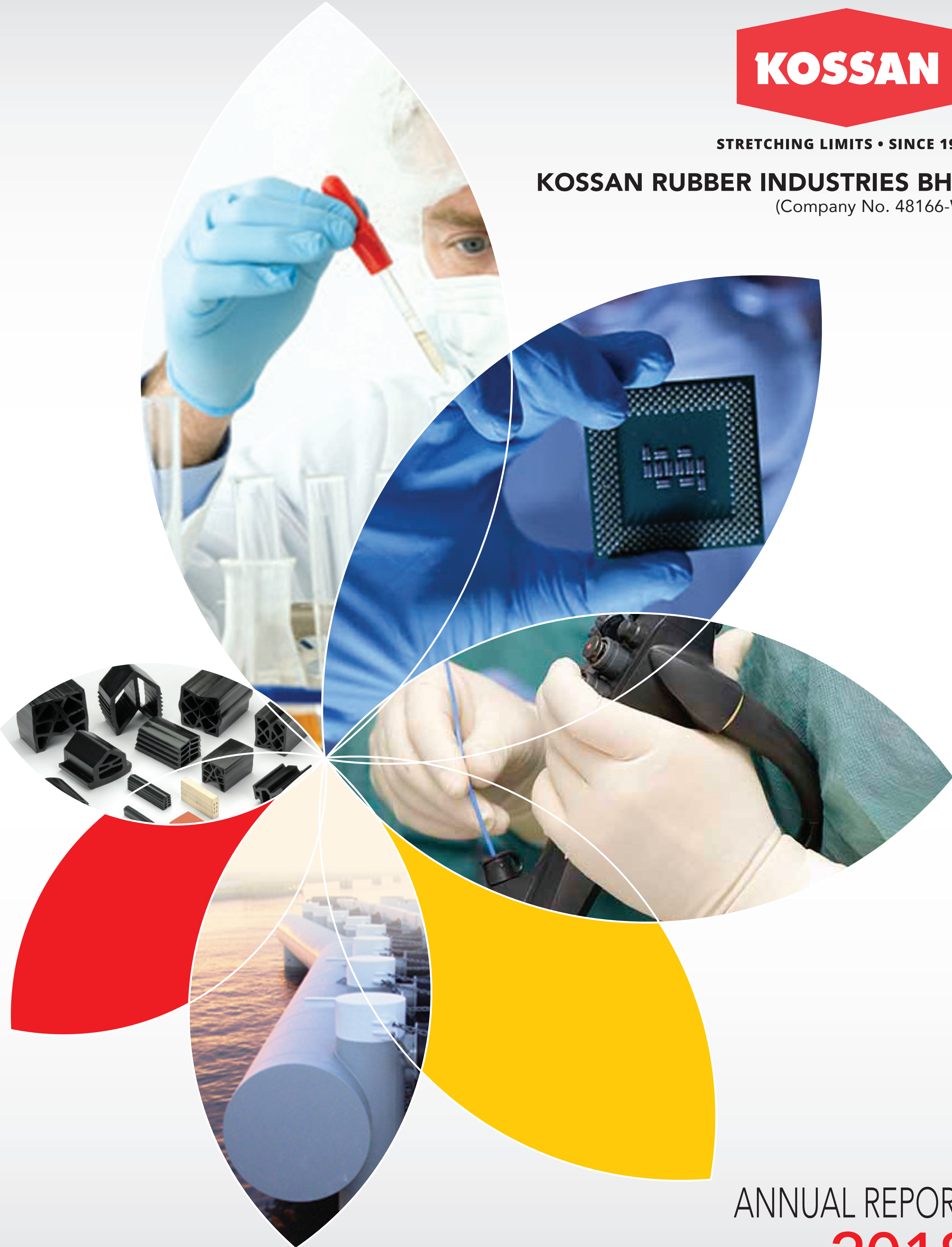
KOSSAN

STRETCHING LIMITS • SINCE 1979

KOSSAN RUBBER INDUSTRIES BHD

(Company No. 48166-W)



ANNUAL REPORT 2018

BUSINESS STABILITY WITH LONG TERM SUSTAINABLE GROWTH

ACCREDITED LABORATORY

MS ISO/IEC 17025
TESTING
SAMM NO. 464

International Laboratory
Accreditation Cooperation

KOSSAN LABORATORY
KOSSAN INDUSTRIES SDN BHD

MS ISO/IEC 17025
TESTING
SAMM NO. 372

International Laboratory
Accreditation Cooperation

E-LAB TESTING AND RESEARCH CENTER
DOSHIN RUBBER PRODUCTS (M) SDN BHD

ENVIRONMENTAL MANAGEMENT SYSTEM

ISO 14001
Lloyd's Register Quality Assurance Limited
KOSSAN INDUSTRIES SDN BHD
HIBON CORPORATION SDN BHD

QUALITY MANAGEMENT SYSTEM

IATF 16949
SAI Global Certification Services Pty Ltd.
KOSSAN INDUSTRIES SDN BHD

AS/NZS ISO 9001
SAI Global Certification Services Pty Ltd.
KOSSAN INDUSTRIES SDN BHD
DOSHIN RUBBER PRODUCTS (M) SDN BHD
QUALITY PROFILE SDN BHD

ISO/TS 16949
AUTOMOTIVE
Lloyd's Register Quality Assurance Ltd.
HIBON CORPORATION SDN BHD

BS EN 681: Pt.1
IKRAM QA Service Sdn Bhd
KOSSAN INDUSTRIES SDN BHD

ISO 9001
Lloyd's Register Quality Assurance Ltd.
HIBON CORPORATION SDN BHD

EN 15129
Certificate of Constancy of Performance
SRAC Certserv
Antiseismic Devices. Seismic Isolators
Elastomeric High Damping Isolators
DOSHIN RUBBER PRODUCTS (M) SDN BHD

ISO 13485 & EN ISO 13485
BSI Assurance UK Limited
KOSSAN INTERNATIONAL SDN BHD
KOSSAN LATEX INDUSTRIES (M) SDN BHD
WEAR SAFE (MALAYSIA) SDN BHD
PERUSAHAAN GETAH ASAS SDN BHD
IDEAL QUALITY SDN BHD

ISO 9001
BSI Assurance UK Limited
KOSSAN INTERNATIONAL SDN BHD
KOSSAN LATEX INDUSTRIES (M) SDN BHD
WEAR SAFE (MALAYSIA) SDN BHD
PERUSAHAAN GETAH ASAS SDN BHD
IDEAL QUALITY SDN BHD

CE 2797

EC Certificate
BSI Group The Netherlands B.V.
Sterile Surgeons Natural Rubber and Polyisoprene Gloves
KOSSAN INTERNATIONAL SDN BHD
WEAR SAFE (MALAYSIA) SDN BHD

AWARDS & RECOGNITION

Malaysia's Best Employer Brand Awards 2018: Best Employer Brand

MREPC Industry Awards 2018: Export Excellence Award (Big Corporation Category)

The BrandLaureate: World Halal Best Brands Award 2018

2018 Frost & Sullivan Asia Pacific Best Practices Awards : Global Halal Glove Company of the Year

FMM ICON Awards

CORPORATE
VISION

To be the most respected global leader in the latex glove manufacturing industry.

CORPORATE
MISSION

To be the most respected global leader, we need to be:

- Operational and financial excellence through continuous technological advancement and innovation.
- People-centric with focus on peoples' competencies development, team work, professionalism and welfare.
- A good and responsible corporate citizen with effective policies to protect the earth and promote sustainability.

Inspired

Innovative

Caring

Honorable

Committed

CORPORATE
CORE VALUES

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CORPORATE INFORMATION

BOARD OF DIRECTORS

MOHAMED SHAFEII BIN ABDUL GAFFOOR
(Chairman)

TAN SRI DATO' LIM KUANG SIA
(Managing Director and Chief Executive Officer)

LIM LENG BUNG
TAN KONG CHANG
LIM SIAU TIAN
LIM SIAU HING
LIM OOI CHOW
LEE CHOO HOCK
HOH KIM HYAN

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 PLT
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
Sumitomo Mitsui Banking Corporation Malaysia Berhad

SHARE REGISTRAR

Boardroom Share Registrars Sdn. Bhd.
(Formerly known as Symphony Share Registrars Sdn. Bhd.)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan.
Tel : 03-7849 0777
Fax : 03-7841 8151/52
Website : www.boardroomlimited.com

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

INVESTOR RELATIONS

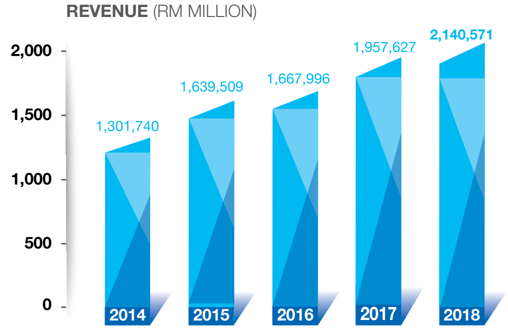
Benjamin Wynn Lim
Tel : 03-3291 2657
Fax : 03-3291 2903
Email : bhlim@kossan.com.my

FINANCIAL HIGHLIGHTS

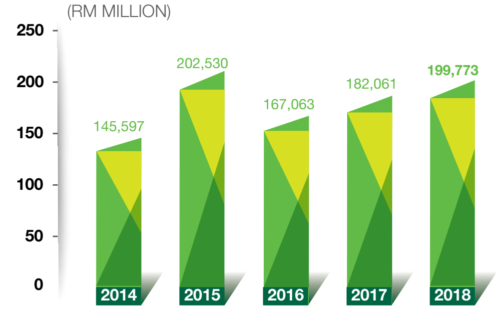
PERIOD/YEAR ENDED	31 DEC 18	31 DEC 17	31 DEC 16	31 DEC 15	31 DEC 14
FINANCIAL RESULTS (RM'000)					
Revenue	**2,140,571**	1,957,627	1,667,996	1,639,509	1,301,740
Profit before taxation	**249,264**	228,313	210,008	268,567	186,721
Profit attributable to equity holders of the Company	**199,773**	182,061	167,063	202,530	145,597
FINANCIAL POSITION (RM'000)					
Total borrowings	**508,680**	396,746	177,486	223,292	206,096
Total assets	**2,148,227**	1,865,064	1,551,904	1,476,295	1,289,665
Total cash and bank balances	**146,315**	210,382	109,847	168,383	63,899
Total net tangible assets	**1,308,299**	1,148,457	1,038,702	945,995	802,104
Share capital	**323,885**	323,885	319,734	319,734	319,734
Equity attributable to equity holders of the Company	**1,314,864**	1,155,022	1,045,267	950,921	807,030
FINANCIAL RATIOS					
Basic earnings per share (sen)	**15.62**	14.24	13.06	15.84	11.38
Net assets per share (RM)	**1.03**	0.90	0.82	0.74	0.63
Net gearing ratio (%)	**27.56**	16.14	6.47	5.77	17.62
Return on equity (%)	**15.19**	15.76	15.98	21.30	18.04
Return on assets (%)	**9.52**	9.88	11.02	13.98	11.54
Dividend per share (sen)	**6.00**	5.50	5.50	6.00	4.00

* *The comparative basic earnings per share, net assets per share and dividend per share have been adjusted taken into account the effect of share split on the basis of two new ordinary shares for every one existing ordinary shares held in FY2018*

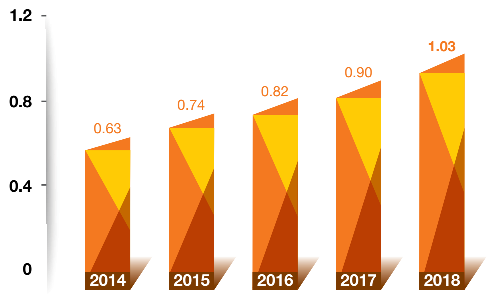
REVENUE (RM MILLION)



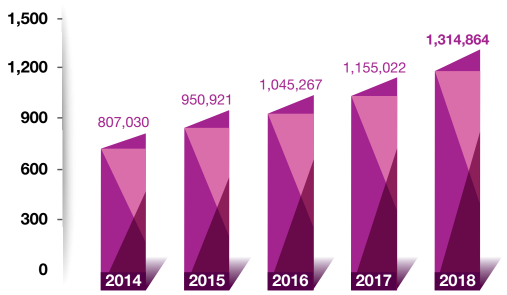
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS (RM MILLION)



NET ASSETS PER SHARE (RM)



EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS (RM MILLION)



CHAIRMAN'S **STATEMENT**

Mohamed Shafeii Bin Abdul Gaffoor
Chairman

Dear Shareholders,

As Chairman of the Board, I have witnessed Kossan Rubber Industries Bhd ("Kossan" or "Group") grow from strength to strength. The 2018 year was no exception as the Group achieved its highest ever revenue, growing by 9.4% and surpassing the RM2 billion threshold for the first time, recording another year of growth and achievement for the Group. Profit before tax also improved by 9.2% compared to a year ago, and with this the Group has now delivered a record 23 years of unbroken profits since its listing.

On this note and on behalf of the Board of Directors of Kossan Rubber Industries Bhd, it is my pleasure to present to you the annual report and financial statements for the financial year ended 31 December 2018.

Since starting my chairmanship in January 2017, I have had the privilege to witness the Group's evolution as the glove industry develops, and it has given me a true sense of appreciation into what drives Kossan forward as an organisation. The Group's transformation journey over the last couple of years has been rewarding yet challenging, where we have implemented structural changes in the way we operate whilst balancing our short-term priorities with our long-term growth objectives. These changes allow us to prepare ourselves to be even more resilient in the face of rising costs and market challenges. As these initiatives start to bear fruit, we have seen improvements in our efficiency as well as performance, with the end-goal of achieving **Business Stability with Long-Term Sustainable Growth.**

In recent decades, the manufacturing sector has seen rapid evolution. The glove manufacturing sector in particular, has seen the increased use of technology in the production process. From mass production through the use of high labour force in production lines in the past, to the use of automation and robotics to increase efficiency, the manufacturing industry is constantly evolving. It involves infusing higher value-added processes in manufacturing through the application of advanced digitisation, advanced manufacturing technologies and efficient resource utilisation. This would result in enhanced efficiency and reduced dependency on human labour, thus driving competitiveness going forward. It would pave the way to enhanced productivity, job creation, innovation capacity, high-skilled talent pool and ultimately economic prosperity and societal well-being. That next phase of evolution is referred to as the Fourth Industrial Revolution or Industry 4.0. Realising its importance, Kossan has implemented automation and robotics in its manufacturing process to remain cost competitive, efficient and to further improve quality levels.

At Kossan, we understand that financial performance is not the only measure of success. At the centre of our continued success and growth is a focus on sustainability. In our efforts to drive economic, environmental and social sustainability, we have grouped our sustainability initiatives around three key themes i.e. Sustainable Business Growth, Environmental Stewardship and Social Responsibility. Though it is a work-in-progress, I am pleased to report that we have made good progress in our sustainability agenda during the 2018 year. Amongst others, through Yayasan Kossan and Project Smile, the Group has been actively involved in the educational and social well-being of the local communities where it is present. As part of our sustainability process, we will continue to strengthen our performance by monitoring our specific targets and key performance indicators, fostering close relationships with our stakeholders as well as harmonising material sustainability principles across the Group. Updates on our on-going initiatives and results are further detailed in this year's Sustainability Report.

As we move ahead into the future, I am grateful to our many stakeholders who over the years have been highly supportive of Kossan. To all our valued shareholders, clients, partners, vendors and business associates, thank you for the continued support, trust and loyalty that you have given Kossan. We look forward to strengthening our relationship with you going forward.

Last but not least, to the Kossan Board and management as well as all employees, I would like to take this opportunity to extend my gratitude for their determination and commitment that has resulted in an exceptional performance for the Group. Under their guidance and efforts, I am confident that we will continue to deliver sustainable shareholder value moving forward.

Mohamed Shafeii Bin Abdul Gaffoor
Chairman

MANAGING DIRECTOR'S **MANAGEMENT DISCUSSION & ANALYSIS**

Tan Sri Dato' Lim Kuang Sia
Managing Director and Chief Executive Officer

Dear Shareholders,

2018 has been a year of growth for Kossan Rubber Industries Bhd ("Kossan" or "Group").

I am pleased to report that for the financial year ended 31 December 2018 ("FY2018"), we have delivered another year of improved financial performance despite operating under challenging market conditions characterised by rising production costs and a tougher competitive environment.

The Group recorded its highest ever full year revenue, surpassing the RM2 billion mark to RM2.14 billion as compared with RM1.96 billion in FY2017. Profit before tax grew to RM249.3 million in 2018 compared with RM228.3 million last year. Similarly, Shareholders' Funds grew by 13.8% to RM1.31 billion with a Return on Shareholders' Equity of 15.2% for FY2018.

The improved performance is a result of our commitment to long-term, sustainable growth, where we continued to invest for the future - continuing the transformation within our organisation, empowering our people, reengineering our processes and rethinking the way we do business. Our disciplined focus has meant that for the 23rd year running, we are making good on our promise of delivering enduring value to all our shareholders.

OPERATING ENVIRONMENT

The global expansion has weakened. Global growth for 2018 is estimated at 3.7% (2017: 3.7%), with weaker performance in some economies, notably Europe and Asia (source: International Monetary Fund ("IMF") World Economic Outlook Update, January 2019).

On the glove front, the Malaysian Rubber Glove Manufacturers Association ("MARGMA") estimates global demand to reach 268.0 billion pieces in 2018 (2017: 232.2 billion pieces) increasing by 15% year-on-year and confirming the industry's growth trajectory. Malaysia commanded over 60% of total global market share, cementing its position as the leading producer of rubber gloves worldwide, well ahead of countries like Thailand and China. For 2018, MARGMA estimates that Malaysia's glove exports will reach 168 billion pieces (2017: 150 billion pieces) with an export value of RM17.7 billion gloves (2017: RM15.9 billion).

OPERATIONAL HIGHLIGHTS

As one of the largest manufacturers of natural rubber and nitrile gloves in the world, Kossan has constantly reinvented itself to meet the changing needs of the market. By leveraging on its uncompromising product quality, technological know-how and manufacturing excellence, the Group aspires to transform itself into a high-value, high-technology glove manufacturer. Notwithstanding these longer-term objectives, the Group has continued to deliver on its short-term priorities in 2018, the highlights of which are as follows:

- Completion of Plant 17 located in Meru in November 2018. Plant 17 which has an annual capacity of 1.5 billion pieces, will focus on the production of nitrile gloves. Modelled after Plant 16 with further improvements, this plant incorporates high-speed dipping machines with a high-degree of automation to reduce the dependence on manpower.

- In December 2018, the Group followed the launch last year of the world's first Halal-certified gloves (certified by JAKIM) with the world's first U.S. FDA 510 (k) granted nitrile gloves with protection against Fentanyl (a synthetic opioid drug).

FINANCIAL PERFORMANCE OVERVIEW

RM('000)	FYE2018	FYE2017	Change	(%)
Revenue	2,140,571	1,957,627	182,944	9.35%
- Technical Rubber Products	184,386	161,673	22,713	14.05%
- Gloves	1,874,919	1,713,732	161,187	9.41%
- Cleanroom Products	80,975	76,362	4,613	6.04%
- Others	291	5,860	-5,569	-95.03%
Operating Profit	264,351	235,989	28,362	12.02%
- Technical Rubber Products	27,896	16,172	11,724	72.50%
- Gloves	240,551	220,874	19,677	8.91%
- Cleanroom Products	3,628	2,931	697	23.78%
- Others	-7,724	-3,988	-3,736	-93.68%
Profit Before Taxation	249,264	228,313	20,951	9.18%
Profit After Taxation	204,599	184,235	20,364	11.05%
Earnings Per Share (sen)	15.62	14.24	1.38	9.69%
PBT Margin	11.64%	11.66%	-0.02	-0.17%
PAT Margin	9.56%	9.41%	0.15	1.59%

The Group recorded another year of growth for the financial year ended 31 December 2018. Revenue was RM2.14 billion, a 9.4% increase as compared with RM1.96 billion in 2017. Profit before tax (PBT) also registered higher at RM249.3 million, representing an increase of 9.2% compared with RM228.3 million in the previous year. The improved performance in FY2018 was attributable to the improved performance in all three divisions.

RM('000)	FYE2018	FYE2017	Change	(%)
Cash and Bank Balances	146,315	210,382	-64,067	-30.45%
Total Assets	2,148,227	1,865,064	283,163	15.18%
Total Liabilities	805,853	686,793	119,060	17.34%
Total Bank Borrowings	508,680	396,746	111,934	28.21%
Shareholders' Fund	1,314,864	1,155,022	159,842	13.84%
Issued and Fully Paid Capital	323,885	323,885	-	0.00%
Return on Equity (%)	15.19	15.76	-0.57	-3.62%
Net Gearing Ratio (%)	27.56	16.14	11.42	70.76%
Net Asset per Share (sen)	103	90	13.00	14.44%

As a result of the Group's reinvestments to pursue growth opportunities, total assets increased by 15.2% to RM2.15 billion from RM1.87 billion last year. These reinvestments to support the Group's capacity expansion, purchase of industrial land and working capital requirements, saw Kossan leveraging on its strong balance sheet through increased bank borrowings. Despite these capital expenditures, net gearing remained manageable at 27.6%, with cash and bank balances at RM146.3 million as at 31 December 2018.

REVIEW OF SEGMENTAL PERFORMANCE

Kossan's business segments are divided into the Technical Rubber Products ("TRPs"), Gloves and Cleanroom Products divisions. We have a total of twenty-one (21) plants: sixteen (16) for the production of gloves, four (4) for TRPs and one (1) for cleanroom products. All our plants are located in Malaysia, with the exception of the plant for cleanroom products, which is located in Dongguan, China.

				Segmental Contribution %	
RM('000)	FYE2018	FYE2017	Change (%)	FYE2018	FYE2017
REVENUE	2,140,571	1,957,627	9.35%		
- TRP	184,386	161,673	14.05%	8.61%	8.26%
- Gloves	1,874,919	1,713,732	9.41%	87.59%	87.54%
- Cleanroom	80,975	76,362	6.04%	3.78%	3.90%
- Others	291	5,860	-95.03%	0.01%	0.30%
OPERATING PROFIT	264,351	235,989	12.02%		
- TRP	27,896	16,172	72.50%	10.55%	6.85%
- Gloves	240,551	220,874	8.91%	91.00%	93.60%
- Cleanroom	3,628	2,931	23.78%	1.37%	1.24%
- Others	-7,724	-3,988	-93.68%	-2.92%	-1.69%

Gloves Division

The Gloves division is the largest contributor to revenues and profitability.

The revenue derived from the Gloves divisions for the FY2018 period was up 9.41% to RM1.87 billion from RM1.71 billion in FY2017. Operating profit also grew to RM240.6 million, up 8.91% from RM220.9 million recorded in the previous year. The improved performance was mainly attributable to the strong demand growth for the Group's glove products, with higher average selling prices of 6.1% and higher volume sold of 9.7% as compared with FY2017, as well as increased manufacturing efficiency and effective cost controls. The full year performance was achieved despite the increase in natural gas and nitrile prices of 22.8% and 9.3% respectively, as well as the less favourable exchange rate where the US dollar depreciated against the Malaysian ringgit by 6.2%. In the period under review, natural rubber prices declined by 27.6%.

Our glove products are mainly exported to the developed markets of the US, Eurozone, and Asia Pacific. With the completion of the Group's latest Plant 17 in November 2018, Kossan's current installed capacity stands at 26.5 billion pieces per annum. The nitrile to natural rubber (NBR:NR) volume split is 75:25 for FY2018.

In the period under review, significant strides were made at improving productivity and achieving operational cost-efficiency. Our manufacturing processes have been optimised to reduce chemical, utilities and manpower usage. Through increased automation, we were successful in reducing headcount.

Technical Rubber Products ("TRPs") Division

The TRPs division is the second largest contributor to revenues and profitability.

The revenue derived from the TRPs division for FY2018 was up 14.1% to RM184.4 million from RM161.7 million in FY2017. Its operating profit was RM27.9 million, increasing 72.5% from RM16.2 million recorded in the previous year. The improved performance was mainly attributable to increased sales deliveries and sales of higher margin products, in particular from the infrastructure segment.

The TRPs Division is involved in the manufacturing and distribution of high technical-input rubber products, which are used in a wide array of industries, including infrastructure, automotive and industrial applications. The business was started in 1979 and since then, Kossan has grown to become one of the largest manufacturers of TRPs in Malaysia. The majority of the division's products are exported to the US, Eurozone and ASEAN countries.

Cleanroom Products Division

The Cleanroom division is involved in the production of gloves, face masks and wipes that are mainly used in the electrical and electronic industries. The Dongguan plant in China is not involved in glove manufacturing but undertakes secondary and value-added processes on the gloves produced in Malaysia by our Gloves Division.

The revenue derived from the Cleanroom division for FY2018 increased to RM81.0 million from RM76.4 million last year, while operating profit also increased to RM3.6 million from RM2.9 million in FY2017.

REWARDING SHAREHOLDERS

Kossan has always remained committed to sustainable shareholder returns.

During the financial year 2018, the Group undertook a share split on the basis of two new ordinary shares for every one existing share held to reward shareholders and to enhance liquidity. This corporate exercise (share split ex-date July 2018) allows shareholders the opportunity to participate in the Group's growth.

Additionally, the Group has consistently delivered dividends throughout the years. In line with our earnings performance, the Board has paid an interim dividend of 3.0 sen and proposed a final dividend of 3.0 sen for FY2018, subject to the approval of shareholders at the forthcoming 39th Annual General Meeting. This will bring total dividend per share to 6.0 sen which amounts to a total payout of RM76.7 million representing a payout ratio of 37.3% in FY2018, compared with total dividend per share of 5.5 sen (dividend per share has been adjusted to reflect the 2-for-1 share split for comparative purposes) which amounted to a total payout of RM70.3 mil representing a payout ratio of 38.2% in the previous year.

MOVING FORWARD

Operating Environment

Global growth momentum is showing signs of moderation amid slowing growth in most major advanced and emerging economies. Going forward, unresolved trade tensions remain a key source of risk, affecting global trade and investment activities. Tighter global financial conditions and elevated political and policy uncertainty could lead to financial market adjustments, further weighing on the overall outlook. Against this backdrop, the global economy is projected to grow at 3.5 percent in 2019 according to IMF estimates *(source: International Monetary Fund ("IMF") World Economic Outlook Update, January 2019)*.

According to Malaysian Rubber Glove Manufacturers Association ("MARGMA"), for 2019 Malaysia's export revenue is expected to grow to RM19.88 billion (2018 : RM17.74 billion) with global demand growing to 300 billion pieces (2018 : 268 billion pieces). Demand will continue to come from increased healthcare standards and awareness.

Over the years, the glove industry has been growing steadily due to the need for better healthcare services. Gloves have become an indispensable part of the healthcare industry as there are no viable alternatives for gloves as a contamination and infection control device. Increased healthcare standards in emerging economies to don protective gloves when serving patients, growing government expenditure on healthcare reform, increasing awareness of health-related issues and an aging population in the developed and emerging economies of Asia, Middle East & Africa and Russia will drive the industry's expansion.

Similarly, demand from the non-medical sector, such as for food & beverage, auto and industrial applications, beauty as well as the household sector has continued to drive global glove consumption. The unique characteristics of gloves, its affordability and low absolute costs gives it a broad range of applicability across industries and uses. Given the Group's expansion plans and proven track record, the Group is well prepared to capitalise from this sector's growth in glove demand.

For the Technical Rubber Products division, despite the cyclicality of infrastructure projects due to unfavourable economic conditions as well as the challenging environment for the automotive segment, the Group views this division as stable and is optimistic of the performance for 2019.

Growth Pillars

a) Expansion Programme

Kossan's strategy is to drive long-term, sustainable growth.

The Group's latest Plant 17 (1.5 billion pieces) which was fully commissioned in November 2018, is running at full capacity with all capacity fully taken up. With this latest plant, the Group's annual production capacity stands at 26.5 billion pieces of gloves.

To meet the continued growth in demand for our glove products, the Group has embarked on the construction for Plant 18 (2.5 billion pieces) and Plant 19 (3 billion pieces). Plant 18 is expected to be operational in April 2019 and fully completed by the 3rd quarter of 2019, while Plant 19 is expected to be operational in August 2019 and fully completed by the 4th quarter of 2019. Upon completion, these two plants will add an additional 5.5 billion pieces of gloves per annum, bringing the Group's total installed capacity to 32 billion pieces of gloves by FY2019.

Thereafter, the next phase of the Group's expansion programme will be focused on Bidor, Perak, following the purchase of the 824-acre land in 2018. The Group expects the expansion, which is currently in the planning stage, to commence in 2020 and to take eight years to complete.

b) R&D and Innovation

R&D and innovation has been central to Kossan's growth and evolution over the years.

Following the launch of the Low Derma™ Technology gloves in September 2016 and Confidenz™ Halal-certified gloves in November 2017, the Group achieved another world-first, launching the anti-Fentanyl gloves which have been granted U.S. FDA 510 (k) approval in December 2018. This achievement places Kossan at the forefront of a solution to meet the evolving needs of our customers, not just first-responders but also across the entire value chain where fentanyl drug abuse has become a major concern in the US.

c) Automation and Optimisation

Technology is a key enabler to our business growth in the long run.

To remain competitive and relevant in the global arena, Kossan has implemented automation and robotics in its plants to remain cost competitive and efficient. Automation reduces reliance on manpower, reduces wastage and rejects thereby increasing quality and efficiency. With robotic implementations, the Group hopes to further automate the production process to both improve manufacturing efficiency and product quality, with the aim to complete the automation programme of our plants by 2020.

d) Market Expansion

Product reach and geographical expansion is critical to our growth strategy.

The uncompromising quality of Kossan's products are widely recognised. For this reason, Kossan is the valued supplier to many of the pharmaceutical and healthcare multinationals in the developed countries in North America and Europe. We are focused on building strong customer relationships, reinforced by an excellent track record, competitive pricing, timely delivery and flexibility to meet our customers' specific requirements.

The Group is constantly exploring new areas of application for its products, widening its product range and opening new markets in the process. Our ability to also consistently come up with innovative products needed by the market has further strengthened our brand, ensuring us of repeat businesses and new customers.

In Asia, emerging and developed economies including China and ASEAN provides opportunities where the per capita consumption of gloves is still low. Through government-mandated reforms and healthcare awareness, Kossan is well positioned to develop its competitive edge in these select markets.

e) Human Capital Development

The heart of Kossan is its people.

Our people's performance, commitment and loyalty to the job are critical not only in achieving the Group's goals and objectives, but also for its long-term survival and sustainability. Kossan's focus is on cultivating an engaged and dedicated workforce by providing them with the right incentives, working environment and career development prospects. We continue to invest in employee training, developing an in-house training programme and a newly-built Training Centre to help keep our staff abreast of the latest industry trends and acquire the necessary competency skills to perform effectively.

By building a strong human capital foundation, the Group believes that not only will it be able to attract the right talent, but more importantly to retain and develop its people for future success.

AWARDS & RECOGNITION

During the year, we have been recognised with industry awards and accolades. These awards help set us apart from the competition and are a testament to our strengths and capabilities. The awards we've received in 2018 are as follows: -

Date	Awards
23 April 2018	Malaysia's Best Employer Brand Awards 2018: Best Employer Brand
18 September 2018	MREPC Industry Awards 2018: Export Excellence Award (Big Corporation Category)
27 September 2018	The BrandLaureate: World Halal Best Brands Award 2018
27 November 2018	2018 Frost & Sullivan Asia Pacific Best Practices Awards: Global Halal Glove Company of the Year

ACKNOWLEDGEMENTS

I would like express my deepest appreciation to the directors, management team and staff for their continued commitment and contributions to the Group's excellent year. With your dedication and effort over the years, we have grown from a four-man operation in 1979 into a world-class manufacturer of disposable gloves and technical rubber products, employing over 6000 employees and exporting to over 180 countries worldwide with offices in Malaysia, China and the USA.

To our stakeholders - our customers, associates, suppliers, bankers and shareholders, my appreciation for your continuing and unwavering support, many of whom have been with us since our founding.

Tan Sri Dato' Lim Kuang Sia
Managing Director and Chief Executive Officer

DIRECTORS' **PROFILE**

FROM LEFT TO RIGHT : **LEE CHOO HOCK, LIM OOI CHOW, LIM LENG BUNG, MOHAMED SHAFEII BIN ABDUL GAFFOOR, TAN SRI DATO' LIM KUANG SIA, LIM SIAU TIAN, TAN KONG CHANG, LIM SIAU HING, HOH KIM HYAN**

Tan Sri Dato' Lim Kuang Sia

Tan Sri Dato' Lim Kuang Sia ("Tan Sri"), a Malaysian aged 67, was appointed the Managing Director and Chief Executive Officer of KOSSAN on 22 February 2002. Tan Sri, a founder director of KOSSAN, graduated with a Bachelor of Science (Chemistry) degree from Nanyang University in Singapore, a post-graduate Diploma in Chemical Engineering from University College, University of London and a Master in Chemical Engineering from Imperial College, University of London.

Tan Sri is a member of the Remuneration Committee.

Besides KOSSAN, Tan Sri is the founder and a Trustee in Yayasan Kossan, a public company limited by guarantee. Tan Sri also sits on the boards of several private companies and institutions.

Tan Sri is the President of the Klang Chinese Chamber of Commerce and Industry (KCCCI), President of the Associated Chinese Chambers of Commerce of Industry of Coastal Selangor (ACCCICS), Deputy President of The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM), Deputy President of the Malaysia Teochew Chamber of Commerce (MTCC), Honorary Life President of the Teochew Association Klang and Coast, and the Honorary Advisor to the Lim Association Klang and Coast. Tan Sri is also the Deputy Chairman of Pin Hwa High School, Vice Chairman of Kwang Hua Private High School and Hin Hua High School and the Chairman of Pulau Ketam Art Association.

Tan Sri 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.

Tan Sri has not been convicted of any offences within the past 5 years.

Directors' Profile
(Cont'd)

Lim Leng Bung

Mr. Lim Leng Bung, ("LB Lim") a Malaysian aged 56, was appointed to the Board of Kossan on 20 August 2014 as an Executive Director. He has more than 30 years experience in technical rubber products. He joined Kossan Rubber Industries Bhd in November 1983 as a trainee in the production shop floor and acquired extensive skills and experiences in the production of technical rubber products over the years. He was promoted to Production Planning and Control Manager in 1989. Currently he is in overall charge of Kossan's technical rubber products division.

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

Mr. LB Lim 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.

Mr. LB Lim has not been convicted of any offences within the past 5 years.

Tan Kong Chang

Mr. Tan Kong Chang, a Malaysian aged 52, was appointed to the Board of Kossan on 26 August 2013 as an Executive Director. Mr. Tan graduated with a Bachelor of Architecture degree from the University of Southwestern Louisiana, USA in 1992. He was a Project Architect with DEG Akitek Sdn. Bhd. from 1992 to 1995 and Project Manager with KYM Holdings Berhad from 1996 to 1997. Since 1998 he was with Perusahaan Getah Asas Sdn. Bhd., a wholly owned subsidiary of Kossan, where he gained experiences in administration, human resource, research & development, costing, plant operations and quality control. Mr. Tan is a member of the Risk Management Committee.

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

Mr. Tan does not have any family relationship with any director and/or major shareholder of Kossan and has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company, other than those disclosed in the financial statements.

Mr. Tan has not been convicted of any offences within the past 5 years.

Lim Siau Tian

Mr. Lim Siau Tian ("ST Lim"), a Malaysian aged 46, was appointed to the Board of Kossan on 26 August 2013 as an Executive Director. Mr. ST Lim graduated with a Bachelor of Marketing degree from the University of Central Oklahoma, USA in 1998. He is a member of the Risk Management Committee.

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

Besides KOSSAN, Mr. ST Lim is a Trustee and also president of Yayasan Kossan, a public company limited by guarantee. He sits on the boards of several private companies, including certain subsidiaries of Kossan.

Mr. ST Lim 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 5 years.

Lim Siau Hing

Mr. Lim Siau Hing ("SH Lim"), a Malaysian aged 46, was appointed to the Board of Kossan on 26 August 2013 as an Executive Director. Mr. SH Lim graduated with a Bachelor of Business Administration degree from the University of Central Oklahoma, USA in 1998. He is a member of the Risk Management Committee.

Since his graduation, he has been with the Kossan Group overseeing quality control, process engineering, marketing (local and export) and operations. On 1 January 2019, Mr. SH Lim was appointed to oversees the Technical Rubber Products (TRP) Division which includes Kossan Industries Sdn. Bhd., Doshin Rubber Products (M) Sdn. Bhd., Quality Profile Sdn. Bhd. and Hibon Corporation Sdn. Bhd..

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

Mr. SH Lim 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 5 years.

Lim Ooi Chow

Mr. Lim Ooi Chow ("OC Lim"), a Malaysian aged 36, was appointed to the Board of Kossan on 26 August 2013 as an Executive Director. Mr. OC Lim graduated with a Bachelor of Computer Science degree from Monash University, Australia in 2005. He obtained his Master of International Business, also from Monash University, Australia in 2006. He is a member of the Risk Management Committee.

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

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

Mr. OC Lim 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 5 years.

Tan Sri Dato' Lim Kuang Sia and Mr. Lim Leng Bung are siblings. Mr. Lim Ooi Chow is the son of Tan Sri Dato' Lim Kuang Sia, Messrs Lim Siau Tian, Lim Siau Hing and Lim Ooi Chow are cousins and Messrs Lim Siau Tian and Lim Siau Hing are nephews of Tan Sri Dato' Lim Kuang Sia and Lim Leng Bung.

Lee Choo Hock

Mr. Lee Choo Hock, a Malaysian aged 66, was appointed to the Board of Kossan on 26 August 2013 as an Independent Non-Executive Director. He is a Chartered Accountant with membership in the Malaysian Institute of Accountants and the Institute of Chartered Accountants in England and Wales.

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

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

Besides KOSSAN, Mr. Lee is an independent non-executive director of HSBC Bank (Malaysia) Berhad and HSBC Amanah Berhad, both public companies. He is also a Trustee of Yayasan Kossan, a public company limited by guarantee. Mr. Lee also chair the Audit Committee of HSBC Bank and the Risk Committee of HSBC Amanah. Mr. Lee is also a member of the Nomination Committee of HSBC Bank and a member of the Audit and Nomination Committee of HSBC Amanah.

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

Mr. Lee has not been convicted of any offences within the past 5 years.

Hoh Kim Hyan

Madam Hoh Kim Hyan, a Malaysian aged 61, was appointed to the Board of Kossan on 23 January 2017 as an Independent Non-Executive Director. She is a Chartered Accountant with membership in the Institute of Chartered Accountants in England and Wales.

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

Madam Hoh graduated with a Bachelor of Commerce from the University of Melbourne, Australia in 1978 and was admitted as a member of The Institute of Chartered Accountants in England and Wales in 1983.

She has experience in accounting, auditing, internal audit, administration, education and training. She was with KPMG (1984-2000) and (2008-2010) and was the Head of Audit Department (1989-2000). Her last position in KPMG was technical director. At her second stint at KPMG Malaysia she was a Director in the Professional Practice Department. Between March 2000 to March 2002, she was with the Malaysian Accounting Standards Board as its senior technical consultant where she assisted in the formulation of accounting standards for application in Malaysia.

Between July 2004 and June 2008, she taught at the University of Tunku Abdul Rahman and the University of Malaya.

She was the Operations Director at the Institute of Internal Auditors Malaysia between April 2011 to August 2012.

Since August 2012, Madam Hoh is with The Malaysian Institute of Certified Public Accountants as its senior technical manager. Her work is to provide technical support to two of the Institute's committees – the Accounting & Audit Technical Committee and the Financial Statements Review Committee.

Other than KOSSAN, Madam Hoh has no directorship in any other public company.

Madam Hoh does not have any family relationship with any director and/or major shareholder of Kossan or has any business arrangement involving Kossan.

Madam Hoh has not been convicted of any offences within the past 5 years.

Mohamed Shafeii Bin Abdul Gaffoor

En. Mohamed Shafeii Bin Abdul Gaffoor ("En. Shafeii"), a Malaysian aged 56, was appointed to the Board of Kossan on 23 January 2017 as an Independent Non-Executive Director. He graduated with a Bachelor of Arts (Hons) degree from the University of Waterloo, Canada in 1986 and obtained the Master of Business Administration (oil & gas management) from the University of Dundee, United Kingdom in 1994.

En. Shafeii is the Chairman of the Board, the Nominating and the Remuneration Committees. He is a member of the Audit Committee.

En. Shafeii has experience in auditing, administration and consulting. He was an economist with Bank Negara Malaysia in 1986, an auditor with Ernst & Young between 1987 to 1990 and was with Shapadu Corporation Sdn. Bhd., a company involved in transportation, toll concession, oil and gas and investment, between 1991 to 1994. He joined Desa Pachi Consultancy Sdn. Bhd., a company that provides management and technical consulting services in 1995 as its managing director. While at the consulting company, he was seconded to Westmont Industries Bhd. / Sabah Shipyard Sdn. Bhd. (1997-1999) and Ipco International Ltd (2000-2002) as their managing director and to Xian Leng Holdings Bhd. (1998-2008) as its independent director.

En. Shafeii left Desa Pachi Consultancy Sdn. Bhd. in 2012 to start his own consulting business, 2S Consulting (wholly owned by Suri Lifestyle Sdn. Bhd.).

Besides KOSSAN, En. Shafeii is the CEO/Executive Director of Perak Corporation Bhd., and the Non-Independent and Non-Executive Chairman of Majuperak Holdings Berhad, both public listed companies and a trustee of the Nature Foundation, a public company limited by guarantee. En. Shafeii also sits on the boards of several private companies.

En. Shafeii does not have any family relationship with any director any/or major shareholder of Kossan or has any business arrangement involving Kossan.

En. Shafeii has not been convicted of any offences within the past 5 years.

KEY SENIOR MANAGEMENT

Tan Sri Dato' Lim Kuang Sia

Managing Director and Group Chief Executive Officer

Please refer to Directors' Profile page 17.

Tan Kong Chang

Executive Director and Chief Operations Officer (Glove Division)

Please refer to Directors' Profile page 18.

Lim Siau Tian

Executive Director, Marketing

Please refer to Directors' Profile page 19.

Lim Siau Hing

Executive Director, Technical Rubber Products

Please refer to Directors' Profile page 19.

Dr. Or Tan Teng

Chief Operations Officer (TRP Division – Infrastructure)

Dr. Or (Malaysian, Age 70, Male), holds a PhD in Seismic Engineering from University of Southampton (UK), Master of Science Degree in Mechanical and Design Engineering and Degree in Rubber Technology. He is a Fellow of the Plastic and Rubber Institute of Malaysia, Fellow of the Institute of Materials (UK) and Fellow and President of the Malaysian Earthquake Engineering and Technology Society (MEETS).

Dr. Or is also an Industrial Engineering Consultant for University Tuanku Abdul Rahman (UTAR), University Technology Mara (UiTM), University Pertanian Malaysia (UPM), and First College University, Kuala Lumpur. He is the founding director of Doshin Rubber Products (M) Sdn. Bhd., incorporated in 1984 and appointed director of Quality Profile Sdn. Bhd. in 2001, both subsidiaries of Kossan. He was designated in his present position in February 2017.

He does not hold any directorship in public companies or listed issuers.

Puan Sri Datin Chow Cheng Moey

Chief Financial Controller

Puan Sri Datin Chow (Malaysian, Age 66, Female), holds a Bachelor of Science (Engineering) Degree. Joined Kossan in 1980 and has served in various capacities in the Group prior to her appointment in her present position in February 2017. She does not hold any directorship in public companies or listed issuers.

Puan Sri Datin Chow is the spouse of Tan Sri Dato' Lim Kuang Sia.

Teoh Hock Hean

Senior General Manager, Compliance and Governance

Mr. Teoh (Malaysia, Age 61, Male), holds a Master in Business Administration Degree. Joined Kossan in 1989 and has held various positions in the Group prior to his appointment in his present position in February 2017. He does not hold any directorship in public companies or listed issuers.

Lee Hon Chee

Senior Group Accountant

Mr. Lee (Malaysian, Age 57, Male), holds a Bachelor of Business Accounting Degree and is a Chartered Accountant with membership in the Malaysian Institute of Accountants. He joined Kossan in 1994 and has served in various capacities in the Group prior to his appointment in his present position in 2009. He does not hold any directorship in public companies or listed issuers.

Hans Peter Rohr

Senior Group Project Manager

Mr. Hans Peter (Swiss, Age 66, Male) holds a Diploma in Precision Mechanic. Joined Kossan in 1997 and has served in various capacities in the Group. He was appointed in his present position in February 2017. He does not hold any directorship in public companies or listed issuers.

Tan Eng Teck
General Manager, Business Development (TRP Division)

Mr. Tan (Malaysian, Age 59, Male), holds an Honours Degree in Polymer Science. He joined Kossan in 1994 and has held various positions in Kossan prior to his appointment in his present position in 2003. He does not hold any directorship in public companies or listed issuers.

Pang Mok Shyan
General Manager, Group Human Resources

Mr. Pang (Malaysian, Age 50, Male), holds a Bachelor of Business Administration (Hons) Degree. Joined Kossan in 2013 and was appointed in his present position on 1 March, 2018. He does not hold any directorship in public companies or listed issuers.

Chan Yee Chong
General Manager, Group Legal Affairs

Mr. Chan (Malaysian, Age 39, Male), holds a LLB (Hons) Malaya Degree and is a member of the Malaysian Bar. Joined Kossan in 2014 and was appointed in his present position on 1 February, 2018. He does not hold any directorship in public companies or listed issuers.

Tung Yong Fong
Head, Group Information Technology

Mr. Tung (Malaysian, Age 43, Male), holds a Bachelor of Computer and Information Science Degree. Joined Kossan in 2015 in his present position. He does not hold any directorship in public companies or listed issuers.

Save as disclosed, the above key senior management members have no family relationship with any Director and/or major shareholder of Kossan, have no conflict of interests with Kossan, have not being convicted of any offences within the past five years and have no public sanction or penalty imposed by any relevant regulatory bodies during the financial year 2018.

The disclosure on the particulars of the key senior management is made in compliance pursuant to Appendix 9C of Bursa Malaysia Securities Main Market Listing Requirements.

SUSTAINABILITY STATEMENT

This Sustainability Statement is prepared in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad [paragraph 9.45(2) and paragraph (29), Part A of Appendix 9C of the Main Market Listing Requirements (supplemented by Practice Note 9)] and guided by the Sustainability Reporting Guide (2nd Edition) and Toolkits issued by Bursa Malaysia.

Last year, we illustrated our strategic approach to address sustainability challenges and opportunities and its effects, the ongoing initiatives and developments as well as areas for improvement. As part of our sustainability process and activities we will continue to strengthen our performance by monitoring our specific targets and key performance indicators, fostering close relationships with our stakeholders as well as harmonising material sustainability principles across the Group.

Our aim is to provide a clear account of our sustainability commitments with regards to meeting the expectations of our stakeholders as we balance our business objectives of creating economic value, against social and environmental considerations. As we progress on our sustainability journey, we expect to improve our reporting and disclosures to various stakeholders both in breadth and in depth. We wish to reiterate that sustainability has always been and will be part and parcel of Kossan's culture as we strive to achieve continual financial performance and **Business Stability with Long Term Sustainable Growth.**

To further elaborate Kossan's sustainability endeavour and commitment, this Statement is structured into four sections:

I. Approach on Sustainability
II. Sustainability Governance
III. Materiality Process
IV. Managing Sustainability Matters

The first section gives an overview of and highlights the scope of this Statement. The second section sets out the Group's governance structure in managing the material sustainability matters while the third section records the processes that Kossan have taken to identify and prioritise the material matters. The fourth section reports on the Group's practices and performance in managing the material sustainability matters.

I. APPROACH ON SUSTAINABILITY

The Statement aims to provide an overview of Kossan's approach to sustainability from governance to Kossan's sustainability initiatives and commitment to embed sustainability culture and practices into its business operations.

From the Group's stakeholder engagement and materiality assessment, nine (9) main material sustainability matters within the Economic, Environmental and Social ("EES") spheres were identified and subsequently grouped into three (3) Key EES Themes of sustainability practices in which the Group is positioned to add value i.e.:

- Sustainable Business Growth;
- Environmental Stewardship;
- Social Responsibility;

In preparation of this Statement, we have engaged and considered the responses from both internal and external stakeholders and performed a thorough internal review and assessment of the key sustainability matters, its risks and opportunities which represent significant areas of our Group's business and operations.

Scope

Unless otherwise stated, the scope of this Statement covers the business operations of the Group's Gloves and Technical Rubber Products ("TRP") business divisions domiciled in Malaysia which collectively contributed over 96 percent of the Group's sales revenue for the financial year ending 31 December 2018.

II. SUSTAINABILITY GOVERNANCE

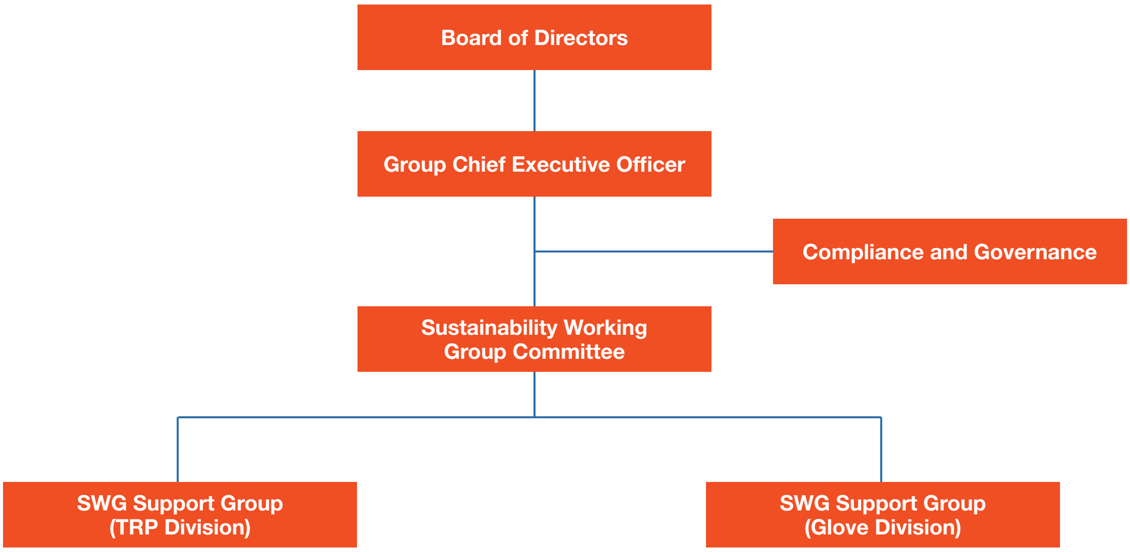
The Board of Directors are entrusted to promote and embed sustainability in Kossan's business strategy and operations. In reinforcing the governance framework, the Board had in 2016, established a Sustainability Working Group ("SWG") Committee at the management level to oversee the incorporation of sustainability in the Group's businesses, as well as to facilitate the preparation of the Sustainability Statement for inclusion in the Annual Report.

The SWG is represented by members from the Board and senior management from the Group's functional units as well as from the strategic business units of the Gloves and TRP divisions.

The main roles and responsibilities of the SWG includes overseeing the following: -

- Stakeholder engagement process (e.g. identification of key stakeholders and engagement with stakeholders);
- Materiality assessment (e.g. identification of sustainability risks relevant to the Group's business, risk/opportunity assessment on sustainability risks, and identification of material sustainability risks);
- Management of material sustainability matters identified; and
- Preparation of sustainability disclosures.

Kossan's sustainability governance structure is as follows:



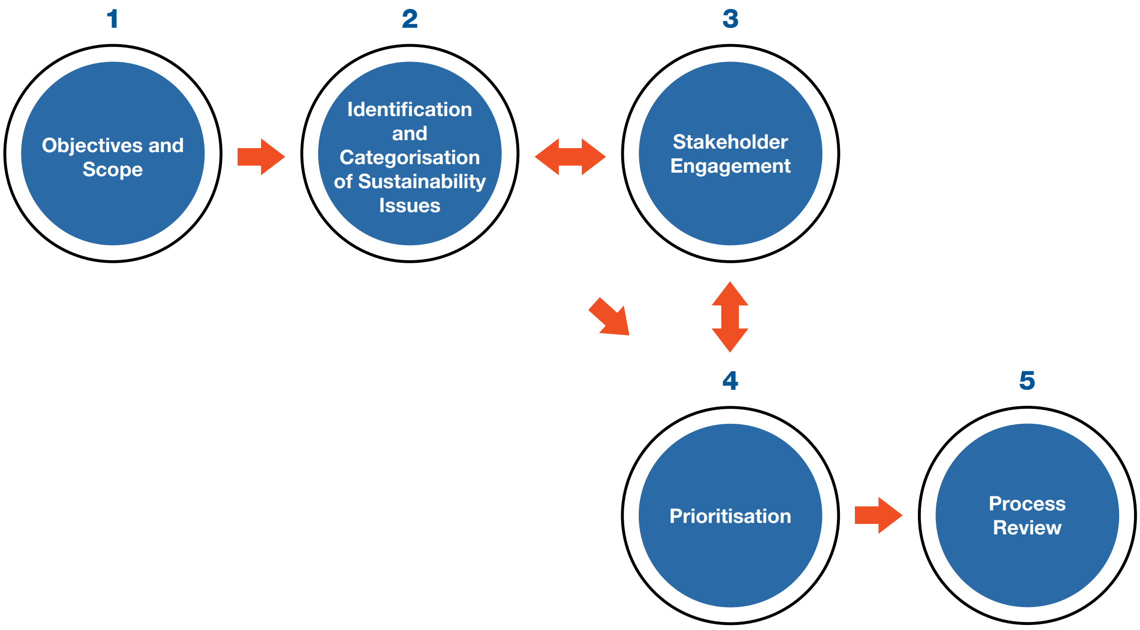
Kossan's aim is to ensure continuity of sustainability processes and practices throughout the organisation i.e. a governance structure that will enable the incorporation of responsibilities over sustainability in the day-to-day operations of the Group over the long-term. In this regard, the SWG will continue to harness the Group's synergies and efficiencies of the current governance process that are already in place, taking into consideration the existing risk management processes adopted by the Group. We currently have no formal policy with regards to external assurance and we will review the need to engage an external party for our report in the future.

III. MATERIALITY PROCESS

The key to meeting our sustainability objectives is the focus on sustainability matters that are the most material to the Group.

To this end, Kossan has adopted a materiality assessment process, which is guided by Bursa Malaysia's Sustainability Reporting Guide and Toolkits to identify what is deemed material to the Group's business.

Our materiality process involves the five (5) phases as outlined below:



This process entails the following: -

a) Key Sustainability Issues
b) Stakeholder Prioritisation
c) Stakeholder Engagement
d) Materiality Assessment

The materiality assessment process employs a prioritisation approach, taking into consideration important sustainability issues from both the perspectives of Kossan as well as its key stakeholders. Kossan has therefore undertaken to engage with stakeholders to determine the important sustainability matters and to solicit their views and inputs. Hence, the SWG has conducted assessment on the importance of sustainability matters to the Group that:

- Reflect the business' significant economic, environmental and social impacts; or
- Substantively influence the assessments and decisions of stakeholders.

Key Sustainability Issues

Before engaging with stakeholders to conduct an assessment, Kossan had identified a list of sustainability matters relating to economic, environmental and social factors that are deemed relevant to the Group's business. This process of streamlining the list of factors allow us to focus on the most material issues. In identifying the sustainability issues, Kossan has considered amongst others, the following: -

- The nature of Kossan's business;
- International and local laws and regulations;
- Kossan's understanding of its stakeholders' needs;
- Global and industrial trends;
- International sustainability reporting standards e.g. GRI Standards; and
- Peer reviews.

Stakeholder Prioritisation

To better understand the dynamics between Kossan and its stakeholder's, these stakeholders are categorised and assessed based on their influence and dependence on Kossan. Amongst others, these are assessed based on the financial, operational and reputational impacts. Stakeholder's which have significant influence over the impact on our business, as well as significant dependence on our business, are then engaged through various methods. The key stakeholder groups are outlined below: -

Stakeholder Groups	Stakeholders' Influence	Stakeholders' Dependence	Overall stakeholder priority rating	Ranking	Weightage assigned
Employees	2.8	2.7	5.5	3	37.50%
Suppliers/Business Partners	2.4	3.0	5.4	2	25.00%
Society/Local Communities	1.8	2.3	4.1	1	12.50%
Authorities/ Government/ Regulators	2.8	1.3	4.1	1	12.50%
Customers	2.4	1.7	4.1	1	12.50%

Stakeholder Engagement

Kossan recognises the importance of its key stakeholders' views on sustainability matters, especially in the process of identifying what is deemed to be material to the Group. By gathering stakeholders feedback, we are able to better understand their views and gain insights into the economic, environmental and social issues that matter most to them. Therefore, Kossan has undertaken to engage with some of Kossan's key stakeholders to solicit their views.

The following table summarises some of Kossan's key stakeholders and how Kossan has engaged with them:

Key Stakeholder Groups	Engagement Method
Employees	Workshop discussions and survey forms
Suppliers	Survey forms
Authorities/ government/ regulators	Survey forms
Customers	Survey forms
Local Community	Survey forms
Shareholders	Annual General Meetings, Roadshows, Briefings

Materiality Assessment

Based on the relevant sustainability issues that were identified, Kossan's management conducted a risk assessment to understand the exposure and extent of the impact of these issues. Subsequently, Kossan's assessment and feedback from stakeholders were consolidated and the most material sustainability matters were identified as follows: -

1) Environmental Compliance
2) Human rights and equal opportunities
3) Technological innovation, automation and Intellectual Property ("IP") development
4) Ethical business and transparency
5) Occupational health and safety management
6) Business expansion
7) Human capital development and labour practices
8) Development of local communities
9) Stakeholder engagement

These most material sustainability matters are categorised into three key themes which form the foundation on our approach to sustainability and discussed in the following manner: -

Key EES* Themes	Sustainability Issues	Page
Sustainable Business Growth	Technological Innovation, Automation and IP Development	31
	Ethical business	32
	Business Expansion	33
Environmental Stewardship	Environmental Compliance	34
Social Responsibility	Human rights and equal opportunities	34
	Occupational health and safety management	36
	Human capital development and labour practices	36
	Local communities development	37
	Stakeholder engagement	41

** Economic, Environmental and Social*

As part of the materiality process, a process review is conducted to ensure the integrity and credibility of our materiality assessment. This ensures that the sustainability matters that are managed and reported remain material to the business and are aligned to stakeholder needs.

For the year 2018, we have reviewed our material sustainability matters and there are no significant changes from the previous year. As far as possible, we have provided quantitative data to detail the performance of our sustainability commitments narrative.

IV. MANAGING SUSTAINABILITY MATTERS

i) Sustainable Business Growth

Since our founding, sustainability has always been integral to the success of our business. Kossan's strategy is to drive long-term sustainable growth through the inclusion of economic, environmental and social factors (EES) into our business. As one of the world's largest latex glove manufacturers, Kossan has contributed towards Malaysia's position as the world's leading producer of medical gloves, with a market share that is projected to increase further to 65% in 2019 according to the Malaysian Rubber Glove Manufacturers Association (MARGMA).

Technological Innovation, Automation and Intellectual Property ("IP") Development

As the industry matures and moves further into high-technology adoption in the manufacturing process including Industry 4.0, Kossan has recognised that automation and robotics in its plants are imperative to remain cost competitive and efficient. For example, our plants employ a SCADA system on the production floor to track and gather data in real-time. With this, plants can act precisely to preserve productivity and quality conformity and optimise energy consumption throughout the glove manufacturing process. With robotic implementations, the Group hopes to further automate the production process to improve efficiency and product quality as well as reduce manual labour, with the aim to complete the automation programme of our plants by 2020.

Kossan's growth and evolution over the years has always been led by innovation and R&D. As testament to the Group's focus on developing better products with innovative features, in December 2018, a milestone was achieved with the launch of the world's first nitrile gloves with protection against Fentanyl (a synthetic opioid drug) which have been granted U.S. FDA 510 (k) approval. This achievement places KOSSAN at the forefront of a solution to meet the evolving needs of not just first-responders but also the entire ecosystem where fentanyl drug abuse has become a major concern in the US, and joins a growing list of IP's already held by Kossan to protect its products in the marketplace, reinforce brand presence and maintain market position.

This follows the launch in November 2017 of the world's first Halal certified gloves certified by JAKIM under the brand name, Confidenz™, again demonstrating its innovativeness in meeting the stringent demands of the Halal industry, which in turn, follows the launch of the patented Low Derma Technology gloves which were the first in the world to be granted the U.S. Food and Drug Administration's low-dermatitis potential claim in September 2016. The Intellectual Property ("IP") of the Low Derma gloves has been registered in numerous countries including the US, Japan and China, which are amongst the largest consumers of nitrile gloves in the world. Low Derma gloves currently contributes between 10-15% of total sales revenue for FY2018.

Kossan has undertaken intellectual property initiatives in an effort to secure our competitive edge and maintain our business and market share. In-line with the expanding investments and efforts into our R&D activities to continuously bring cutting-edge features and technology benefitting our stakeholders, the Group protects the fruits of technological break-through, the creative brands development and any other intellectual properties of the company through patent, design, trademark and copyright protection.

Our philosophy is to respect intellectual properties, including those of others. Kossan engages with professional intellectual property agencies to work within well guided procedures in the process of acquiring, retaining, releasing and strategising our IP portfolio to be in-line with our business strategy. Pre-searches and IP watch are part of the activities undertaken within our profiling and protection strategy against violation and infringement.

Within the purview of the gloves division, from 2009 to date, we have filed approximately 40 patents globally, with 50% of the patents being granted. In terms of total trademarks registered globally, there were more than 90 successful registrations within targeted markets and classes of application use.

As part of its efforts to increase efficiency, the Group is embarking to implement an enhanced ERP program. An internal Business Process Review (BPR) had been carried out in 2018 along the end to end value chain of our glove business operations.

Ethical Business and Transparency

An environment that fosters a culture of high ethics, integrity and transparency is upheld through Kossan Code of Ethics and Conduct ("KCEC"), Anti-Corruption and Whistle-Blowing Policy.

Kossan's Code of Ethics and Conduct outlines the general ethical standards that are applicable to all of our employees and directors in line with good corporate governance practices.

The Group has always adopted a strict zero tolerance policy towards corrupt practices. In this respect, Kossan has formalised and adopted the Anti-Corruption Policy, which prohibits any acts, either directly or indirectly, in inducing, soliciting, seeking, offering and receiving any and all sorts of benefits, incentives, commissions, gifts and advantages, either in cash or kind, in all business dealings with Kossan.

The Whistle-Blowing Policy along with the relevant safeguard mechanisms that have been established, provides an avenue for employees and the public to lodge complaints of corrupt practices or wrong-doings in confidence, and that employees and other persons making such reports will be treated fairly and protected from reprisals.

To this end, in 2018 the Group conducted a MACC Act and Whistle-Blowing Policy engagement among directors and senior management to reinforce the standards of conduct and ethical behaviour expected from all employees and directors in the discharge of their duties and responsibilities. Following this, Anti-Corruption and Whistleblowing sessions were also rolled out on a group-wide basis to ensure these practices are applied consistently throughout the organisation. With the roll-out, many employees have affirmed and made a pledge to "Say No To Corruption", including the Group MD/CEO.

The Code of Ethics and Conduct, Anti-Corruption and Whistle-Blowing Policy can be found on our website at http://www.kossan.com.my/about-us/corp-governance.html

The supply chain which consists of both customers and suppliers are an equally important avenue for sustainability initiatives where we work collaboratively with our vendors and suppliers to conduct our businesses ethically in line with our corporate core values of integrity, respect and professionalism. Due diligence on business partners are conducted to ensure adherence to anti-corruption practices and which prohibits amongst others bribery and kickbacks. Kossan believes in equal opportunities and a level playing field in dealings with third-party contractors, ensuring that the principle of fair competition is upheld at all times.

Business Expansion

Kossan's focus has always been on long-term sustainable growth.

In 2018, the Group completed the construction of Plant 17, which has an installed capacity of 1.5 billion pieces of gloves per annum. This plant incorporates many of the latest technologies, including high-speed dipping technology with a high-degree of automation to reduce the dependence on manpower.

Construction works for Plant 18 and 19 in Meru, Klang are expected to be completed by 2019. These 2 new plants would be capable of producing up to 5.5 billion pieces (2.5 and 3.0 billion pieces respectively) of nitrile gloves per annum. With the completion of these two plants, Kossan's glove manufacturing capacity will increase to 32 billion pieces by FY2019, underpinning our earnings and growth momentum in the near future.

Thereafter, the next phase of the Group's expansion programme will be focused on Bidor, Perak and envisages the expansion, which is currently in the planning stage, to take eight years to complete.

ii) Environmental Stewardship

Kossan recognises that its actions have a significant impact on the environment and supports pollution prevention and environmental protection in all its business operations. The Group has long taken environmental stewardship in its stride as an integral part of its strategy towards sustainability.

Environmental Compliance

Kossan has always committed to comply with the legal and regulatory requirements of the Malaysian Department of Environment ("DOE"). In this regard, our plants employ GSR ("Guided Self Regulations") and online monitoring systems such as Online Environmental Information System ("OER") which are submitted on a monthly basis based on DOE requirement. Environmental protection measures and considerations have long been embedded in our manufacturing processes and day-to-day operations. In addition, training and competent persons are also obtained e.g. Certified Environmental Professional in the Operation of Industrial Effluent Treatment Systems ("CePIETSO") CePIETSO-PCP (Physical Chemical Process) and CePIESTO-BP (Biological Process).

Under the technical rubber products division, two of our plants have been certified to the latest revision of the ISO 14001:2015 certification, the core set of internationally recognised standards that provides practical tools for companies and organizations of all kinds looking to manage their environmental responsibilities.

A particular concern is the discharge of hazardous chlorine gas waste as part of the manufacturing process. All our plants are installed with scrubber system that filters and removes toxic chlorine before discharging the emissions into the atmosphere. In addition, the Group's employees have been sent to courses and obtained Competent Person status in areas such as Certified Environmental Professional in Scrubber Operation ("CePSO") and Certified Environmental Professional in Bag Filter Operation ("CePBFO") to ensure best practices and regulatory requirements are constantly met.

Waste production is an inevitable part of our manufacturing process. With regards to waste disposals, the Group's plants employ the Electronic Scheduled Waste Information System ("E-SWIS"), where every scheduled waste disposal is handled by a licensed waste collector. Solid wastes are segregated into their respective categories before they are sent to regulator-approved companies for proper disposal or recycling. Additionally, employees are sent for certifications becoming Competent Persons in areas such as Certified Environmental Professional in Scheduled Waste Management ("CePSWaM").

iii) Social Responsibility

As a responsible corporate citizen, we understand that profitability is not the only measure of performance and we strive to strike a balance between performance and fulfilling our social responsibilities.

Human Rights and Equal Opportunities

Kossan has always strived to provide equitable working conditions for all its employees. We comply with the relevant local labour laws where we do not allow forced labour and have a zero-tolerance policy with regards to rights abuses. The Group has moved to reduce excessive working hours through increasing efficiency and equipping foreign workers with the required skills. To this end, some of our plants have received BSCI certification and further on-going social compliance audits are being conducted in our manufacturing plants to meet our environmental, social and governance obligations.

In meeting our vast workforce requirements, we engage foreign worker recruitment agencies that have been pre-qualified and vetted by the relevant regulatory bodies and who have been appointed as authorised agents, to assist us with the identification, selection and recruitment of foreign workers. We do not condone unethical recruitment practices in meeting our manpower needs, and we will severe ties with unscrupulous agencies that exploit these foreign workers, if found to be true.

Our workplace terms and conditions of employment are opposed to any form of discrimination, upholding the fundamental human rights protected by legislation. We have in place grievance mechanisms such as the Whistleblowing Policy in addition to having procedures, training and Whistleblowing committee's in our plant sites.

(a) Minimum Wages

Kossan has fully complied with the Malaysian Government's directive on minimum wage since the implementation of the Minimum Wage policy on 1 July 2016, as well as the latest revision beginning in 1 January 2019.

(b) Child Labour

Kossan prohibits the employment of child labour and forced labour under any circumstances and is committed to providing Equal Employment Opportunity and fair terms of employment mutually agreed by the company and employee. All our employees meet the minimum age requirement as stipulated under this Act. The Children and Young Persons (Employment) (Amendment) Act 2010 defines a "child" as any person who has not completed his 15th year of age; and "Young Person" as any person who, not being a child, has not completed his 18th year of age.

(c) Promoting Workplace Diversity & Non-Discrimination

Kossan provides equal opportunities and promotes workplace diversity and hires people with experience from different industry backgrounds and with different cultures and beliefs. In our efforts to create a culture of inclusiveness, we believe that a diverse workplace also goes a long way towards improving employee satisfaction and retention. The policy of non-discrimination is embedded in our Kossan Code of Ethics and Conduct and is accessible by all employees. The Group's employees are recruited without discriminating against age, gender, race, religion, disabilities or nationality.

The tables below outline the diversity of our workforce: -

Domestic worker's by gender: -

	2017	2018
Female	715	741
Male	1,044	1,151
Total	**1,759**	**1,892**

Domestic worker's by age: -

	2017	2018
Below 20	15	32
20-30	641	766
31-40	549	573
41-50	377	359
51-60	138	129
Above 60	39	33
Total	**1,759**	**1,892**

Occupational Health and Safety Management

Kossan's operations have always taken into account the welfare and safety of our people. The Group takes a proactive approach towards mitigating occupational hazards and risks, ensuring employees operate in a secure environment at all times. We are committed to comply with the relevant laws and regulations prescribed by the Department of Occupational Safety and Health in our manufacturing plants and seek to continuously improve the occupational safety and health of our employees.

Kossan has a dedicated Safety Department reporting directly to the executive Director to ensure compliance and a safe working environment. Our Safety Department continually reviews the system that is in place, and if necessary, new measures are introduced to improve safe and hygienic working conditions and minimise workplace accidents. Kossan has also established a Work Safety Committee that has been tasked to improve safety and hygiene conditions on the production floor and premises.

To this end, we conducted a Safety & Health Month campaign in November 2018 to cultivate a safer and healthier working culture amongst workers. Additionally, we conducted emergency and fire drills, first aid, firefighting, chemical, forklift & reach and emergency response team (ERT) trainings to instil a safety-first working environment.

In 2018, Kossan maintained its zero fatality cases across its entire operations.

Human Capital Development and Labour Practices

Our employees' performance, commitment and loyalty to the job are critical not only in achieving the company's goals and objectives, but also for its long-term survival and sustainability. The Group's focus is on cultivating an engaged and dedicated workforce by providing them with the right incentives, working environment and career development prospects. By building a strong human capital foundation, the Group believes that not only will it be able to attract the right talent, but more importantly to retain and develop its people.

Kossan prides itself with being the employer of choice, retaining and developing exceptional talent within the organisation. As recognition of our human capital achievements and development, we were awarded with **Malaysia's Best Employer Brand Awards 2018: Best Employer Brand** by the Employer Branding Institute.

The Group's low employee turnover rates are a recognition of our strong work culture and talent management programmes. The turnover rates were 2.5% in 2018 as compared with 3.5% in 2017.

- **Training and Development**

  Kossan's training and development initiatives are designed to build employees' knowledge, skillsets and competencies, allowing them to excel in their work and meet challenges head-on. In addition to upskilling our employees in their respective technical, functional and soft skills, we strengthen our leadership by developing talents for key management positions moving forward.

  For 2018, total training hours increased to 18,833 hours from 16,000 hours in 2017, an increase of 17.7%. Average training hours per employee was 9.95 hours in 2018 compared with 9.1 hours in 2017.

  To ensure the effectiveness of the training effort, Training Needs Analyses ("TNA") between employees and their superiors are conducted annually to ensure the relevance of the programmes to suit individual requirements.

Local Communities Development

a) Yayasan Kossan

Yayasan Kossan ("YK") was established in December 2015 to create a foundation for those in need. YK's objective is to fund and support activities for education and social welfare covering medical and health, environment, arts and culture in Malaysia. The priority is to provide direct aid to the needy or the underprivileged within our community.

In 2018, 5,384 individuals benefitted directly through these social initiatives, with total expenditure for YK's activities amounting to over RM872,117.32.

Some of the highlights in 2018 include Yayasan Kossan's YK Health & Safety Carnival 2018, as well as School Sponsorship Program, Back to School Subsidy Program and YK Smart Classroom to benefit local schools and underprivileged school-going children around Klang, Selangor.

Health check and blood donation during Yayasan Kossan Health and Safety Carnival 2018.

Beach clean-up and refurnishing the children's playground at Pantai Remis.

Donation to Pertubuhan Kebajikan Orang Tua Yi Xing.

Hari Raya Giveaway 2018 at SK Batu Belah Klang.

b) Project Smile

Project Smile is an initiative to develop and maintain good relationships between our internal and external community, particularly with the younger generation as well as developing future leaders. Like many of our social activities, participation from Kossan's employees continue to be overwhelmingly positive. The theme for the year 2018 was "Endangered Animal Awareness" and details of the activities are as follows: -

i) **"The Malayan Tiger – A nation's culture resides in the hearts and soul of its people"** which was held in March 2018 at Persatuan Rumah Kebajikan Rita. The event was to share and celebrate the cultural heritage of the Chinese New Year celebration among the orphanage and senior citizens whilst at the same time raising the awareness among the children of the plight of the endangered Malayan Tiger. Red packets or 'angpows' were given out and a colouring and handcraft competition was also held as part of the festivities.

Chinese New Year celebration and colouring activity with the children to increase awareness of the plight of the endangered Malayan Tiger at Persatuan Rumah Kebajikan Rita.

ii) **"The Sea Turtle – Save the turtles!"** which was held in June 2018 at the Cherating Turtle Sanctuary. The event was held to raise awareness of the endangered species, its lifecycle as well as to help in the upkeep of the surrounding area of the sanctuary, especially the beach where the turtles lay their eggs. Signages were placed along the beach to warn people not to disturb these turtles in their natural habitats or to take the turtle eggs for any reason.

Cleaning up at the area around the Cherating Turtle Sanctuary.

iii) **"The Rhinoceros Hornbill – Celebrating Cultures and Traditions"** which was held in November 2018 at SJK (C) Pui Ying, Klang. The event was held to coincide with the Deepavali celebrations where 100 children from four orphanages were invited to celebrate this joyous occasion together while at the same time raising awareness of the Rhinoceros Hornbill. As part of the celebrations, gifts and other aids were given out to the children in addition to a Kolam drawing competition which was also held as part of the festivities.

Deepavali celebration and Kolam Drawing Competition at SJK (C) Pui Ying.

c) Internship and Scholarship Programmes

To enable students from diploma to post-graduate levels in both technical and non-technical disciplines to receive on-the-job training, Kossan established an internship programme. Upon completion of the programme, exceptional and deserving candidates were offered job opportunities within the Group. These interns were placed in the Group's different business units across various verticals. In 2018, there were 47 internships as compared with 32 in 2017.

Kossan also offers scholarships and education subsidies to eligible students in need of financial assistance to enable them to continue with their studies. Under Yayasan Kossan's scholarship programme, education aid of between RM15,000 to RM25,000 per year are given to deserving individuals to pursue their education in public or private universities.

School Sponsorship Program.

Stakeholder Engagement

Kossan actively engages stakeholders in a structured manner through regular updates to the investment community on its business and operations, adhering to principles of transparency and accountability and guided by the Investor Relations Framework ("IR Framework") which was established in 2017. In this regard, the Group MD/CEO serves as the primary spokesperson for the dissemination of business and financial related information, assisted by an Investor Relations officer.

Shareholders get the opportunity to meet the Group MD/CEO at the company's annual general meetings and also through dialogues at investment conferences. Interviews and briefings are also organised regularly to keep the media and investor analysts abreast of developments at Kossan.

In 2018, two analyst briefings were conducted in May and November 2018, where all analysts covering the Group were invited to meet up with the Group MD/CEO, directors and senior management team.

Other stakeholder engagements were also conducted in 2018, including with industry associations such as Malaysian Rubber Export Promotion Council (MREPC), Malaysian Association of Rubber Glove Manufacturers (MARGMA), Fire and Police departments, local authorities and agencies.

Our corporate website www.kossan.com.my provides up-to-date information on our business, Bursa announcements, financial information, financial calendar as well as our annual and quarterly reports. This serves as part of our commitment to provide current and accurate information to all our stakeholders as well as the public at large.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors ("Board") of Kossan Rubber Industries Bhd ("Kossan" or "the Company") is committed and will continue to endeavor to comply with the principles and practices set out in the Malaysian Code on Corporate Governance 2017 ("MCCG"). The Board will regularly review and maintain all identifiable means to ensure the Company's corporate governance standards meet the high standards including accountability and transparency of the MCCG. This practice will assure continuous and sustainable growth of the Group for the interest of shareholders and other stakeholders.

The Board is pleased to present the following statement, prepared in compliance with Bursa Malaysia Securities Main Market Listing Requirement ("MMLR") which outlined how the Company and its subsidiaries ("Group") had applied the principles and best practices of the MCCG, that were in place throughout the financial year ended 31 December 2018. The detailed application for each practice as set out in the MCCG is disclosed in the Corporate Governance Report ("CG Report") which is available on Kossan's website: www.kossan.com.my.

PRINCIPAL A: BOARD LEADERSHIP AND EFFECTIVENESS

I – BOARD RESPONSIBILITIES

1. Board Leadership

1.1 Roles and Responsibilities of the Board

All Directors should objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Group. Every Director is required to keep abreast of his responsibilities as a Director and of the conduct, business activities and development of the Group.

The key responsibilities of the Board, includes among others:

a) Promote good corporate governance culture within the Group which reinforces ethical, prudent and professional behavior;

b) Review, challenge and decide on management's proposals for the Group, and monitor its implementation by management;

c) Review and approve strategic initiatives of the Group supporting long-term value creation including strategies on economic, environmental and social considerations underpinning sustainability;

d) Supervise and assess management performance to determine whether the business is being properly managed;

e) Understand the principal risks of the company's business and recognise that business decisions involve the taking of appropriate risks;

f) Set the risk appetite within which the Board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;

g) Ensure that senior management has the necessary skills and experience, and there are measures in place to provide for the orderly succession and replacement of senior management;

h) Ensure that the company has in place procedures to enable effective communication with stakeholders; and

i) Review the adequacy and integrity of the Group's financial and non-financial reporting.

1.2 Chairman

The Chairman, an independent non-executive director, is primarily responsible for matters pertaining to the Board and the overall conduct of the Group. The Chairman is committed to good corporate governance practice and has been leading the Board towards high performing culture.

1.3 Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer are held by two (2) different individuals with distinct and separate roles and clear division of responsibilities. This will ensure balance of power and authority and that no one individual has unfettered powers on decision making.

1.4 Qualified and competent Company Secretary

The Board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

The Company Secretary through the Chairman plays an important role in good governance by helping the Board and its Committees to function effectively and in accordance with their terms of reference and best practices.

The roles and responsibilities of a Company Secretary include, but are not limited to the following:

a) Manage all Board and Committee meeting logistics, attend and record minutes of all Board and Committee meetings and facilitate Board communications;

b) Advise the Board on its roles and responsibilities;

c) Facilitate the orientation of new Directors and assist in Director training and development;

d) Advise the Board on corporate disclosures and compliance with company and securities regulations and listing requirements;

e) Manage processes pertaining to the annual shareholders' meeting;

f) Monitor corporate governance developments and assist the Board in applying governance practices to meet the Board's needs and stakeholders' expectation; and

g) Serve as a focal point for stakeholders' communication and engagement on corporate governance issues.

The qualified Company Secretary possesses the knowledge and experience to carry out his functions. These include knowledge in company and securities law, finance, governance, company secretaryship and other areas of compliance such as the listing requirements. The Company Secretary undertakes continuous professional development.

1.5 Supply of Information

All Directors have unrestricted and timely access to all information concerning the Company and the Group's business for the discharge of their responsibilities. The Board papers and reports are distributed to the Directors in sufficient time prior to meetings to enable them to seek clarification and/or explanation, where necessary, to expedite the decision making process.

All Directors have access to the advice and services of the Company Secretary and senior management staff in the Group.

2. Demarcation of Responsibilities

2.1 Board Charter

The Board Charter clearly established the functions, governance structure authority and terms of reference of the Board, Board Committees and management. It provides a reference to the Board and Management on the functions of the Board.

The Charter was adopted in 2014 and last reviewed in 2018 to ensure consistency with the Board's objectives and prevailing legislations and practices.

3. Business Conduct and Corporate Culture

3.1 Kossan Code of Ethics and Conduct ("KCEC")

The Board has adopted a Code of Ethics and Conducts for Directors to enhance corporate governance and promote ethical conduct. This KCEC also covers all employees to ensure professional and ethical conduct are maintained at all time in the discharge of their duties and responsibilities.

The KCEC's key areas include: compliance with national laws and regulations, conflict of interest, anti-corruption policy, employment policy and guidelines (discrimination and harassment, compliance with employment laws and regulations, non-compete policy, work place violence, illegal drugs and alcohols policy, intellectual property, occupational health, safety and environment, dress code and public communications), business record accuracy and integrity, financial reporting, maintenance of records, relationships with auditors, use of company resources.

The KCEC is extensive but not exhaustive and the Group expects its employees to exercise good judgement in their decision making in order to adhere to the highest ethical standards. The KCEC will be reviewed periodically.

The Code of Ethics is published on Kossan's website: www.kossan.com.my.

3.2 Whistleblowing

The Board has established a Whistleblowing Policy that provides an avenue for its employees and the general public to raise concern about malpractice or improper conduct and explains how the company respond to it.

The policy provides assurance that employees and third parties' identities will be kept confidential and that whistleblowers will not risk retaliation, harassment or victimization provided that they act in good faith in their reporting.

II - BOARD COMPOSITION

4. Board's objectivity

4.1 Composition of the Board

The Board currently has nine (9) members, comprising six (6) executive directors and three (3) independent non-executive directors.

The Directors, with their different backgrounds, specialisations, qualifications and experiences, bring with them a wide range of knowledge and expertise, for the effective management of the Group's diversified businesses. Their qualifications and experiences are set out in the Directors' Profile on pages 16 to 23 of the 2018 Annual Report.

4.2 Independent Directors

The Board recognises the importance and contributions of its Independent Directors ("ID"). They provide objectivity, impartiality and independent judgement to the Board and ensure adequate check and balance in Board's decisions. Their presence provides unbiased and independent views, advice and opinion to safeguard the interest of minority shareholders.

4.3 Policy on Tenure of Independent Directors

The Board does not have a policy which limits the tenure of independent directors to nine (9) years. None of the IDs' tenure exceeded nine (9) years.

4.4 Board and Senior Management

The appointment of the Board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender. For further information, please refer to Directors' Profile and Key Senior Management of this 2018 Annual Report.

4.5 Gender Diversity

Currently the Board has a single woman representation. The Board acknowledges the importance of having more women representation on the Board and will, through the Nomination Committee strive to meet the objective of the practice of the MCCG.

4.6 Appointment of New Directors

For the appointment of new directors, the candidates will be sourced from unrelated third parties. The shortlisted candidates, unknown to existing Board members, will be interviewed by the Nomination Committee prior to presentation to the Board for endorsement.

4.7 Nomination Committee

The Nomination Committee ("NC") of the Company as at 31 December 2018 comprises exclusively of Independent Non-Executive Directors as follows:

Mohamed Shafeii Bin Abdul Gaffoor	- Chairman
Lee Choo Hock	- Member
Hoh Kim Hyan	- Member

The NC meets as and when required and at least once a year. The NC met once in the financial year ended 31 December 2018. The terms of reference of the NC is set out in Appendix III of the Board Charter.

The NC's responsibilities include, amongst others, reviewing the Board composition and making recommendations to the Board for appointment of new directors (including gender consideration) by evaluating and assessing the suitability of candidate for Board/ Committee membership. Factors taken into consideration will include age, the required mix of skills, knowledge, independence, expertise, experience, professionalism, capabilities, integrity and time commitments. Suitable candidates were not solely through the recommendations of the existing board members, management and major shareholders.

The Committee also assesses on an annual basis the effectiveness of the Board as a whole, the Board Committees and the individual contributions and independence of each Independent Director. All assessments and evaluations carried out are properly documented. Activities carried out in 2018 include:

- reviewed the performance of Board and individual director;
- discussed succession planning; and
- recommended re-election of retiring directors.

5. Overall Board Effectiveness

5.1 Annual evaluation

For the financial year ended 31 December 2018, the Board was satisfied that the Board and the Board Committees had discharged their duties and responsibilities effectively. The Board was also satisfied that the Board composition, in term of size, mix of executive, non-executive and independent directors, and mix of skills and experience, were adequate.

The Board meets at least four (4) times a year at quarterly intervals with additional meetings convened as necessary. During the financial year ended 31 December 2018, five (5) Board Meetings were held and the attendance of the Directors at the Board Meetings were as follows:

Director	No. of meeting attended
Mohamed Shafeii Bin Abdul Gaffoor	5/5
Tan Sri Dato' Lim Kuang Sia	5/5
Lim Leng Bung	5/5
Tan Kong Chang	5/5
Lim Siau Tian	5/5
Lim Siau Hing	5/5
Lim Ooi Chow	5/5
Lee Choo Hock	5/5
Hoh Kim Hyan	5/5

All the meetings were held at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 ¾, Jalan Kapar, 42100 Klang, Selangor Darul Ehsan.

In the intervals between Board meetings, routine Board decisions were carried out through circular resolutions, supported with all relevant information and explanations for an informed decision.

To facilitate Directors' planning and the management, an annual meeting calendar is prepared and given to Directors before the beginning of each new financial year. The Board is satisfied with the commitments given by the Directors.

Each director is required to notify the Chairman of the Board prior to his acceptance of directorship outside the Group. The notification should include an approximate indication of time to be spent on the new directorship.

III - REMUNERATION

6. Level and Composition of Remuneration

6.1 Remuneration Policy

The objective of the Group's remuneration policy is to attract and retain the Directors and Senior Management required to lead and control the Group effectively. For executive directors and senior management, their remuneration package is linked to corporate and individual performance. For non-executive directors, the level of remuneration is reflective of their experience and level of responsibilities.

6.2 Remuneration Committee

The Remuneration Committee ("RC") of the Company comprises a majority of independent non-executive Directors. The RC has written terms of reference which deals with its authority and duties. The composition of the RC as at 31 December 2018 were as follows:

Mohamed Shafeii Bin Abdul Gaffoor	-	Chairman/Independent Non-Executive
Hoh Kim Hyan	-	Independent Non-Executive
Tan Sri Dato' Lim Kuang Sia	-	Chief Executive Officer/Managing Director/Executive

PRINCIPAL B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. AUDIT COMMITTEE ("AC")

7. Effective and Independent Audit Committee

7.1 Composition of the AC

The AC comprises three (3) independent non-executive directors. The composition is reviewed annually by the Nomination Committee and submitted to the Board for action. The review looks into the level of expertise, experience and understanding of the Company's business.

7.2 Chairman of the Audit Committee and Chairman of the Board

The Chairman of the AC is not the chairman of the Board.

Mr. Lee Choo Hock, the senior Independent Non-Executive Director is the Chairman of the Audit Committee while Mr. Mohamed Shafeii Bin Abdul Gaffoor, also an Independent Non-Executive Director is the Chairman of the Board.

7.3 Financial literacy of AC members

Two of the AC members are chartered accountants, while all members of the AC are well educated and are financially literate, they are encouraged to attend courses to improve their understanding on matters under the purview of the AC, including financial reporting process and to keep abreast of relevant developments in accounting and auditing standards, practices and rules.

7.4 Appointment of AC member being a former key audit partner

The Company's policy on recruiting any former key audit partner as a member of AC requires the said key audit partner to exercise a cooling period of at least two (2) years before his appointment to the AC.

7.5 Independence of External Auditor

The AC is responsible for the annual assessment of the competency and independence of the external auditors. Having assessed their performance, the AC will recommend their re-appointment to the Board, upon which the shareholders' approval will be sought at the AGM.

The external auditors are required to declare their independence annually to the AC as specified by the By-Laws issued by the Malaysian Institute of Accountants. The external auditors have provided the declaration in their annual audit plan presented to the AC of the Company.

The AC also reviewed the provision of non-audit services rendered to the Group by the external auditors and noted that the total amount of fees paid for non-audit services rendered by the Group external auditors for the financial year ended 31 December 2018 was RM8,800.

Further information on the Audit Committee can be found in the Audit Committee Report on pages 57 to 60 of the 2018 Annual Report.

II. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

8. Risk Management and Internal Control

8.1 Establishing an Effective Risk Management and Internal Control Framework

The Board is responsible for the Group's risk management framework and system of internal control and for reviewing their adequacy and integrity. Accordingly, the Directors had established a Risk Management Framework to ensure that an effective system of internal control, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations as well as with internal procedures and guidelines is in place within the Group.

While acknowledging their responsibility for the system of internal control, the Directors are aware that such a system is designed to manage rather than eliminate risk and therefore cannot provide an absolute assurance against material misstatement or loss.

8.2 Features of Risk Management and Internal Control Framework

The Board oversees the risk management function through the Risk Management Committee ("RMC"). The RMC reviews and recommends for the Board's consideration and approval the risk management principle, framework and policies for managing risks within the Group. The RMC also monitors and assesses the risk appetite and tolerance of the Group to safe guard the Group's assets and shareholders' investment.

The Group has in place a structured process for identification, assessment, monitoring and communication of risks and effectiveness of risk mitigation strategies at all level of operations.

8.3 Risk Management Committee ("RMC")

The Board has established a RMC headed by Mr. Lee Choo Hock, an independent non-executive director and represented by four (4) executive directors and one (1) senior management.

9. Effective Governance, Risk Management and Internal Control Framework

9.1 Internal Audit Function

The AC, in its oversight of the internal audit function, was satisfied that the said function was effective and able to function independently.

The Board has established an internal audit ("IA") function which reports directly to the Audit Committee ("AC"). The IA function undertakes an independent assessment on the internal control system of the Group and provide assurance to the AC that no material issue or major deficiency has been noted which could pose a high risk to the overall system of internal control.

The IA assignments were carried out in accordance with the 2018 audit plan approved by the AC.

9.2 Internal Audit Objectivity and Independence

The AC, had obtained from the Board that the internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence and are satisfied that the internal audit department is adequately staffed and with relevant qualification and experience.

The IA function is carried out in accordance with the IA Charter and IA Framework with reference to IIA's International Professional Practices Framework.

The Statement on Risk Management and Internal Control of the Group which provides an overview of the state of risk management and internal control within the Group is set out on pages 52 to 56 of the 2018 Annual Report.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I – COMMUNICATION WITH STAKEHOLDERS

10. Communication between Company and Stakeholders

The Board will ensure that it adheres to and comply with the disclosure requirements of the MMLR as well as the Corporate Disclosure Guide issued by Bursa Securities.

The Company continues to recognise the importance of transparency and accountability to its shareholders and investors. The Board endeavors to keep its shareholders and investors informed of its performance through the annual report and financial statements, circulars to shareholders, quarterly financial reports and the various announcements made during the year. These will enable the shareholders, investors and members of the public to have an overview of the Group's performance and operations.

The Group also maintains a corporate website at www.kossan.com.my whereby shareholders as well as members of the public may access for the latest information on the Group. Alternatively, they may obtain the Company's latest announcements via the website of Bursa Malaysia Securities Berhad at www.bursamalaysia.com.

II – CONDUCT OF GENERAL MEETINGS

11. Shareholders Participation at General Meetings

The Company's Annual General Meeting ("AGM") remains the principal forum for dialogue with private and institution shareholders and the Company aims to ensure that the AGM provides an important opportunity for effective communication with and constructive feedback from the shareholders. At each AGM, attended by all members of the Board, the Board presents the progress and performance of the Company's businesses and shareholders are encouraged to participate in the proceedings and question and answer session and thereafter to vote on all resolutions tabled.

The Chairman as well as the CEO will respond to shareholders' questions at the AGM. The Notice and agenda of AGM together with the Proxy Form are given to shareholders at least twenty-one days before the AGM, which gives them sufficient time to prepare themselves to attend the AGM or to appoint a proxy to attend and vote on their behalf. Each item of special business include in the Notice of AGM is accompanied by an explanatory statement for the proposed resolution to facilitate the full understanding and evaluation of issues involved.

The Company implemented poll voting (through e-voting) on all resolutions tabled at general meetings. With the new Constitution to be tabled at the 39th AGM, the Company hopes to leverage on technology to enhance the quality of engagement with shareholders.

The Company strives to maintain an open transparent channel of communication with its shareholders, institutional investors, analysts and the public at large with the objective of providing a clear and complete picture of the Group's performance and financial position. The provision of timely information is principally important to the shareholders and investors for informed decision making. However, whilst the Company endeavors to provide as much information as possible to its shareholders, it is mindful of the legal and regulatory framework governing the release of material and price-sensitive information.

The various channels of communications are through the quarterly announcement on financial results to Bursa Securities, relevant announcements and circulars, when necessary, AGM and also the Group's website.

COMPLIANCE STATEMENT

The Board shall continue to strive for high standards of corporate governance throughout the Group. The Board is of the view that the Company has, in all material aspects, satisfactorily complied with the principles and practices set out in the MCCG except for the departures as set out in the CG Report.

STATEMENT OF RESPONSIBILITY BY DIRECTORS

The Directors are required by the Companies Act 2016 ("the Act") to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year and of the results and cash flow of the Group and of the Company for the financial year. As required by the Act and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the financial statements have been prepared in accordance with the applicable Financial Reporting Standards in Malaysia.

In preparing these financial statements, the Directors have:

(a) adopted appropriate accounting policies and applied them consistently;

(b) made judgments and estimates that are reasonable and prudent; and

(c) prepared the financial statements on a going concern basis;

The Directors are responsible to ensure that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and to ensure these financial statements comply with the Act. The Directors are also responsible for taking such steps as are reasonably open to them to preserve the interest of stakeholders, to safeguard the assets of the Group and to detect and prevent fraud and other irregularities.

This Statement of Responsibility by Directors is made in accordance with the resolution of the Board of Directors dated 12 April 2019.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

This Statement on Risk Management and Internal Control for financial year ended 31 December 2018 is prepared in compliance with paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, requiring the Board of Directors of a listed issuer to include in its annual report, a statement about the state of risk management and internal control of the listed issuer as a group.

The Statement was prepared in accordance with Principle B Part II of the Malaysian Code on Corporate Governance of Securities Commission Malaysia [MCCG] and the "Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers".

In accordance with the MCCG, the Board of Directors is responsible for the company's risk management and internal control systems and should set appropriate policies on internal control and seek assurance that the systems are functioning effectively. The Board must also ensure that the system of internal control manages risks and forms part of its corporate culture.

BOARD'S RESPONSIBILITY

The Board acknowledges and affirms its responsibility in establishing and maintaining an effective risk management framework and internal control system to safeguard shareholders' investments and the Group's assets. The Board also acknowledges that the system of internal control should manages risk and forms part of its corporate culture. The Board continuously reviews the risk management framework, processes, responsibilities of Risk Management Committee and assesses for reasonable assurance that the risk and internal control system is being managed effectively and efficiently within the Group's defined risk appetite and tolerance.

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 inherent in any system of risk management and internal control, the system can only provide reasonable but not absolute assurance against material misstatement, loss or fraud.

The Board delegates the oversight and implementation of the Board's policies and procedures on the system of risk management and internal control to the Audit Committee ("AC"). The AC is responsible, amongst others:

- Reviewing and monitoring the effectiveness of the Group's system of risk management and internal control;
- Evaluating the process for identifying, evaluating, monitoring and reporting of risks and internal control;
- Evaluating and monitoring the risk management framework in line with the Group's business objectives and risk appetite;
- Identifying changes to risk and taking appropriate actions to mitigate and control risks;
- Providing assurance to the Board that the risk management and internal control system is operating adequately and effectively;
- Reviews the Internal Audit Report of its findings, recommendations, management response and action plans and present to the Board of its recommendation on a quarterly basis.

RISK MANAGEMENT FRAMEWORK

The Board has established a risk management framework for identifying, monitoring, reviewing and continually improving risk management. The risk management framework is being adopted as a standardised approach in implementing risk management in the Group for timely identification, reporting and management of principal risks. The implementation of the risk management framework promotes an effective risk culture whilst embedding risk management into its processes and structure to create and maintain an environment that enables the Group to meet performance objectives.

The key features of the risk management framework provide a risk control environment that includes:

A **Risk Management Policy Statement** describing Kossan's commitment to embedding risk management to create and maintain an environment that enables the Group to meet performance objectives driven by technological advancement, people value, and continual improvement to deliver business stability with long-term sustainable growth;

A **Governance and Risk Organisation Structure** identifying the Board in retaining the overall risk management responsibility and the delegation of authority and responsibility of the management and reporting mechanism;

A **Risk Register** containing risk profiles of the business operation within the Group which have been developed and communicated to the Board. The development of such risk profiles involved identification of key risks faced by the Group's core business units, the potential impact and likelihood of those risks occurring, the control effectiveness and the action plans being taken to manage those risks to the desired level;

A **Risk Management Committee** ("RMC"), established by the Board and reporting to the Audit Committee to provide assurance concerning the Group's risk management. The RMC is represented by members of the board and is tasked with the overall responsibility for establishing a strategic approach to implementing risk management within the Group. The RMC is responsible, amongst others:

- Ensuring the overall risk management processes are adopted by the companies and group functional divisions and to oversee the development of appropriate guidelines and policies for implementation;
- Ensuring the risk management processes are integrated into all core business processes and that the culture of the organisation reflects the risk consciousness of the Board;
- Reviewing the periodic risk management reports, risk registers, risk management activities and management response thereto;
- Identify and communicate to the Board on critical risks challenges and management action plans to manage the risks;
- Evaluating and reviewing the risk management framework and policy.

The Board believed that maintaining a sound system of risk management and internal control is premised on a clear understanding and appreciation of the key elements of the Risk Management Framework and Governance Policies.

INTERNAL CONTROL SYSTEM

Whilst the Board focuses on effective risk oversight and setting the tone and culture towards an effective risk management and internal controls structure, the management is entrusted with the implementation of the system of internal control encompassing the types of control including strategic, financial, operational, compliance and governance to achieving the Group's objectives.

The Group has a clear defined organisation structure with clearly defined lines of authority, accountability and responsibility of the Board, board committees, corporate and operations unit management.

The key processes in reviewing the adequacy and effectiveness of the risk management and internal control system includes the following:

The **Audit Committee** is assisted by the Risk Management Committee and the Internal Audit Department, performs the duty of reviewing and evaluating the adequacy and effectiveness of the Group's system of risk management and internal control.

The **Nominating and Remuneration Committee** ("NRC") assists the Board to review and recommend the appointment of new directors and also remuneration policies for directors and senior management. The NRC also assesses the effectiveness of the Board, the Board committees and individual board member.

The **Risk Management Committee** ("RMC") has been established by the Board to provide assurance concerning the Group's risk management. The RMC performs periodic review of the risk management processes and oversee the development of appropriate guidelines and policies for implementation.

The **Internal Audit Department** ("IA") performs internal audits on the effectiveness of internal control mechanism on various operating units and also checks on the compliance with laws and regulatory requirements, including policies and procedures. Significant findings of non-compliance are highlighted in the periodic reports to the Audit Committee.

The **Sustainability Working Group Committee** ("SWG") is setup as part of the management in reinforcing its existing governance ecosystem. The SWG advises on sustainability strategies and its alignment with business strategy, risk environment and regulatory requirements including providing strategic direction and facilitate stakeholder engagement processes.

The key features of the internal control processes are described as follows:

- Board meetings are held at least once in a quarter with a formal agenda on matters for discussion. During the meeting, the Board reviews the financial performance of the Group, discuss and deliberate on the business development, management, corporate issues and regulatory matters affecting the Group.

- Board Committees with clearly defined terms of reference and authority hold regular meetings and assist the Board in overseeing internal controls and Board effectiveness. This include reviewing 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 department.

- The Group Managing Director ("GMD") plays a pivotal role in communicating the Board's expectations of the system of risk management and internal control to management. This is achieved through his active participation in the operations of the business as well as attendance at various management and operational level committee meetings. The GMD will update the Board of any significant matters that require the latter's immediate attention.

- Monthly management meetings are held to review the financial and manufacturing operational performance of business units including key performance indicators, productivity, efficiency and effectiveness. This includes evaluation of factors impacting performance such as business, operational and key management.

- There is an established mechanism to identify and review the risks element that impact on the financial performances of the Group to manage risks including and not limiting to volatility of foreign exchange rates, escalating cost of operations and competitive pricing of products.

- A Whistleblowing Policy serves as an avenue for all employees and the general public to raise concerns about malpractice or improper conduct within the Group whilst ensuring the integrity of the process and information and also protecting the rights of informants.

ASSURANCE MECHANISM

The Audit Committee ("AC") is tasked with the duty of reviewing and monitoring the effectiveness of the Group's system of risk management and internal control. The AC is assisted by the Group's internal audit department that reports directly to the AC and is guided by the Internal Audit Charter. The internal audit department performs audits based on an annual internal audit plan approved by the AC.

The results of all internal audit review, together with the findings and recommendations are presented to the AC by the Internal Audit Department and thereafter, the AC's findings and recommendations are presented to the Board on a quarterly basis.

For the year ended 31 December 2018, the Internal Audit department reviewed the adequacy and effectiveness of the internal control processes and necessary actions have been and are being taken to remedy any significant failings or weaknesses for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

During the year, the Internal Audit department performed financial review of control accounts, operational audits on inventory management, human resources, procurement, regulatory compliances, IT data protection, backup and disaster recovery.

The Board, through the AC, has reviewed on the adequacy and 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 Annual Report.

The Board has received assurances from the GMD who is also the Group Chief Executive Officer and the Senior Group Accountant that for the year ended 31 December 2018, 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 for the year under review.

Continuous quality assurance audits are being conducted as part of the requirements and compliance of the ISO 9001, ISO 13485, ISO/TS 16949, MS ISO/IEC 17025 and ISO 14001 certifications. Results of these audits are reported to the respective Quality Management Committees, which is chaired by the Executive Directors or GMD.

BOARD'S COMMITMENT

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

The Board is satisfied that the ongoing process for identifying, evaluating and managing the significant risks faced by the Group in its achievement of objectives and strategies and that such process has been in place for the year under review and up to the date of approval of this statement for inclusion in the annual report.

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

REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG") 3, Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants for inclusion in the annual report of the Group for the year ended 31 December 2018, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or

b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

This Statement has been approved by the Board on 12 April 2019.

REPORT OF THE AUDIT COMMITTEE

The Board of Directors have pleasure in submitting the report of the Audit Committee of the Board for the year ended 31 December 2018.

1. TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1.1 Composition

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

1.2 Authority

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

1.3 Responsibility

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

1.4 Functions

The duties of the Audit Committee shall include the following:

(i) To consider the appointment of the external auditors and the audit fees and any questions of their resignation or dismissal;

(ii) To discuss with the external auditors, 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 auditors;

(vii) To consider the appointment of the internal auditors, 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 auditors, whose role includes the examination and evaluation of the Company's operations and their compliance with the relevant policies, codes and legislations;

(ix) To review the risk management functions, namely:

- the overall risk management processes;
- the adequacy of the scope, functions, competency and resources for the risk management function, and that it has the necessary authority to carry out its work;
- the risk management processes are integrated into all core business processes;
- the risk reporting mechanism;

(x) To consider any related party transactions and conflict of interest situations that may arise within the Company or Group;

(xi) To consider the major findings of internal investigations and management's response; and

(xii) 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 2018 are as follows:-

Composition of the Committee	Attendance
Lee Choo Hock (appointed Chairman on 22.02.2018) *(Chairman/ Independent Non-Executive Director)*	5/5
Mohamed Shafeii Bin Abdul Gaffoor (stepped down as Chairman on 22.02.2018) *(Member/ Independent Non-Executive Director)*	5/5
Hoh Kim Hyan *(Member/ Independent Non-Executive Director)*	5/5

The redesignation of Mr. Lee Choo Hock as the Chairman of the AC was in compliance of corporate governance.

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

The Group's external auditors attended three (3) while the outsourced internal auditors and the inhouse internal auditors attended four of the meetings. (4/5)

3. ACTIVITIES

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

(a) reviewed the quarterly and annual financial statements of the Company/Group, prior to submission to the Board for consideration and approval;

(b) reviewed and recommended to the Board the re-appointment of the external auditors and the audit fee;

(c) reviewed and discussed with the external auditors the nature and scope of the audit and plan prior to the commencement of audit and ensure the audit is comprehensive;

(d) 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 and Management's response thereto;

(e) reviewed the provision of non audit services provided by the external auditors and the total fees paid;

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

(g) reviewed the internal control and risk management framework of the Group;

(h) 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;

(i) reviewed the viability and reasonableness of the acquisition of substantial assets by the Group;

(j) reviewed the risk profile of the Group and the business divisions and action plans by management to mitigate risks;

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

(l) reviewed and approved the Report of the Audit Committee;

(m) 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 be at arm's length and in accordance with the Group's normal commercial terms and not prejudicial to the minority shareholders or disadvantageous to the Group;

(n) conducted private meeting with the external auditors and internal auditors without the presence of executive board members or management.

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

4. COST OF INTERNAL AUDIT

The cost incurred for the internal audit function of the Company and the Group for the financial year 2018 were RM353,492 and RM655,031 respectively.

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.

Lee Choo Hock
Chairman
Audit Committee

DIRECTORS' REPORT
for the year ended 31 December 2018

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 2018.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding activities and provision of management services to subsidiaries, whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

ULTIMATE HOLDING COMPANY

The Company is a subsidiary of Kossan Holdings (M) Sdn. Bhd., of which is incorporated in Malaysia and regarded by the Directors as the Company's ultimate holding company, during the financial year and until the date of this report.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 7 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	199,773	4,479
Non-controlling interests	4,826	–
	204,599	4,479

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 amount of dividends paid by the Company were as follows:

i) In respect of the financial year ended 31 December 2017 as reported in the Directors' Report of that year:

- an interim ordinary dividend of 5 sen per ordinary share totalling RM31,973,395 declared on 23 November 2017 and paid on 10 January 2018; and
- a final ordinary dividend of 6 sen per ordinary share totalling RM38,368,074 declared on 13 April 2018 and paid on 3 July 2018.

DIVIDENDS (CONTINUED)

ii) In respect of the financial year ended 31 December 2018:

- an interim ordinary dividend of 3 sen per ordinary share totalling RM38,368,074 declared on 7 January 2019 and paid on 30 January 2019.

The final ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2018 is 3 sen per ordinary share totalling RM38,368,074.

DIRECTORS

Directors of the Company who served during the financial year until the date of this report are:

Tan Sri Dato' Lim Kuang Sia
Lee Choo Hock
Lim Ooi Chow
Lim Siau Tian
Lim Siau Hing
Tan Kong Chang
Lim Leng Bung
Mohamed Shafeii Bin Abdul Gaffoor
Hoh Kim Hyan

The Directors of the Company's subsidiaries (excluding Directors who are also Directors of the Company) in office during the financial year until the date of this report are:

Lim Kuang Yong
Lim Kuang Wang
Lim Kwan Hwa
Dr. Or Tan Teng
Lee Seek Ping
Lim Siew Bing
Teoh Hock Hean
Lee Hon Chee
Matthew Ang Hwee Tong
Wu Zhong

DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly owned subsidiaries) of those who were Directors at financial 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				
	At 1.1.2018	Bought	Sold	Share split*	At 31.12.2018
Kossan Rubber Industries Bhd.					
Direct interests					
Tan Sri Dato' Lim Kuang Sia	763,776	–	–	763,776	1,527,552

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

	Number of ordinary shares				
	At 1.1.2018	Bought	Sold	Share split*	At 31.12.2018
Deemed interests					
Tan Sri Dato' Lim Kuang Sia					
- holding company	326,512,480	–	–	326,512,480	653,024,960
- spouse	1,044,496	–	–	1,044,496	2,088,992
Lim Leng Bung					
- holding company	326,512,480	–	–	326,512,480	653,024,960
Lim Kuang Yong					
- holding company	326,512,480	–	–	326,512,480	653,024,960
Lim Kuang Wang					
- holding company	326,512,480	–	–	326,512,480	653,024,960
Lim Kwan Hwa					
- holding company	326,512,480	–	–	326,512,480	653,024,960
Lim Ooi Chow**					
- holding company	326,512,480	–	–	326,512,480	653,024,960
- parents	1,808,272	–	–	1,808,272	3,616,544
Lim Siau Tian**	326,512,480	–	–	326,512,480	653,024,960
Lim Siau Hing**	326,512,480	–	–	326,512,480	653,024,960
Lim Siew Bing**	326,512,480	–	–	326,512,480	653,024,960
Doshin Rubber Products (M) Sdn. Bhd.					
Direct interests					
Dr. Or Tan Teng	200,000	–	–	–	200,000
Cleanera HK Limited					
Direct interests					
Matthew Ang Hwee Tong	78,866	–	–	–	78,866
Wu Zhong	25,000	–	–	–	25,000
Indirect interests					
Matthew Ang Hwee Tong	616,134	–	–	–	616,134

* Share split into two (2) new ordinary shares of RM0.25 each for every one (1) existing ordinary share of RM0.50 each.

** Shares held through person connected to the Director or shareholder.

By virtue of their interests in the shares of the Company, Tan Sri Dato' Lim Kuang Sia, Lim Leng Bung, Lim Kuang Yong, Lim Kuang Wang, Lim Kwan Hwa, Lim Ooi Chow, Lim Siau Tian, Lim Siau Hing and Lim Siew Bing are deemed interested in the shares of the subsidiaries during the financial year to the extent that Kossan Rubber Industries Bhd. has an interest.

None of the other Directors holding office at 31 December 2018 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 remuneration 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 substantial financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 30 to the financial statements.

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

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company increased its issued and paid-up number of shares from 639,467,904 ordinary shares to 1,278,935,808 ordinary shares by way of share split on the basis of 2 new ordinary share for every 1 existing ordinary share held.

There were no other changes in the issued and paid-up capital of the Company and no debenture was 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.

INDEMNITY AND INSURANCE COSTS

There is no indemnity given to or insurance effected for Director, officer or auditors of the Company during the financial year.

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 provision 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

OTHER STATUTORY INFORMATION (CONTINUED)

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2018 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, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 22 to the financial statements.

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

....
Tan Sri Dato' Lim Kuang Sia
Director

....
Lim Leng Bung
Director

Klang, Selangor Darul Ehsan

Date: 12 April 2019

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Assets					
Property, plant and equipment	3	1,267,931	1,028,011	48,821	48,803
Investment properties	4	5,223	5,223	21,229	21,621
Goodwill on consolidation	5	4,926	4,926	–	–
Intangible asset	6	1,639	1,639	1,639	1,639
Investments in subsidiaries	7	–	–	70,642	70,807
Investment in joint venture	8	1,358	1,362	1,400	1,400
Other investments	9	398	166	91	91
Deferred tax assets	10	341	94	–	–
Trade and other receivables	11	–	–	186,152	154,549
Total non-current assets		1,281,816	1,041,421	329,974	298,910
Inventories	12	249,007	212,950	–	–
Trade and other receivables	11	436,427	377,523	57,541	85,775
Prepayments		17,669	8,590	113	57
Current tax assets		16,270	3,378	985	703
Derivative financial assets	17	723	10,820	–	–
Cash and cash equivalents	13	146,315	210,382	76,269	146,422
Total current assets		866,411	823,643	134,908	232,957
Total assets		2,148,227	1,865,064	464,882	531,867
Equity					
Share capital	14.1	323,885	323,885	323,885	323,885
Translation reserve	14.3	4,950	6,513	–	–
Capital reserve	14.4	(240)	(240)	–	–
Retained earnings		986,269	824,864	131,462	165,351
Equity attributable to owners of the Company		1,314,864	1,155,022	455,347	489,236
Non-controlling interests		27,510	23,249	–	–
Total equity		1,342,374	1,178,271	455,347	489,236

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Liabilities					
Loans and borrowings	15	229,273	186,906	13	142
Deferred tax liabilities	10	89,798	86,705	2,810	3,130
Total non-current liabilities		319,071	273,611	2,823	3,272
Loans and borrowings	15	279,407	209,840	295	345
Current tax liabilities		777	409	–	–
Trade and other payables	16	206,598	202,933	6,417	39,014
Total current liabilities		486,782	413,182	6,712	39,359
Total liabilities		805,853	686,793	9,535	42,631
Total equity and liabilities		2,148,227	1,865,064	464,882	531,867

The notes on pages 76 to 147 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Revenue	18	2,140,571	1,957,627	15,644	15,891
Other income		13,099	10,121	818	688
Changes in inventories of finished goods and work-in-progress		46,086	(9,551)	–	–
Raw materials and consumables used		(1,263,950)	(1,150,144)	–	–
Goods purchased for resale		(4,891)	(4,434)	–	–
Staff costs		(282,640)	(252,817)	(13,276)	(12,178)
Depreciation of property, plant and equipment		(76,809)	(73,236)	(1,128)	(1,328)
Other operating expenses		(307,115)	(241,577)	(5,012)	(3,415)
Results from operating activities		264,351	235,989	(2,954)	(342)
Finance costs	19	(19,504)	(11,324)	(26)	(36)
Finance income		4,421	3,667	8,721	7,658
Share of losses of equity-accounted joint venture, net of tax	8	(4)	(19)	–	–
Profit before tax		249,264	228,313	5,741	7,280
Tax expense	21	(44,665)	(44,078)	(1,262)	(1,763)
Profit for the year	22	204,599	184,235	4,479	5,517
Other comprehensive income, net of tax					
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		(1,716)	(2,749)	–	–
Other comprehensive expense for the year, net of tax		(1,716)	(2,749)	–	–
Total comprehensive income for the year		202,883	181,486	4,479	5,517

Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018
(Cont'd)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Profit attributable to:					
Owners of the Company		199,773	182,061	4,479	5,517
Non-controlling interests		4,826	2,174	–	–
Profit for the year		204,599	184,235	4,479	5,517
Total comprehensive income attributable to:					
Owners of the Company		198,210	179,542	4,479	5,517
Non-controlling interests		4,673	1,944	–	–
Total comprehensive income for the year		202,883	181,486	4,479	5,517
Basic earnings per ordinary share (sen)	23	15.62	14.24		

The notes on pages 76 to 147 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

		Attributable to owners of the Company							
		Non-distributable				*Distributable*			
	Note	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Capital reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
Group									
At 1 January 2017		319,734	4,151	8,238	–	713,144	1,045,267	28,929	1,074,196
Foreign currency translation differences for foreign operations		–	–	(2,519)	–	–	(2,519)	(230)	(2,749)
Total other comprehensive income for the year		–	–	(2,519)	–	–	(2,519)	(230)	(2,749)
Profit for the year		–	–	–	–	182,061	182,061	2,174	184,235
Total comprehensive income for the year		–	–	(2,519)	–	182,061	179,542	1,944	181,486
Transfer in accordance with Section 618(2) of the Companies Act 2016		4,151	(4,151)	–	–	–	–	–	–
Acquisition of non-controlling interests	7.2	–	–	794	(240)	–	554	(7,063)	(6,509)
Dividends to owners of the Company	24	–	–	–	–	(70,341)	(70,341)	–	(70,341)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(561)	(561)
At 31 December 2017		323,885	–	6,513	(240)	824,864	1,155,022	23,249	1,178,271
		Note 14.1	Note 14.2	Note 14.3	Note 14.4				

Consolidated Statement of Changes in Equity for the year ended 31 December 2018
(Cont'd)

		Attributable to owners of the Company							
		Non-distributable				*Distributable*			
	Note	**Share capital RM'000**	**Share premium RM'000**	**Translation reserve RM'000**	**Capital reserve RM'000**	**Retained earnings RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
Group									
At 1 January 2018		323,885	–	6,513	(240)	824,864	1,155,022	23,249	1,178,271
Foreign currency translation differences for foreign operations		–	–	(1,563)	–	–	(1,563)	(153)	(1,716)
Total other comprehensive income for the year		–	–	(1,563)	–	–	(1,563)	(153)	(1,716)
Profit for the year		–	–	–	–	199,773	199,773	4,826	204,599
Total comprehensive income for the year		–	–	(1,563)	–	199,773	198,210	4,673	202,883
Dividends to owners of the Company	24	–	–	–	–	(38,368)	(38,368)	–	(38,368)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(412)	(412)
At 31 December 2018		323,885	–	4,950	(240)	986,269	1,314,864	27,510	1,342,374
		Note 14.1	Note 14.2	Note 14.3	Note 14.4				

The notes on pages 76 to 147 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Note	← *Non-distributable* → Share capital RM'000	Share premium RM'000	*Distributable* Retained earnings RM'000	Total equity RM'000
Company					
At 1 January 2017		319,734	4,151	230,175	554,060
Profit and total comprehensive income for the year		–	–	5,517	5,517
Transfer in accordance with Section 618(2) of the Companies Act 2016		4,151	(4,151)	–	–
Dividends to owners of the Company	24	–	–	(70,341)	(70,341)
At 31 December 2017/1 January 2018		323,885	–	165,351	489,236
Profit and total comprehensive income for the year		–	–	4,479	4,479
Dividends to owners of the Company	24	–	–	(38,368)	(38,368)
At 31 December 2018		323,885	–	131,462	455,347
		Note 14.1	Note 14.2		

The notes on pages 76 to 147 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Cash flows from operating activities					
Profit before tax		249,264	228,313	5,741	7,280
Adjustments for:					
Depreciation of investment property	4	–	–	392	392
Depreciation of property, plant and equipment	3	76,809	73,236	1,128	1,328
Dividend income	18	–	–	(1,316)	(1,563)
Finance costs	19	19,504	11,324	26	36
Finance income		(4,421)	(3,667)	(8,721)	(7,658)
Impairment loss on trade receivables	22	159	2,067	–	–
Net gain on disposal of property, plant and equipment		(453)	(64)	(135)	(71)
Net unrealised fair value changes on derivatives	22	(723)	(10,820)	–	–
Net unrealised foreign exchange differences	22	1,294	4,079	–	–
Property, plant and equipment written off	22	8	48	7	–
Share of losses of equity-accounted joint venture, net of tax		4	19	–	–
Operating profit/(loss) before changes in working capital		341,445	304,535	(2,878)	(256)
Change in inventories		(36,057)	(2,279)	–	–
Change in trade and other receivables and prepayments		(58,881)	(67,662)	(3,425)	(121,804)
Change in trade and other payables		3,665	2,159	(32,597)	(595)
Cash generated from/(used in) operations		250,172	236,753	(38,900)	(122,655)
Dividends received		–	–	1,316	301,563
Interest received		4,421	3,667	8,721	2,515
Interest paid		(7,639)	(5,062)	(26)	(36)
Tax paid		(54,343)	(31,240)	(1,864)	(1,283)
Net cash from/(used in) operating activities		192,611	204,118	(30,753)	180,104

Statements of Cash Flows
for the year ended 31 December 2018
(Cont'd)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Cash flows from investing activities					
Acquisition of property, plant and equipment	(ii)	(314,861)	(239,159)	(913)	(1,283)
Acquisition of other investments		(232)	(75)	–	–
Acquisition of non-controlling interests	7.2	–	(6,509)	–	–
Increase in investments in subsidiaries		–	–	–	(6,509)
Proceeds from disposal of investment in subsidiary		–	–	165	–
Decrease in deposits pledged		108	–	–	–
Proceeds from disposal of property, plant and equipment		767	380	195	97
Net cash used in investing activities		(314,218)	(245,363)	(553)	(7,695)
Cash flows from financing activities					
Dividends paid to owners of the Company		(38,368)	(70,341)	(38,368)	(70,341)
Dividends paid to non-controlling interests		(412)	(561)	–	–
Interest paid		(13,258)	(6,262)	–	–
Drawdown of term loans		60,000	169,900	–	–
Repayment of finance lease liabilities		(2,286)	(13,276)	(479)	(441)
Proceeds from other borrowings		27,772	91,507	–	–
Proceeds from/(Repayment of) term loans		25,513	(27,397)	–	–
Net cash from/(used in) financing activities		58,961	143,570	(38,847)	(70,782)

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net (decrease)/increase in cash and cash equivalents		(62,646)	102,325	(70,153)	101,627
Effect of exchange rate fluctuations on cash held		(1,313)	(1,790)	–	–
Cash and cash equivalents at 1 January		210,274	109,739	146,422	44,795
Cash and cash equivalents at 31 December	(i)	146,315	210,274	76,269	146,422

(i) Cash and cash equivalents

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

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and bank balances	13	107,507	158,049	72,269	110,422
Short term deposits	13	38,808	52,333	4,000	36,000
		146,315	210,382	76,269	146,422
Less: Deposit pledged	13	–	(108)	–	–
		146,315	210,274	76,269	146,422

(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 RM317,454,000 (2017: RM240,040,000) and RM1,213,000 (2017: RM1,283,000) respectively of which RM1,200,000 (2017: RM880,866) and RM300,000 (2017: nil) respectively were acquired by finance lease agreements.

The notes on pages 76 to 147 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

Principal place of business/Registered office
Wisma Kossan
Lot 782, Jalan Sungai Putus
Off Batu 3 ¾, Jalan Kapar
42100 Klang
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interests in joint venture. The financial statements of the Company as at and for the financial year ended 31 December 2018 do not include other entities.

The Company is principally engaged in investment holding activities and provision of management services to subsidiaries, whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements.

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

These financial statements were authorised for issue by the Board of Directors on 12 April 2019.

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 ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, interpretations and amendments of the MFRSs 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 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement**
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

- from the annual period beginning on 1 January 2019 for those accounting standard, interpretation and amendments that are effective for annual periods beginning on or after 1 January 2019, except for amendments marked with "*" which are not applicable to the Group and the Company.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Group and the Company.

The initial application of the accounting standards, interpretations and amendments are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and of the Company except as mentioned below:

(i) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group has assessed the estimated impact that the initial application of MFRS 16 will have on its consolidated financial statements as at 1 January 2019 as below. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change until the Group presents its first financial statements that include the date of initial application.

At 1 January 2019, the Group estimated lease liabilities of RM10,456,000 with corresponding additional right-of-use assets of RM10,075,000, with the difference recognised in retained earnings.

1. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

i) financial instruments;

ii) revenue recognition; and

iii) impairment losses of financial instruments

as compared to those adopted in previous financial statements. The impacts arising from the changes are disclosed in Note 31.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

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

(ii) Business combinations

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

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

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

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

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

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

(iii) Acquisitions of non-controlling interests

The Group accounts for 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) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity accounted investee or as a financial asset depending on the level of influence retained.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(v) Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.

- A joint arrangement is classified as "joint venture" when the Group or the Company has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method. Investments in joint venture 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 investment includes transaction costs.

(vi) 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.

(vii) 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 joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur 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 foreign currency translation reserve ("FCTR") in equity.

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

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

Foreign currency differences are recognised in other comprehensive income and accumulated in the 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 gain 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

(i) Recognition and initial 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.

Current financial year

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

An embedded derivative is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured 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.

Previous financial year

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

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

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial assets (continued)

Current financial year (continued)

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(k)(i)) where the effective interest rate is applied to the amortised cost.

(b) Fair value through profit or loss

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (see Note 2(k)(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial assets (continued)

Previous financial year

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

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

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

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

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

(b) Loans and receivables

Loans and receivables category comprised debt instruments that were not quoted in an active market, trade and other receivables and cash and cash equivalents.

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

(c) Available-for-sale financial assets

Available-for-sale category comprised investments in equity and debt instruments that were not held for trading.

Investments in equity instruments that did not have a quoted market price in an active market and whose fair value could not be reliably measured were measured at cost. Other financial assets categorised as available-for-sale were 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 were recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income was reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method was recognised in profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial liabilities

Current financial year

The categories of financial liabilities at initial recognition is as follows:

(a) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

Previous financial year

In the previous financial year, financial liabilities of the Group and the Company were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were derivatives or financial liabilities that were specifically designated into this category upon initial recognition.

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

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

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Current financial year

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:

- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers*.

Liabilities arising from financial guarantees are presented together with other provisions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(iii) Financial guarantee contracts (continued)

Previous financial year

In the previous financial year, fair value arising from financial guarantee contracts were classified as deferred income and was amortised to profit or loss using a straight-line method over the contractual period or, when there was no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract was probable, an estimate of the obligation was made. If the carrying value of the financial guarantee contract was lower than the obligation, the carrying value was adjusted to the obligation amount and accounted for as a provision.

(iv) 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 transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of consideration received (including any new asset obtained less any new liability assumed) 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, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

• Leasehold land	96 years
• 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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, or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

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

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) Goodwill on consolidation

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. Goodwill is not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

(g) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognised in profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets (continued)

(iii) Amortisation

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives for the patent is 10 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

(h) Investment properties

Investment properties carried at cost

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include freehold land which in substance is a finance lease held for a currently undetermined future use. Investment properties initially and subsequently measured at cost are accounted for similarly to property, plant and equipment.

(i) Inventories

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

The cost of inventories is calculated using the weighted average method, 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.

(j) 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 pledged deposits.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment

(i) Financial assets

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

Current financial year

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost or fair value through other comprehensive income. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using individual assessments based on receivables past due more than 90 days with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(i) Financial assets (continued)

Current financial year (continued)

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery amounts due.

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries) were assessed at each reporting date whether there was 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, were not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost was an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset was estimated.

An impairment loss in respect of loans and receivables and held-to-maturity investments was recognised in profit or loss and was 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 was reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets was recognised in profit or loss and was 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 had been recognised in the other comprehensive income, the cumulative loss in other comprehensive income was reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that was carried at cost was recognised in profit or loss and was 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 was not reversed through profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(ii) Other assets

The carrying amounts of other assets (except for inventories and deferred tax assets) 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 a cash-generating unit or group of cash-generating units that are expected to benefit from the synergies of the combination.

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

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

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 (group 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 years 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Equity instruments

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

(i) Issue expenses

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

(ii) Ordinary shares

Ordinary shares are classified as equity.

(m) 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.

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Revenue and other income

(i) Revenue

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group or the Company transfers control of good or service at a point in time unless one of the following over time criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided as the Group or the Company performs;
(b) the Group's or the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
(c) the Group's or the Company's performance does not create an asset with an alternative use and the Group or the Company has an enforceable right to payment for performance completed to date.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss.

(iii) Services rendered

Revenue of the Company includes management fees charged for the service rendered and is accounted for based on service performed.

(iv) 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.

(p) Borrowing costs

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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 assets and liabilities 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, 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 which the unutilised tax incentive can be utilised.

(r) Earnings per ordinary share

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) 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. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Managing Director 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.

(t) Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3. PROPERTY, PLANT AND EQUIPMENT

	Freehold land* RM'000	Long-term leasehold 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
Group												
Cost												
At 1 January 2017	276,642	–	210,810	704,909	19,325	9,270	17,258	4,569	17,186	47,418	18,415	1,325,802
Additions	96,226	–	2,606	22,630	2,096	43	861	–	2,487	66,605	46,486	240,040
Disposals	–	–	–	(429)	(534)	–	(80)	–	(309)	–	–	(1,352)
Write-off	–	–	–	(53)	–	–	–	–	(1,671)	–	–	(1,724)
Reclassification	–	–	–	8,128	–	–	–	–	–	(8,128)	–	–
Effect of movements in exchange rates	(868)	–	(156)	(550)	(2)	–	–	–	(3)	–	–	(1,579)
At 31 December 2017/ 1 January 2018	372,000	–	213,260	734,635	20,885	9,313	18,039	4,569	17,690	105,895	64,901	1,561,187
Additions	198	84,219	4,331	50,616	2,476	256	2,349	–	2,332	115,872	55,027	317,676
Interest capitalised	–	–	–	–	–	–	–	–	–	1,393	–	1,393
Disposals	–	–	–	(718)	(2,012)	–	(30)	–	(1)	(217)	–	(2,978)
Write-off	–	–	–	(122)	–	–	(2)	–	(41)	–	–	(165)
Reclassification	–	–	55,456	158,674	–	36	1,378	–	891	(160,578)	(55,857)	–
Adjustments	(1,615)	–	–	–	–	–	–	–	–	–	–	(1,615)
Effect of movements in exchange rates	(248)	–	–	(440)	(13)	–	–	–	(48)	–	–	(749)
At 31 December 2018	370,335	84,219	273,047	942,645	21,336	9,605	21,734	4,569	20,823	62,365	64,071	1,874,749

* Included in the freehold land is an amount of USD3,680,000, equivalent to RM14.7 million as at 31 December 2018 (31 December 2017: USD3,680,000, equivalent to RM14.9 million) representing the freehold land and building of an overseas subsidiary of which the carrying amount of the building is not segregated from the freehold land as the required details are not available.

** Included in the additions in plant and machinery under construction is an amount of RM1,393,000 as at 31 December 2018 (31 December 2017: nil) representing the capitalisation of borrowing costs (see Note 19).

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land* RM'000	Long-term leasehold 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
Accumulated depreciation												
At 1 January 2017	–	–	26,647	396,535	12,963	6,180	8,717	2,970	9,260	–	–	463,272
Charge for the year	–	–	5,984	60,198	2,953	678	1,641	302	1,480	–	–	73,236
Disposals	–	–	–	(216)	(512)	–	(29)	–	(279)	–	–	(1,036)
Write-off	–	–	–	(28)	–	–	–	–	(1,648)	–	–	(1,676)
Effect of movements in exchange rates	–	–	(216)	(399)	–	–	–	–	(5)	–	–	(620)
At 31 December 2017 /1 January 2018	–	–	32,415	456,090	15,404	6,858	10,329	3,272	8,808	–	–	533,176
Charge for the year	–	567	5,095	64,507	2,581	535	1,621	281	1,622	–	–	76,809
Disposals	–	–	–	(694)	(1,948)	–	(22)	–	–	–	–	(2,664)
Write-off	–	–	–	(119)	–	–	(2)	–	(36)	–	–	(157)
Effect of movements in exchange rates	–	–	–	(331)	(6)	–	–	–	(9)	–	–	(346)
At 31 December 2018	–	567	37,510	519,453	16,031	7,393	11,926	3,553	10,385	–	–	606,818
Carrying amounts												
At 1 January 2017	276,642	–	184,163	308,374	6,362	3,090	8,541	1,599	7,926	47,418	18,415	862,530
At 31 December 2017 /1 January 2018	372,000	–	180,845	278,545	5,481	2,455	7,710	1,297	8,882	105,895	64,901	1,028,011
At 31 December 2018	370,335	83,652	235,537	423,192	5,305	2,212	9,808	1,016	10,438	62,365	64,071	1,267,931

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Office furniture and equipment RM'000	Building under construction RM'000	Total RM'000
Company						
Cost						
At 1 January 2017	41,382	3,799	5,872	4,046	–	55,099
Additions	1,256	–	–	27	–	1,283
Disposals	–	–	(354)	(297)	–	(651)
At 31 December 2017/ 1 January 2018	42,638	3,799	5,518	3,776	–	55,731
Additions	–	–	330	290	593	1,213
Disposals	–	–	(610)	–	–	(610)
Write-off	–	–	–	(18)	–	(18)
At 31 December 2018	42,638	3,799	5,238	4,048	593	56,316
Accumulated depreciation						
At 1 January 2017	–	482	3,460	2,283	–	6,225
Charge for the year	–	81	876	371	–	1,328
Disposals	–	–	(354)	(271)	–	(625)
At 31 December 2017/ 1 January 2018	–	563	3,982	2,383	–	6,928
Charge for the year	–	81	743	304	–	1,128
Disposals	–	–	(550)	–	–	(550)
Write-off	–	–	–	(11)	–	(11)
At 31 December 2018	–	644	4,175	2,676	–	7,495
Carrying amounts						
At 1 January 2017	41,382	3,317	2,412	1,763	–	48,874
At 31 December 2017/ 1 January 2018	42,638	3,236	1,536	1,393	–	48,803
At 31 December 2018	42,638	3,155	1,063	1,372	593	48,821

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.1 Assets under finance lease arrangement

At the end of the financial year, the net carrying amount of assets under finance lease arrangement was as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Plant and machinery	742	19,418	–	–
Motor vehicles	3,024	2,434	921	929
	3,766	21,852	921	929

3.2 Long-term leasehold land

Included in the net carrying amount of long-term leasehold land of the Group is RM83,652,000 (2017: nil) pertaining to long-term leasehold land with unexpired lease period of more than 50 years.

4. INVESTMENT PROPERTIES

	Freehold land RM'000	Buildings RM'000	Total RM'000
Group			
Cost/Carrying amounts			
At 1 January 2017/31 December 2017/ 1 January 2018/31 December 2018	5,223	–	5,223
Company			
Cost			
At 1 January 2017/31 December 2017/ 1 January 2018/31 December 2018	10,100	12,305	22,405
Accumulated depreciation			
At 1 January 2017	–	392	392
Charge for the year	–	392	392
At 31 December 2017/1 January 2018	–	784	784
Charge for the year	–	392	392
At 31 December 2018	–	1,176	1,176

4. INVESTMENT PROPERTIES (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Total RM'000
Company			
Carrying amount			
At 1 January 2017	10,100	11,913	22,013
At 31 December 2017/1 January 2018	10,100	11,521	21,621
At 31 December 2018	10,100	11,129	21,229

The following are recognised in profit or loss in respect of investment properties:

	Company	
	2018 RM'000	2017 RM'000
Rental income	678	623
Direct operating expenses:		
- income generating investment properties	(603)	(554)

Fair value information

Fair value of investment properties are categorised as follows:

	Group Level 3 RM'000	Company Level 3 RM'000
2018		
Freehold land	11,491	16,789
Buildings	–	21,206
2017		
Freehold land	10,794	15,573
Buildings	–	20,305

The following table shows the valuation technique used in the determination of fair values within Level 3.

Investment properties not carried at fair value

Type	Description of valuation technique and inputs used
Land and buildings	Fair value of land and buildings has been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

5. GOODWILL ON CONSOLIDATION

	Group 2018 RM'000	2017 RM'000
At cost	4,926	4,926

5.1 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 2018 RM'000	2017 RM'000
Technical rubber products	864	864
Cleanroom products	4,062	4,062
Total	4,926	4,926

Key assumptions used in recoverable amount

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

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

- The revenue growth in the 5-year cash flow projection is estimated at a compounded annual growth rate of 2% (2017: 1%) supported by historical trend.
- The terminal value was estimated using the perpetuity growth model, with a growth rate to perpetuity of 2% (2017: 2%).
- A pre-tax discount rate of 13.5% (2017: 13.5%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on an industry average weighted average cost of capital.
- There will be no other significant changes in the government policies and regulations which will directly affect the investees' businesses. The inflation for the operating expenses is in line with the estimated gross domestic product growth rate for the country based on the past trends.

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

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

6. INTANGIBLE ASSET

	Group and Company 2018 RM'000	2017 RM'000
Intellectual property rights, at cost	1,639	1,639

The intellectual property is Aseptapak Innovation, which is the latest automated packing technology for gloves. The intellectual property include any of its further development, future improvements and enhancements. The intellectual property is owned by Aseptapak (M) Sdn. Bhd. ("Aseptapak") and Aseptapak has granted the rights to the Group to use the Aseptapak Innovation for up to 20 years. The rights is only amortised from the date it is available for use on commercial basis.

7. INVESTMENTS IN SUBSIDIARIES

	Company 2018 RM'000	2017 RM'000
At cost	70,642	70,807

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2018 %	2017 %
Perusahaan Getah Asas Sdn. Bhd.	Malaysia	Manufacturing of latex examination gloves	100	100
Kossan Latex Industries (M) Sdn. Bhd.	Malaysia	Manufacturing of latex examination gloves	100	100
Hibon Corporation Sdn. Bhd.	Malaysia	Manufacturing and marketing of rubber based parts and products	90.4	90.4
Doshin Rubber Products (M) Sdn. Bhd.	Malaysia	Manufacturing and dealing in rubber products	70	70
Ideal Quality Sdn. Bhd.	Malaysia	Manufacturing of latex examination gloves	100	100
Kossan Engineering (M) Sdn. Bhd.	Malaysia	Fabrication and installation of machinery	100	100
Kossan International Sdn. Bhd.	Malaysia	Trading of latex examination gloves	100	100

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2018 %	Effective ownership interest 2017 %
Kossan Sdn. Bhd.	Malaysia	Investment holding	100	100
Premium Medical Products 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 trading of cleanroom products	82	82
KPH Logistics, Inc.#	United States of America	Distribution	100	100
KPH (San Francisco), LLC.#	United States of America	Property holding	100	100
KISB Asia Pacific Sdn. Bhd.	Malaysia	Dormant	100	100
Kossan Labuan Bhd.#	Labuan, Malaysia	Investment holding	100	100
Kossan Industries Sdn. Bhd.	Malaysia	Manufacturing and dealing in rubber products	100	100
Subsidiary of Doshin Rubber Products (M) Sdn. Bhd.				
Quality Profile Sdn. Bhd.	Malaysia	Manufacturing and dealing in rubber products	70	70
Subsidiary of Cleanera HK Limited				
Dongguan Cleanera Cleanroom Products Company Limited+	The People's Republic of China	Manufacturing and dealing in cleanroom products	82	82
Subsidiary of Kossan Engineering (M) Sdn. Bhd.				
Kossan Gloves Sdn. Bhd.	Malaysia	Investment holding	100	100

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2018 %	Effective ownership interest 2017 %
Subsidiary of Kossan Gloves Sdn. Bhd.				
Wear Safe (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing of surgical, procedure and examination gloves	100	100
Subsidiary of Kossan Labuan Bhd.				
PT. Kossan Setia Jaya#	Republic of Indonesia	Property holding	100	100
Subsidiary of Kossan International Sdn. Bhd.				
KISB HK Limited+	Hong Kong	Investment holding	100	100
Subsidiary of KISB HK Limited				
KISB Limited Shanghai+	The People's Republic of China	Trading of machinery parts	100	100

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

\+ Not audited by member firms of KPMG International.

7.1 Material non-controlling interests in subsidiaries

There are no non-controlling interests that are material to the Group for the year ended 31 December 2018.

7.2 Acquisition of non-controlling interests - Cleanera HK Limited

On 4 December 2017, the Group acquired an additional 27% interest in Cleanera HK Limited for RM6,509,000 in cash, increasing its ownership from 55% to 82%. The Group recognised a decrease in non-controlling interests of RM7,063,000, a decrease in capital reserve of RM240,000 and an increase in translation reserve of RM794,000.

8. INVESTMENT IN JOINT VENTURE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At cost	1,362	1,381	1,400	1,400
Shares of post-acquisition reserves	(4)	(19)	–	–
	1,358	1,362	1,400	1,400

Aseptapak (M) Sdn. Bhd. ("Aseptapak"), the only joint arrangement in which the Group participates, is principally engaged in the purchase or acquire any patents, trademarks, invention, licenses, concessions, secret processes and the like, in Malaysia or elsewhere, conferring an exclusive or non-exclusive or limited rights to use any invention or process, secret or otherwise, which may be used by the entity, directly, and to use, exercise, develop, grant license in respect of, or turn to account the property, rights and information so acquired.

Aseptapak is structured as a separate vehicle and provides the Group rights to the net assets of the entity. Accordingly, the Group has classified the investment in Aseptapak as a joint venture.

The following table summarises the financial information of Aseptapak.

	Group	
	2018 RM'000	2017 RM'000
Percentage of ownership interest and voting interest	50%	50%
Summarised financial information		
As at 31 December		
Non-current assets	1,669	1,669
Current assets	1,050	1,056
Current liabilities	(2)	(2)
	2,717	2,723
Year ended 31 December		
Loss and total comprehensive expenses for the year	(7)	(38)
Group's share of results for the year ended 31 December		
Group's share of losses during the year	(4)	(19)

9. OTHER INVESTMENTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Fair value through profit or loss	166	–	91	–
Amortised cost	232	–	–	–
Available-for-sale financial assets at amortised cost	–	166	–	91
	398	166	91	91

10. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group						
Property, plant and equipment	–	–	(92,429)	(80,322)	(92,429)	(80,322)
Revaluation on properties#	–	–	(5,311)	(5,463)	(5,311)	(5,463)
Unutilised reinvestment allowance	8,217	797	–	–	8,217	797
Derivatives	–	–	(65)	(1,718)	(65)	(1,718)
Others	131	95	–	–	131	95
Tax assets/(liabilities)	8,348	892	(97,805)	(87,503)	(89,457)	(86,611)
Set off of tax	(8,007)	(798)	8,007	798	–	–
Net tax assets/(liabilities)	341	94	(89,798)	(86,705)	(89,457)	(86,611)

	Liabilities		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Company				
Property, plant and equipment	(2,219)	(2,516)	(2,219)	(2,516)
Revaluation on properties#	(591)	(614)	(591)	(614)
	(2,810)	(3,130)	(2,810)	(3,130)

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

10. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Unrecognised deferred tax assets

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

	Group	
	2018 RM'000	**2017 RM'000**
Tax loss carry-forward	51	51
Tax at 24% (2017: 24%)	12	12

During the financial year, a finance bill has been tabled where the tax losses can only be utilised for 7 years. Tax losses can only be utilised once capital allowance has been fully exhausted for.

Deferred tax assets have not been recognised in respect for tax loss carry-forward amounting to RM51,000 because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

10. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Movement in temporary differences during the year

	Note	Property, plant and equipment RM'000	Revaluation on properties RM'000	Unutilised reinvestment allowance RM'000	Tax loss carry-forward RM'000	Derivatives RM'000	Others RM'000	Total RM'000
Group								
At 1 January 2017		(75,700)	(5,614)	–	195	1,499	(2,637)	(82,257)
Recognised in profit or loss	21	(4,622)	151	797	(195)	(3,217)	2,732	(4,354)
At 31 December 2017/ 1 January 2018		(80,322)	(5,463)	797	–	(1,718)	95	(86,611)
Recognised in profit or loss	21	(12,107)	152	7,420	–	1,653	36	(2,846)
At 31 December 2018		(92,429)	(5,311)	8,217	–	(65)	131	(89,457)
Company								
At 1 January 2017		(2,681)	(637)	–	–	–	–	(3,318)
Recognised in profit or loss	21	165	23	–	–	–	–	188
At 31 December 2017/ 1 January 2018		(2,516)	(614)	–	–	–	–	(3,130)
Recognised in profit or loss	21	297	23	–	–	–	–	320
At 31 December 2018		(2,219)	(591)	–	–	–	–	(2,810)

11. TRADE AND OTHER RECEIVABLES

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Non-current					
Non-trade					
Amount due from subsidiaries	11.1	–	–	186,152	154,549
Current					
Trade					
Trade receivables		405,391	341,355	20	22
Less: Allowance for impairment loss		(2,237)	(2,078)	–	–
		403,154	339,277	20	22
Amount due from related parties	11.2	55	–	–	–
		403,209	339,277	20	22
Non-trade					
Amount due from subsidiaries	11.3	–	–	57,236	85,454
Other receivables		26,844	34,924	180	134
Refundable deposits		6,374	3,322	105	165
		33,218	38,246	57,521	85,753
		436,427	377,523	57,541	85,775
		436,427	377,523	243,693	240,324

11.1 The non-trade amount due from subsidiaries are unsecured, subject to interest at 2.6% (2017: 2.6%) per annum and repayable within 3 years.

11.2 The trade amount due from related parties are subject to normal trade terms.

11.3 The non-trade amount due from subsidiaries are unsecured, subject to interest at 2.6% (2017: 2.6%) per annum and repayable on demand.

12. INVENTORIES

	Group 2018 RM'000	Group 2017 RM'000
At cost:		
Raw materials	64,682	66,821
Work-in-progress	6,398	11,514
Finished goods	177,927	134,615
	249,007	212,950

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Cash and bank balances	107,507	158,049	72,269	110,422
Short term deposits placed with licensed banks	38,808	52,333	4,000	36,000
	146,315	210,382	76,269	146,422

Included in deposits placed with licensed banks of the Group for 2017 was an amount of RM108,000 pledged to the banks for banking facilities granted to the Group.

14. CAPITAL AND RESERVES

14.1 Share capital

	Group and Company			
	Number of shares 2018 '000	**Amount 2018 RM'000**	**Number of shares 2017 '000**	**Amount 2017 RM'000**
Ordinary shares, issued and fully paid:				
At 1 January	639,468	323,885	639,468	319,734
Share split	639,468	–	–	–
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 (Note a)	–	–	–	4,151
At 31 December	1,278,936	323,885	639,468	323,885
				Note b

(a): In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit.

(b): Included in share capital is share premium amounting to RM4,151,000 that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74).

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.

14. CAPITAL AND RESERVES (CONTINUED)

14.2 Share premium

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

14.3 Translation reserve

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

14.4 Capital reserve

The capital reserve comprises the difference between the consideration paid and net assets acquired in acquisition of non-controlling interests.

15. LOANS AND BORROWINGS

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-current					
Term loans - unsecured	15.1	228,400	186,456	–	–
Finance lease liabilities	15.2	873	450	13	142
		229,273	186,906	13	142
Current					
Term loans - unsecured	15.1	82,133	38,564	–	–
Revolving credit - unsecured		79,450	78,595	–	–
Trade finance - unsecured		116,846	90,194	–	–
Finance lease liabilities	15.2	978	2,487	295	345
		279,407	209,840	295	345
		508,680	396,746	308	487

15. LOANS AND BORROWINGS (CONTINUED)

15.1 Term loans - unsecured

Unsecured term loans consisting of:

(a) MYR denominated term loan of nil (2017: RM2.50 million) representing a 5-year term loan obtained in 2013 with monthly repayment installments, and bears interest rates of nil (2017: 4.75%) per annum,

(b) MYR denominated term loan of RM7.13 million (2017: RM16.10 million) representing a 5-year term loan obtained in 2014 with quarterly repayment installments, and bears interest rates of 4.43% (2017: 4.43%) per annum,

(c) MYR denominated term loan of RM22.50 million (2017: RM37.50 million) representing a 5-year term loan obtained in 2015 with quarterly repayment installments, and bears interest rates of 4.45% - 4.70% (2017: 4.40% - 4.45%) per annum,

(d) MYR denominated term loan of RM180.00 million (2017: RM110.00 million) representing a 5-year term loan obtained in 2017 with quarterly repayment installments, and bears interest rates of 4.81% - 5.73% (2017: 4.47% - 4.83%) per annum,

(e) MYR denominated term loan of RM46.90 million (2017: RM58.90 million) representing a 5-year term loan obtained in 2017 with monthly repayment installments, and bears interest rates of 4.25% - 4.50% (2017: 4.25%) per annum, and

(f) MYR denominated term loan of RM54.00 million (2017: nil) representing a 5-year term loan obtained in 2018 with monthly repayment installments, and bears interest rates of 4.55% (2017: nil) per annum.

15.2 Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2018 RM'000	Interest 2018 RM'000	Present value of minimum lease payments 2018 RM'000	Future minimum lease payments 2017 RM'000	Interest 2017 RM'000	Present value of minimum lease payments 2017 RM'000
Group						
Less than one year	1,038	(60)	978	2,553	(66)	2,487
Between one and five years	929	(56)	873	459	(9)	450
	1,967	(116)	1,851	3,012	(75)	2,937
Company						
Less than one year	301	(6)	295	361	(16)	345
Between one and five years	13	–	13	144	(2)	142
	314	(6)	308	505	(18)	487

15. LOANS AND BORROWINGS (CONTINUED)

15.3 Reconciliation of movement of liabilities to cash flows arising from financing activities

	At 1 January 2018 RM'000	Net changes from financing cash flows RM'000	Acquisition of new lease RM'000	Foreign exchange movement RM'000	At 31 December 2018 RM'000
Group					
Term loans - unsecured	225,020	85,513	–	–	310,533
Revolving credit - unsecured	78,595	1,120	–	(265)	79,450
Trade finance - unsecured	90,194	26,652	–	–	116,846
Finance lease liabilities	2,937	(2,286)	1,200	–	1,851
Total liabilities from financing activities	396,746	110,999	1,200	(265)	508,680
Company					
Finance lease liabilities	487	(479)	300	-	308

	At 1 January 2017 RM'000	Net changes from financing cash flows RM'000	Acquisition of new lease RM'000	Foreign exchange movement RM'000	At 31 December 2017 RM'000
Group					
Term loans - unsecured	82,517	142,503	–	–	225,020
Revolving credit - unsecured	28,000	52,950	–	(2,355)	78,595
Trade finance - unsecured	51,637	38,557	–	–	90,194
Finance lease liabilities	15,332	(13,276)	881	–	2,937
Total liabilities from financing activities	177,486	220,734	881	(2,355)	396,746
Company					
Finance lease liabilities	928	(441)	–	–	487

16. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade					
Trade payables		120,384	91,014	65	55
Non-trade					
Amount due to holding company	16.1	10	20	–	–
Amount due to related parties	16.1	4,274	6,008	–	–
Other payables		41,578	40,070	424	344
Dividend payables		–	31,973	–	31,973
Accrued expenses		40,352	33,848	5,928	6,642
		86,214	111,919	6,352	38,959
		206,598	202,933	6,417	39,014

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

17. DERIVATIVE FINANCIAL ASSETS

	2018			2017		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Group						
Derivatives at fair value through profit or loss						
- Forward foreign exchange contracts	108,364	723	–	365,188	10,820	–

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

18. REVENUE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Sales of rubber products	2,140,571	1,957,627	–	–
Dividend income	–	–	1,316	1,563
Management fees	–	–	14,328	14,328
	2,140,571	1,957,627	15,644	15,891

Disaggregation of revenue by geographical location and by segment is as disclosed in Note 25.

Nature of goods	Timing of recognition or method used to recognise revenue	Significant payment terms
Rubber products	Revenue is recognised at a point in time upon transfer of control as per International Commercial Terms ("INCOTERM")	Average credit term of 60 - 90 days

There are no variable element in consideration, obligation for returns or refunds nor warranty in substantially all of the contracts for the provision of goods by the Group.

Transaction price allocated to remaining performance obligations

Most of the Group's contracts are based on purchase orders whereby the contracted volumes are agreed upon. An insignificant amount of contracts have original contract period of more than one year, for which the remaining performance obligation is expected to be fulfilled in the next twelve months. Hence, there is no further disclosure on future performance obligation.

19. FINANCE COSTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest expense on:				
- Bank overdraft	37	35	–	1
- Finance lease	11	449	26	35
- Term loans	13,247	5,813	–	–
- Trade finance	4,153	2,961	–	–
- Revolving credit	3,449	2,066	–	–
	20,897	11,324	26	36
Recognised in profit or loss	19,504	11,324	26	36
Capitalised on qualifying assets:				
- property, plant and equipment	1,393	–	–	–
	20,897	11,324	26	36

20. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors:				
- Fees	300	285	300	285
- Remunerations	18,944	18,289	6,249	5,789
	19,244	18,574	6,549	6,074
Other key management personnel:				
- Remunerations	9,340	7,425	2,634	1,964

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.

21. TAX EXPENSE

Recognised in profit or loss

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current tax expense				
Current year	40,470	42,108	1,611	1,451
Under/(Over) provision in prior year	1,349	(2,384)	(29)	500
	41,819	39,724	1,582	1,951
Deferred tax expense				
Origination and reversal of temporary differences	6,355	6,892	(334)	(113)
(Over)/Under provision in prior year	(3,509)	(2,538)	14	(75)
	2,846	4,354	(320)	(188)
Total tax expense	44,665	44,078	1,262	1,763

21. TAX EXPENSE (CONTINUED)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Reconciliation of tax expense				
Profit before tax				
- continuing operations	249,264	228,313	5,741	7,280
Add:				
Share of losses of equity-accounted joint venture, net of tax	4	19	–	–
	249,268	228,332	5,741	7,280
Income tax calculated using Malaysian tax rate of 24% (2017: 24%)	59,824	54,800	1,378	1,747
Effect of tax rates in foreign jurisdiction	(70)	(40)	–	–
Non-deductible expenses	3,930	4,105	660	409
Tax incentives	(16,723)	(9,597)	–	–
Income not subject to tax	(963)	(908)	(963)	(908)
Others	827	640	202	90
	46,825	49,000	1,277	1,338
Under/(Over) provision in prior year				
- income tax expense	1,349	(2,384)	(29)	500
- deferred tax expense	(3,509)	(2,538)	14	(75)
	44,665	44,078	1,262	1,763

22. PROFIT FOR THE YEAR

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit for the year is arrived at after charging:					
Impairment loss on trade receivables	26.4	159	2,067	–	–
Auditors' remunerations:					
- Audit fees					
- KPMG PLT		401	362	57	83
- Other auditors		68	64	–	–
- Non-audit fees		9	8	9	–
Depreciation of property, plant and equipment	3	76,809	73,236	1,128	1,328
Depreciation of investment properties	4	–	–	392	392
Personnel expenses (including key management personnel):					
- Contributions to Employees' Provident Fund		13,294	10,309	647	514
- Wages, salaries and others		269,346	242,508	12,629	11,664
Realised loss on foreign exchange		313	–	–	–
Property, plant and equipment written off		8	48	7	–
Loss on disposal of property, plant and equipment		–	76	–	–
Unrealised foreign exchange loss on receivables		1,559	6,434	–	–
Rental of premises		3,657	3,334	–	–
Rental of equipment		481	200	–	–
and after crediting:					
Realised gain on foreign exchange		16,542	24,487	–	–
Unrealised fair value changes on derivatives		723	10,820	–	–
Unrealised foreign exchange gain on loans		265	2,355	–	–
Gain on disposal of property, plant and equipment		453	140	135	71
Interest on short term deposits		4,421	3,667	3,041	2,515
Interest on amount due from subsidiaries		–	–	5,680	5,143
Rental income		166	156	678	623

23. EARNINGS PER ORDINARY SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 December 2018 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group	
	2018 **RM'000**	**2017** **RM'000**
Profit for the year attributable to owners of the Company	199,773	182,061

Weighted average number of ordinary shares

	Group	
	2018 **RM'000**	**2017** **RM'000**
Issued ordinary shares at 1 January	639,468	639,468
Effect of share split in July 2018	639,468	639,468
Weighted average number of ordinary shares at 31 December	1,278,936	1,278,936

	Group	
	2018 **Sen**	**2017** **Sen**
Basic earnings per share	15.62	14.24

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

24. DIVIDENDS

Dividends recognised by the Company:

	Sen per share	**Total amount RM'000**	**Date of payment**
2018			
Final 2017 ordinary	6.00	38,368	3 July 2018
2017			
Final 2016 ordinary	6.00	38,368	5 July 2017
Interim 2017 ordinary	5.00	31,973	10 January 2018
Total amount		70,341	

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

24. DIVIDENDS (CONTINUED)

	Sen per share	Total amount RM'000
Final 2018 ordinary	3.00	38,368
Interim 2018 ordinary*	3.00	38,368
Total amount	6.00	76,736

Other than the above, there is no cumulative preference dividends not recognised in the current financial year.

* The interim 2018 ordinary dividend of 3 sen per ordinary share totalling RM38,368,074 declared on 7 January 2019 and paid on 30 January 2019.

25. OPERATING SEGMENTS

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

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

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

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

Segment assets

The total of 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 on assets of each segment.

Segment liabilities

The total 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.

25. OPERATING SEGMENTS (CONTINUED)

Geographical segments

The four segments are managed on a worldwide basis, but operate manufacturing facilities and sales offices in Malaysia (country of domicile) and/or 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 investment properties, goodwill and intangible asset, investments and deferred tax assets.

	2018 RM'000	2017 RM'000
Group		
Revenue		
Sales office located in Malaysia		
- for local market	143,160	109,106
- for export market	1,944,052	1,794,907
Sales office located outside of Malaysia	53,359	53,614
	2,140,571	1,957,627
Non-current assets		
Located in Malaysia	1,252,416	1,011,493
Located outside of Malaysia	15,515	16,518
	1,267,931	1,028,011

Major customers

There were no major customers with revenue equal or more than 10% of the Group's total revenue for the years ended 31 December 2018 and 31 December 2017.

25. OPERATING SEGMENTS (CONTINUED)

	Technical rubber products		Gloves		Cleanroom products		Others		Total	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Business segments										
Total external revenue	184,386	161,673	1,874,919	1,713,732	80,975	76,362	291	5,860	2,140,571	1,957,627
Segment results	27,896	16,172	240,551	220,874	3,628	2,931	(7,724)	(3,988)	264,351	235,989
Share of losses of joint venture									(4)	(19)
Finance costs									(19,504)	(11,324)
Finance income									4,421	3,667
Tax expense									(44,665)	(44,078)
Profit for the year									204,599	184,235
Segment assets	185,819	158,033	1,661,462	1,415,832	41,471	42,521	259,475	248,678	2,148,227	1,865,064
Segment liabilities	27,166	19,296	707,424	618,843	5,603	5,042	65,660	43,612	805,853	686,793
Included in the measure of segment assets are:										
Capital expenditure	12,614	8,539	219,467	229,356	98	239	85,497	1,906	317,676	240,040
Included in the measure of segment results are:										
Depreciation	6,823	6,680	67,242	62,406	689	802	2,055	3,348	76,809	73,236

26. FINANCIAL INSTRUMENTS

26.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as follows:

(a) Financial assets measured at amortised cost ("FAAC");
(b) Financial liabilities measured at amortised cost ("FLAC"); and
(c) Fair value through profit or loss ("FVTPL"):
- Mandatorily required by MFRS 9; and
- Designated upon initial recognition ("DUIR").

	Carrying amount RM'000	FAAC/ ("FLAC") RM'000	Mandatorily at FVTPL RM'000	FVTPL-DUIR RM'000
2018				
Financial assets				
Group				
Other investments	398	232	91	75
Trade and other receivables	436,427	436,427	–	–
Cash and cash equivalents	146,315	146,315	–	–
Derivative financial assets	723	–	723	–
	583,863	582,974	814	75
Company				
Other investments	91	–	91	–
Trade and other receivables	243,693	243,693	–	–
Cash and cash equivalents	76,269	76,269	–	–
	320,053	319,962	91	–
Financial liabilities				
Group				
Loans and borrowings	(508,680)	(508,680)	–	–
Trade and other payables	(206,598)	(206,598)	–	–
	(715,278)	(715,278)	–	–
Company				
Loans and borrowings	(308)	(308)	–	–
Trade and other payables	(6,417)	(6,417)	–	–
	(6,725)	(6,725)	–	–

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.1 Categories of financial instruments (continued)

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as follows:

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

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL- HFT RM'000	AFS RM'000
2017				
Financial assets				
Group				
Other investments	166	–	–	166
Trade and other receivables	377,523	377,523	–	–
Cash and cash equivalents	210,382	210,382	–	–
Derivative financial assets	10,820	–	10,820	–
	598,891	587,905	10,820	166
Company				
Other investments	91	–	–	91
Trade and other receivables	240,324	240,324	–	–
Cash and cash equivalents	146,422	146,422	–	–
	386,837	386,746	–	91
Financial liabilities				
Group				
Loans and borrowings	(396,746)	(396,746)	–	–
Trade and other payables	(202,933)	(202,933)	–	–
	(599,679)	(599,679)	–	–
Company				
Loans and borrowings	(487)	(487)	–	–
Trade and other payables	(39,014)	(39,014)	–	–
	(39,501)	(39,501)	–	–

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.2 Net gains and losses arising from financial instruments

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net gains/(losses) on:				
Financial assets at fair value through profit or loss:				
- Mandatorily required by MFRS 9	723	–	–	–
- Held for trading	–	10,820	–	–
Financial assets at amortised cost	18,932	–	8,721	–
Financial liabilities measured at amortised cost	(19,239)	(8,969)	(26)	(36)
Loans and receivables	–	19,653	–	7,658
	416	21,504	8,695	7,622

26.3 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

26.4 Credit risk

Credit risk is the risk of a financial loss 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. There are no significant changes as compared to prior periods.

Trade 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.

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.4 Credit risk (continued)

Trade receivables (continued)

Risk management objectives, policies and processes for managing the risk (continued)

At each reporting date, the Group or the Company assesses whether any of the trade receivables are credit impaired.

The gross carrying amount of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

There are no significant changes as compared to previous year.

Exposure to credit risk, credit quality and collateral

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

Recognition and measurement of impairment loss

A significant portion of these trade receivables are regular customers that have been transacting with the Group.

To measure the expected credit losses, trade receivables have been grouped based on credit risk and 90 days past due.

The Group uses ageing analysis to monitor the credit quality of the trade receivables. Any trade receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

The Group considers that any trade receivables with past due less than 90 days are having low credit risk by considering historical payment trends and financial strength of the receivables. The amount of the allowance on these balances is negligible.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

	Gross-carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
Group			
2018			
Current (not past due)	334,294	–	334,294
0-30 days past due	46,152	–	46,152
31-120 days past due	19,652	(108)	19,544
More than 120 days past due	5,293	(2,129)	3,164
	405,391	(2,237)	403,154

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.4 Credit risk (continued)

Trade receivables (continued)

Recognition and measurement of impairment loss (continued)

The movements in the allowance for impairment in respect of trade receivables during the year are shown below.

	2018 Total RM'000
Group	
Balance at 1 January as per MFRS 139	2,078
Adjustments on initial application of MFRS 9	–
Balance at 1 January as per MFRS 9	2,078
Net remeasurement of loss allowance - credit impaired	159
Balance at 31 December	2,237

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement

The ageing of trade receivables as at 31 December 2017 was as follows:

	Gross RM'000	Individual impairment RM'000	Net RM'000
Group			
2017			
Not past due	268,377	–	268,377
Past due 0-30 days	45,760	–	45,760
Past due 31-120 days	20,921	–	20,921
Past due more than 120 days	6,297	(2,078)	4,219
	341,355	(2,078)	339,277

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.4 Credit risk (continued)

Trade receivables (continued)

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement (continued)

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

	Group 2017 RM'000
At 1 January	11
Impairment loss recognised	2,067
At 31 December	2,078

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

The Group and the Company are of the view that the loss allowance is not material and hence, it is not provided for.

Other receivables

Expected credit loss of other receivables is determined individually after considering the financial strength of the other receivables. Based on management's assessment, the probability of the default of these receivables is low and hence, no loss allowance has been made.

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 RM491,255,000 (2017: RM473,386,000) 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.

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.4 Credit risk (continued)

Financial guarantees (continued)

Recognition and measurement of impairment loss

The Company assumes that there is a significant increase in credit risk when a subsidiary's financial position deteriorates significantly. The Company considers a financial guarantee to be credit impaired when:
- The subsidiary is unlikely to repay its credit obligation to the bank in full; or
- The subsidiary is continuously loss making and is having a deficit shareholders' fund.

The Company determines the probability of default of the guaranteed loans individually using internal information available.

As at the end of the reporting period, there was no indication that any subsidiary would default on repayment.

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

Inter-company loans and advances

Risk management objectives, policies and processes for managing the risk

The Company provides management services, unsecured loans and advances to subsidiaries. The Company monitors the ability of the subsidiaries to repay the loans and advances on an individual basis.

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 statement of financial position.

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

Recognition and measurement of impairment loss

Generally, the Company considers loans and advances to subsidiaries have low credit risk. The Company assumes that there is a significant increase in credit risk when a subsidiary's financial position deteriorates significantly. As the Company is able to determine the timing of payments of the subsidiaries' loans and advances when they are payable, the Company considers the loans and advances to be in default when the subsidiaries are not able to pay when demanded. The Company considers a subsidiary's loan or advance to be credit impaired when:
- The subsidiary is unlikely to repay its loan or advance to the Company in full; or
- The subsidiary is continuously loss making and is having a deficit shareholders' fund.

The Company determines the probability of default for these loans and advances individually using internal information available.

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

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.5 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.

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:

	Carrying amount RM'000	Contractual interest rate %	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
Group							
2018							
Non-derivative financial liabilities							
Term loans - unsecured	310,533	4.25 - 4.83	342,735	94,537	76,527	171,671	–
Revolving credit - unsecured	79,450	3.80 - 4.20	79,450	79,450	–	–	–
Trade finance - unsecured	116,846	3.45 - 3.83	116,846	116,846	–	–	–
Finance lease liabilities	1,851	4.31 - 5.40	1,967	1,038	386	543	–
Trade and other payables	206,598	–	206,598	206,598	–	–	–
	715,278		747,596	498,469	76,913	172,214	–
Derivative financial liabilities							
Forward foreign exchange contracts (gross settled):							
Inflow	(723)	–	(108,364)	(108,364)	–	–	–
Outflow	–	–	107,641	107,641	–	–	–
	714,555		746,873	497,746	76,913	172,214	–

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate %	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
Group							
2017							
Non-derivative financial liabilities							
Term loans - unsecured	225,020	4.25 - 4.83	244,616	46,698	75,529	122,389	–
Revolving credit - unsecured	78,595	2.77 - 4.75	78,595	78,595	–	–	–
Trade finance - unsecured	90,194	3.45 - 3.65	90,194	90,194	–	–	–
Finance lease liabilities	2,937	3.60 - 5.68	3,012	2,553	412	47	–
Trade and other payables	202,933	–	202,933	202,933	–	–	–
	599,679		619,350	420,973	75,941	122,436	–
Derivative financial liabilities							
Forward foreign exchange contracts (gross settled):							
Inflow	(10,820)	–	(365,188)	(365,188)	–	–	–
Outflow	–	–	354,368	354,368	–	–	–
	588,859		608,530	410,153	75,941	122,436	–

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate %	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
Company							
2018							
Non-derivative financial liabilities							
Finance lease liabilities	308	4.52 - 5.18	314	301	13	–	–
Trade and other payables	6,417	–	6,417	6,417	–	–	–
Financial guarantee	–	–	491,255	491,255	–	–	–
	6,725		497,986	497,973	13	–	–
2017							
Non-derivative financial liabilities							
Finance lease liabilities	487	3.60 - 5.18	505	361	144	–	–
Trade and other payables	39,014	–	39,014	39,014	–	–	–
Financial guarantee	–	–	473,386	473,386	–	–	–
	39,501		512,905	512,761	144	–	–

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.6 Market risk

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

26.6.1 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 currency giving rise to this risk is primarily U.S. Dollar ("USD").

Risk management objectives, policies and processes for managing the risk

The Group uses forward foreign exchange contracts to hedge its foreign currency risk. Most of the forward foreign exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward foreign exchange 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 exchange contracts entered into with the following amounts:

Forward foreign exchange contracts used to hedge receivables

	Amount to be received USD'000	Average contract rate	Equivalent RM'000
Group			
Hedged item			
2018			
Trade receivables	26,000	4.1678	108,363
2017			
Trade receivables	87,365	4.1800	365,186

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.6 Market risk (continued)

26.6.1 Currency risk (continued)

Exposure to foreign currency risk

The Group's 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 are as follows:

	Group Denominated in USD	
	2018 RM'000	**2017 RM'000**
Bank account	4,329	–
Trade receivables	362,372	309,383
Trade payables	(19,420)	(11,537)
Loans and borrowings	(41,715)	(42,950)
Forward foreign exchange contracts used to hedge receivables	723	10,820
Net exposure	306,289	265,716

Currency risk sensitivity analysis

A 5% (2017: 5%) strengthening of Ringgit Malaysia against USD at the end of the reporting period would have decreased equity and post-tax profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remained constant.

	Equity		Profit or loss	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Group				
USD	–	–	(11,639)	(10,097)

A 5% (2017: 5%) weakening of Ringgit Malaysia against USD at the end of the reporting period would had 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.

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.6 Market risk (continued)

26.6.2 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 are as follows:

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Fixed rate instruments					
Deposits placed with licensed banks	13	38,808	52,333	4,000	36,000
Term loans - unsecured		(7,133)	(18,620)	–	–
Finance lease liabilities	15.2	(1,851)	(2,937)	(308)	(487)
Revolving credit - unsecured	15	(79,450)	(78,595)	–	–
Trade finance - unsecured	15	(116,846)	(90,194)	–	–
		(166,472)	(138,013)	3,692	35,513
Floating rate instruments					
Term loans - unsecured		(303,400)	(206,400)	–	–
Amount due from subsidiaries		–	–	243,388	240,003
		(303,400)	(206,400)	243,388	240,003

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.6 Market risk (continued)

26.6.2 Interest rate risk (continued)

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 hedging instruments under a fair value hedge 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 (2017: 50) basis points ("bp") in interest rates at the end of the reporting period would have (decreased)/increased post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
	50 bp increase RM'000	**50 bp decrease RM'000**
Group		
2018		
Floating rate instruments	(1,153)	1,153
2017		
Floating rate instruments	(784)	784
Company		
2018		
Floating rate instruments	925	(925)
2017		
Floating rate instruments	912	(912)

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.7 Fair value information

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

The tables below analyses other financial instruments at fair value.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
Group										
2018										
Financial asset										
Forward foreign exchange contracts	–	723	–	723	–	–	–	–	723	723
Financial liabilities										
Finance lease liabilities	–	–	–	–	–	–	(1,801)	(1,801)	(1,801)	(1,851)
Term loans - unsecured	–	–	–	–	–	–	(304,764)	(304,764)	(304,764)	(310,533)
	–	–	–	–	–	–	(306,565)	(306,565)	(306,565)	(312,384)
2017										
Financial asset										
Forward foreign exchange contracts	–	10,820	–	10,820	–	–	–	–	10,820	10,820
Financial liabilities										
Finance lease liabilities	–	–	–	–	–	–	(2,861)	(2,861)	(2,861)	(2,937)
Term loans - unsecured	–	–	–	–	–	–	(220,229)	(220,229)	(220,229)	(225,020)
	–	–	–	–	–	–	(223,090)	(223,090)	(223,090)	(227,957)

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.7 Fair value information (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
Company										
2018										
Financial asset										
Amount due from subsidiaries	–	–	–	–	–	–	243,388	243,388	243,388	243,388
Financial liability										
Finance lease liabilities	–	–	–	–	–	–	(300)	(300)	(300)	(308)
2017										
Financial asset										
Amount due from subsidiaries	–	–	–	–	–	–	240,003	240,003	240,003	240,003
Financial liability										
Finance lease liabilities	–	–	–	–	–	–	(475)	(475)	(475)	(487)

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.7 Fair value information (continued)

Level 2 fair value

Derivatives

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

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2017: no transfer in either directions).

Level 3 fair value

Non-derivative financial liabilities

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

Financial instruments not carried at fair value

Type	Description of valuation technique and inputs used
Term loans, finance lease liabilities and amount due from subsidiaries	Discounted cash flows using a rate based on the current market rate of borrowing of the respective Group entities at the reporting date.

27. 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 investor, creditor 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 2018 and at 31 December 2017 were as follows:

	Note	Group 2018 RM'000	Group 2017 RM'000
Total borrowings	15	508,680	396,746
Less: Cash and cash equivalents	13	(146,315)	(210,382)
Net debt		362,365	186,364
Total equity		1,314,864	1,155,022
Debt-to-equity ratio		0.28	0.16

There was no change in the Group's approach to capital management during the financial year.

28. OPERATING LEASE

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group 2018 RM'000	Group 2017 RM'000
Less than one year	3,357	2,995
Between one and five years	1,420	4,777
	4,777	7,772

The Group leases a number of factory facilities and worker hostels under operating leases. The leases typically run for a period between one to two years, with an option to renew the lease after that date. Lease payments are increased every two to three years to reflect current market rentals.

29. CAPITAL AND OTHER COMMITMENTS

	Group	
	2018 RM'000	**2017 RM'000**
Property, plant and equipment		
Within one year:		
Contracted but not provided for	7,734	4,234

30. RELATED PARTIES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or jointly 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 parties are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel 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 include all the Directors of the Group and certain members of senior management of the Group.

The Group has related party relationship with its holding company, subsidiaries and related parties.

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Group and the Company, other than key management personnel compensation (see Note 20), are shown below. The balances related to the below transactions are shown in Notes 11 and 16.

	2018 RM'000	**2017 RM'000**
Group		
Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries		
Kossan Holdings (M) Sdn. Bhd.		
Rental expense	(333)	(447)
Kossan Chemical Industries (M) Sdn. Bhd.		
Rental expense	(1,770)	(1,688)
Pleasure Latex Products Sdn. Bhd.		
Sales*	–	13

30. RELATED PARTIES (CONTINUED)

Significant related party transactions (continued)

	2018 RM'000	2017 RM'000
Group		
Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries (continued)		
Improgen Sdn. Bhd.		
Rental expense	(263)	(88)
Kossan Paint (M) Sdn. Bhd.		
Sales*	121	162
Purchase of consumables and property, plant and equipment	(874)	(956)
Pan Asian Corporation Sdn. Bhd.		
Rental expense	(710)	(679)
Chemtube (M) Sdn. Bhd.		
Technical services fee	86	93
Purchase of consumables and property, plant and equipment	(234)	(124)
Transactions with corporations in which Directors have financial interest		
HT Ceramics (M) Sdn. Bhd.		
Sales*	–	8
Purchase of consumables and property, plant and equipment	(3,256)	(7,332)
Kossan F.R.P. Industries (M) Sdn. Bhd.		
Sales*	2	3
Purchase of consumables and property, plant and equipment	(175)	(375)
Gummitech Industries Sdn. Bhd.		
Rental income	118	108
Company		
Transactions with corporation in which Directors have financial interest		
Gummitech Industries Sdn. Bhd.		
Rental income	118	108

30. RELATED PARTIES (CONTINUED)

Significant related party transactions (continued)

	2018 RM'000	2017 RM'000
Company		
Transactions with subsidiaries		
Kossan Latex Industries (M) Sdn. Bhd.		
Management fee income	4,344	4,344
Interest income	2,666	3,946
Perusahaan Getah Asas Sdn. Bhd.		
Management fee income	4,494	4,494
Interest income	2,157	1,137
Rental income	24	24
Wear Safe (Malaysia) Sdn. Bhd.		
Management fee income	3,732	3,732
Interest income	–	60
Ideal Quality Sdn. Bhd.		
Management fee income	750	750
Kossan Industries Sdn. Bhd.		
Management fee income	810	810
Rental income	546	491
Hibon Corporation Sdn. Bhd.		
Management fee income	198	198
Premium Medical Products Sdn. Bhd.		
Interest income	857	–

* 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.

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

During the year, the Group and the Company adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on their financial statements. The Group and the Company generally applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, the Group and the Company have elected not to restate the comparatives.

31.1 Impacts on financial statements

There is no material impact arising from the adoption of MFRS 15 and MFRS 9 on the Group's and the Company's financial statements.

31.2 Accounting for financial instruments

a. Transition

In the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

i) The Group and the Company have not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement.*

ii) The following assessments have been made based on the facts and circumstances that existed at the date of initial application:

- the determination of the business model within which a financial asset is held.

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

The following table shows the measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Group's and the Company's financial assets and financial liabilities as at 1 January 2018:

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

31.2 Accounting for financial instruments (continued)

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9 (continued)

		1 January 2018 Reclassification to new MFRS 9 category	
	31 December 2017 RM'000	Amortised cost ("AC") RM'000	Fair value through profit or loss ("FVTPL") RM'000
Category under MFRS 139			
Financial assets			
Group			
Loans and receivables			
Trade and other receivables	377,523	377,523	–
Cash and cash equivalents	210,382	210,382	–
	587,905	587,905	–
Available-for-sale			
Other investments	166	–	166
Fair value through profit or loss – held for trading			
Forward foreign exchange contracts	10,820	–	10,820
Company			
Loans and receivables			
Trade and other receivables	240,324	240,324	–
Cash and cash equivalents	146,422	146,422	–
	386,746	386,746	–
Available-for-sale			
Other investments	91	–	91

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

31.2 Accounting for financial instruments (continued)

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9 (continued)

	31 December 2017 RM'000	1 January 2018 Reclassification to new MFRS 9 category: Amortised cost ("AC") RM'000	Fair value through profit or loss ("FVTPL") RM'000
Category under MFRS 139			
Financial liabilities			
Group			
Other financial liabilities measured at amortised cost			
Loans and borrowings	(396,746)	(396,746)	–
Trade and other payables	(202,933)	(202,933)	–
	(599,679)	(599,679)	–
Company			
Other financial liabilities measured at amortised cost			
Loans and borrowings	(487)	(487)	–
Trade and other payables	(39,014)	(39,014)	–
	(39,501)	(39,501)	–

(i) Reclassification from loans and receivables to amortised cost

Trade and other receivables that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.

(ii) Reclassification from AFS to FVTPL

These are equity investments which are not held for strategic purposes. As a result, the carrying amount of RM75,000 was reclassified from available-for-sale to fair value through profit or loss.

31.3 Accounting for revenue

The accounting policies for revenue is disclosed in Note 2(o)(i).

STATEMENT BY DIRECTORS

pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 66 to 147 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2018 and of their financial performance and cash flows for the financial year then ended.

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

....

Tan Sri Dato' Lim Kuang Sia
Director

....

Lim Leng Bung
Director

Klang, Selangor Darul Ehsan

Date: 12 April 2019

STATUTORY DECLARATION

pursuant to Section 251(1)(b) of the Companies Act 2016

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 66 to 147 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed Lee Hon Chee, NRIC: 611107-10-6239, MIA CA6481, at Klang in the State of Selangor Darul Ehsan on 12 April 2019.

....

Lee Hon Chee

Before me:
Yip Ban Leng
No. B435

Commissioner for Oaths
Selangor Darul Ehsan

INDEPENDENT AUDITORS' REPORT
to the members of Kossan Rubber Industries Bhd.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Kossan Rubber Industries Bhd., which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 66 to 147.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their 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 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

RECOVERABILITY OF TRADE RECEIVABLES (REFER TO NOTE 11 OF THE FINANCIAL STATEMENTS)

The key audit matter

As at 31 December 2018, the Group has significant trade receivables with a total carrying value of RM403 million. Certain customers having experienced higher days sales outstanding than the Group's average days sales outstanding, which increase the inherent exposure to credit risk. This results in a risk over the recoverability of the Group's trade receivables.

How the matter was addressed in our audit

We performed the following audit procedures, among others:

- We evaluated the Group's policy on valuation of trade receivables against the requirements of MFRS 9, *Financial Instruments*;
- We assessed the adequacy of impairment loss provided by management and compare the impairment loss based on Expected Credit Losses model;
- We challenged the Group's assumptions and judgements in making provisions by reference to historical credit loss experience and considered the forward looking information incorporated in the impairment assessment, if any;
- We obtained and tested the accuracy of the receivables ageing as at year end by testing age profile of the trade receivables balance to invoices raised; and
- We considered the adequacy of the Group's disclosure on the degree of estimation involved in arriving at the allowance for impairment loss.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditors' Report
to the members of Kossan Rubber Industries Bhd.
(Cont'd)

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 7 to the financial statements.

OTHER MATTER

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Lee Yee Keng
Approval Number: 02880/04/2019 J
Chartered Accountant

Petaling Jaya, Malaysia

Date: 12 April 2019

LIST OF PROPERTIES
as at 31 December 2018

Location	Description	Date of Acquisition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2018 RM '000
HSD 27360 PT12772 No 14 Lrg Sg Puloh Tmn Klg Utama 42100 Klang	1 unit double storey link house	24/3/1995 *	25 yrs	990 sq.ft	Freehold	Staff quarters	65
HSD 27361 PT12773 No 16 Lrg Sg Puloh Tmn Klg Utama 42100 Klang	1 unit double storey link house	24/3/1995 *	25 yrs	990 sq.ft	Freehold	Staff quarters	65
Lot 754 Jalan Hj Sirat 42100 Klang	Industrial land Factory	1/1/2011 *	– 24 yrs	246,550 sq.ft	Freehold	– Factory	7,691 8,139
Lot 782 Jalan Sg Putus 42100 Klang	Industrial land Factory and office 5 storey office	1/1/2011 *	– Factory - 31 yrs Office - 24 yrs 11 yrs	47,480 sq.ft	Freehold	– Factory and Office Office	1,134 1,018 3,220
HSM 21404 Lot 16632 Jalan Meru 41050 Klang	Industrial land Factory/office	24/3/1995 *	– 29 yrs	6,055 sq.mtr	Freehold	– Factory/ office	1,043 1,073
GM 551 Lot 2401 Batu 17 Jln Sungai Sembilang 45800 Jeram	Industrial land Factory	1/1/2011 *	– 20 yrs	94,895 sq.ft	Freehold	– Factory	1,300 2,368
HSM 3930 PT 5708 (a) (formerly Lot 2796)	Industrial land Factory	1/1/2011 *	– 16 yrs	213,916 sq.ft	Freehold	– Factory	3,830 3,923
(b) (formerly Lot 1365) Jln Sungai Sembilang 45800 Jeram	Industrial land Factory and Office Factory	1/1/2011 *	– 20 yrs 11 yrs	217,800 sq.ft	Freehold	– Factory/ Office Factory	1,114 5,849 4,035
HSM 15410 PT 21715 & HSM 15405 PT 15708 24 Jln Pengasah 4 Off Jln Kapar 42100 Klang	1 unit 1 1/2 storey light industrial building	3/4/2003	25 yrs	174 sq.mtr	Freehold	Hostel	190
HS (M) 1168 PT 476 Batu 15 1/4 Jalan Kapar Mukim Jeram	Industrial land Staff quarters	27/2/2003	– 15 yrs	5,527 sq.mtr	Freehold	– Staff quarters	355 103
HSM 4378 PT 7355 (formerly Lot 6134 and 6135) Batu 16 Jalan Kapar, Jeram	Industrial land Factory	1/1/2011 *	– 8 yrs	20,357 sq.mtr	Freehold	– Factory	2,457 6,738

List of Properties as at 31 December 2018 (Cont'd)

Location	Description	Date of Acquisition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2018 RM '000
Geran 244725 Lot 12262 (formerly Geran 40417 Lot 4761) Mukim Jeram, Kuala Selangor	Industrial land Factory	19/5/2004	– 14 yrs	2.969 hectares	Freehold	– Factory	1,148 2,549
Geran 125449 Lot 6129 5 1/4 Mile, Jln Hj Abdul Manan, Jln Meru 41050 Klang	Industrial land Factory	1/1/2011 *	– 12 yrs	37,411 sq.mtr	Freehold	– Factory/ Office	10,218 19,434
Geran 173931 Lot 63617 (formerly HSD 116842 PT 54925) Mukim Kapar Daerah Klang	Industrial land Factory Extension of buildings	1/1/2011 *	– 5 yrs 4 yrs	4.355 hectares	Freehold	– Factory Factory	6,570 27,225 1,136
Geran 173929 Lot 63616 (formerly HSD 116841 PT 54924) Mukim Kapar Daerah Klang	Industrial land Factory and Office Plant A Plant B Plant C	1/1/2011 *	– 8yrs 7yrs 1yr	4.544 hectares	Freehold	– Factory and office	6,800 15,835 6,112 12,104
Geran 128405 Lot 24077 (formerly Lot PT 13726) Jln Meru 41050 Klang	Industrial land Factory	1/1/2011 *	– 11 yrs	21,805 sq.mtr	Freehold	– Factory/ Office	5,900 19,107
HSM 43179 PT 71276 (formerly GM 1724 & 1725 Lot 5068 & 5069) Jalan Meru 41050 Klang	Industrial land Factory	9/11/2010	– 6 yrs	21,105 sq.mtr	Freehold	– Factory/ Office	10,405 17,132
Geran 45715 Lot 6130 Jln Meru 41050 Klang	Industrial land Factory	1/1/2011 *	– 10 yrs	4.0519 hectares	Freehold	– Factory	15,603 29,839
HSM 4233 PT 7201 (formerly Lot 1367) Jalan Kapar Mukim Jeram	Agriculture land Store	21/7/2009	– n/a	0.8043 hectares	Freehold	Vacant Under Construction	836 282
GRN 52936 Lot 6104; GRN 52937 Lot 6106; GRN 52939 Lot 6108 Mukim Kapar	Industrial land Factory	10/6/2013	– n/a	12.766 acres	Freehold	Vacant Under Construction	21,506 9,642
5100 E. 2nd Street Benecia CA 94510 United States of America	Industrial land and warehouse	31/5/2012	19 yrs	4.15 acres	Freehold	Warehouse and office	13,152

List of Properties as at 31 December 2018 (Cont'd)

Location	Description	Date of Acquisition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2018 RM '000
HSD 116993 Lot 55083 No 3 Jalan Korporat Mukim Kapar	Factory & hostel constructed on rented property	1/1/2014	5 yrs	12,000 sq.ft	Rental	Factory and hostel	1,076
Geran 45732 Lot 6075, Mukim Kapar Daerah Klang.	Industrial land Factory	28/2/2014	– n/a	10 acres (3.7492 hectares)	Freehold	Vacant Under Construction	20,191 36,737
HSD 283117 PT 7414 Mukim Bestari Jaya Daerah Kuala Selangor	Industrial land Factory	18/3/2014	– n/a	56 acres (226,620 sq.mtr)	Freehold	Vacant Under Construction	36,589 5,936
LOT 54933 Mukim Kapar Daerah Klang	Hostel		1 yr	69,770 sq.ft	Rental	Hostel	9,189
Geran 52935 Lot 6103 Mukim Kapar Daerah Klang.	Industrial land Factory	12/12/2014	– n/a	5.3292 hectares	Freehold	Vacant Under Construction	40,349 30,499
Geran Mukim 3334 Lot 779, Mukim Kapar Daerah Klang.	Industrial land Factory	22/6/2015	– n/a	3.406 acres (148,376 sq.ft)	Freehold	Vacant Under Construction	9,105 102
HS(D) 264386, PT26537, Mukim Bukit Raja, Daerah Petaling Negeri Selangor	Commercial land Office Complex	5/2/2016	– n/a	2.5 acres	Freehold	Vacant Under Construction	42,638 593
4-10 Jalan Rantau Panjang KU/4, Rantau Panjang, 42100 Klang.	Apartment	7/10/2015	18 yrs	830 sq.mtr	Freehold	Hostel - FW	108
Geran HS (D) 17768 PT 7836 Mukim Kapar, Lot 7836, Jalan Haji Abdul Manan, Off Jalan Meru	Industrial land Building	9/5/2016	– 1 yr	9,822.5257 sq.mtr	Freehold	R & D and Training Centre	14,467 17,012
H.S(M) 18836, PT 887, No. 22 Jalan Iman Abdul Aziz 8 Tmn Melawati 42200 Kapar, Selangor D.E.	Double Storey house	10/10/2018	23 yrs	1400 sq.ft	Freehold	Hostel	410

List of Properties as at 31 December 2018 (Cont'd)

Location	Description	Date of Acquisition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2018 RM '000
HSD 39425, Lot No. 41538 Mukim Tanjung Dua Belas, Daerah Kuala Langat. Negeri Selangor	Vacant land	30/8/2017	–	396,336 sq.mtr	Freehold	Vacant	96,698
HSD 24212 PT 10477 Mukim Bidor Batang Padang, Perak.	Vacant commercial land	12/3/2018	–	6.718 acres	Leasehold 99 years expire 22/11/ 2114	Vacant	656
HSD 24213 PT 10478 Mukim Bidor Batang Padang, Perak.	Vacant industrial land	12/3/2018	–	817.392 acres	Leasehold 99 years expire 22/11/ 2114	Vacant	82,995
							753,595
Investment Properties							
J1, Utama Modern Industri Blok AH No.2, Sukatani, Serang Indonesia	Industrial land	22/3/2013	–	22,000 sq.mtr	Freehold	Vacant	5,223
							758,818

ADDITIONAL COMPLIANCE INFORMATION

(a) Executive Share Option Scheme (ESOS)

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

(b) Utilisation Of Proceeds

The Company did not implement any fund raising exercise.

(c) 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.

(d) Material Contracts

The Company and its subsidiaries 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.

(e) Audit Fees and Non-audit Fees

The audit fees paid or payable by the Company and the Group to the external auditors amounted to RM56,600 and RM400,500 respectively.

The non-audit fees paid or payable to the Company's external auditors, or firms affiliated to the external auditors' firm, by the Company amounted to RM8,800. None of the subsidiaries paid any non-audit fees to the external auditors or firms affiliated to the external auditors' firm.

(f) Variation In Results

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

STATISTICS ON SHAREHOLDINGS
as at 15 March 2019

Issued Share Capital	: 1,278,935,808
Class of Shares	: Ordinary Share
Number of Shareholders	: 6,734
Voting Right	: 1 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	88	1.31	1,738	0.00
100 - 1,000	1,530	22.72	1,103,514	0.09
1,001 - 10,000	3,328	49.42	14,610,780	1.14
10,001 - 100,000	1,361	20.21	43,997,857	3.44
100,001 to less than 5% of issued shares	424	6.30	518,657,859	40.55
5% and above of issued shares	3	0.04	700,564,060	54.78
Total	**6,734**	**100.00**	**1,278,935,808**	**100.00**

DIRECTORS' SHAREHOLDINGS

		No. of Shares		No. of Shares	
No.	Name of Directors	Direct Interest	%	Indirect Interest	%
1	Tan Sri Dato' Lim Kuang Sia - Cimsec Nominees (Tempatan) Sdn Bhd	1,527,552	0.12	655,113,952	51.22
2	Lim Leng Bung	–	0.00	653,024,960	51.06
3	Tan Kong Chang	–	0.00	–	0.00
4	Lim Siau Tian	–	0.00	–	0.00
5	Lim Siau Hing	–	0.00	–	0.00
6	Lim Ooi Chow	–	0.00	–	0.00
7	Lee Choo Hock	–	0.00	–	0.00
8	Mohamed Shafeii Bin Abdul Gaffoor	–	0.00	–	0.00
9	Hoh Kim Hyan	–	0.00	–	0.00

SUBSTANTIAL SHAREHOLDERS

No.	Name of Substantial Shareholders		No. of Shares	%
1	Kossan Holdings (M) Sdn Bhd		653,024,960	51.06
	- Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Kossan Holdings (M) Sdn Bhd	*80,000,000*		
	- Amsec Nominees (Tempatan) Sdn Bhd Pledged Securities Account-AmBank (M) Berhad for Kossan Holdings (M) Sdn Bhd	*32,000,000*		
	- Kossan Holdings (M) Sdn Bhd	*541,024,960*		
2	Employees Provident Fund Board		98,507,500	7.70
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (AMUNDI)	*1,800,000*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (F TEMPLETON)	1,754,400		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (AM INV)	*897,900*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (NOMURA)	*7,892,900*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	*4,831,300*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	*79,539,100*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (F.TEMISLAMIC)	*918,900*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (NIAM EQ)	873,000		

30 LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	%
1	KOSSAN HOLDINGS (M) SDN BHD	541,024,960	42.30
2	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD PLEDGED SECURITIES ACCOUNT FOR KOSSAN HOLDINGS (M) SDN BHD (05-00042-000)	80,000,000	6.26
3	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	79,539,100	6.22
4	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT - AMBANK (M) BERHAD FOR KOSSAN HOLDINGS (M) SDN BHD	32,000,000	2.50
5	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	28,187,100	2.20
6	AMANAHRAYA TRUSTEES BERHAD PUBLIC ITTIKAL SEQUEL FUND	20,434,800	1.60
7	TIAN SENN RESOURCES SDN BHD	20,010,000	1.56

Statistics on Shareholdings as at 15 March 2019
(Cont'd)

30 LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	%
8	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSSMALL-CAP FUND	12,146,300	0.95
9	CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	11,722,800	0.92
10	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT ENTERPRISES FUND	10,694,800	0.84
11	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	9,904,949	0.77
12	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT - AMBANK (M) BERHAD FOR RUBY TECHNIQUE SDN BHD	9,534,000	0.75
13	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT TREASURES FUND	9,360,200	0.73
14	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC OPPORTUNITIES FUND	9,152,400	0.72
15	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100)	8,624,200	0.67
16	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	8,497,400	0.66
17	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	8,435,300	0.66
18	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SECTOR SELECT FUND	8,300,000	0.65
19	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	7,892,900	0.62
20	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	7,783,800	0.61
21	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 9)	7,443,600	0.58
22	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	7,130,697	0.56
23	PERTUBUHAN KESELAMATAN SOSIAL	6,442,200	0.50
24	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC TREASURES GROWTH FUND	6,157,000	0.48

30 LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	%
25	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AIA BHD	5,947,000	0.46
26	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTS ISLAMIC SMALL-CAP FUND	5,826,100	0.46
27	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	5,606,400	0.44
28	MAYBANK NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI) (419455)	5,434,500	0.42
29	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)	4,831,300	0.38
30	LEMBAGA TABUNG HAJI	4,704,200	0.37
	TOTAL	**982,768,006**	**76.84**

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty Ninth (39th) Annual General Meeting ("AGM") of the Company will be held at Function Room 8, Mezzanine Floor, Setia City Convention Centre, 1 Jalan Setia Dagang AG U13/AG Setia Alam, Seksyen U13, 40170 Shah Alam on Thursday, 23 May 2019 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 2018 together with the Reports of the Directors and the Auditors thereon.

2. To approve payment of a final single tier dividend of 3.0 sen per ordinary share for the financial year ended 31 December 2018. ***(Ordinary Resolution 1)***

3. To approve the payment of Directors' fees of RM300,000.00 for the financial year ended 31 December 2018. (2017: RM285,000.00) ***(Ordinary Resolution 2)***

4. To re-elect the following Directors retiring by rotation pursuant to Article 108 of the Company's Constitution and being eligible have offered themselves for re-election:

    (i) Lim Leng Bung ***(Ordinary Resolution 3)***

    (ii) Lim Siau Tian ***(Ordinary Resolution 4)***

    (iii) Lim Siau Hing ***(Ordinary Resolution 5)***

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

SPECIAL BUSINESS

6. Proposed Authority To Allot Shares Pursuant To Section 75 Of The Companies Act 2016 ***(Ordinary Resolution 7)***

    "THAT pursuant to section 75 of the Companies Act 2016, the Directors be and are hereby authorised to allot and issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company as at the date of this Annual General Meeting ("AGM") and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next AGM of the Company."

7. Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature *(Ordinary Resolution 8)*

"That pursuant to paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given for the renewal of shareholders' mandate for the Company and/or its subsidiaries ("Kossan Group") to enter into recurrent related party transactions of a revenue or trading nature with the Related Party ("Proposed Renewal Of Shareholders' Mandate for RRPT"), which are necessary for the day-to-day operations of Kossan Group provided such transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public, particulars of which are set out in Section 2.5 of the Circular to Shareholders of the Company dated 23 April 2019.

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

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company following this AGM at which such mandate is passed, at which time it will lapse, unless by a resolution passed at such general meeting whereby the authority is renewed;

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to section 340(1) of the Companies Act 2016 ("Act") (but shall not extend to such extensions as may be allowed pursuant to section 340(4) of the Act); or

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

whichever is the earlier,

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

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

"That subject to the Companies Act 2016 ("Act"), the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company's Articles of Association and other applicable laws, rules, regulations and guidelines of the relevant authorities, the Company be and is hereby authorised to utilise an amount not exceeding the retained profits of the Company to purchase such number of ordinary shares in the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit in the interest of the Company provided that the ordinary shares so purchased pursuant to this resolution shall in aggregate with the treasury shares, if any, as defined under Section 127 of the Act ("Treasury Shares") then still held by the Company not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company AND THAT such authority shall commence upon the passing of this resolution until the conclusion of the next annual general meeting of the Company unless earlier revoked or varied by a resolution of the shareholders of the Company at a general meeting AND THAT the Directors be and are hereby authorised to either cancel the shares so purchased or retain same as Treasury Shares and may distribute the Treasury Shares as share dividend or to sell same in a manner they deem fit and expedient in the best interest of the Company and in accordance with the Act, the applicable laws, rules, regulations and guidelines of Bursa Securities and any other regulatory authorities for the time being in force".

9. **PROPOSED ADOPTION OF THE NEW CONSTITUTION OF THE COMPANY** ***(Special Resolution 1)***

"That approval be and is hereby given to revoke the existing Constitution of the Company with immediate effect and in place thereof, the proposed new Constitution of the Company as set out in Appendix III to the Document to Shareholders dated 23 April 2019 accompanying the Company's 2018 Annual Report for the financial year ended 31 December 2018 be and is hereby adopted as the Constitution of the Company and that the Directors of the Company be and are hereby authorised to assent to any modification, variation and/or amendment as may be required by the relevant authorities and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing."

10. 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 single tier dividend of 3.0 sen per ordinary share each in respect of the financial year ended 31 December 2018, if approved by members at the Annual General Meeting to be held on Thursday, 23 May 2019, will be paid on 21 June 2019. The entitlement date for the dividend will be 4 June 2019.

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 4 June 2019 in respect of ordinary transfer; and

(b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD
KOSSAN RUBBER INDUSTRIES BHD.

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

Date: 23 April 2019

NOTES

1. Receiving of the Audited Financial Statements

Item 1 of the Agenda is intended for discussion only as the provision of section 340(1) of the Companies Act 2016 does not require a formal approval of the shareholders of the Audited Financial Statements. As such this item is not put forward for voting.

2. Proxy Form

(i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.

(ii) Where a member appoints two (2) proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

(iii) A member who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, may appoint one (1) proxy in respect of each securities account.

(iv) Where a member is an exempt authorised nominee which holds shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act 1991, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

(v) The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his attorney duly authorised in writing and in the case of a corporation, the instrument appointing a proxy must be under seal or under the hand of an officer or attorney duly authorised.

(vi) Only members whose names appear in the Record of Depositors as at 17 May 2019 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 office of the share registrar, Boardroom Share Registrars Sdn. Bhd. (formerly known as 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 not less than 48 hours before the time of the meeting and any adjournment thereof.

3. Non-Executive Director's ("NED") Remuneration

3.1 Section 230 (1) of the Companies Act 2016 provides, amongst others, that the fee of a director any benefits to a director of a listed company and its subsidiaries shall be approved at a general meeting. In this respect, the Board agreed that shareholders' approval shall be sought at the 39th AGM on Resolution 2 on payment of directors' fees for the preceding year 2018. None of the non-executive directors received any benefits in 2018.

3.2 Any NED who are shareholders of the Company will abstain from voting on Resolution 2 concerning the remuneration to NED.

4. Ordinary Resolutions 3 to 5: Re-election of Directors who retire in accordance with Article 108 of the Company's Constitution.

4.1 Article 108 of the Constitution provides that one third (1/3) of the Directors of the Company for the time being shall retire by rotation at the AGM of the Company. Three (3) Directors are to retire in accordance with Article 108 of the Constitution.

a) For the purpose of determining the eligibility of the Director to stand for re-election at the 39th AGM, the Nomination Committee ("NC") has assessed each of the retiring Directors, taking into account the following:-

(i) The Director's performance and contribution based on the Self and Peer Assessment and results of the Board Effectiveness Evaluation for 2018;

(ii) The Directors' level of contribution to the Board deliberations; and

(iii) The level of competence demonstrated by the Director, and his ability to act in the best interest of the Company in decision making.

b) Based on the assessment results, the individual Directors met the performance criteria required of an effective and high performance Board. The Board approved the NC's recommendations that the Directors retiring pursuant to Article 108 be eligible to stand for re-election. All the retiring Directors had abstained at Board deliberations and decision on their eligibility to stand for re-election.

4.2 Any director referred in Resolutions 3 to 5, who is a shareholder of the Company, will abstain from voting on the resolution in respect of his re-election.

5. Ordinary Resolution 6: Appointment of Auditors

5.1 The Audit Committee ("AC") at its meeting held on 18 February 2019 undertook an annual assessment of the suitability and independence of the external auditors, KPMG PLT. The AC took into account the openness in communication and interaction with the lead audit engagement partner and engagement team through discussion at the private meetings, which demonstrated their independence, objectivity and professionalism.

5.2 The AC was satisfied with the suitability of KPMG PLT based on the quality of audit, performance, competency and sufficiency of resources the external audit team provided to the Group. The AC was also satisfied in its review that the provisions of non-audit services by KPMG PLT to the Company for the FY 2018 did not in any way impair their objectivity and independence as external auditors of the Company.

5.3 The Board at its meeting held in April 2019 approved the AC's recommendation for the shareholders' approval to be sought at the 39th AGM on the appointment of KPMG PLT as external auditors of the Company for the FY 2019 under Resolution 6.

6. Explanatory Notes on Special Business

(i) Proposed authority to allot shares pursuant to section 75 of the Companies Act 2016

The proposed Ordinary Resolution 7, if passed, will empower the Directors from the conclusion of this AGM, to allot and issue up to a maximum of 10% of the issued share capital of the Company (excluding treasury shares) at the time of issue for such purposes as they consider would be in the best interest of the Company. This would eliminate any delay arising from and cost involved in convening a general meeting to obtain approval of the shareholders for such issuance of shares. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

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

At this juncture, there is no decision to issue new shares. If there should be a decision to issue new shares after the general mandate is obtained, the Company will make an announcement in respect of the purpose and/or utilization of proceeds arising from such an issue of shares.

This is a renewal of the general mandate for the issue of new ordinary shares in the Company which was approved at the last AGM. The Company did not issue any new shares under the previous mandate.

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

The proposed Ordinary Resolution 8 is to seek shareholders' approval on the related party transactions entered or to be entered into by the Kossan Group and the Related Party in the ordinary course of business. These are recurring transactions of a revenue or trading nature which are likely to occur with some degree of frequency and may arise at any time and from time to time. These transactions may be constrained by the time-sensitive nature and confidentiality of such transactions, and it may be impractical to seek shareholders' approval on a case-by-case basis before entering into such related party transactions.

As such the Board is seeking an approval for the renewal of the 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 Part A of the Document the Circular to shareholders dated 23 April 2019 to allow the Kossan Group to enter into such recurrent related party transactions, make at arm's length basis and on normal commercial terms, not more favourable to the related parties than those generally available to the public and which will not be to the detriment of the minority shareholders of the Company. Further details on the Proposal can be obtained from Part A of the Document to shareholders of the Company dated 23 April 2019.

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

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

The proposed Ordinary Resolution 9, 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 share capital of the Company by utilizing funds allocated out of retained profits of the Company. Further information on the Proposed Renewal of Authority for Share Buy-Back is set out in the Part B of the Document to Shareholders dated 23 April 2019, which is despatched together with the Company's 2018 Annual Report.

(iv) Proposed adoption of the New Constitution of the Company

The proposed Special Resolution 1, if passed, will bring the Company's Constitution in line with the Companies Act 2016, Malaysian Code on Corporate Governance, Main Market Listing Requirements of Bursa Securities, and all other relevant statutory and regulatory requirements. The proposed new Constitution is set out in the Document to Shareholders dated 23 April 2019 accompanying the Company's 2018 Annual Report.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

Details of the Directors who are standing for re-election at this Annual General Meeting can be found on pages 16 to 23 Profile of the Board of Directors in the Company's 2018 Annual Report.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"). (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands losses and damages as a result of the member's breach of warranty.

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KOSSAN RUBBER INDUSTRIES BHD.
Company No. 48166-W
(Incorporated in Malaysia)

No. of Shares held
CDS Account No.

PROXY FORM

I/We____
(FULL NAME IN CAPITALS)

of____
(ADDRESS)

being a member/members of **KOSSAN RUBBER INDUSTRIES BHD**, ("the Company") hereby appoint:

Full Name (in Block) Proxy A	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

And /or

Full Name (in Block) Proxy B	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
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 Ninth (39th) Annual General Meeting of the Company, to be held at Function Room 8, Mezzanine Floor, Setia City Convention Centre, 1, Jalan Setia Dagang AG U13/AG, Setia Alam, Seksyen U13, 40170 Shah Alam on Thursday, 23 May 2019 at 10.30 a.m. and at any adjournment thereof, in the manner indicates below:

Agenda		First Proxy A		Second Proxy B	
		For	Against	For	Against
AS ORDINARY BUSINESS:					
Ordinary Resolution 1	To approve final single tier dividend				
Ordinary Resolution 2	To approve Directors' fees of RM300,000.00 for the financial year ending 31 December 2018.				
Ordinary Resolution 3	To re-elect Lim Leng Bung retiring pursuant to Article 108 of the Company's Constitution.				
Ordinary Resolution 4	To re-elect Lim Siau Tian retiring pursuant to Article 108 of the Company's Constitution.				
Ordinary Resolution 5	To re-elect Lim Siau Hing retiring pursuant to Article 108 of the Company's Constitution.				
Ordinary Resolution 6	To re-appoint Messrs. KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration.				
AS SPECIAL BUSINESS					
Ordinary Resolution 7	To approve authority to allot shares pursuant to section 75 of the Companies Act 2016.				
Ordinary Resolution 8	To approve renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature.				
Ordinary Resolution 9	To approve renewal of mandate for share buy-back.				
Special Resolution 1	To approve adoption of the new Constitution of the Company.				

Please indicate with an "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 ______________ 2019.

____
Signature of Member(s)/Common Seal

Fold this flap for sealing

Notes

(i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.

(ii) Where a member appoints two (2) proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

(iii) A member who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, may appoint one (1) proxy in respect of each securities account.

(iv) Where a member is an exempt authorised nominee which holds shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act 1991, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

(v) The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his attorney duly authorised in writing and in the case of a corporation, the instrument appointing a proxy must be under seal or under the had of an officer of attorney duly authorised.

(vi) Only members whose names appear in the Record of Depositors as at 17 May 2019 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 office of the share registrar, Boardroom Share Registrars Sdn. Bhd. (formerly known as 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 not less than 48 hours before the time of the meeting and any adjournment thereof.

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AFFIX
STAMP

The Share Registrar,

KOSSAN RUBBER INDUSTRIES BHD.
BOARDROOM SHARE REGISTRARS SDN. BHD.
(FORMERLY KNOWN AS 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 : 03-7849 0777
Fax : 03-7841 8151/52
Website : www.boardroomlimited.com

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www.kossan.com.my