.	Malaysia	Manufacturing of latex examination gloves	100	100	100
Hibon Corporation Sdn. Bhd.^	Malaysia	Manufacturing and marketing of rubber based parts and products	90	100	100
Doshin Rubber Products (M) Sdn. Bhd.	Malaysia	Manufacturing and dealing in rubber products	70	70	70
Ideal Quality Sdn. Bhd.	Malaysia	Manufacturing of latex examination gloves	100	100	100
Kossan Engineering (M) Sdn. Bhd.	Malaysia	Fabrication and installation of machinery	100	100	100
Top Calibre Sdn. Bhd.	Malaysia	Investment holding	100	100	100
Kossan Sdn. Bhd.	Malaysia	Dormant	100	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#	Hong Kong	Investment holding and the manufacturing of cleanroom products	55	55	-
KPH Logistics, Inc. #@	United States of America	Dormant	100	-	-
KPH (San Francisco), LLC. #@	United States of America	Dormant	100	-	-
Kossan Labuan Bhd. #@	Labuan, Malaysia	Dormant	100	-	-

4. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
Subsidiary of Doshin Rubber Products (M) Sdn. Bhd.					
Quality Profile Sdn. Bhd.	Malaysia	Manufacturing and dealing in rubber products	70	70	70
Subsidiary of Ideal Quality Sdn. Bhd.					
Normadin Pacific Holdings Corp.*	United States of America	Trading of latex examination gloves	-	-	51
Subsidiary of Cleanera HK Limited					
Dongguang Cleanera Cleanroom Products Company Limited#	The People's Republic of China	Manufacturing and dealing in cleanroom products	55	55	-
Subsidiary of Kossan Engineering (M) Sdn. Bhd.					
Envi-Care Sdn. Bhd.	Malaysia	Investment holding	100	100	100
Subsidiary of Envi-Care Sdn. Bhd.					
Wear Safe (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing of surgical, procedure and examination gloves	100	100	100

^ 10% shares were disposed to Flexible Products Co. during the year.
# Not audited by member firms of KPMG International.
@ The subsidiaries were incorporated during the year. The financial statements of the subsidiaries are consolidated based on management account.
* The sub-subsidiary was liquidated on 7 January 2011.

5. Other investments

	Group and Company 31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current			
Investment in club membership			
- Available-for-sale financial assets at amortised cost	116	116	116

6. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group									
Property, plant and equipment	-	-	-	(45,527)	(38,762)	(33,954)	(45,527)	(38,762)	(33,954)
Revaluation on properties#	-	-	-	(6,478)	(6,635)#	(6,793)#	(6,478)	(6,635)#	(6,793)#
Unabsorbed capital allowance	-	-	114	-	-	-	-	-	114
Unutilised reinvestment allowance	2,670	5,170	3,388	-	-	-	2,670	5,170	3,388
Tax loss carry-forwards	-	3	182	-	-	-	-	3	182
Derivatives	-	164	-	-	-	(897)	-	164	(897)
Other item	-	-	-	(487)	(61)	(316)	(487)	(61)	(316)
Tax assets/(liabilities)	2,670	5,337	3,684	(52,492)	(45,458)	(41,960)	(49,822)	(40,121)	(38,276)
Set off	(2,648)	(5,291)	(3,548)	2,648	5,291	3,548	-	-	-
Net tax assets/(liabilities)	22	46	136	(49,844)	(40,167)	(38,412)	(49,822)	(40,121)	(38,276)
Company									
Property, plant and equipment	-	-	-	(3,582)	(3,543)	(3,852)	(3,582)	(3,543)	(3,852)
Revaluation on properties#	-	-	-	(759)	(783)#	(807)#	(759)	(783)#	(807)#
Others	-	-	42	-	-	-	-	-	42
Tax assets/(liabilities)	-	-	42	(4,341)	(4,326)	(4,659)	(4,341)	(4,326)	(4,617)
Set off	-	-	(42)	-	-	42	-	-	-
Net tax liabilities	-	-	-	(4,341)	(4,326)	(4,617)	(4,341)	(4,326)	(4,617)

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.

This pertained to properties that the Group or 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 (see Note 30.4(b)).

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 31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Tax loss carry-forwards	67	72	24
	67	72	24
Tax at 25%	17	18	6

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.

Movement in temporary differences during the year

	Property, plant and equipment RM'000	Revaluation on properties RM'000	Unabsorbed capital allowance RM'000	Unutilised reinvestment allowance RM'000	Tax loss carry-forwards RM'000	Derivatives RM'000	Other item RM'000	Total RM'000
Group								
At 1 January 2011	(33,954)	(6,793)	114	3,388	182	(897)	(316)	(38,276)
Acquired in business combinations	(46)	-	-	-	-	-	-	(46)
Recognised in profit or loss (Note 18)	(4,762)	158	(114)	1,782	(179)	1,061	255	(1,799)
At 31 December 2011/ 1 January 2012	(38,762)	(6,635)	-	5,170	3	164	(61)	(40,121)
Recognised in profit or loss (Note 18)	(6,765)	157	-	(2,500)	(3)	(164)	(426)	(9,701)
At 31 December 2012	(45,527)	(6,478)	-	2,670	-	-	(487)	(49,822)

	Property, plant and equipment RM'000	Revaluation on properties RM'000	Others RM'000	Total RM'000
Company				
At 1 January 2011	(3,852)	(807)	42	(4,617)
Recognised in profit or loss (Note 18)	309	24	(42)	291
At 31 December 2011/ 1 January 2012	(3,543)	(783)	-	(4,326)
Recognised in profit or loss (Note 18)	(39)	24	-	(15)
At 31 December 2012	(3,582)	(759)	-	(4,341)

7. Goodwill

Group Cost	Note	Goodwill RM'000
At 1 January 2011		864
Acquisitions through business combinations	26	4,062
At 31 December 2011/1 January 2012/31 December 2012		4,926

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	
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Technical rubber products	864	864	864
Glove	4,062	4,062	-
Total	4,926	4,926	864

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 period.

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

- The revenue growth in the 5-year (31.12.2011: 5-year; 1.1.2011: Nil) cash flow projection is estimated at a compounded annual growth rate of 25% (31.12.2011: 20%; 1.1.2011: Nil).
- The terminal value was estimated using the perpetuity growth model, with a growth rate to perpetuity of 2% (31.12.2011: Nil; 1.1.2011: Nil).
- A pre-tax discount rate of 12.0% (31.12.2011: 10.3%; 1.1.2011: Nil) 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).

8. Inventories

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Raw materials	44,629	43,145	37,029	7,392	9,394	9,723
Work-in-progress	4,878	3,724	3,951	3,722	3,060	2,964
Finished goods	99,473	116,910	82,677	3,564	4,299	2,118
	148,980	163,779	123,657	14,678	16,753	14,805

9. Trade and other receivables

	Note	Group			Company		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Trade							
Trade receivables		203,656	146,684	139,534	19,878	14,859	13,672
Amount due from subsidiaries	9.1	-	-	-	4,227	10,144	15,385
Amount due from related parties	9.1	231	207	270	231	201	159
		203,887	146,891	139,804	24,336	25,204	29,216
Non-trade							
Amount due from subsidiaries	9.1	-	-	-	90,948	97,395	59,058
Amount due from related parties	9.1	147	897	860	-	-	-
Other receivables		6,562	4,996	2,442	208	72	10
Refundable deposits		6,402	3,182	1,687	3,110	1,179	793
		13,111	9,075	4,989	94,266	98,646	59,861
		216,998	155,966	144,793	118,602	123,850	89,077

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 receivable due from subsidiaries and related parties are unsecured, interest free and repayable on demand.

10. Derivative financial assets/(liabilities)

Group	31.12.2012 Nominal value RM'000	31.12.2012 Assets RM'000	31.12.2012 Liabilities RM'000	31.12.2011 Nominal value RM'000	31.12.2011 Assets RM'000	31.12.2011 Liabilities RM'000	1.1.2011 Nominal value RM'000	1.1.2011 Assets RM'000	1.1.2011 Liabilities RM'000
Derivatives held for trading at fair value through profit or loss - Forward exchange contracts	285,706	-	-	214,480	96	(752)	269,315	3,586	-
Company									
Derivatives held for trading at fair value through profit or loss - Forward exchange contracts	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.

11. Cash and cash equivalents

	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
Cash and bank balances	18,563	32,308	5,818	62,344	24,084	1,124
Short term deposits with licensed banks	81,282	19,316	85,691	6,000	9,000	72,000
	99,845	51,624	91,509	68,344	33,084	73,124

Included in deposits with licensed banks of the Group are amounts of RM956,000 (31.12.2011: RM956,000; 1.1.2011: RM691,000) pledged to the banks for banking facilities granted to the Group.

12. Capital and reserves

12.1 Share capital

	Group and Company					
	31.12.2012		31.12.2011		1.1.2011	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Authorised:						
Ordinary shares of RM0.50 each						
At 1 January	1,000,000	2,000,000	1,000,000	2,000,000	150,000	300,000
Created during the year	-	-	-	-	850,000	1,700,000
At 31 December	1,000,000	2,000,000	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	79,934	159,867
Issue of bonus shares	-	-	-	-	79,933	159,867
At 31 December	159,867	319,734	159,867	319,734	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. In respect of the Company's treasury shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

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. Capital and reserves (continued)

12.4 Treasury shares

The shareholders of the Company, by an ordinary resolution passed in a general meeting held on 21 June 2012 (31.12.2011: 21 June 2011; 1.1.2011: 22 June 2010), 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.

There were no repurchase of issued share capital in the current financial year. For the financial year ended 31 December 2011, the Company repurchased 145,000 (1.1.2011: 969,400) of its issued share capital from the open market amounting to approximately RM429,000 (1.1.2011: RM3,031,000). The average price paid for the shares repurchased was RM2.96 (1.1.2011: RM3.13) per share including transaction costs, and the repurchase transactions were financed by internally generated funds. The shares repurchased are held as treasury shares.

At 31 December 2012, the Group held 1,114,400 (31.12.2011: 1,114,400; 1.1.2011: 969,400) of the Company's shares.

12.5 Retained earnings

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained earnings at 31 December 2012 if paid out as dividends.

The Finance Act 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the remaining Section 108 tax credit as at 31 December 2012 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

13. Loans and borrowings

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current						
Term loans - unsecured	35,682	-	-	-	-	-
- secured	-	18,195	24,534	-	-	-
Finance lease liabilities	2,573	7,802	3,125	291	308	540
	38,255	25,997	27,659	291	308	540
Current						
Term loans - unsecured	12,650	-	-	-	-	-
- secured	-	6,135	7,596	-	-	-
Revolving credit (unsecured)	40,004	25,101	25,564	-	-	-
Bank overdraft (unsecured)	5,211	2,932	10,159	2,008	1,703	1,854
Trade finance (unsecured)	94,112	90,773	94,356	554	911	1,619
Finance lease liabilities	8,769	9,024	12,421	225	236	252
	160,746	133,965	150,096	2,787	2,850	3,725
	199,001	159,962	177,755	3,078	3,158	4,265

13. Loans and borrowings (continued)

13.1 Terms and debt repayment schedule

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
31.12.2012						
Term loans						
- unsecured	2013 - 2018	48,332	12,650	11,126	24,556	-
Bank overdraft						
- unsecured	2013	5,211	5,211	-	-	-
Revolving credit						
- unsecured	2013	40,004	40,004	-	-	-
Trade finance						
- unsecured	2013	94,112	94,112	-	-	-
		187,659	151,977	11,126	24,556	-
31.12.2011						
Term loans						
- secured	2012 - 2018	24,330	6,135	4,715	9,620	3,860
Bank overdraft						
- unsecured	2012	2,932	2,932	-	-	-
Revolving credit						
- unsecured	2012	25,101	25,101	-	-	-
Trade finance						
- unsecured	2012	90,773	90,773	-	-	-
		143,136	124,941	4,715	9,620	3,860
1.1.2011						
Term loans						
- secured	2011 - 2018	32,130	7,596	6,135	11,160	7,239
Bank overdraft						
- unsecured	2011	10,159	10,159	-	-	-
Revolving credit						
- unsecured	2011	25,564	25,564	-	-	-
Trade finance						
- unsecured	2011	94,356	94,356	-	-	-
		162,209	137,675	6,135	11,160	7,239

13. Loans and borrowings (continued)

13.1 Terms and debt repayment schedule (continued)

Company	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
31.12.2012						
Bank overdraft - unsecured	2013	2,008	2,008	-	-	-
Trade finance - unsecured	2013	554	554	-	-	-
		2,562	2,562	-	-	-
31.12.2011						
Bank overdraft - unsecured	2012	1,703	1,703	-	-	-
Trade finance - unsecured	2012	911	911	-	-	-
		2,614	2,614	-	-	-
1.1.2011						
Bank overdraft - unsecured	2011	1,854	1,854	-	-	-
Trade finance - unsecured	2011	1,619	1,619	-	-	-
		3,473	3,473	-	-	-

13.2 Significant loans and borrowings covenants

The main covenant of certain trade facilities of a subsidiary is the subsidiary's leverage position as measured by total liabilities/tangible net worth must not exceed 3.0 times at all times.

13. Loans and borrowings (continued)

13.3 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 31.12.2012 RM'000	Interest 31.12.2012 RM'000	Principal 31.12.2012 RM'000	Minimum lease payments 31.12.2011 RM'000	Interest 31.12.2011 RM'000	Principal 31.12.2011 RM'000	Minimum lease payments 1.1.2011 RM'000	Interest 1.1.2011 RM'000	Principal 1.1.2011 RM'000
Less than one year	9,134	(365)	8,769	9,699	(675)	9,024	12,878	(457)	12,421
Between one and five years	2,670	(97)	2,573	8,042	(240)	7,802	3,242	(117)	3,125
	11,804	(462)	11,342	17,741	(915)	16,826	16,120	(574)	15,546
Company									
Less than one year	245	(20)	225	258	(22)	236	288	(36)	252
Between one and five years	301	(10)	291	324	(16)	308	578	(38)	540
	546	(30)	516	582	(38)	544	866	(74)	792

14. Trade and other payables

	Note	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
Trade							
Trade payable		75,095	69,384	66,218	3,915	5,000	4,032
Amount due to related parties	14.1	73	132	6	73	130	6
Amount due to a subsidiary	14.1	-	-	-	239	-	-
		75,168	69,516	66,224	4,227	5,130	4,038
Non-trade							
Amount due to ultimate holding company	14.2	3	14	9	-	-	-
Amount due to a subsidiary	14.1	-	-	-	9,720	420	420
Amount due to related parties	14.1	3,347	3,262	7,852	-	-	-
Other payables		14,953	16,508	16,097	337	663	1,207
Accrued expenses		21,168	13,407	22,947	3,700	4,140	3,758
		39,471	33,191	46,905	13,757	5,223	5,385
		114,639	102,707	113,129	17,984	10,353	9,423

14. Trade and other payables (continued)

14.1 Amounts due to related parties and subsidiaries

The trade amount due to related parties and subsidiaries is subject to normal trade terms.

The non-trade amount due to related parties and subsidiaries is 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Sales of goods	1,234,001	1,089,969	112,140	99,414
Dividend income	-	-	41,000	40,000
	1,234,001	1,089,969	153,140	139,414

16. Finance costs

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest expense on:				
- Bank overdraft	73	76	19	17
- Finance lease	742	1,361	24	36
- Term loans	1,946	2,314	-	-
- Trade finance	3,136	3,249	35	30
- Revolving credit	510	447	-	-
- Others	-	18	-	-
	6,407	7,465	78	83

17. Key management personnel compensation

The key management personnel compensations are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors				
- Fees	170	180	170	180
- Remuneration	9,918	8,330	3,469	3,254
	10,088	8,510	3,639	3,434
Other key management personnel:				
- Remuneration	3,598	2,807	1,812	1,658

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. Income tax expense

Recognised in the profit or loss

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current tax expense				
Current year	28,056	18,993	1,684	1,457
(Over)/Under provision in prior year	(4,088)	876	(406)	(190)
Overseas – current provision	10	33	-	-
	23,978	19,902	1,278	1,267
Deferred tax expense				
Origination and reversal of temporary differences	8,163	2,887	25	(265)
Under/(Over) provision in prior year	1,576	(1,088)	(10)	(26)
Benefit of business loss utilised	(38)	-	-	-
	9,701	1,799	15	(291)
Total tax expense	33,679	21,701	1,293	976

Reconciliation of effective tax expense

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Profit before tax	138,451	112,290	46,888	43,930
Tax at Malaysian tax rate of 25% (2011: 25%)	34,613	28,073	11,722	10,983
Non-deductible expenses	1,991	2,202	237	244
Effect of tax rates in foreign jurisdiction	1	(11)	-	-
Tax incentives	(416)	(8,462)	-	(35)
Income not subject to tax	-	-	(10,250)	(10,000)
Deferred tax not recognised	1	12	-	-
Utilisation of previously unrecognised temporary difference	(38)	-	-	-
Others	39	99	-	-
	36,191	21,913	1,709	1,192
(Over)/Under provided in prior year				
- income tax expense	(4,088)	876	(406)	(190)
- deferred tax expense	1,576	(1,088)	(10)	(26)
	33,679	21,701	1,293	976

19. Profit for the year

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit for the year is arrived at after charging:				
Impairment loss on trade receivables	55	1,377	55	8
Auditors' remuneration				
- statutory audit	254	234	83	79
- other services	10	10	10	10
Personnel expenses (including key management personnel):				
- Contributions to Employees' Provident Fund	6,137	4,591	1,664	1,493
- Wages, salaries and others	133,374	104,764	24,526	22,773
Property, plant and equipment written off	145	635	9	-
Realised loss on foreign exchange	13	-	-	-
Unrealised loss on derivatives	-	752	-	-
Negative goodwill	-	52	-	-
Rental of premises	1,943	1,313	886	819
and after crediting:				
Realised gain on foreign exchange	11,245	10,104	651	671
Unrealised gain on:-				
- derivatives	-	96	-	-
- trade receivables and loans and borrowings	1,994	1,268	-	-
Gain on disposal of property, plant and equipment	770	71	35	11
Gain on disposal of shares in a subsidiary	-	-	351	-
Interest on short term deposits received	1,060	1,588	767	1,034
Rental income	422	126	206	210

20. Earnings per ordinary share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

Group	2012 RM'000	2011 RM'000
Profit for the year attributable to owners of the Company	102,163	89,192

Weighted average number of ordinary shares

	Group	
	2012 '000	2011 '000
Issued ordinary shares at 1 January	319,734	319,734
Effect of treasury shares	(1,114)	(1,090)
Weighted average number of ordinary shares at 31 December	318,620	318,644

	Group	
	2012 Sen	2011 Sen
Basic earnings per share	32.06	27.99

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 per share (tax exempt)	Total amount RM'000	Date of payment
2012			
Final 2011 ordinary	4.00	12,745	18.07.2012
Interim 2012 ordinary	5.00	15,931	21.12.2012
		28,676	
2011			
Final 2010 ordinary	8.00	25,490	19.07.2011
Interim 2011 ordinary	3.00	9,558	20.12.2011
		35,048	

22. Operating segments

The Group has three (3) 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
- Others

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

Performance is measured based on segment profit before tax and interest 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 glove 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 and deferred tax assets.

22. Operating segments (continued)

Group

Geographical information	**Revenue RM'000**	**Non-current assets RM'000**
2012		
Malaysia	1,214,452	497,890
Outside of Malaysia	19,549	16,476
	1,234,001	514,366
2011		
Malaysia	1,075,512	468,742
Outside of Malaysia	14,457	4,494
	1,089,969	473,236

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 2012 and 31 December 2011.

	Technical rubber products		**Gloves**		**Others**		**Total**	
Business segments	**2012 RM'000**	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Total external revenue	141,317	130,739	1,074,734	946,184	17,950	13,046	1,234,001	1,089,969
Segment results	15,605	10,466	127,268	109,322	1,985	(33)	144,858	119,755
Finance costs							(6,407)	(7,465)
Tax expense							(33,679)	(21,701)
Profit for the year							104,772	90,589
Segment assets	47,140	50,765	450,657	417,977	16,569	4,494	514,366	473,236
Total assets							514,366	473,236
Segment liabilities	15,822	18,704	258,393	208,556	39,425	36,161	313,640	263,421
Total liabilities							313,640	263,421
Capital expenditure	2,865	2,548	71,393	56,720	12,813	326	87,071	59,594
Depreciation	6,481	6,598	38,310	33,698	311	614	45,102	40,910
Non-cash expenses other than depreciation	(93)	(38)	(615)	1,291	-	-	(708)	1,253

23. Financial instruments

23.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:
(a) Loans and receivables (L&R);
(b) Fair value through profit or loss (FVTPL):
- Held for trading (HFT);
(c) Available-for-sale financial assets (AFS); and
(d) Other financial liabilities measured at amortised cost (OL).

	Carrying amount RM'000	L&R/ (OL) RM'000	FVTPL -HFT RM'000	AFS RM'000
Group				
31 December 2012				
Financial assets				
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
Financial liabilities				
Loans and borrowings	(199,001)	(199,001)	-	-
Trade and other payables	(114,639)	(114,639)	-	-
	(313,640)	(313,640)	-	-
31 December 2011				
Financial assets				
Other investments	116	-	-	116
Trade and other receivables	155,966	155,966	-	-
Derivative financial assets	96	-	96	-
Cash and cash equivalents	51,624	51,624	-	-
	207,802	207,590	96	116
Financial liabilities				
Loans and borrowings	(159,962)	(159,962)	-	-
Trade and other payables	(102,707)	(102,707)	-	-
Derivatives financial liabilities	(751)	-	(751)	-
	(263,420)	(262,669)	(751)	-

23. Financial instruments (continued)

23.1 Categories of financial instruments (continued)

Group	Carrying amount RM'000	L&R/ (OL) RM'000	FVTPL -HFT RM'000	AFS RM'000
1 January 2011				
Financial assets				
Other investments	116	-	-	116
Trade and other receivables	144,793	144,793	-	-
Derivative financial assets	3,586	-	3,586	-
Cash and cash equivalents	91,509	91,509	-	-
	240,004	236,302	3,586	116
Financial liabilities				
Loans and borrowings	(177,755)	(177,755)	-	-
Trade and other payables	(113,129)	(113,129)	-	-
	(290,884)	(290,884)	-	-
Company				
31 December 2012				
Financial assets				
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
Financial liabilities				
Loans and borrowings	(3,078)	(3,078)	-	-
Trade and other payables	(17,984)	(17,984)	-	-
	(21,062)	(21,062)	-	-

23. Financial instruments (continued)

23.1 Categories of financial instruments (continued)

Company	Carrying amount RM'000	L&R/ (OL) RM'000	FVTPL -HFT RM'000	AFS RM'000
31 December 2011				
Financial assets				
Other investments	116	-	-	116
Trade and other receivables	123,850	123,850	-	-
Cash and cash equivalents	33,084	33,084	-	-
	157,050	156,934	-	116
Financial liabilities				
Loans and borrowings	(3,158)	(3,158)	-	-
Trade and other payables	(10,353)	(10,353)	-	-
	(13,511)	(13,511)	-	-
1 January 2011				
Financial assets				
Other investments	116	-	-	116
Trade and other receivables	89,077	89,077	-	-
Cash and cash equivalents	73,124	73,124	-	-
	162,317	162,201	-	116
Financial liabilities				
Loans and borrowings	(4,265)	(4,265)	-	-
Trade and other payables	(9,423)	(9,423)	-	-
	(13,688)	(13,688)	-	-

23.2 Net gains and losses arising from financial instruments

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Net gains/(losses) on:				
Financial assets and liabilities of fair value through profit or loss:				
- Forward foreign currency contracts	-	(656)	-	-
Loans and receivables	14,286	12,960	1,418	1,705
Financial liabilities measured at amortised cost	(6,407)	(7,465)	(78)	(83)
	7,879	4,839	1,340	1,622

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. Financial instruments (continued)

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.

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:

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
31 December 2012			
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#
	205,090	(1,434)	203,656
31 December 2011			
Not past due	127,501	-	127,501
Past due 0 - 30 days	8,938	-	8,938
Past due 31 - 120 days	6,540	-	6,540
Past due more than 120 days	5,092	(1,387)*	3,705#
	148,071	(1,387)	146,684

23. Financial instruments (continued)

23.4 Credit risk (continued)

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
1 January 2011			
Not past due	136,881	(1,099)	135,782
Past due 0 - 30 days	1,657	(500)	1,157
Past due 31 - 120 days	5,015	(3,599)	1,416
Past due more than 120 days	2,304	(1,125)	1,179#
	145,857	(6,323)	139,534
Company			
31 December 2012			
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#
	19,933	(55)	19,878
31 December 2011			
Not past due	6,223	-	6,223
Past due 0 - 30 days	4,152	-	4,152
Past due 31 - 120 days	3,755	-	3,755
Past due more than 120 days	737	(8)	729#
	14,867	(8)	14,859
1 January 2011			
Not past due	11,961	-	11,961
Past due 0 - 30 days	900	-	900
Past due 31 - 120 days	699	-	699
Past due more than 120 days	138	(26)	112#
	13,698	(26)	13,672

* Allowance for impairment loss, totalling RM1.3million, is made in respect of customers whose debts are doubtful due to its 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.

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 January 2012	1,387	6,323	8	26
Impairment loss recognised	55	1,377	55	8
Impairment loss written off	(8)	(6,313)	(8)	(26)
At 31 December 2012	1,434	1,387	55	8

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.

23. Financial instruments (continued)

23.4 Credit risk (continued)

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 RM199,001,000 (31.12.2011: RM159,962,000; 1.1.2011: RM177,755,000) 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 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.

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, loans and borrowings.

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.

23. Financial instruments (continued)

23.5 Liquidity risk (continued)

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 RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
31 December 2012							
Non-derivative financial liabilities							
Term loan(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	-	-	-
Finance lease 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	-
Derivative financial liabilities							
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	-
31 December 2011							
Non-derivative financial liabilities							
Term Loan (secured)	24,330	7.30 – 9.02	29,165	7,709	5,900	11,555	4,001
Bank overdraft (unsecured)	2,932	7.30 – 7.38	2,932	2,932	-	-	-
Revolving credit (unsecured)	25,101	1.02 – 2.58	25,101	25,101	-	-	-
Trade finance (unsecured)	90,773	3.14 – 3.58	90,773	90,773	-	-	-
Finance lease liabilities	16,826	2.25 – 3.50	17,741	9,699	7,689	353	-
Trade and other payables	102,707	-	102,707	102,707	-	-	-
	262,669		268,419	238,921	13,589	11,908	4,001
Derivative financial liabilities							
Foreign currency contracts (gross settled):							
Inflow	-	-	(214,480)	(214,480)	-	-	-
Outflow	656	-	215,136	215,136	-	-	-
	263,325		269,075	239,577	13,589	11,908	4,001

23. Financial instruments (continued)

23.5 Liquidity risk (continued)

Maturity analysis (continued)

Group	Carrying amount RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
1 January 2011							
Non-derivative financial liabilities							
Term loan (secured)	32,130	7.29 – 7.44	38,842	9,650	7,666	13,820	7,706
Bank overdraft (unsecured)	10,159	7.30 – 7.38	10,159	10,159	-	-	-
Revolving credit (unsecured)	25,564	4.80 – 5.10	25,564	25,564	-	-	-
Trade finance (unsecured)	94,356	3.14 – 3.27	94,356	94,356	-	-	-
Finance lease liabilities	15,546	2.50 – 3.50	16,120	12,878	2,698	544	-
Trade and other payables	113,129	-	113,129	113,129	-	-	-
	290,884		298,170	265,736	10,364	14,364	7,706
Derivative financial liabilities							
Foreign currency contracts (gross settled):							
Inflow	(3,586)	-	(269,315)	(269,315)	-	-	-
Outflow	-	-	265,729	265,729	-	-	-
	287,298		294,584	262,150	10,364	14,364	7,706
31 December 2012							
Non-derivative financial liabilities							
Bank overdraft (unsecured)	2,008	7.30 – 7.38	2,008	2,008	-	-	-
Trade finance (unsecured)	554	3.32 – 3.47	554	554	-	-	-
Finance lease 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	-	-
Derivative financial liabilities							
Foreign currency contracts (gross settled):							
Inflow	-	-	(14,770)	(14,770)	-	-	-
Outflow	-	-	14,770	14,770	-	-	-
	21,062		21,092	20,791	301	-	-

23. Financial instruments (continued)

23.5 Liquidity risk (continued)

Maturity Analysis (continued)

Company	Carrying amount RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 – 5 years RM'000	More than 5 years RM'000
31 December 2011							
Non-derivative financial liabilities							
Bank overdraft (unsecured)	1,703	7.30 – 7.38	1,703	1,703	-	-	-
Trade finance (unsecured)	911	3.47 – 3.50	911	911	-	-	-
Finance lease liabilities	544	3.30 – 3.50	582	258	167	157	-
Trade and other payables	10,353	-	10,353	10,353	-	-	-
	13,511		13,549	13,225	167	157	-
1 January 2011							
Non-derivative financial liabilities							
Bank overdraft (unsecured)	1,854	7.30 – 7.38	1,854	1,854	-	-	-
Trade finance (unsecured)	1,619	3.14 – 3.27	1,619	1,619	-	-	-
Finance lease liabilities	792	3.30 – 3.50	866	288	264	314	-
Trade and other payables	9,423	-	9,423	9,423	-	-	-
	13,688		13,762	13,184	264	314	-

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.

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

23. Financial instruments (continued)

23.6 Market risk (continued)

23.6.1 Currency risk (continued)

Forward foreign currency contracts used to hedge receivables

Hedged item	Group Amount to be received USD'000	Group Average contract rate	Group Equivalent RM'000	Company Amount to be received USD'000	Company Average contract rate	Company Equivalent RM'000
31 December 2012						
Trade receivables	92,455	3.0902	285,706	4,788	3.0848	14,770
31 December 2011						
Trade receivables	68,384	3.1364	214,480	-	-	-
1 January 2011						
Trade receivables	86,220	3.1236	269,315	-	-	-

Foreign currency option contracts

Exposure to foreign currency risk

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

	Group Denominated in USD 31.12.2012 RM'000	Group Denominated in USD 31.12.2011 RM'000	Group Denominated in USD 1.1.2011 RM'000	Company Denominated in USD 31.12.2012 RM'000	Company Denominated in USD 31.12.2011 RM'000	Company Denominated in USD 1.1.2011 RM'000
Trade and other receivables	188,971	123,590	127,031	22,007	5,267	5,542
Trade and other payables	(13,542)	(17,869)	(12,610)	(561)	(173)	-
Loans and borrowings	(70,767)	(24,726)	(24,563)	-	-	-
Exposure in the statements of financial position	104,662	80,995	89,858	21,446	5,094	5,542

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 2012 RM'000	Equity 2011 RM'000	Profit or loss 2012 RM'000	Profit or loss 2011 RM'000
Group				
USD	-	-	(3,925)	(3,037)
Company				
USD	-	-	(804)	(191)

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 Market risk (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:

		Group			Company		
	Note	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Fixed rate instruments							
Deposits with licensed banks	11	81,282	19,316	85,691	6,000	9,000	72,000
Finance lease liabilities	13	(11,342)	(16,826)	(15,546)	(516)	(544)	(792)
Revolving credits - unsecured	13	(40,004)	(25,101)	(25,564)	-	-	-
Trade finance - unsecured	13	(94,112)	(90,773)	(94,356)	(554)	(911)	(1,619)
		(64,176)	(113,384)	(49,775)	4,930	7,545	69,589

23. Financial instruments (continued)

23.6 Market risk (continued)

23.6.2 Interest rate risk (continued)

Exposure to interest rate risk (continued)

	Note	Group 31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	Company 31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Floating rate instruments							
Term loans							
- unsecured	13	(48,332)	-	-	-	-	-
- secured	13	-	(24,330)	(32,130)	-	-	-
Bank overdraft							
- unsecured	13	(5,211)	(2,932)	(10,159)	(2,008)	(1,703)	(1,854)
		(53,543)	(27,262)	(42,289)	(2,008)	(1,703)	(1,854)

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 (2011: 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 50 bp increase RM'000	50 bp decrease RM'000	Company 50 bp increase RM'000	50 bp decrease RM'000
2012				
Floating rate instruments	(201)	201	(8)	8
2011				
Floating rate instruments	(102)	102	(6)	6

23. Financial instruments (continued)

23.7 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate 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 fair values of other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	31.12.2012		31.12.2011		1.1.2011	
Group	**Carrying amount RM'000**	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Financial assets						
Forward foreign currency contracts	-	-	96	96	3,586	3,586
Financial liability						
Finance lease liabilities	11,342	11,670	16,826	16,996	15,546	15,544
Forward foreign currency contracts	-	-	752	752	-	-

The following summarises the methods used in determining the fair value of financial instruments reflected in the above table:

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted market price is not available, then fair value 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).

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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Interest rates used to determine fair value

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

	31.12.2012	**31.12.2011**	**1.1.2011**
Finance lease liabilities	3.29 – 3.47	2.25 – 3.50	2.50 – 3.50

23. Financial instruments (continued)

23.8 Fair value hierarchy

The following financial instruments carried at fair value using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), (Level 2).

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Forward foreign currency contracts	-	(656)	-	-

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 2012 and at 31 December 2011 were as follows:

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Total borrowings (Note 13)	199,001	159,962	177,755
Less: Cash and cash equivalents (Note 11)	(99,845)	(51,624)	(91,509)
Net debt	99,156	108,338	86,246
Total equity	604,599	531,159	477,395
Debt-to-equity ratios	0.16	0.20	0.18

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 RM 40 million. The Company has complied with this requirement.

25. Capital and other commitments

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group			
Property, plant and equipment			
Within one year:			
Contracted but not provided for	44,074	9,000	-
Company			
Property, plant and equipment			
Within one year:			
Contracted but not provided for	-	-	-

26. Acquisitions and liquidation

In previous year, the Group had completed the following acquisitions and liquidation:

26.1 Acquisition of subsidiary – Cleanera HK Limited

The Group acquired 1,530,000 shares in Cleanera HK Limited ("CHKL") for USD3,060,000 satisfied in cash. CHKL is involved in the manufacturing and sales of clean-room gloves. The acquisition of Cleanera HK Limited has expanded the Group's operation into CHKL principal market in Japan, China and South East Asian countries. In the six months to 31 December 2011, the subsidiary contributed revenue of RM14,933,478 and profit of RM80,775.

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

	2011 RM
Fair value of consideration transferred	
Cash and cash equivalents	9,176,002
Identifiable assets acquired and liabilities assumed	
Property, plant and equipment	4,652,821
Inventories	3,414,019
Trade and other receivables	4,145,314
Cash and cash equivalents	360,380
Deferred tax liabilities	(46,105)
Trade and other payables	(2,094,649)
Borrowings	(404,156)
	10,027,624

Net cash arising from acquisition of subsidiary

	2011 RM
Purchase consideration settled in cash and cash equivalents	9,176,002
Cash and cash equivalents acquired	(360,380)
	8,815,622

Goodwill

Goodwill was recognised as a result of the acquisition as follows:	RM
Total consideration transferred	9,176,002
Fair value of identifiable net assets	10,027,624
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree	(4,913,546)
	5,114,078
Goodwill	4,061,924

The goodwill is attributable mainly to the existing technicality of Cleanera HK Limited access to clean-room gloves processes, and the synergies expected to be achieved from integrating the company into the Group's existing glove manufacturing business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Subsequent to the acquisition of Cleanera HK Limited, the Group increased its shareholding during the year from 51% to 55% via a rights issue subscription amounting to RM2,133,633.

26. Acquisitions and liquidation (continued)

26.2 Acquisition of subsidiary – Premium Medical Products Sdn. Bhd.

The Group acquired 2 shares in Premium Medical Products Sdn. Bhd. ("PMP") for RM2 satisfied in cash. The company was wholly-owned by Dato' Lim Kuang Sia and Mr. Lim Kuang Yong, both directors of the Group but their declared interests in the transaction are not material in terms of value. 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:

	2011 RM
Fair value of consideration transferred	
Cash and cash equivalents acquired	2

Identifiable assets acquired and liabilities assumed

	RM
Cash and cash equivalents	2
Other payables and accruals	(32,514)
Negative goodwill	(32,512)

26.3 Acquisition of subsidiary – Cleanera (Malaysia) Sdn. Bhd.

The Group acquired 2 shares in Cleanera (Malaysia) Sdn. Bhd. ("CM") 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:

	2011 RM
Fair value of consideration transferred	
Cash and cash equivalents	2

Identifiable assets acquired and liabilities assumed

	2011 RM
Cash and cash equivalents	2
Other payables and accruals	(19,855)
Negative goodwill	(19,853)

26.4 Acquisition-related costs

The Group did not incur any acquisition-related costs relating to external legal fees and due diligence costs. As per the sales and purchase agreement, the legal fees and due diligence costs are borne by the vendor, Inout Enterprise Pte. Ltd. and Soode Optik Pte. Ltd.

If the acquisition had occurred on 1 January 2011, management estimates that consolidated revenue would have been RM1,097,197,849 and consolidated profit for the financial year would have been RM91,148,950. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

26. Acquisitions and liquidation (continued)

26.5 Liquidation of a subsidiary – Normadin Pacific Holdings Corp.

On 7 January 2011, the Company liquidated 51% of its equity interest in Normadin Pacific Holdings Corp. ("NPHC"), a latex examination gloves trading company. Normadin Pacific Holdings Corp. ceased to be a subsidiary of the Group as at 31 December 2011.

The liquidation of the abovementioned subsidiary had the following effect on the financial position of the Group:

	2011 RM
Other receivables	1
Cash and cash equivalents	1
Net assets disposed	2
Loss on disposal	(2)
Net cash impact	-

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.

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 amount for the year ended 31 December 2012 RM'000	2011 RM'000
Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries		
Kossan Chemical Industries (M) Sdn. Bhd.		
Rental expense	(1,332)	(1,232)
Kossan Holdings (M) Sdn. Bhd.		
Rental expense	(3)	-
Pleasure Latex Products Sdn. Bhd.		
Sales*	-	3
Rental income*	108	102
Kossan Paint (M) Sdn. Bhd.		
Sales*	290	430
Purchase of consumables, raw materials and property, plant and equipment	(2,419)	(2,052)
Pan Asian Corporation Sdn. Bhd.		
Rental expense	(617)	(576)

27. Related parties (continued)

	Transactions amount for the year ended 31 December	
Group	**2012 RM'000**	**2011 RM'000**
Transactions with corporations in which Directors have financial interest		
HT Ceramics (M) Sdn. Bhd.		
Sales*	8	2
Purchase of property, plant and equipment	(759)	(1,351)
Kossan F.R.P. Industries (M) Sdn. Bhd.		
Sales*	4	5
Purchase of consumables	(249)	(176)
Company		
Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries		
Kossan Chemical Industries (M)Sdn. Bhd.		
Rental expense	(672)	(650)
Pleasure Latex Products Sdn. Bhd.		
Sales*	-	3
Rental income	108	102
Kossan Paint (M) Sdn. Bhd.		
Sales*	290	430
Purchase of consumables	(56)	(31)
Pan Asian Corporation Sdn. Bhd.		
Rental expense	(344)	(321)
Transactions with corporations in which Directors have financial interest		
HT Ceramics (M) Sdn. Bhd.		
Sales*	8	2
Kossan F.R.P. Industries (M) Sdn. Bhd.		
Sales*	4	5

*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 events

28.1 Incorporation of new subsidiaries – KPH Logistic, Inc.

On 17 November 2012, the Company formed a new wholly-owned subsidiary, KPH Logistics, Inc. ("KPHL") a limited liability company in the State of Texas, United States of America with an initial subscription of USD5,000 only.

KPHL is presently a dormant company.

28.2 Incorporation of new subsidiaries – KPH (San Francisco), LLC.

The Company had formed a new wholly-owned subsidiary, KPH (San Francisco), LLC. ("KPH") on 26 April 2012, a limited liability company under the Beverly-Killea Limited Liability Company Act in the State of California, United States of America with an initial subscription of USD5,000 only.

KPH is presently a dormant company.

28.3 Incorporation of new subsidiaries – Kossan Labuan Bhd.

On 2 November 2012, the Company formed a new wholly-owned subsidiary, Kossan Labuan Bhd. with registration number LL09265 and an issued capital of USD1 only.

Kossan Labuan Bhd. is presently a dormant company.

28.4 Dilution on interest in a subsidiary – Hibon Corporation Sdn. Bhd.

During the year, the Company disposed 240,000 ordinary shares of RM1.00 each in Hibon which represent 10% of its total 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.

The above transaction resulted in an increase in non-controlling interests of RM854,000.

29. Subsequent event

Subsequent to the financial year end:

(1) A new subsidiary namely PT. Kossan Setia Jaya has been incorporated under the law of Republic of Indonesia on 30 January 2013 by two wholly owned subsidiaries of the Group, namely Kossan Labuan Bhd. and Kossan Sdn. Bhd., holding 99% and 1% respectively in the issued and paid-up capital of PT. Kossan Setia Jaya, and

(2) A wholly owned subsidiary of the Company, Perusahaan Getah Asas Sdn. Bhd. proposed an acquisition of a piece of freehold industrial land measuring approximately 56 acres for a total cash consideration of RM35,370,720.

(3) A wholly owned subsidiary of the Company, Kossan Latex Industries (M) Sdn. Bhd. proposed an acquisition of a piece of freehold agriculture land measuring approximately 3 acres for a total cash consideration of RM4,704,480.

30. Explanation of transition to MFRSs

As stated in Note 1(a), these are the first financial statements of the Group and of the Company prepared in accordance with MFRSs.

The accounting policies set out in Note 2 have been applied in preparing the financial statements of the Group and of the Company for the year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the Group's date of transition to MFRSs).

In preparing the opening consolidated statement of financial position at 1 January 2011, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous FRSs. An explanation of how the transition from previous FRSs to MFRSs has affected the financial position, financial performance and cash flows of the Group and the Company is set out as follows:

30. Explanation of transition to MFRSs (continued)

30.1 Reconciliation of financial position

Group	Note	1.1.2011 FRSs RM'000	1.1.2011 Effect of Transition to MFRSs RM'000	1.1.2011 MFRSs RM'000	31.12.2011 FRSs RM'000	31.12.2011 Effect of transition to MFRSs RM'000	31.12.2011 MFRSs RM'000
Assets							
Property, plant and equipment	*a(2)*	409,515	40,908	450,423	432,958	40,278	473,236
Other investments		116	-	116	116	-	116
Deferred tax assets		136	-	136	46	-	46
Goodwill		864	-	864	4,926	-	4,926
Total non-current assets		410,631	40,908	451,539	438,046	40,278	478,324
Inventories		123,657	-	123,657	163,779	-	163,779
Current tax assets		1,030	-	1,030	1,379	-	1,379
Trade and other receivables		144,793	-	144,793	155,966	-	155,966
Prepayments and other assets		2,137	-	2,137	1,557	-	1,557
Derivative financial assets		3,586	-	3,586	96	-	96
Cash and cash equivalents		91,509	-	91,509	51,624	-	51,624
Total current assets		366,712	-	366,712	374,401	-	374,401
Total assets		777,343	40,908	818,251	812,447	40,278	852,725
Equity							
Share capital		159,867	-	159,867	159,867	-	159,867
Share premium		11	-	11	11	-	11
Translation reserve		(46)	-	(46)	3	-	3
Revaluation reserve	*a(1)*	1,183	(1,183)	-	1,122	(1,122)	-
Treasury shares		(3,031)	-	(3,031)	(3,460)	-	(3,460)
Retained earnings	*c*	284,613	35,981	320,594	339,310	35,428	374,738
Equity attributable to owners of the Company		442,597	34,798	477,395	496,853	34,306	531,159
Non-controlling interests		2,018	-	2,018	9,480	-	9,480
Total equity		444,615	34,798	479,413	506,333	34,306	540,639
Liabilities							
Loans and borrowings		27,659	-	27,659	25,997	-	25,997
Deferred tax liabilities	*a(2),b*	32,302	6,110	38,412	34,195	5,972	40,167
Total non-current liabilities		59,961	6,110	66,071	60,192	5,972	66,164

30. Explanation of transition to MFRSs (continued)

30.1 Reconciliation of financial position (continued)

Group	Note	1.1.2011 FRSs RM'000	1.1.2011 Effect of Transition to MFRSs RM'000	1.1.2011 MFRSs RM'000	31.12.2011 FRSs RM'000	31.12.2011 Effect of transition to MFRSs RM'000	31.12.2011 MFRSs RM'000
Loans and borrowings		150,096	-	150,096	133,965	-	133,965
Current tax liabilites		9,542	-	9,542	8,498	-	8,498
Trade and other payables		113,129	-	113,129	102,707	-	102,707
Derivative financial liabilities		-	-	-	752	-	752
Total current liabilities		272,767	-	272,767	245,922	-	245,922
Total liabilities		332,728	6,110	338,838	306,114	5,972	312,086
Total equity and liabilities		777,343	40,908	818,251	812,447	40,278	852,725
Company							
Assets							
Property, plant and equipment	*a(2)*	32,713	7,659	40,372	29,522	7,563	37,085
Other investments		116	-	116	116	-	116
Investment in subsidiaries		8,442	-	8,442	22,052	-	22,052
Total non-current assets		41,271	7,659	48,930	51,690	7,563	59,253
Inventories		14,805	-	14,805	16,753	-	16,753
Current tax assets		763	-	763	780	-	780
Trade and other receivables		89,077	-	89,077	123,850	-	123,850
Prepayments and other assets		98	-	98	86	-	86
Cash and cash equivalents		73,124	-	73,124	33,084	-	33,084
Total current assets		177,867	-	177,867	174,553	-	174,553
Total assets		219,138	7,659	226,797	226,243	7,563	233,806

30. Explanation of transition to MFRSs (continued)

30.1 Reconciliation of financial position (continued)

Company	Note	1.1.2011 FRSs RM'000	1.1.2011 Effect of Transition to MFRSs RM'000	1.1.2011 MFRSs RM'000	31.12.2011 FRSs RM'000	31.12.2011 Effect of transition to MFRSs RM'000	31.12.2011 MFRSs RM'000
Equity							
Share capital		159,867	-	159,867	159,867	-	159,867
Share premium		11	-	11	11	-	11
Revaluation reserve	*a(1)*	585	(585)	-	524	(524)	-
Treasury shares		(3,031)	-	(3,031)	(3,460)	-	(3,460)
Retained earnings	c	43,559	8,086	51,645	51,618	7,933	59,551
Total equity		200,991	7,501	208,492	208,560	7,409	215,969
Liabilities							
Loans and borrowings		540	-	540	308	-	308
Deferred tax liabilities	*a(2),b*	4,459	158	4,617	4,172	154	4,326
Total non-current liabilities		4,999	158	5,157	4,480	154	4,634
Loans and borrowings		3,725	-	3,725	2,850	-	2,850
Trade and other payables		9,423	-	9,423	10,353	-	10,353
Total current liabilities		13,148	-	13,148	13,203	-	13,203
Total liabilities		18,147	158	18,305	17,683	154	17,837
Total equity and liabilities		219,138	7,659	226,797	226,243	7,563	233,806

30. Explanation of transition to MFRSs (continued)

30.2 Reconciliation of profit or loss and other comprehensive income for the year ended 31 December 2011

Group	Note	FRSs RM'000	Effect of Transition to MFRSs RM'000	MFRSs RM'000
Revenue		1,089,969	-	1,089,969
Other income		10,420	-	10,420
Changes in inventories of finished goods and work-in-progress		34,006	-	34,006
Raw material and consumables used		(754,037)	-	(754,037)
Goods purchased for resale		(3,873)	-	(3,873)
Staff costs		(109,355)	-	(109,355)
Depreciation of property, plant and equipment	*a(2)*	(40,280)	(630)	(40,910)
Other expenses		(106,465)	-	(106,465)
Results from operating activities		120,385	(630)	119,755
Finance costs		(7,465)	-	(7,465)
Profit before tax		112,920	(630)	112,290
Tax expense	*a(2)*	(21,839)	138	(21,701)
Profit for the year		91,081	(492)	90,589
Other comprehensive income, net of tax				
Transfer (from)/to:				
- Revaluation reserve		(61)	61	-
- Retained profits		61	(61)	-
Foreign currency translation differences for foreign operations		3	-	3
Total other comprehensive income for the year		3	-	3
Comprehensive income for the year		91,084	(492)	90,592

30. Explanation of transition to MFRSs (continued)

30.2 Reconciliation of profit or loss and other comprehensive income for the year ended 31 December 2011 (continued)

Company

	Note	FRSs RM'000	Effect of Transition to MFRSs RM'000	MFRSs RM'000
Revenue		139,414	-	139,414
Other income		2,409	-	2,409
Changes in inventories of finished goods and work-in-progress		2,278	-	2,278
Raw material and consumables used		(57,426)	-	(57,426)
Goods purchased for resale		(221)	-	(221)
Staff costs		(24,266)	-	(24,266)
Depreciation of property, plant and equipment	*a(2)*	(3,602)	(96)	(3,698)
Other expenses		(14,477)	-	(14,477)
Results from operating activities		44,109	(96)	44,013
Finance costs		(83)	-	(83)
Profit before tax		44,026	(96)	43,930
Tax expense	*a(2)b*	(980)	4	(976)
Profit for the year		43,046	(92)	42,954
Other comprehensive income, net of tax				
Transfer (from)/to:				
- Revaluation reserve		(61)	61	-
- Retained profits		61	(61)	-
Total other comprehensive income for the year		-	-	-
Comprehensive income for the year		43,046	(92)	42,954

30.3 Material adjustments to the statements of cash flows for 2011

There are no material differences between the statement of cash flows presented under MFRSs and the statement of cash flows presented under FRSs.

30. Explanation of transition to MFRSs (continued)

30.4 Notes to reconciliations

(a) Property, plant and equipment – Deemed cost exemption – previous revaluation (1)

Under FRSs, the Group and the Company had availed itself to the transitional provision when the MASB first adopted IAS 16, Property, Plant and Equipment in 1998. Certain freehold land and buildings were revalued in 1995 and no later valuation has been recorded for these property, plant and equipment (except in the case of impairment adjustments based on valuation).

Upon transition to MFRSs, the Group and the Company elected to apply to certain land and buildings the optional exemption to use that previous revaluation as deemed cost under MFRSs. The revaluation reserves for the Group and the Company of RM1,183,000 and RM585,000 at 1 January 2011 and RM1,122,000 and RM524,000 at 31 December 2011 were reclassified to retained earnings.

The impact arising from the change is summarised as follows:

	Group		Company	
	1.1.2011 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2011 RM'000
Consolidated statement of financial position				
Revaluation reserve	(1,183)	(1,122)	(585)	(524)
Adjustment to retained earnings	1,183	1,122	585	524

(a) Property, plant and equipment – Deemed cost exemption – fair value (2)

The Group and the Company elected to apply the optional exemption to measure certain land and buildings at fair value at the date of transition to MFRSs and use that fair value as deemed cost under MFRSs.

The aggregate fair value of these land and buildings at 1 January 2011 was determined to be RM148,000,000 compared to the then carrying amount of RM107,092,000 under FRSs.

The impact arising from the change is summarised as follows:

	Group		Company	
	1.1.2011 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2011 RM'000
(i) Consolidated statement of profit or loss and other comprehensive income				
Depreciation of property, plant and equipment		(630)		(96)
Related tax effect		138		4
Adjustment to profit after tax		(492)		(92)
(ii) Consolidated statement of financial position				
Property, plant and equipment	40,908	40,278	7,659	7,563
Related tax effect	(6,110)	(5,972)	(158)	(154)
Adjustment to retained earnings	34,798	34,306	7,501	7,409

30. Explanation of transition to MFRSs (continued)

30.4 Notes to reconciliations (continued)

(a) Property, plant and equipment – Deemed cost exemption – fair value (2) (continued)

(iii) Reconciliation of property, plant and equipment Notes (land and buildings)

Group	Freehold Land RM'000	Building RM'000	Total RM'000
FRSs cost as at 1 January 2011	51,651	95,963	147,614
FRSs accumulated depreciation as at 1 January 2011	-	(11,991)	(11,991)
Add: FRSs accumulated depreciation as at 1 January 2011 pertained to buildings carried at cost	-	2,040	2,040
Transition to MFRSs	13,869	27,039	40,908
MFRSs cost as at 1 January 2011 (Note 3)	65,520	113,051	178,571

Company	Freehold Land RM'000	Building RM'000	Total RM'000
FRSs cost as at 1 January 2011	5,689	17,036	22,725
FRSs accumulated depreciation as at 1 January 2011	-	(4,115)	(4,115)
Add: FRSs accumulated depreciation as at 1 January 2011 pertained to buildings carried at cost	-	122	122
Transition to MFRSs	4,427	3,232	7,659
MFRSs cost as at 1 January 2011 (Note 3)	10,116	16,275	26,391

(b) Income tax

The changes that affected the deferred tax liabilities are as follows:

	Note	Group 1.1.2011 RM'000	Group 31.12.2011 RM'000	Company 1.1.2011 RM'000	Company 31.12.2011 RM'000
Property, plant and equipment	*a(2)*	6,110	5,972	158	154
Increase in deferred tax liabilities		6,110	5,972	158	154

The effect on the statement of profit or loss and other comprehensive income for the year ended 31 December 2011 was to decrease the previously reported tax charge for the financial year by RM138,000 for the Group and RM4,000 for the Company.

Reconciliation of deferred tax liabilities

	Revaluation on deemed cost			
	Group 1.1.2011 RM'000	Group 31.12.2011 RM'000	Company 1.1.2011 RM'000	Company 31.12.2011 RM'000
FRSs amount	683	663	649	629
Transition to MFRS	6,110	5,972	158	154
MFRSs amount (Note 6)	6,793	6,635	807	783

30. Explanation of transition to MFRSs (continued)

30.4 Notes to reconciliations (continued)

(c) Retained earnings

The changes that affected the retained earnings are as follows:

		Group		Company	
	Note	**1.1.2011 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**	**31.12.2011 RM'000**
Property, plant and equipment	*a(1),a(2)*	(35,981)	(35,428)	(8,086)	(7,933)
Increase in retained earnings		(35,981)	(35,428)	(8,086)	(7,933)

31. 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 2012, 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	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Total retained earnings of the Company and its subsidiaries:				
- realised	466,938	382,757	73,345	56,314
- unrealised	(8,180)	(789)	3,125	3,237
	458,758	381,968	76,470	59,551
Less: Consolidation adjustments	(10,427)	(7,230)	-	-
Total group retained profits as per consolidated accounts	448,331	374,738	76,470	59,551

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.

Statements of Directors
pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 33 to 97 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 2012 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 31 on page 98 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 Wang

Klang, Selangor Darul Ehsan

Date: 18 April 2013

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 33 to 98 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 18 April 2013.

Lee Hon Chee

Before me:

Goh Cheng Teak
No. B204

Commisioner 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 2012 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 33 to 97.

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 2012 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 all 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.

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 31 on page 98 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: 18 April 2013

List of Properties
As at 31 December 2012

Location	Description	Date of Acqusition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2012 RM'000
No 14 Lrg Sg Puloh Tmn Klang Utama 42100 Klang	1 unit double storey link house	03/24/1995*	19 yrs	990 sq.ft	Freehold	Staff quarters	69
No 16 Lrg Sg Puloh Tmn Klang Utama 42100 Klang	1 unit double storey link house	03/24/1995*	19 yrs	990 sq.ft	Freehold	Staff quarters	69
Lot 754 Jalan Hj Sirat 42100 Klang Part of PT46601 Mukim of Kapar	Factory	01/01/2011*	18 yrs	246,550 sq.ft	Freehold	Factory	15,086
Lot 782 Jalan Sungai Putus 42100 Klang Part of PT46601 Mukim of Kapar	Factory and office 5 storey office	01/01/2011*	Factory-25 yrs Office-18 yrs 5 yrs	47,480 sq.ft	Freehold	Factory and office Office	2,365 3,639
Lot 16632 Batu 5 1/4 Jalan Meru 41050 Klang	Single storey detached factory	03/24/1995*	23 yrs	65,175 sq.ft	Freehold	Factory and office	2,372
Lot 2401 Batu 17 Jln Sungai Sembilang 45800 Jeram	Factory	01/01/2011*	14 yrs	106,177 sq.ft	Freehold	Factory	3,956
PT 5708 (formerly Lot 2796) Mukim of Jeram District of Kuala Selangor	Factory	01/01/2011*	10 yrs	213,916 sq.ft	Freehold	Factory	8,445
PT 5708 (formerly Lot 1365) Batu 17 Jln Sungai Sembilang 45800 Jeram	Factory	01/01/2011*	14 yrs 5 yrs	217,800 sq.ft	Freehold	Factory and office Factory	8,114 4,671
HS (M) 15410 & 15405 PT 21715 & 15708 24 Jln Pengasah 4 Off Jln Kapar 42100 Klang	1 unit 1 1/2 storey light industrial building	04/03/2003	19 yrs	174 sq.ft	Freehold	Store	211
HS (M) 1168 PT 476 Batu 15 1/4 Jalan Kapar Mukim Jeram	Staff quarters	02/27/2003	9 yrs	5,527 sq.mtr	Freehold	Staff quarters	731
Lot 6134 and 6135, Batu 16 Jalan Klang Formerly Lot 1366 Batu 17 Jalan Kapar Mukim Jeram	Factory	01/01/2011*	2 yrs	152,460 sq.ft	Freehold	Vacant	9,954

List of Properties
As at 31 December 2012

Location	Description	Date of Acqusition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2012 RM'000
Jalan Kapar Mukim Jeram Geran 40417, Lot 4761 Mukim Jeram Kuala Selangor	Factory	05/19/2004	8 yrs	7 acres 1 rood 14.67 poles	Freehold	Factory	4,163
PT 59816 (formerly Lot 6129), 5 1/4 Miles, Jln Hj Abdul Manan, Jln Meru 41050 Klang	Factory	01/01/2011*	6 yrs	434,145 sq.ft	Freehold	Factory and office	32,690
Lot 63617 (formerly PT 54925) Mukim Kapar Daerah Klang	Vacant land	01/01/2011*	nil	10.77 acres	Freehold	Vacant	6,636
Lot 63616 (formerly PT 54924) Mukim Kapar Daerah Klang	Land Factory	01/01/2011*	nil Plant A - 2 yrs Plant B - 1 yr	11.25 acres	Freehold	Factory and office	6,800 16,279 6,660
Lot 24077 (formerly PT 13726) Jln Hj Abdul Manan, Jln Meru 41050 Klang	Factory	01/01/2011*	5 yrs	5.392 acres	Freehold	Factory and office	22,032
GM 1724 & 1725 Lot 5068 & 5069 Batu 5 1/4 Jalan Meru 41050 Klang	Vacant land	11/09/2010	under construction	6 acres	Freehold	Factory and office	27,832
Lot 6130, 5 1/4 Miles Jln Hj Abdul Manan, Jln Meru 41050 Klang	Factory	01/01/2011*	4 yrs	10.0 acres	Freehold	Factory	43,982
Lot 1367 Batu 17 Jalan Kapar Mukim Jeram	Vacant land	07/21/2009	nil	1.9875 acres	Freehold	Vacant	846
Block 2 Zone C, Guang Hui Industrial Park Dongguan City Guangdong China	Cost of Factory constructed on rented property	06/30/2011	8 yrs	na	Rental	Factory and office	271
5100 E. 2nd Street Benecia CA 94510 United States of America	Industrial warehouse	05/31/2012	13 yrs	4.15 acres	Freehold	Warehouse and office	11,265
							239,138

Statistics on Shareholdings
as at 30 April 2013

Authorised Share Capital	:	RM 1,000,000,000
Issued and Fully Paid Up	:	RM 159,866,976
Class of Shares	:	Ordinary shares of RM 0.50 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	110	2.97	7,097	0.00
100 - 1,000	714	19.31	565,276	0.18
1,001 - 10,000	1,998	54.01	8,754,148	2.75
10,001 - 100,000	712	19.25	21,329,846	6.69
100,001 to less than 5% of issued shares	162	4.38	108,335,445	34.00
5% and above of issued shares	3	0.08	179,627,740	56.38
Total	**3,699**	**100.00**	**318,619,552**	**100.00**

Note : Based on adjusted issued shares capital of 318,619,552 ordinary shares of RM0.50 each after deducting 1,114,400 treasury shares retained by the Company as per Record of Depositors.

Directors' Shareholdings

No	Name of Directors	No. of Shares Direct Interest	%	No. of Shares Indirect Interest	%
1	Dato' Haji Mokhtar Bin Hj. Samad	-	-	-	-
2	Dato' Lim Kuang Sia - Cimsec Nominees (Tempatan) Sdn Bhd - CIMB for Dato' Lim Kuang Sia (PB)	381,888	0.12	163,778,488	51.4
3	Lim Kuang Yong	-	-	163,256,240	51.24
4	Lim Kuang Wang	718,848	0.23	163,256,240	51.24
5	Lim Kwan Hwa	-	-	163,256,240	51.24
6	Dato' Tai Chang Eng @ Teh Chang Ying	229,520	0.07	-	-
7	Tong Siew Choo	29,952	0.01	-	-
8	Lim Leng Bung	-	-	163,256,240	51.24

Statistics on Shareholdings
as at 30 April 2013

Substantial Shareholders

No	Name of Substantial Shareholders		Direct Interest	%
1	Kossan Holdings (M) Sdn Bhd		163,256,240	51.24
	- Kossan Holdings (M) Sdn Bhd	146,178,768		
	- Kossan Holdings (M) Sdn Bhd	17,077,472		
2	Invesco Asia Pacific Growth Fund		16,371,500	5.14
	- Cartaban Nominees (Asing) Sdn Bhd			
	- SSBT Fund KG33 for Invesco Asia Pacific Growth Fund			

30 Largest Shareholders

No	Name of Substantial Shareholders	Direct Interest	%
1	KOSSAN HOLDINGS (M) SDN BHD	146,178,768	45.88
2	KOSSAN HOLDINGS (M) SDN BHD	17,077,472	5.36
3	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND KG33 FOR INVESCO ASIA PACIFIC GROWTH FUND	16,371,500	5.14
4	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	14,163,600	4.45
5	TIAN SENN RESOURCES SDN BHD	8,000,000	2.51
6	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	5,985,900	1.88
7	HSBC NOMINEES (ASING) SDN BHD HSBC-FS FOR THE NAVIS ASIA NAVIGATOR MASTER FUND	4,754,700	1.49
8	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AMERICAN INTERNATIONAL ASSURANCE BERHAD	4,689,000	1.47
9	CITIGROUP NOMINEES (TEMPATAN) SDN BHD ING INSURANCE BERHAD (INV-IL PAR)	3,661,200	1.15
10	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC OPPORTUNITIES FUND	3,187,600	1.00
11	AMANAHRAYA TRUSTEES BERHAD PB GROWTH FUND	2,430,300	0.76
12	HSBC NOMINEES (ASING) SDN BHD BNP PARIBAS SECS SVS PARIS FOR HI-KABL-FONDS	2,200,000	0.69
13	RUBY TECHNIQUE SDN BHD	2,175,000	0.68
14	LIM HUI GUAN	1,983,000	0.62
15	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT TREASURES FUND	1,912,500	0.60
16	MAYBANK NOMINEES (TEMPATAN) SDN BHD ETIQA INSURANCE BERHAD (LIFE PAR FUND)	1,369,000	0.43

30 Largest Shareholders

No	Name of Substantial Shareholders	Direct Interest	%
17	RUBY TECHNIQUE SDN BHD	1,338,800	0.42
18	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (PHEIM)	1,281,700	0.40
19	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SUSY DING (CEB)	1,220,000	0.38
20	YEE CHEK MUN	1,090,000	0.34
21	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	1,051,400	0.33
22	CHIA BAK LANG	1,030,000	0.32
23	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (NORGES BK)	1,000,000	0.31
24	HSBC NOMINEES (ASING) SDN BHD HSBC-FS FOR NIIF PUBLIC EQUITIES	989,700	0.31
25	RUBY TECHNIQUE SDN BHD	986,200	0.31
26	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	871,300	0.27
27	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR MORGAN STANLEY & CO. LLC (CLIENT)	864,200	0.27
28	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	840,300	0.26
29	CH'NG CHAN SENG	815,400	0.26
30	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC TREASURES GROWTH FUND	770,000	0.24
	Total	**250,288,540**	**78.55**

NOTICE IS HEREBY GIVEN that the Thirty Third (33rd) Annual General Meeting ("AGM") of the Company will be held at Concorde II, Level 2, Concorde Hotel Shah Alam, 3, Jalan Tengku Ampuan Zabedah C 9/C, 40100 Shah Alam on Tuesday, 25 June 2013 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 2012 together with Reports of the Directors and the Auditors thereon.

2. To approve payment of a final tax exempt dividend of 7 sen per ordinary share of RM0.50 each for the financial year ended 31 December 2012. **(Ordinary Resolution 1)**

3. To approve the payment of Directors' Fees amounting to RM 170,000 for the financial year ended 31 December 2012. (2011 : RM180,000) **(Ordinary Resolution 2)**

4. To re-elect the following Directors retiring by rotation pursuant to Article 108 of the Articles of Association, and being eligible, have offered themselves for re-election:

   (1) Dato' Tai Chang Eng @ Teh Chang Ying **(Ordinary Resolution 3)**

   (2) Dato' Lim Kuang Sia **(Ordinary Resolution 4)**

   (3) Mr. Lim Kwan Hwa **(Ordinary Resolution 5)**

5. To re-appoint KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 6)**

SPECIAL BUSINESS

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

6. Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature ("Proposal")

   "That, the shareholders' mandate approved by the shareholders at the Thirty Second Annual General Meeting of the Company held on the 21 June 2012 pursuant to paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, authorizing the Company and its subsidiaries ("Kossan Group") to enter into the recurrent related party transactions of a revenue or trading nature as set out in Section 2.5 of the Circular to shareholders dated 28 May 2012 with the related parties mentioned therein and below, which are necessary for the Kossan Group's day-to-day operations, be and is hereby renewed as set out in Section 2.5 of the Circular to shareholders dated 30 May 2013:-

   (1) Kossan Holdings (M) Sdn. Bhd. and its subsidiaries. **(Ordinary Resolution 7)**

   (2) Kossan FRP Industries (M) Sdn. Bhd. and its subsidiaries **(Ordinary Resolution 8)**

   (3) HT Ceramics (M) Sdn. Bhd. **(Ordinary Resolution 9)**

   Subject further to the following:

   (a) The transactions are in the ordinary course of business and are on terms which are not more favourable to the related party than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and

(b) The disclosures will be made in the Annual Report of the breakdown of the aggregate value of recurrent related party transactions conducted pursuant to the Proposal during the financial year based on the type of recurrent related party transactions made, the names of the related parties involved in each type of recurrent related party transactions and their relationship with the Company where:-

(i) the consideration, value of the assets, capital outlay or costs of the aggregated transactions is equal to or exceeds RM1,000,000; or

(ii) any one of the percentage ratios of such aggregated transactions is equal to or exceeds 1.0%;

whichever is the higher

And that the authority granted by such mandate shall continue to be in force until:-

(a) the conclusion of the next AGM following the forthcoming 33rd AGM at which the ordinary resolution for the Proposal is passed, at which time it will lapse unless by a resolution passed at a general meeting, the authority is renewed;

(b) the expiration of the period within which the next AGM is to be held pursuant to Section 143(1) of the Act (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Act,); or

(c) the Proposal is revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

And that the Directors of the Company be and are hereby authorised to complete and do such acts and things (including executing such documents as may be required) to give effect to the transactions contemplated and authorised by this Resolution.

And that the estimates given on the recurrent related party transactions specified in Section 2.5 of the Circular being provisional in nature, the directors of the Company be and are hereby authorised to agree to the actual amount or amounts thereof provided always that such amount or amounts comply with the review procedures set out in Section 2.7 of the Circular.

7. Proposed Renewal of Authority For Share Buy-back **(Ordinary Resolution 10)**

(a) "That, subject to the provisions under the Act, the Memorandum and Articles of Association of the Company, the Listing Requirements of Bursa Securities and any other relevant authorities, and other relevant approvals (if any), the Directors of the Company be and are hereby authorised to purchase such number of ordinary shares of RM0.50 each of the Company ("Shares") from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of Shares purchased pursuant to this resolution shall not exceed ten per cent (10%) of the total issued and paid up share capital of the Company;

(b) That the maximum amount of funds to be utilised for the purpose of the Proposed Share Buy-back shall not exceed the aggregate retained profits and/or share premium account of the Company;

(c) That authority be and is hereby given to the Directors of the Company to decide at their discretion, as may be permitted and prescribed by the Act and/or any prevailing laws, rules, regulations, orders, guidelines and requirements issued by the relevant authorities for the time being in force to deal with any Shares so purchased by the Company in the following manner:

(i) the Shares so purchased could be cancelled; or

(ii) the Shares so purchased could be retained as treasury shares for distribution as share dividends to the shareholders of the Company and/or be resold through Bursa Securities in accordance with the relevant rules of Bursa Securities and/or be cancelled subsequently; or

(iii) combination of (i) and (ii) above

(d) That the authority conferred by this resolution shall only continue to be effective until:

(i) the conclusion of the next AGM of the Company, following the AGM of the Company at which such resolution was passed, at which time the said authority would lapse unless renewed by ordinary resolution passed at that meeting, the authority is renewed either unconditionally or subject to conditions; or

(ii) the expiration of the period within which the next AGM is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(iii) revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earlier;

(e) And that the Directors of the Company be and are hereby authorised to take such steps as to give full effect to the Proposed Share Buy-back with full power to assent to any conditions, modifications, variations and/or amendments as may be imposed by the relevant authorities and/or to do all such acts and things as the Directors may deem fit and expedient in the best interest of the Company."

8. Retention of Independent Directors

(a) Dato' Haji Mokhtar Bin Haji Samad **(Ordinary Resolution 11)**

"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 12)

(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.

9. 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 7 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2012, if approved by members at the Annual General Meeting to be held on Tuesday, 25 June 2013, will be paid on 16 July 2013. The entitlement date for the dividend will be 2 July 2013. .

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 2 July 2013 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 (MIA 4797)
CHIA YEW NGO (LS 1831)
Company Secretaries
Klang, Selangor Darul Ehsan

30 May 2013

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. Form of Proxy

   (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 2013 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 renewal of existing shareholders' mandate for recurrent related party transactions of a revenue or trading nature ("Proposal")

The proposed Ordinary Resolutions 7,8 and 9 is to seek shareholders' approval on the related party transactions entered or to be entered into by the Kossan Group are all in the ordinary course of business. They are recurring transactions of a revenue or trading nature which are likely to occur with some degree of frequency and 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.

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 2013 to allow the Kossan Group to enter into such recurrent related party transactions made on an 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 2013.

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 Kossan Group or adversely affecting the business opportunities available to the Kossan Group.

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

The proposed Ordinary Resolution 10, 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 2013, which is despatched together with the Company's 2012 Annual Report.

(iii) Retention of Independent Directors

The proposed Ordinary Resolutions 11 and 12 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 10- 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 11 – 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 Securities.

  (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)

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)

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 Third Annual General Meeting of the Company, to be held at Concorde II, Level 2, Concorde Hotel Shah Alam, 3, Jalan Tengku Ampuan Zabedah C 9/C, 40100 Shah Alam, Selangor Darul Ehsan on Tuesday, 25 June 2013 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
AS ORDINARY BUSINESS:					
Ordinary Resolution 1	To approve final tax exempt dividend				
Ordinary Resolution 2	To approve Directors' Fees amounting to RM170,000 for the financial year ended 31 December 2012.				
Ordinary Resolution 3	To re-elect Dato' Tai Chang Eng @ Teh Chang Ying who retires in accordance with Article 108 of the Company's Articles of Association.				
Ordinary Resolution 4	To re-elect Dato' Lim Kuang Sia who retires in accordance with Article 108 of the Company's Articles of Association.				
Ordinary Resolution 5	To re-elect Lim Kwan Hwa who retires in accordance with Article 108 of the Company's Articles of Association				
Ordinary Resolution 6	To re-appoint Messrs KPMG as Auditors of the Company and to authorize the Directors to fix their remuneration.				
AS SPECIAL BUSINESS:					
	Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature ("Proposal") with:				
Ordinary Resolution 7	(a) Kossan Holding (M) Sdn. Bhd. and its subsidiaries				
Ordinary Resolution 8	(b) Kossan FRP Industries (M) Sdn. Bhd and its subsidiaries				
Ordinary Resolution 9	(c) HT Ceramics (M) Sdn. Bhd.				
Ordinary Resolution 10	Proposed renewal of mandate for share buy back				
Ordinary Resolution 11	To retain Dato' Haji Mokhtar Bin Haji Samad as an Independent Non-Executive Director.				
Ordinary Resolution 12	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 ______________2013.

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 authorize 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 2013 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

www.kossan.com.my