STRETCHING LIMITS • SINCE 1979

KOSSAN RUBBER INDUSTRIES BHD

(Company. No. 48166-W)

ANNUAL REPORT 2017

ACCREDITED
LABORATORY

MS ISO/IEC 17025
TESTING

International Laboratory
Accreditation Cooperation

MS ISO/IEC 17025
TESTING

International Laboratory
Accreditation Cooperation

KOSSAN LABORATORY
KOSSAN INDUSTRIES SDN BHD

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
AUTOMOTIVE
SAI Global Certificate Services Pty Ltd.
KOSSAN INDUSTRIES SDN BHD

AS/NZS ISO 9001
SAI Global Certificate 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
BSI Assurance UK Limited
KOSSAN LATEX INDUSTRIES (M) SDN BHD
IDEAL QUALITY SDN BHD

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

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

ISO 13485 CMDCAS
BSI Group America Inc.
KOSSAN LATEX INDUSTRIES (M) SDN BHD
WEAR SAFE (MALAYSIA) SDN BHD
PERUSAHAAN GETAH ASAS SDN BHD

CE0086

EC Certificate
BSI Assurance UK Limited
Sterile Surgeons Natural Rubber and Polyisoprene Gloves
KOSSAN INTERNATIONAL SDN BHD
WEAR SAFE (MALAYSIA) SDN BHD

AWARDS & RECOGNITION

ASEAN Business Awards 2017: Priority Integration Sector Excellence Awards (Rubber) by ASEAN Business Advisory Council

Selangor-ASEAN Business Achievement Awards 2017: CEO of the Year

Asia Pacific Brands Foundation Awards: Industry Champion Brand Icon Leadership Award - Manufacturing of Glove

Asia Pacific Entrepreneurship Awards 2017 by Enterprise Asia: Entrepreneur of the Year (Manufacturing Industry)

Asia's Best Employer Brand Awards 2017: Best Employer Brand and CEO of the Year

The 2017 Frost & Sullivan Global Medical Glove Technology Innovation Award by Frost & Sullivan

The BrandLaureate Most Valuable Brand Awards 2016-2017: Brand Excellence in Manufacturing - Gloves Leadership Award 2017

Asia Pacific Brands Foundation Awards: The Classic Icon Premier Brand Icon Leadership Award 2017

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.

CORPORATE CORE VALUES

TABLE OF CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mohamed Shafeii Bin Abdul Gaffoor
(Chairman) (appointed on 23.01.2017)

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 *(appointed on 23.01.2017)*

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

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

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

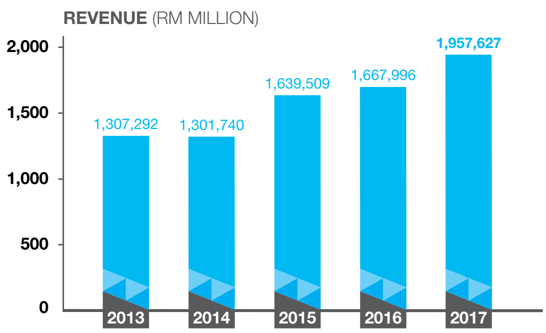
INVESTOR RELATIONS

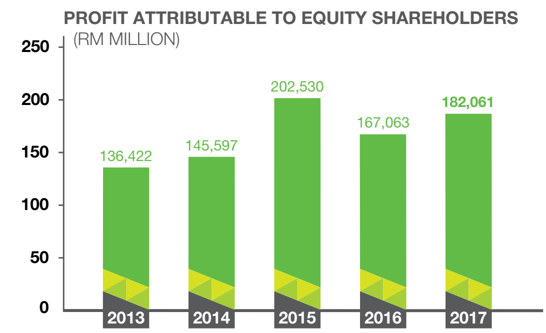
Benjamin Wynn Lim
Tel : 03-3291 2657
Fax : 03-3291 2903
Email : bhlim@kossan.com.my

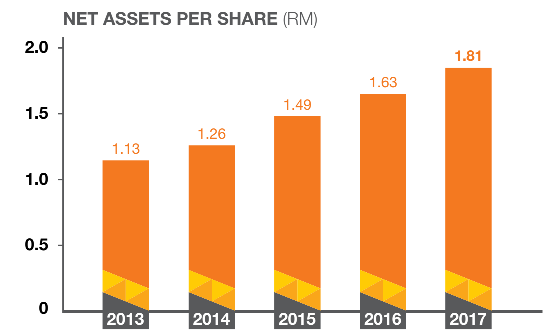
FINANCIAL HIGHLIGHTS

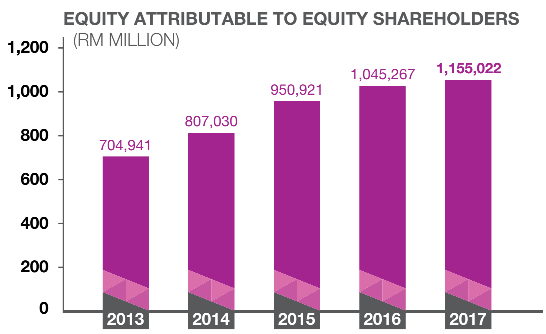
PERIOD/YEAR ENDED	31 DEC 17	31 DEC 16	31 DEC 15	31 DEC 14	31 DEC 13
FINANCIAL RESULTS (RM'000)					
Revenue	1,957,627	1,667,996	1,639,509	1,301,740	1,307,292
Profit before taxation	228,313	210,008	268,567	186,721	180,134
Profit attributable to equity holders of the Company	182,061	167,063	202,530	145,597	136,422
FINANCIAL POSITION (RM'000)					
Total borrowings	396,746	177,486	223,292	206,096	168,971
Total assets	1,865,064	1,551,904	1,476,295	1,289,665	1,106,018
Total cash and bank balances	210,382	109,847	168,383	63,899	100,601
Total net tangible assets	1,148,457	1,038,702	945,995	802,104	700,015
Share capital	323,885	319,734	319,734	319,734	319,734
Equity attributable to equity holders of the Company	1,155,022	1,045,267	950,921	807,030	704,941
FINANCIAL RATIOS					
Basic earnings per share (sen)	28.47	26.13	31.67	22.77	21.33*
Net assets per share (RM)	1.81	1.63	1.49	1.26	1.13*
Net gearing ratio (%)	16.14	6.47	5.77	17.62	9.70
Return on equity (%)	15.76	15.98	21.30	18.04	19.35
Return on assets (%)	9.88	11.02	13.98	11.54	12.66
Dividend per share (sen)	11.00	11.00	12.00	8.00	7.00*

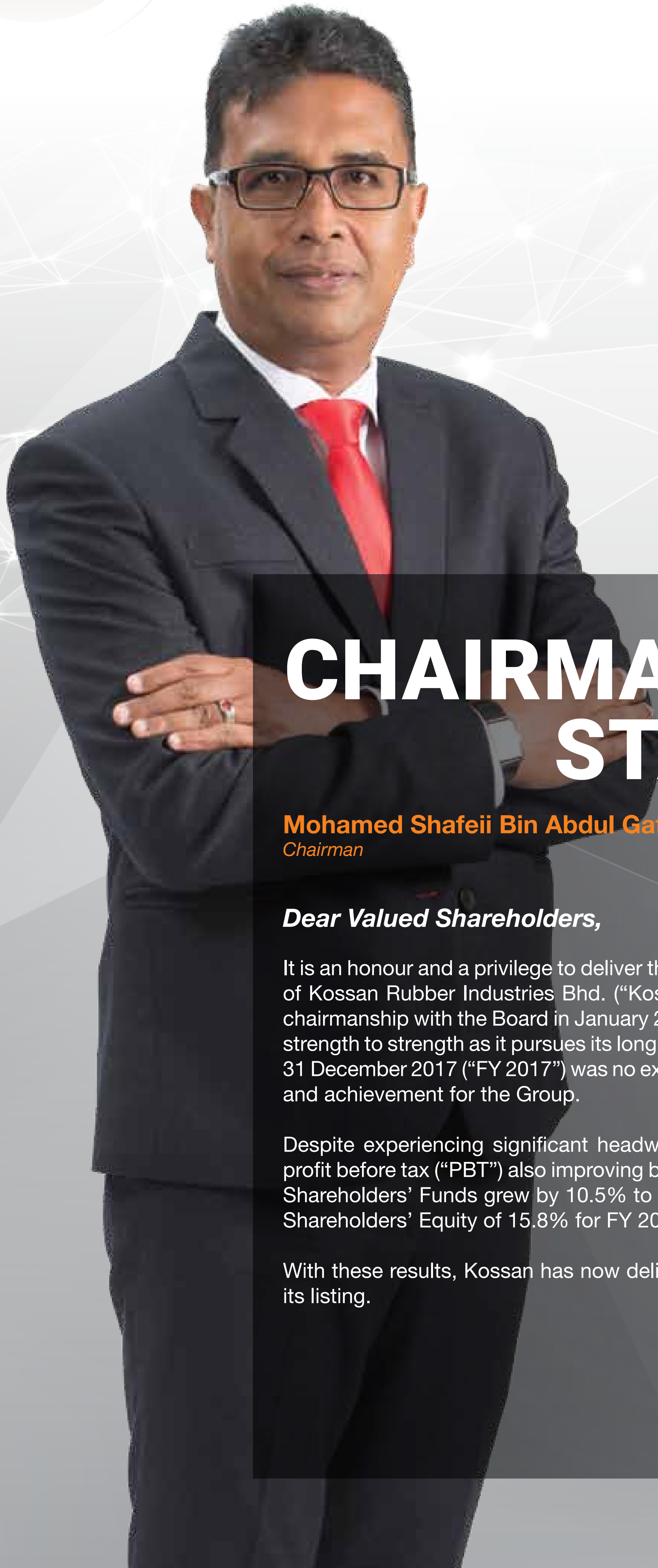
* *The comparative basic earnings per share, net assets per share and dividend per share have been adjusted taken into account the effect of bonus issues on the basis of one new ordinary shares for every one existing ordinary shares held in FY2013*











CHAIRMAN'S STATEMENT

Mohamed Shafeii Bin Abdul Gaffoor
Chairman

Dear Valued Shareholders,

It is an honour and a privilege to deliver this statement in my first year as Chairman of Kossan Rubber Industries Bhd. ("Kossan" or the "Group"). Since starting my chairmanship with the Board in January 2017, I have witnessed Kossan grow from strength to strength as it pursues its long-term ambitions. The financial year ended 31 December 2017 ("FY 2017") was no exception, recording another year of growth and achievement for the Group.

Despite experiencing significant headwinds, revenue increased by 17.4% with profit before tax ("PBT") also improving by 8.7% compared to a year ago.Similarly, Shareholders' Funds grew by 10.5% to a record RM1.16 billion with a Return on Shareholders' Equity of 15.8% for FY 2017.

With these results, Kossan has now delivered 22 years of unbroken profits since its listing.

Chairman's Statement (Cont'd)

In the last few years, developments in the manufacturing industry have brought about increased use of technology, especially in the glove sector. Technology is both a key enabler as well as a potential source of disruption. As the industry matures and moves into technological adoption in the manufacturing process, there has been a shift towards the Fourth Industrial Revolution or Industry 4.0 through the adoption of increased automation throughout the manufacturing process. Incorporating advanced sensors, machine-to-machine communication robotics and artificial intelligence, these platforms monitor factory processes and make decentralised, self-governing decisions, making way for "smart" factories. There is less wastage, better monitoring and improved security and safety, leading to productivity enhancements. It also alleviates production challenges as a result of labour shortages, improves efficiency and product quality. As part of its transformation, Kossan having recognised the importance of Industry 4.0, has implemented automation and robotics in its plants to remain cost competitive and efficient.

Getting an inner glimpse into the company as Chairman has given me a true sense of appreciation of what drives Kossan forward as an organisation. It has also given me insight into the Group's evolution as the glove industry matures and develops. Being agile will ensure that Kossan will be able to adapt even as the glove industry evolves.

At the centre of Kossan's continued success and growth is a focus on sustainability. In our efforts to drive economic, environment and social sustainability, we have grouped our sustainability initiatives around three key themes i.e. Sustainable Business Growth, Environmental Stewardship and Social Responsibility. During the year, the Group has made progress in its sustainability agenda. 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.

I would like to extend my gratitude to the Kossan management as well as all employees for their relentless efforts and commitment in 2017 that have resulted in a commendable performance for Kossan.

To all our stakeholders, thank you for the support, trust and loyalty that you have given Kossan. With the continued support from the Board members and management, I am confident that we will continue to deliver sustainable value moving forward.

Mohamed Shafeii Bin Abdul Gaffoor
Chairman

"Focus on Long Term, Sustainable Growth"

MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

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

Dear Valued Shareholders,

For the financial year ended 31 December 2017 ("FY 2017"), I am pleased to report that Kossan Rubber Industries Bhd. ("Kossan" or "Group") has managed to deliver improved revenues and earnings despite facing considerable headwinds during the year.

Revenue and profit before tax was RM1.96 billion and RM228.3 million respectively in 2017, compared to RM1.67 billion and RM210.0 million last year. The improved performance, achieved despite operating under challenging market conditions characterised by rising production costs and increased competition, are a result of our focus on long-term, sustainable growth. They reflect the disciplined pursuit and the execution of strategies that we have put in place to build the foundations for future success. So, for the 22nd year running, we are making good on our promise of delivering enduring value to all our shareholders.

While we take a moment to reflect on our performance this past year, we are already looking forward to continued growth in 2018 and beyond.

Managing Director's Management Discussion & Analysis (Cont'd)

Operating Landscape

The world economy continued to strengthen, expanding by 3.7% in 2017 (2016: 3.1%) with broad-based growth and synchronised across regions (source: International Monetary Fund ("IMF") World Economic Outlook Update, January 2018).

According to the Ministry of Plantation Industries and Commodities ("MPIC"), the glove industry remained on its growth trajectory with global demand increasing by 8% year-on-year to 228 billion pieces in 2017 (2016: 211 billion pieces). Malaysia remained the market leader, commanding 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. Additionally, the MPIC reports that the country's total glove export value, which accounted for over 70% of total rubber product exports, amounted to RM15.9 billion in 2017, an increase of 19.4% compared to last year's RM13.3 billion.

Operational Highlights in 2017

Against this backdrop, Kossan has made further strides in its transformation to an integrated high-value, high-technology glove manufacturer, leveraging on its technological know-how, product quality and manufacturing excellence to maintain the Group's position at the head of the curve as the glove industry evolves. Even as these initiatives unfold over time, the Group continues to balance this long-term focus with near-term growth catalysts, delivering on a number of key areas in 2017, the highpoints of which are as follows: -

- Completion of Plant 16 located along Jalan Meru in December 2017 as part of the Group's 5-year expansion programme. Plant 16 which has an annual capacity of 3 billion pieces, will focus on the production of nitrile gloves. This state of the art plant incorporates the latest technologies in glove manufacturing, including highspeed dipping machines with a high-degree of automation to reduce the dependence on manpower.

- In November 2017, the Group followed the launch of its patented Low Derma Technology gloves last year with the introduction of the world's first Halal-certified gloves (certified by JAKIM) under the brand name Confidenz™. These powder-free nitrile gloves places KOSSAN at the forefront of a solution to meet the stringent demands of the Halal industry, not just for the food sector, but also for the entire Halal value chain.

Overview of Financial Performance

RM'000	FY2017	FY2016	Change	(%)
Revenue	1,957,627	1,667,996	289,631	17.36%
- Technical Rubber Products	161,673	159,997	1,676	1.05%
- Gloves	1,713,732	1,442,410	271,322	18.81%
- Cleanroom Products	76,362	65,582	10,780	16.44%
- Others	5,860	7	5,853	83614.29%
Operating Profit	235,989	215,959	20,030	9.27%
- Technical Rubber Products	16,172	30,638	-14,466	-47.22%
- Gloves	220,874	184,021	36,853	20.03%
- Cleanroom Products	2,931	2,658	273	10.27%
- Others	- 3,988	- 1,358	- 2,630	193.67%
Profit Before Taxation	228,313	210,008	18,305	8.72%
Profit After Taxation	184,235	171,048	13,187	7.71%
Earnings Per Share (sen)	28.47	26.13	2.34	8.96%
PBT Margin	11.66%	12.59%	-0.93%	-7.39%
PAT Margin	9.41%	10.25%	-0.84%	-8.20%

Managing Director's Management Discussion & Analysis (Cont'd)

For the financial year ended 31 December 2017, Kossan recorded revenue of RM1.96 billion, a 17.4% increase as compared with RM1.67 billion in 2016. Profit before tax (PBT) also registered higher at RM228.3 million, representing an increase of 8.7% compared with RM210.0 million in the previous year. The improved performance in FY 2017 was mainly attributable to the improved performance of the Gloves division.

RM'000	FY2017	FY2016	Change	(%)
Cash and Bank Balances	210,382	109,847	100,535	91.52%
Total Assets	1,865,064	1,551,904	313,160	20.18%
Total Liabilities	686,793	477,708	209,085	43.77%
Total Bank Borrowings	396,746	177,486	219,260	123.54%
Shareholders' Fund	1,155,022	1,045,267	109,755	10.50%
Issued and Fully Paid Capital	323,885	319,734	4,151	1.30%
Return on Equity (%)	15.76	15.98	- 0.22	-1.38%
Net Gearing Ratio (%)	16.14	6.47	9.67	149.46%
Net Asset per Share (sen)	181	163	18	11.04%

The glove industry requires reinvestments for capacity growth, R&D and technology to stay ahead of the competition. As a result, Total Assets increased by 20.2% to RM1.86 billion from RM1.55billion in FY 2016. These reinvestments saw Kossan optimise its capital structure by leveraging on its financial strength via increased bank borrowings to support the group's plant expansions, purchase of industrial land and working capital requirements. This allows the Group the flexibility to execute its growth strategies and capitalise on investment opportunities. Despite these capital expenditures, net gearing remained manageable at 16.1%, with cash and bank balances at RM210.4 million as at 31 December 2017.

Review of Segmental Performance

Kossan's core business segments are divided into the Gloves, Technical Rubber Products ("TRPs") and Cleanroom 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	FY2017	FY2016	Change (%)	FY2017	FY2016
REVENUE	1,957,627	1,667,996	17.36%		
- TRP	161,673	159,997	1.05%	8.26%	9.59%
- Gloves	1,713,732	1,442,410	18.81%	87.54%	86.48%
- Cleanroom	76,362	65,582	16.44%	3.90%	3.93%
- Others	5,860	7	83614.29%	0.30%	0.00%
OPERATING PROFIT	235,989	215,959	9.27%		
- TRP	16,172	30,638	-47.22%	6.85%	14.19%
- Gloves	220,874	184,021	20.03%	93.60%	85.21%
- Cleanroom	2,931	2,658	10.27%	1.24%	1.23%
- Others	- 3,988	- 1,358	193.67%	-1.69%	-0.63%

Managing Director's Management Discussion & Analysis (Cont'd)

Gloves Division

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

The revenue derived from the Gloves divisions for the FY 2017 period was up 18.81% to RM1.71 billion from RM1.44 billion in FY2016. Its operating profit also grew to RM220.9 million, up 20.03% from RM184.0 million recorded in the previous year. The division's improvement in revenues were a result of higher average selling prices of 7% and higher volume sold of 6% compared to FY2016. The improvement in the operating profit for the Gloves division were driven by continued strong demand growth for our glove products on the back of the increase in volume sold, improvement in manufacturing efficiency, increased automation and effective cost controls. These results were achieved despite the higher raw material prices, with natural rubber prices increasing by 30% year-on-year.

Our production plants continue to operate at full capacity, with a 72:28 nitrile to natural rubber glove mix. Our glove products are mainly exported to the developed markets of the US, Eurozone, Japan and Korea. With the completion of our latest Plant 16 in December 2017, Kossan now has a total of sixteen (16) plants in operation with an annual production capacity of 25 billion pieces of gloves.

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 FY 2017 period was up 1.05% to RM161.7 million from RM160.0 million in FY 2016. The division's revenues remained relatively unchanged. Its operating profit was RM16.2 million, down 47.22% from RM30.6 million recorded in the previous year. Operating profit was lower mainly due to the market remaining challenging and a surge in raw material prices.

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 manufacturer of TRPs in Malaysia. The majority of the divisions products are exported to the US, Eurozone and ASEAN countries.

Cleanroom Division

The Cleanroom division is involved in the production of face masks, gloves 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 FY 2017 increased to RM76.4 million from RM65.6 million, while operating profit also increased to RM2.9 million from RM2.7 million in FY 2016.

Managing Director's Management Discussion & Analysis (Cont'd)

Corporate Developments

During the financial year, the Group completed a number of corporate developments which are intended for future growth.

On 19 September 2017, Kossan through its 70% subsidiary Doshin Rubber Products (M) Sdn. Bhd. had entered into a Memorandum of Understanding with University Teknologi Mara (UiTM) to cooperate and collaborate and create smart partnership, promote industry-university sharing of knowledge, enhance co-operation and collaboration in research development of Doshin's Products and their applications and to share the respective parties' resources and expertise in the promotion and development of knowledge and applications relating to Doshin's Products.

Doshin-UiTM MOU signing ceremony to create smart partnership and promote Industry-University sharing.

On 4 December 2017, Kossan had acquired from Midori Anzen Co Ltd its entire 26.97% equity interest in Cleanera HK Limited ("Cleanera") for a total cash consideration of USD1,596,841.56, equivalent to RM 6,509,524.62 (based on the exchange rate of RM 4.0765 per USD). Upon completion of the acquisition, Kossan shall hold 82% stake in Cleanera. Amongst others, the acquisition will allow Kossan to tap into the growth in the Cleanroom industry in China as well as giving the Group better leeway in charting Cleanera's growth.

Dividends

Kossan has always remained committed to sustainable shareholder returns through a consistent dividend policy. In line with our earnings performance, the Board has paid an interim dividend of 5.0 sen and proposed a final dividend of 6.0 sen for FY 2017, subject to the approval of shareholders at the forthcoming 38th Annual General Meeting, which would bring total dividends to 11.0 sen representing a payout ratio of 38.2% in FY2017, compared with total dividends of 11.0 sen representing a payout ratio of 41.1% in the previous year.

Outlook & Prospects

Operating Landscape

Global trade has shown strong growth. In the advanced economies, rising wages and policy support will provide further impetus to growth. In Asia, growth will be driven by sustained domestic activity and strong external demand. Recent adjustments in the financial markets, though short-lived, indicate that volatility may re-emerge. Trade tensions have also risen in the recent period. At this point, risks to the global growth outlook remain balanced, pointing towards continuity in global economic expansion, with global growth projected to experience a faster expansion of 3.9% in 2018 according to IMF estimates (source: International Monetary Fund ("IMF") World Economic Outlook Update, January 2018).

On the glove front, the Malaysian Rubber Glove Manufacturers Association ("MARGMA") projects global glove demand growth of between 8% to 10% per annum over the coming years. Global glove demand is projected to reach 287 billion pieces of gloves per annum by 2020, according to the Malaysia Rubber Exports Promotion Council ("MREPC") estimates.

Additionally, the Ministry of Plantation Industries and Commodities ("MPIC") predicts that by 2020, Malaysia will capture a 65% share of the global market for rubber gloves. Last year alone, Malaysia's exports of rubber gloves grew 19.4% and hit an all-time high, benefitting from the synchronised recovery in global growth and demand, the MPIC reports.

Managing Director's Management Discussion & Analysis (Cont'd)

The demand for gloves remains robust as they have become an indispensable part of the healthcare industry. There are no viable alternatives for gloves as a contamination and infection control device in the healthcare industry. Additionally, 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, Russia and Africa will drive the industry's expansion going forward. Similarly, while the healthcare sector constitutes a large chunk of the demand for disposable gloves, there is also a growing demand from the non-medical sector, such as for food processing, industrial applications, beauty as well as the household sector which has a high potential to be the main driver for glove consumption.

With Kossan's expansion plans and proven track record, the Group is in a strong position to capitalise from this growth in glove demand.

For the TRPs division, unlike the gloves sector, demand for infrastructure products are cyclical and vulnerable to unfavourable economic conditions. Additionally, as projects are on a longer time-frame, the infrastructure segment is exposed to greater variations in cost structure. Although challenging and subject to rubber price fluctuations, the demand for our TRPs used in the automotive industry will remain stable. As a whole, the Group views this segment as stable and is optimistic of the performance for the coming year.

Next Phase of Growth

a) Expansion Programme

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

To meet the anticipated growth in demand for our glove products, the Group has embarked on a 5-year expansion programme. Under this programme, which will focus on organic growth, production capacity for gloves is expected to increase from the current 25 billion pieces per annum to 47.5 billion pieces by the year 2023.

In December 2017, the Group completed the construction of Plant 16, which has an installed capacity of 3 billion pieces of gloves per annum. This latest state-of-the-art plant incorporates many of the latest technologies, including high-speed dipping technology with a high-degree of automation to reduce the dependence on manpower. Plant 16 is expected to contribute positively to group earnings in 2018.

Construction works for Plant 17 and 18 also along on Jalan Meru, have commenced and expected to be completed by 2018. These 2 new plants would be capable of producing up to 4.5 billion pieces (1.5 and 3.0 billion pieces respectively) of nitrile gloves per annum. With the completion of these two plants, Kossan's glove manufacturing capacity will further increase to 29.5 billion pieces by end-2018, driving earnings and growth momentum in the near future.

Moving forward, the Group also has plans for the development of the earmarked 56-acre industrial land site in Bestari Jaya. This project will entail the development of an additional four plants, which will be implemented in four phases with a combined capacity of 18 billion pieces of gloves per annum. Each phase will see the construction of one plant per year until the year 2023, with each plant having a capacity of 4.5 billion pieces of gloves annually.

In August 2017, Kossan also announced the acquisition of a piece of industrial land measuring 98 acres in the district of Kuala Langat for the future development of the group's glove manufacturing activities, in line with the Group's long-term growth strategy. The land is strategically located in the vicinity of a major industrial complex and possesses excellent accessibility and connectivity via major highways.

Managing Director's Management Discussion & Analysis (Cont'd)

b) R&D and Innovation

Innovation and R&D has been the cornerstone of Kossan's growth and evolution over the years.

As testament to the Group's focus on developing better products with innovative features, in September 2016, the Group launched its patented Low Derma Technology gloves which are the first in the world to be granted the U.S. Food and Drug Administration's low-dermatitis potential claim. These gloves eliminate the potential for type I and IV hypersensitivities that may develop in certain glove users. The Intellectual Property ("IP") of the Low Derma gloves has been registered in numerous countries including the US, Japan and China, which count amongst the largest consumers of nitrile gloves in the world. Low Derma gloves, which currently contributes between 10-15% of total sales revenue for FY2017, joins a growing list of patents already held by Kossan to protect its products in the marketplace, reinforce brand presence and maintain market position.

In November 2017, the Group followed this milestone with the launching of the world's first Halal certified gloves certified by JAKIM under the brand name, Confidenz™ to meet the stringent demands of the Halal industry. These lines further expand and complements our existing product lines as we continue to innovate and meet the evolving needs of the market.

c) Automation and Optimisation

Technology is both a key enabler as well as a potential source of significant disruption to our business model in the long run.

As the industry matures and moves into high-technological adoption in the manufacturing process, Kossan having recognised the importance of Industry 4.0, has implemented automation and robotics in its plants to remain cost competitive and efficient. As it stands, Kossan is already one of the more efficient and cost-effective players in the glove industry, but we remain focused on improving cost performance to mitigate the impact of escalating production costs. Automation not only reduces reliance on manpower, it also resolves problems of labour shortages and rising wages. Additionally, through automating production processes, costly human errors, wastage and rejects can be minimised, whilst ensuring product quality. With robotic implementations, the Group hopes to further automate the production process to both improve efficiency and product quality, with the aim to complete the automation programme of our plants by 2020.

Optimisation of manufacturing processes facilitates greater efficiency and productivity. Natural gas and electricity tariff hikes have contributed to higher costs of production, which in turn negatively impacts the bottom line. Reducing raw material and chemical use, reduction of downtime and maintenance work, are also critical areas of improvement. In a manufacturing environment where processes are already efficient, every incremental improvement adds up to substantial savings in the long-run. In this regard, Kossan has employed lean manufacturing principles in its production plants. The Group will continue to invest in various technologies and the latest equipment to further optimise the production process, consumption of utilities and raw materials.

d) Market Expansion

The geographical expansion of our business continues to be a critical aspect to our growth strategy.

The Kossan brand is one of our most important assets and has been carefully nurtured over the years. We are focused on building strong customer relationships, reinforced by an excellent track record of product quality, competitive pricing, timely delivery and flexibility to meet our customers' specific requirements. For this reason, Kossan is the valued supplier to many of the pharmaceutical multinationals in the developed countries. Our ability to consistently come up with innovative products needed by the market has further strengthened our brand, ensuring us of repeat businesses and new customers.

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

Managing Director's Management Discussion & Analysis (Cont'd)

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 company'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 training 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

Over the years, Kossan has had the privilege of being acknowledged in numerous industry awards. And while we have always been internally-focused, it is always an honour to have our achievements recognised. The awards we've received in 2017 are as follows: -

Date	Awards
22 May 2017	**The BrandLaureate Most Valuable Brand Awards 2016-2017**: Brand Excellence in Manufacturing - Gloves
1 August 2017	**Asia's Best Employer Brand Awards 2017**: Best Employer Brand
28 August 2017	**Asia Pacific Brands Foundation Awards**: Industry Champion Brand Icon Leadership Award - Manufacturing of Glove
6 September 2017	**ASEAN Business Awards 2017**: Priority Integration Sector Excellence Awards (Rubber) by ASEAN Business Advisory Council
4 October 2017	**The Frost & Sullivan 2017 Global Medical Glove Technology Innovation Award** by Frost & Sullivan

Acknowledgements

My deepest appreciation to the directors, management team and staff for their loyalty and dedication over the years in building Kossan from a four-man operation in 1979 into what it is today - a world-class manufacturer of latex gloves and technical rubber products, employing over 6,000 employees and exporting to over 195 countries worldwide with offices in Malaysia, China and the USA.

I would also like to express my gratitude to our stakeholders particularly our customers, suppliers, partners, bankers and shareholders for your continuing and unwavering support, many of whom have been with us since our founding days.

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

Front Row (Left to Right):
Mohamed Shafeii Bin Abdul Gaffoor, Tan Sri Dato' Lim Kuang Sia and Lim Leng Bung

Back Row (Left to Right):
Hoh Kim Hyan, Tan Kong Chang, Lee Choo Hock, Lim Siau Tian, Lim Siau Hing and Lim Ooi Chow

DIRECTORS' PROFILE

Directors' Profile (Cont'd)

Tan Sri Dato' Lim Kuang Sia

Tan Sri Dato' Lim Kuang Sia ("Tan Sri Dato' KS Lim"), a Malaysian aged 66, was appointed the Managing Director and Chief Executive Officer of KOSSAN on 22 February 2002. Tan Sri Dato', 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.

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

Tan Sri is the President of Klang Chinese Chamber of Commerce and Industry (KCCCI), President of Associated Chinese Chambers of Commerce of Industry of Coastal Selangor, Deputy President of Malaysia Teochew Chamber of Commerce (MTCC), Treasurer of The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM), Honorary Life President of the Teochew Association Klang and Coast, 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, a member of the Board of Directors of 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.

Lim Leng Bung

Mr. Lim Leng Bung ("LB Lim"), a Malaysian aged 55, 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. Lim Leng Bung has no directorship in any other public company. He sits on the boards of several private companies, including certain subsidiaries of Kossan.

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

Directors' Profile (Cont'd)

Tan Kong Chang

Mr. Tan Kong Chang ("KC Tan"), a Malaysian aged 51, 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.

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 45, 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.

Besides Kossan, Mr. ST Lim is a Trustee of Yayasan Kossan, a public company. 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.

Directors' Profile (Cont'd)

Lim Siau Hing

Mr. Lim Siau Hing ("SH Lim"), a Malaysian aged 45, 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. Currently he oversees the infrastructure rubber products operations at Doshin Rubber Products (M) Sdn. Bhd., and Quality Profile Sdn. Bhd., and technical rubber operations in Kossan Industries Sdn. Bhd., all subsidiaries of Kossan.

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

Mr. SH Lim 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 35, 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, 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.

Directors' Profile (Cont'd)

Lee Choo Hock

Mr. Lee Choo Hock, a Malaysian aged 65, 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 Committee and a member of the Audit Committee and 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 and a Trustee of Yayasan Kossan, all public companies. Mr. Lee also chair the Audit Committee of HSBC Bank 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.

Directors' Profile (Cont'd)

Hoh Kim Hyan

Madam Hoh Kim Hyan, a Malaysian aged 60, 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 and assisted in the organisation of the 2011 International Conference.

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 other 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.

Directors' Profile (Cont'd)

Mohamed Shafeii Bin Abdul Gaffoor

En. Mohamed Shafeii Bin Abdul Gaffoor ("En. Shafeii"), a Malaysian aged 55, 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 a 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 Audit, Nominating and Remuneration Committees.

En. Shafeii has experience in auditing, administration and consulting. He was an economist with Bank Negara Malaysia in 1986, auditor with Ernst & Young between 1987 – 1990 and 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 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.).

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

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 18.

Dr. Or Tan Teng
Chief Operations Officer (TRP Division – Infrastructure)

Dr. Or (Malaysian, Age 69, 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 65, 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 60, 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 56, 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

Hans Peter (Swiss, Age 65, 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.

Key Senior Management (Cont'd)

Yip Tuck Wah

General Manager, Corporate Planning

Mr. Yip (Malaysian, Age 46, Male), holds a Bachelor in Business Administration Degree and a Master in Finance. Joined Kossan in 2005 and was designated in his present position on 2 October, 2017. He does not hold any directorship in public companies or listed issuers.

Chan Yee Chong

General Manager, Group Legal Affairs

Mr. Chan (Malaysian, Age 38, 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.

Tan Eng Teck

General Manager, Business Development (TRP Division)

Mr. Tan (Malaysian, Age 58, 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.

Tung Yong Fong

Head, Group Information Technology

Mr. Tung (Malaysian, Age 42, 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.

Pang Mok Shyan

General Manager, Group Human Resources

Mr. Pang (Malaysian, Age 49, 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.

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 2017.

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 paragraph 29, Part A of Appendix 9C of the Main Market Listing Requirements and guided by the Sustainability Reporting Guide and Toolkits issued by Bursa Malaysia.

In our maiden 2016 sustainability statement, we illustrated our strategic approach to address sustainability challenges and opportunities and its effects in contributing towards the betterment of the business, environment and society. 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.**

I. APPROACH ON SUSTAINABILITY

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

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 2017.

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

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

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.

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.

Sustainability Statement (Cont'd)

II. SUSTAINABILITY GOVERNANCE

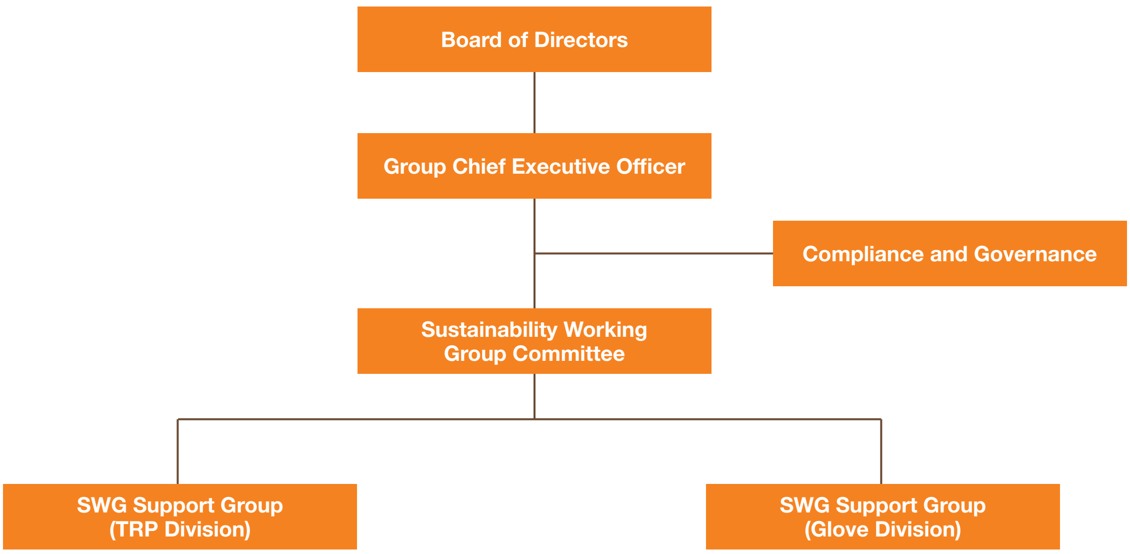
The responsibility to promote and embed sustainability in Kossan's business strategy lies with the Board of Directors. As part of reinforcing the governance ecosystem, the Board had in 2016, established a Sustainability Working Group ("SWG") Committee at the management level to oversee the incorporation 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:



The SWG will continue to seek to enhance and harness the Group's synergies and efficiencies of the current governance process taking into consideration of the existing risk management processes adopted by the Group.

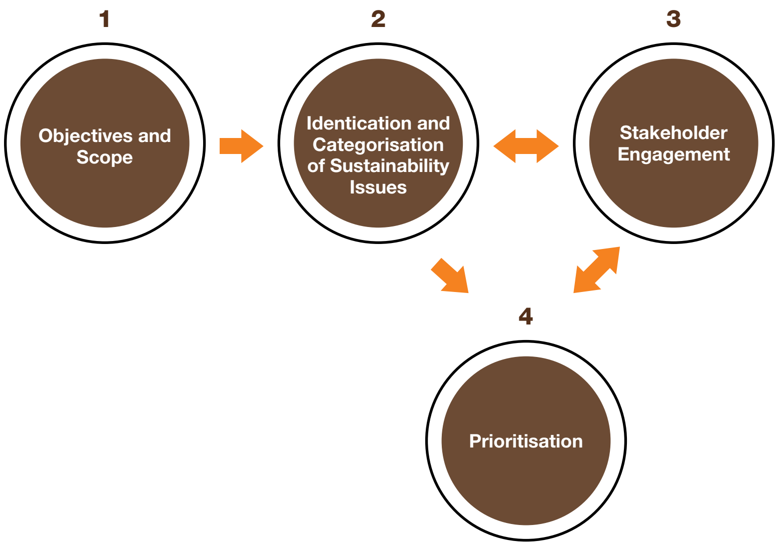
Sustainability Statement (Cont'd)

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

Our materiality assessment process is as follows:



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.

Sustainability Statement (Cont'd)

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

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/ responses 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) Local communities development
9) Stakeholder engagement

Sustainability Statement (Cont'd)

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	29
	Ethical business and transparency	30
	Business expansion	31
Environmental Stewardship	Environmental compliance	31
Social Responsibility	Human rights and equal opportunities	32
	Occupational health and safety management	33
	Human capital development and labour practices	33
	Local communities development	34
	Stakeholder engagement	36

** Economic, Environmental and Social*

IV. MANAGING SUSTAINABILITY MATTERS

i) Sustainable Business Growth

Sustainability is integral to the growth and success of our business. Kossan's strategy is to drive long-term sustainable growth through the inclusion of economic, environmental and social factors into our business model. As one of the world's largest latex glove manufacturers, Kossan has contributed towards nation-building and consolidated Malaysia's position as the world's leading producer of medical gloves, with a market share that is projected to increase further to 65% of the global market by 2020 according to the Ministry of Plantation Industries and Commodities ("MPIC").

Technological Innovation, Automation and IP Development

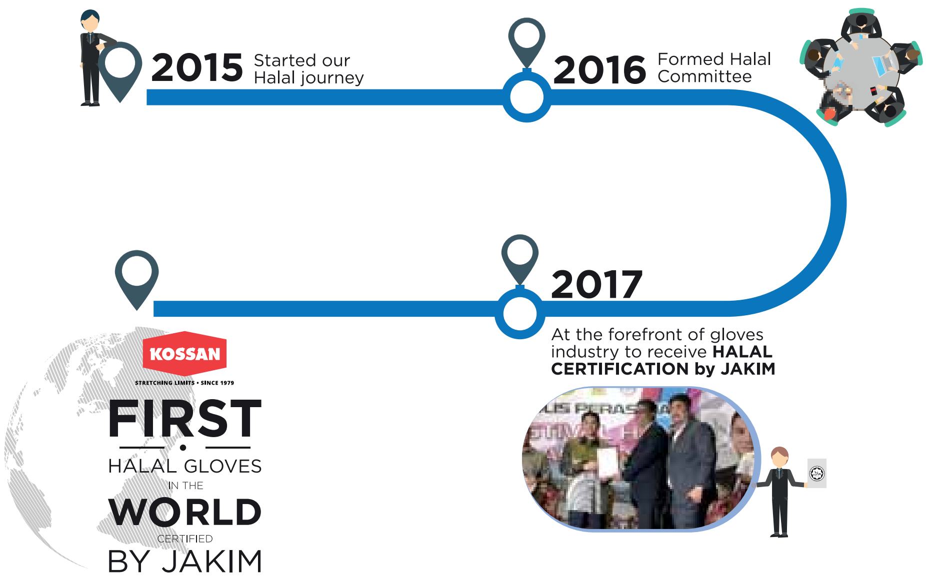
Technology is both a key enabler as well as a potential source of significant disruption to our business model in the long run. As the industry matures and moves into technological adoption in the manufacturing process, Kossan has recognised the importance of Industry 4.0, hence automation and robotics 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 real time data of those critical parameters in the Human Machine Interaction ("HMI"). With this interaction, we can act precisely to preserve productivity and quality conformity and optimise energy consumption throughout the glove manufacturing process. With robotic implementation, the Group hopes to further automate the production process to both improve efficiency and product quality, with the aim to complete the automation programme of our plants by 2020, resulting in the reduction of headcount.

Innovation and R&D has been the cornerstone of Kossan's growth and evolution over the years. As testament to the Group's focus on developing better products with innovative features, in September 2016, the Group launched its 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. 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, which currently contributes between 10-15% of total sales revenue for FY2017, joins a growing list of patents already held by Kossan to protect its products in the marketplace, reinforce brand presence and maintain market position.

In November 2017, the Group followed this milestone with the launching of the world's first Halal certified gloves certified by JAKIM under the brand name, Confidenz™, again demonstrating its innovative and market-leading position. This achievement places KOSSAN at the forefront of a solution to meet the stringent demands of the Halal industry, not just for the food sector, but also for the entire Halal value chain.

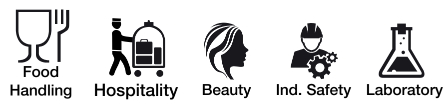
Sustainability Statement (Cont'd)

OUR JOURNEY TO DEVELOPING THE CONFIDENZ HALAL-CERTIFIED GLOVES



These Halal-certified glove products allows us to expand and differentiate our product lines, allowing us to protect our marketplace and sustain the Group's growth. In-line with the continued developments in e-commerce and to enhance our presence in the digital marketplace, the CONFIDENZ line of glove products are also available online in Malaysia at www.e-shirudo.com.

Available in variety of products ranges catering to all types of industries



Kossan will continue to invest heavily in R&D and technology to meet global quality and productivity standards, constantly looking to develop products of tomorrow and supplying global markets with improved gloves for medical examination, surgical, industrial and household use.

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.

The KCEC, amongst others, governs the standards of conduct and ethical behaviour expected from all employees and directors in the discharge of their duties and responsibilities.

The Group has always adopted a strict zero tolerance policy towards corrupt practices since its founding. In this respect, Kossan formalised and adopted the Anti-Corruption Policy in 2017, which prohibits all employees directly and indirectly from either soliciting or offering from any party any bribe or reward in relation to company business.

Sustainability Statement (Cont'd)

To this end, 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. For 2017 and 2016, there were no reported cases.

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.

The Group provides a fair and transparent environment to our suppliers and business partners where the vendor's services are benchmarked against that of peers. 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. In this respect, we have established a Vendor Development Programme where suppliers are carefully selected, ensuring that our partners grow and develop in tandem with the Group.

Business Expansion

Kossan's focus has always been on long-term sustainable growth. Under the Group's 5-year expansion programme, which will focus on organic growth, production capacity is expected to increase from the current 25 billion pieces per annum to 47.5 billion pieces by the year 2023.

In 2017, the Group completed the construction of Plant 16, which has an installed capacity of 3 billion pieces of gloves per annum. This latest state-of-the-art plant located on Jalan Meru 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 17 and 18 also along on Jalan Meru are expected to be completed by 2018. These 2 new plants would be capable of producing up to 4.5 billion pieces (1.5 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 29.5 billion pieces, underpinning our earnings and growth momentum in the near future.

Moving forward, the Group also has plans for the development of the earmarked 56-acre industrial land site in Bestari Jaya. This project will entail the development of an additional four plants, which will be implemented in four phases with a combined capacity of 18 billion pieces of gloves per annum. Each phase will see the construction of one plant per year until the year 2023, with each plant having a capacity of 4.5 billion pieces per annum.

In August 2017, Kossan also announced the acquisition of a piece of industrial land measuring 98 acres in the district of Kuala Langat for the future development of the group's glove manufacturing activities, in line with the Group's long-term growth strategy. The land is strategically located in the vicinity of a major industrial complex and possesses excellent accessibility and connectivity via major highways.

ii) Environmental Stewardship

As a responsible corporate citizen, Kossan recognizes that its actions have a significant impact on the environment and supports pollution prevention and environmental protection in all its business operations. In a world increasingly concerned about environmental preservation, Kossan 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") and other regulators and authorities. Our plants submit the GSR ("Guided Self Regulations") and employ the monthly Online Environmental Information System ("OER"). Environmental protection measures and considerations have long been embedded in our manufacturing processes and day-to-day operations.

Sustainability Statement (Cont'd)

- **Environment Management System ("EMS")**

  Under the technical rubber products division, two of our plants have also been certified to the latest revision of the ISO 14001:2015 certification in January 2017, the core set of internationally recognised standards that provides practical tools for companies and organizations of all kinds looking to manage their environmental responsibilities.

- **Treatment of Waste Gas**

  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") to ensure best practices and regulatory requirements are constantly met.

- **Management of Waste**

  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"), Certified Environmental Professional in the Operation of Industrial Effluent Treatment Systems etc.

iii) Social Responsibility

At Kossan, we believe that being socially responsible is the hallmark of an enduring company. 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. In today's inter-connected world, inevitably, companies find themselves more and more in the public eye, and have become increasingly measured in terms of their standing in the communities in which they operate.

Human Rights and Equal Opportunities

Our workplace terms and conditions of employment are opposed to any form of discrimination, upholding the fundamental human rights protected by legislation. This ensures that we are able to adapt to the changing needs and demands of customers, stakeholders and markets.

(a) Minimum Wages and Non-discrimination

Since the implementation of the Minimum Wage policy on 1 July 2016, Kossan has fully complied with the Malaysian Government's directive. The policy of non-discrimination is embedded in our Kossan Code of Ethics and Conduct and is accessible by all employees.

(b) Child Labour

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. Kossan prohibits the employment of child labour and forced labour under any circumstances and is committed to providing Equal Employment Opportunity and fair term of employment mutually agreed by the company and employee. All our employees meet the minimum age requirement as stipulated under this Act.

(c) Promoting Workplace Diversity

We value equality, diversity and inclusion and hire 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.

Sustainability Statement (Cont'd)

The table below outlines the diversity of our workforce: -

	FEMALE		MALE		GRAND TOTAL	
	TOTAL	%	TOTAL	%	TOTAL	%
From age 30 and below	276	15.7	407	23.1	683	38.8
From age 31 to 40	267	15.2	270	15.3	537	30.5
From age 41 to 50	118	6.7	242	13.8	360	20.5
From age 51 to 60	40	2.3	93	5.3	133	7.6
Above age 60	14	0.8	32	1.8	46	2.6
TOTAL	715	40.6	1044	59.4	1759	100.0

(Domestic workers by age & gender for 2017)

Occupational Health and Safety Management

Health and safety has always been a primary focus in Kossan's operations. 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 ("DOSH") across all our manufacturing plants and seek to continuously improve the occupational safety and health of our employees.

To ensure compliance and a safe working environment, Kossan has a dedicated Safety Department reporting directly to the executive Director. 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/or 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.

In 2016 and 2017, Kossan recorded zero fatality cases across its entire operations.

Human Capital Development and Labour Practices

The heart of Kossan is its people. Our people's 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 Asia's Best Employer Brand Award 2017 by the Employer Branding Institute for the 2nd year in a row.

- **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 pipeline by developing key talents and successors for key management positions.

  For 2017, total training hours increased to 16,000 hours from 7,765.5 hours in 2016, an increase of 106%. Average training hours per employee was 9.1 hours in 2017 compared with 5 hours in 2016. Total training expenditure increased by almost 25% year-on-year as a result.

Sustainability Statement (Cont'd)

To ensure the effectiveness of the training effort, Training Needs Analyses ("TNA") between employee and their superiors are conducted annually to identify training requirements.

All new recruits go through the Kossan Employee Engagement Programme ("KEEP") as part of their induction programme, which also includes a session on "Jom! The Kossan Way". These programmes help employees fit-in quickly and feel welcomed.

Local Communities Development

a) Yayasan Kossan

In December 2015, Yayasan Kossan ("YK") was established to create a foundation for those in need.

YAYASAN KOSSAN
We Care • We Love • We Help

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 2017, 194 individuals benefitted directly through these social initiatives, with total expenditure for YK's activities amounting to over RM725,000.

Some of the highlights in 2017 include Kossan's School Sponsorship Program and Back To School Subsidy Program held in August and September 2017 respectively, to benefit underprivileged school-going children of schools around Klang, Selangor. We also supported Hand-in-Hand Charity Program for Dialysis cases as well as Tabung Kebajikan Ibu Ibu Tunggal.

Children receiving school-items during Yayasan Kossan's School Sponsorship Program 2017.

Go Green Program at SJK(C) Pui Ying.

Health check and blood donation during Yayasan Kossan Health and Safety Carnival 2017.

Sustainability Statement (Cont'd)

Local Communities Development

b) Project Smile

Project Smile is an initiative under Kossan International Sdn Bhd (KISB) 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. Some of the highlights in 2017 include:

HOPE: Embrace Possibilities where students in SJK (C) Pui Ying benefitted from motivational talks and positive thinking on top of donations;

CARE: Enhance Lives where children at SEMOA enjoyed arts and craft activities, the planting of trees and vegetables as well as donations; and

GIVE: Joy of Sharing at Good Samaritan Home where children enjoyed the festivities and received gifts such as school bags on top of financial donations for basic necessities.

Planting of trees at SEMOA Orang Asli Education Centre in Raub.

Joyous Celebration at Good Samaritan Home.

c) Internship and Scholarship Programmes

Kossan's internship programme was established back in 2000 to enable students from diploma to post-graduate levels in both technical and non-technical disciplines to receive on-the-job training. 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, such as Production, IT, QA, Engineering and etc. For the year 2017, a total of 32 students benefited from our internship programme.

Industry visitations to our manufacturing plants were also organized for students from tertiary institutions as a platform for them to learn and better understand the manufacturing process of gloves.

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.

Sustainability Statement (Cont'd)

37th Annual General Meeting at Setia City Convention Centre.

Stakeholder Engagement

In 2017, Kossan had established the Investor Relations Framework ("IR Framework), which sets out the methodology and internal procedures in which the investor relations function and its related activities will be governed and executed. Guided by the framework, the Group 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. 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.

In addition, shareholders and other investors also get the opportunity to meet the Group MD/CEO at the company's annual general meetings and also through dialogues at investment conferences held locally and overseas. Interviews and briefings are also being organised regularly to keep the media and investor analysts abreast of developments at Kossan.

Continuous engagement is the basis for good governance. Stakeholder engagements based on trust, integrity, two-way commitment and communication are critical for organisational success.

Over the course of the year 2017, Kossan engaged with various parties, including 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 activities as well as financial information, including our annual report. 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 "Company") is committed and will continue to endeavor to comply with the principles and practices set out in the Malaysia 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, 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 2017. 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

The Board has overall responsibility for the proper conduct of the Company's business and strategic direction, development and control of the Group. The Board has formally adopted a Board Charter that clearly sets out the roles and responsibilities of the Board, the Committees and Management to ensure accountability.

The Board has adopted the following main responsibilities to facilitate the Board in discharging its fiduciary duties:

- review and approve strategic plans and sustainability policies for the Company and the Group;
- oversee and monitor the conduct of business and financial performance and major capital commitments;
- identify principal risks and implement appropriate risk management to mitigate the risks;
- establish succession planning to ensure sustainability;
- establish, implement and monitor communications with shareholders; and
- review the adequacy and integrity of the internal control system and management information system.

1.2 Chairman

The Chairman, a 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.

Corporate Governance Overview Statement (Cont'd)

1.4 Qualified and competent Company Secretary

The role of the company secretary is to provide support for the Board as follows:-

(i) ensure compliance of listing and related statutory obligations and to update on regulatory requirements, corporate governance and relevant legislations;
(ii) ensure adherence to board policies and procedures, rules, laws and best practices on corporate governance;
(iii) attend Board, Committees and General Meetings and ensure the proper recording of minutes;
(iv) ensure proper upkeep of statutory registers and records and a system to enable retrieval;
(v) assist the Chairman in the preparation and conduct of meetings.

Both the company secretaries have the requisite credentials and are qualified to act as company secretary under Section 235(2) of the Companies Act 2016.

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 will be reviewed periodically to ensure consistency with the Board's objectives and prevailing legislations and practices.

3. Business Conduct and Corporate Culture

3.1 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.

Corporate Governance Overview Statement (Cont'd)

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 22 of the 2017 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. Currently none of the IDs' tenure exceeded nine (9) years.

4.3 Policy on Tenure of Independent Directors

The Board does not have a policy which limits the tenure of independent directors to nine 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 2017 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 last year, the candidates were sourced from unrelated third parties. The shortlisted candidates, unknown to existing Board members, were interviewed by the Nomination Committee prior to presentation to the Board for endorsement.

Corporate Governance Overview Statement (Cont'd)

4.7 Nomination Committee

The Nomination Committee ("NC") of the Company as at 31 December 2017 comprises exclusively of Independent Non-Executive Directors as follows:

Mohamed Shafeii Bin Abdul Gaffoor (appointed on 23.1.2017)	- Chairman
Lee Choo Hock	- Member
Hoh Kim Hyan (appointed on 23.1.2017)	- Member

(Dato' Haji Mokhtar Bin Haji Samad and Tong Siew Choo retired on 23.1.2017)

The NC meets as and when required and at least once a year. The NC met twice in the financial year ended 31 December 2017. 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 considerations) 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 include:

- appointment of new directors;
- review 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 2017, 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 2017, six (6) Board Meetings were held and the attendance of the Directors at the Board Meetings were as follows:

Director	No. of meeting attended
Dato' Haji Mokhtar Bin Haji Samad *(retired on 23.1.2017)*	1/1
Tong Siew Choo *(retired on 23.1.2017)*	1/1
Mohamed Shafeii Bin Abdul Gaffoor *(appointed on 23.1.2017)*	6/6
Tan Sri Dato' Lim Kuang Sia	6/6
Lim Leng Bung	6/6
Tan Kong Chang	6/6
Lim Siau Tian	6/6
Lim Siau Hing	6/6
Lim Ooi Chow	6/6
Lee Choo Hock	6/6
Hoh Kim Hyan *(appointed on 23.1.2017)*	5/6

Corporate Governance Overview Statement (Cont'd)

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 2017 were as follows:

Mohamed Shafeii Bin Abdul Gaffoor (appointed on 23.1.2017)	-	Chairman/Independent Non-Executive
Hoh Kim Hyan (appointed on 23.1.2017)	-	Independent Non-Executive
Tan Sri Dato' Lim Kuang Sia	-	Chief Executive Officer/ Managing Director /Executive

7. Remuneration of Directors and Senior Management

7.1 Directors' Remuneration

The aggregate Directors' remuneration paid or payable to the Directors in office during the financial year by the Company and the Group categorised into appropriate components for the financial year ended 31 December 2017 were as follows:

	Fees	Benefit in kind	Salaries & other emoluments	Total
Executive	–	157,400	11,107,174	11,264,574
Non-Executive	285,000	–	–	285,000
Total	285,000	157,400	11,107,174	11,549,574

Corporate Governance Overview Statement (Cont'd)

The number of Directors of the Company who served during the financial year and whose total remuneration from the Group falling within the respective bands are as follows:-

Range of Remuneration	Number of Director	
	Executive	Non-Executive
RM50,001 - RM100,000	–	3
RM650,001 - RM700,000	1	–
RM900,001 - RM950,000	1	–
RM1,200,001 - RM1,250,000	1	–
RM1,300,001 - RM1,350,000	1	–
RM1,600,001 - RM1,650,000	1	–
RM5,500,001 – RM5,550,000	1	–
Total	6	3

7.2 Senior Management's Remuneration

The remuneration of the top five senior management team are as follows:-

Range of Remuneration	Top Five Senior Management
RM550,001 – RM600,000	4
RM600,001 – RM650,000	–
RM650,001 – RM700,000	1
Total	5

PRINCIPAL B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I – AUDIT COMMITTEE

8. Effective and Independent Audit Committee

8.1 Chairman of the Audit Committee and Chairman of the Board

Effective 22 February, 2018, the Chairman of the AC is not the chairman of the Board.

The Company had on 22 February, 2018 appointed Mr. Lee Choo Hock, an Independent Non-Executive Director as the Chairman of the Audit Committee to replace Mr. Mohamed Shafeii Bin Abdul Gaffoor, also an Independent Non-Executive Director and Chairman of the Board.

8.2 Appointment of AC member being a former key audit partner

Currently the Company does not have a policy on recruiting former key audit partner as member of AC. Nevertheless, none of the existing AC members were a former key audit partner.

Corporate Governance Overview Statement (Cont'd)

8.3 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 2017 was RM8,400.00.

8.4 Composition of the AC

All members of the AC are independent non-executive directors.

8.5 Financial literacy of AC members

Two of the AC members are chartered accountant. All members of the AC are well educated and are financially literate. All members of the AC 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.

Further information on the Audit Committee can be found in the Audit Committee Report on Pages 51 to 54 of the 2017 Annual Report.

II – RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

9. Risk Management and Internal Control

9.1 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 responsibly 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.

9.2 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.

Corporate Governance Overview Statement (Cont'd)

9.3 Risk Management Committee ("RMC")

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

Statement on Risk Management and Internal Control of the Group which provides an overview of the state of risk management and internal controls within the Group is set out on Pages 47 to 50 of the 2017 Annual Report.

10. Effective Governance, Risk Management and Internal Control Framework

10.1 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 2017 audit plan approved by the AC.

10.2 Internal Audit Objectivity and Independence

The AC, had obtained from the Board that the internal audit personal 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.

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

I – COMMUNICTAION WITH STAKEHOLDERS

11. 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.

Corporate Governance Overview Statement (Cont'd)

II – CONDUCT OF GENERAL MEETINGS

12. Shareholder Participation at General Meetings

The Company's Annual General Meeting ("AGM") remains the principal forum for dialogue with private and institution shareholders and aims to ensure that the AGM provides an important opportunity for effective communication with and constructive feedback from the shareholders. At each AGM, 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.

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 on all resolutions tabled at general meetings.

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 WITH THE MCCG

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 2018.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

This Statement on Risk Management and Internal Control is prepared in compliance with paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and reference to the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers.

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 RMC 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; and
- 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

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;

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

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 management 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

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.

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

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. The terms of reference also 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 2017, 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.

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

During the year, the Internal Audit department performed financial review of consolidated accounts, operational audits on inventory management, human resources, procurement, regulatory compliances, information technology control and security.

The Board, through the AC, has reviewed the effectiveness of the Group's system of risk management and internal control. There were no significant risk management and internal control aspects that would have resulted in any material losses or contingencies that would require disclosure in the 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 2017, 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.

The Group is now achieving the certificate of constancy of performance 1835-CPR-41-0054 which the Seismic Isolator HDRB now is CE Mark certified. In addition, 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 Quality Management Committee, which is chaired by the GMD.

BOARD'S COMMITMENT

The Board remains committed towards keeping abreast with the ever-changing business environment in order to support the Group's business and size of operations. There were no material losses incurred during the current financial year as a result of weaknesses in internal control that would require a separate disclosure 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 2017, 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, 2018.

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 2017.

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;

Report of the Audit Committee (Cont'd)

(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 2017 are as follows:-

Composition of the Committee	Attendance
Lee Choo Hock appointed Chairman on 22.02.2018 *(Chairman/ Independent Non-Executive Director)*	6/6
Mohamed Shafeii Bin Abdul Gaffoor-stepped down *(Member/ Independent Non-Executive Director)*	6/6
Hoh Kim Hyan *(Member/ Independent Non-Executive Director)*	5/6

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

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

The Group's external auditors attended three (3) while the internal auditors attended four of the meetings. (4/6)

Report of the Audit Committee (Cont'd)

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 total cost incurred for the internal audit function of the Company and the Group for the financial year 2017 was RM237,589.

Report of the Audit Committee (Cont'd)

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 2017

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 2017.

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	182,061	5,517
Non-controlling interests	2,174	–
	184,235	5,517

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 2016 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 22 November 2016 and paid on 10 January 2017; and
- a final ordinary dividend of 6 sen per ordinary share totalling RM38,368,074 declared on 13 April 2017 and paid on 5 July 2017.

ii) In respect of the financial year ended 31 December 2017:

- 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.

The final ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2017 is 6 sen per ordinary share totalling RM38,368,074.

Directors' Report (Cont'd)

for the year ended 31 December 2017

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
Norihide Enomoto (resigned on 04 December 2017)

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 1.1.2017	**Bought**	**Sold**	**At 31.12.2017**
Kossan Rubber Industries Bhd.				
Direct interests				
Tan Sri Dato' Lim Kuang Sia	763,776	–	–	763,776
Deemed interests				
Tan Sri Dato' Lim Kuang Sia				
- holding company	326,512,480	–	–	326,512,480
- spouse	1,044,496	–	–	1,044,496
Lim Leng Bung				
- holding company	326,512,480	–	–	326,512,480
Lim Kuang Yong				
- holding company	326,512,480	–	–	326,512,480
Lim Kuang Wang				
- holding company	326,512,480	–	–	326,512,480

Directors' Report (Cont'd)
for the year ended 31 December 2017

	Number of ordinary shares			
	At 1.1.2017	Bought	Sold	At 31.12.2017
Deemed interests (cont'd)				
Lim Kwan Hwa				
- holding company	326,512,480	-	-	326,512,480
Lim Ooi Chow*				
- holding company	326,512,480	-	-	326,512,480
- parents	1,808,272	-	-	1,808,272
Lim Siau Tian*	326,512,480	-	-	326,512,480
Lim Siau Hing*	326,512,480	-	-	326,512,480
Lim Siew Bing*	326,512,480	-	-	326,512,480
Doshin Rubber Products (M) Sdn. Bhd.				
Direct interest				
Dr. Or Tan Teng	116,537	83,463	-	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

* 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 2017 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.

Directors' Report (Cont'd)
for the year ended 31 December 2017

ISSUE OF SHARES AND DEBENTURES

There were no 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

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.

Directors' Report (Cont'd)
for the year ended 31 December 2017

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 2017 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 23 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 2018

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Assets					
Property, plant and equipment	3	1,028,011	862,530	48,803	48,874
Investment properties	4	5,223	5,223	21,621	22,013
Goodwill on consolidation	5	4,926	4,926	–	–
Intangible asset	6	1,639	1,639	1,639	1,639
Investments in subsidiaries	7	–	–	70,807	64,298
Investment in joint venture	8	1,362	1,381	1,400	1,400
Other investments	9	166	91	91	91
Deferred tax assets	10	94	61	–	–
Trade and other receivables	11	–	–	154,549	–
Total non-current assets		1,041,421	875,851	298,910	138,315
Inventories	12	212,950	210,671	–	–
Trade and other receivables	11	377,523	332,534	85,775	413,370
Prepayments		8,590	9,228	57	64
Current tax assets		3,378	13,773	703	1,371
Derivative financial assets	17	10,820	–	–	–
Cash and cash equivalents	13	210,382	109,847	146,422	44,795
Total current assets		823,643	676,053	232,957	459,600
Total assets		1,865,064	1,551,904	531,867	597,915
Equity					
Share capital	14.1	323,885	319,734	323,885	319,734
Share premium	14.2	–	4,151	–	4,151
Translation reserve	14.3	6,513	8,238	–	–
Capital reserve	14.4	(240)	–	–	–
Retained earnings		824,864	713,144	165,351	230,175
Total equity attributable to owners of the Company		1,155,022	1,045,267	489,236	554,060
Non-controlling interests		23,249	28,929	–	–
Total equity		1,178,271	1,074,196	489,236	554,060

Statements of Financial Position (Cont'd)
as at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Liabilities					
Loans and borrowings	15	186,906	58,991	142	486
Deferred tax liabilities	10	86,705	82,318	3,130	3,318
Total non-current liabilities		273,611	141,309	3,272	3,804
Loans and borrowings	15	209,840	118,495	345	442
Current tax liabilities		409	2,320	–	–
Trade and other payables	16	202,933	200,774	39,014	39,609
Derivative financial liabilities	17	–	14,810	–	–
Total current liabilities		413,182	336,399	39,359	40,051
Total liabilities		686,793	477,708	42,631	43,855
Total equity and liabilities		1,865,064	1,551,904	531,867	597,915

The notes on pages 70 to 131 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Revenue	18	1,957,627	1,667,996	15,891	315,531
Other income		10,121	7,938	688	864
Changes in inventories of finished goods and work-in-progress		(9,551)	14,665	–	–
Raw materials and consumables used		(1,150,144)	(946,056)	–	–
Goods purchased for resale		(4,434)	(1,175)	–	–
Staff costs		(252,817)	(236,972)	(12,178)	(11,062)
Depreciation of property, plant and equipment		(73,236)	(69,316)	(1,328)	(1,250)
Other operating expenses		(241,577)	(221,121)	(3,415)	(4,135)
Results from operating activities		235,989	215,959	(342)	299,948
Finance costs	19	(11,324)	(10,035)	(36)	(45)
Finance income		3,667	4,103	7,658	3,012
Share of losses of equity-accounted joint venture, net of tax	8	(19)	(19)	–	–
Profit before tax		228,313	210,008	7,280	302,915
Tax expense	21	(44,078)	(38,960)	(1,763)	(7)
Profit for the year	23	184,235	171,048	5,517	302,908
Other comprehensive income, net of tax					
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		(2,749)	955	–	–
Other comprehensive (expense)/ income for the year, net of tax		(2,749)	955	–	–
Total comprehensive income for the year		181,486	172,003	5,517	302,908

Statements of Profit or Loss and Other Comprehensive Income (Cont'd)

for the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Profit attributable to:					
Owners of the Company		182,061	167,063	5,517	302,908
Non-controlling interests		2,174	3,985	–	–
Profit for the year		184,235	171,048	5,517	302,908
Total comprehensive income attributable to:					
Owners of the Company		179,542	167,884	5,517	302,908
Non-controlling interests		1,944	4,119	–	–
Total comprehensive income for the year		181,486	172,003	5,517	302,908
Basic earnings per ordinary share (sen)	24	28.47	26.13		

The notes on pages 70 to 131 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Note	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		← Attributable to owners of the Company →						
		← *Non-distributable* →			*Distributable*			
Group								
At 1 January 2016		319,734	4,151	7,417	619,619	950,921	25,525	976,446
Foreign currency translation differences from foreign operations		–	–	821	–	821	134	955
Total other comprehensive income for the year		–	–	821	–	821	134	955
Profit for the year		–	–	–	167,063	167,063	3,985	171,048
Total comprehensive income for the year		–	–	821	167,063	167,884	4,119	172,003
Dividends to owners of the Company	25	–	–	–	(73,538)	(73,538)	–	(73,538)
Dividends paid to non-controlling interests		–	–	–	–	–	(715)	(715)
At 31 December 2016		319,734	4,151	8,238	713,144	1,045,267	28,929	1,074,196
		Note 14.1	Note 14.2	Note 14.3				

Consolidated Statement of Changes In Equity (Cont'd)

for the year ended 31 December 2017

		← 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 from 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	25	–	–	–	–	(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				

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Note	← *Non-distributable* Share capital RM'000	→ Share premium RM'000	*Distributable* Retained earnings RM'000	Total equity RM'000
Company					
At 1 January 2016		319,734	4,151	805	324,690
Profit and total comprehensive income for the year		–	–	302,908	302,908
Dividends to owners of the Company	25	–	–	(73,538)	(73,538)
At 31 December 2016/1 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	25	–	–	(70,341)	(70,341)
At 31 December 2017		323,885	–	165,351	489,236
		Note 14.1	Note 14.2		

The notes on pages 70 to 131 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash flows from operating activities					
Profit before tax		228,313	210,008	7,280	302,915
Adjustments for:					
Depreciation of investment property	4	–	–	392	392
Depreciation of property, plant and equipment	3	73,236	69,316	1,328	1,250
Dividend income	18	-	-	(1,563)	(301,203)
Finance costs	19	11,324	10,035	36	45
Finance income		(3,667)	(4,103)	(7,658)	(3,012)
Impairment loss on trade receivables		2,067	–	–	–
Net (gain)/loss on disposal of property, plant and equipment		(64)	53	(71)	(122)
Net unrealised fair value changes on derivatives	23	(10,820)	14,810	–	–
Net unrealised foreign exchange differences		4,079	(19,320)	–	–
Property, plant and equipment written off	23	48	103	–	–
Share of losses of equity-accounted joint venture, net of tax		19	19	–	–
Operating profit/(loss) before changes in working capital		304,535	280,921	(256)	265
Change in inventories		(2,279)	(5,083)	–	–
Change in trade and other receivables and prepayments		(67,662)	(4,441)	(121,804)	61,675
Change in trade and other payables		2,159	17,962	(595)	(7,245)
Cash generated from/(used in) operations		236,753	289,359	(122,655)	54,695
Dividends received		–	–	301,563	1,203
Interest received		3,667	4,103	2,515	3,012
Interest paid		(5,062)	(4,106)	(36)	(45)
Tax paid		(31,240)	(57,073)	(1,283)	(1,687)
Tax refund		–	1,002	–	–
Net cash from operating activities		204,118	233,287	180,104	57,178

Statements of Cash Flows (Cont'd)

for the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash flows from investing activities					
Acquisition of intangible asset		–	(1,639)	–	(1,639)
Acquisition of property, plant and equipment	(ii)	(239,159)	(159,795)	(1,283)	(42,101)
Acquisition of other investment		(75)	–	–	–
Acquisition of non-controlling interests		(6,509)	–	–	–
Increase in investments in subsidiaries		–	–	(6,509)	(13,783)
Investment in joint venture		–	(1,400)	–	(1,400)
Proceeds from disposal of property, plant and equipment		380	431	97	122
Net cash used in investing activities		(245,363)	(162,403)	(7,695)	(58,801)
Cash flows from financing activities					
Dividends paid to owners of the Company		(70,341)	(76,736)	(70,341)	(76,736)
Dividends paid to non-controlling interests		(561)	(715)	–	–
Interest paid		(6,262)	(5,929)	–	–
Drawdown of term loans		169,900	–	–	–
Repayment of finance lease liabilities		(13,276)	(26,006)	(441)	(439)
Proceeds from/(Repayment of) other borrowings		91,507	(4,922)	–	(55)
Repayment of term loans		(27,397)	(16,478)	–	–
Net cash from/(used in) financing activities		143,570	(130,786)	(70,782)	(77,230)

Statements of Cash Flows (Cont'd)

for the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Net increase/(decrease) in cash and cash equivalents		102,325	(59,902)	101,627	(78,853)
Effect of exchange rate fluctuations on cash held		(1,790)	1,366	–	–
Cash and cash equivalents at 1 January		109,739	168,275	44,795	123,648
Cash and cash equivalents at 31 December	(i)	210,274	109,739	146,422	44,795

(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 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash and bank balances	13	158,049	73,014	110,422	23,795
Short term deposits	13	52,333	36,833	36,000	21,000
		210,382	109,847	146,422	44,795
Less: Deposit pledged	13	(108)	(108)	–	–
		210,274	109,739	146,422	44,795

(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 RM240,040,000 (2016: RM161,395,000) and RM1,283,000 (2016: RM43,101,000) respectively of which RM880,866 (2016: RM1,600,000) and nil (2016: RM1,000,000) respectively were acquired by finance lease agreements.

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 2017 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 2017 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 2018.

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 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)**
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions**
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts**
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

Notes to the Financial Statements (Cont'd)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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*

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, amendments and interpretations:

- from the annual period beginning on 1 January 2018 for those accounting standards, interpretation and amendments and that are effective for annual periods beginning on or after 1 January 2018, except for amendments marked with "*" which are not applicable to the Group and the Company.

- 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 or 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 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition* and *Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

Notes to the Financial Statements (Cont'd)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

(i) MFRS 9, *Financial Instruments (continued)*

In respect of impairment of financial assets, MFRS 9 replaces the "incurred loss" model in MFRS 139 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments.

The Group has assessed the estimated impact that the initial application of MFRS 9 will have on its consolidated financial statements as at 1 January 2018 and the assessment resulted that no significant financial impact to the retained earnings of the Group.

(ii) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services.*

The Group has assessed the estimated impact that the initial application of MFRS 15 will have on its consolidated financial statements for year ended 31 December 2017 and the assessment resulted that estimated impact has no significant financial impact to the financial statements.

(iii) 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 is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(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.

Notes to the Financial Statements (Cont'd)

1. BASIS OF PREPARATION (CONTINUED)

(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.

(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.

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.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(ii) Business combinations (continued)

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 an available-for-sale financial asset depending on the level of influence retained.

(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.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(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.

(b) Foreign currency

(i) Foreign currency transactions

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

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

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

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

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.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency (continued)

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2011 (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.

(c) Financial instruments

(i) Initial recognition and measurement

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

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

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

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

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

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

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

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

(b) Loans and receivables

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

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

(c) Available-for-sale financial assets

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

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

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

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

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial liabilities

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

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

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

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

(iii) 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.

Fair value arising from financial guarantee contracts are classified as deferred income and is amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is 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 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 and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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:

• 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.

Notes to the Financial Statements (Cont'd)

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.

Notes to the Financial Statements (Cont'd)

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.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment

(i) Financial assets

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

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

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

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

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

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

(ii) Other assets

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

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

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(ii) Other assets (continued)

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 (groups of cash-generating units) on a *pro rata* basis.

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

(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.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (continued)

(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.

(o) Revenue and other income

(i) Goods sold

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

(ii) Interest income

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

(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.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method.

(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) Discontinued operation

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(s) 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.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Earning per ordinary share

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.

(t) 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 Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(u) 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 are 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.

Notes to the Financial Statements (Cont'd)

3. PROPERTY, PLANT AND EQUIPMENT

	Freehold land* RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Factory renovation RM'000	Factory furniture and equipment RM'000	Electrical installation RM'000	Office furniture, equipment and renovation RM'000	Plant and machinery under construction RM'000	Building under construction RM'000	Total RM'000
Group											
Cost											
At 1 January 2016	218,673	208,434	665,891	18,273	9,382	16,301	4,536	15,293	26,860	2,850	1,186,493
Additions	58,293	1,821	43,824	2,597	137	957	33	1,991	35,803	15,939	161,395
Disposals	–	–	(129)	(1,543)	–	–	–	(38)	–	–	(1,710)
Write-off	–	–	(19,935)	–	(134)	–	–	(30)	–	–	(20,099)
Reclassification	–	489	15,245	–	(115)	–	–	–	(15,245)	(374)	–
Effect of movements in exchange rates	(324)	66	13	(2)	–	–	–	(30)	–	–	(277)
At 31 December 2016/ 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	372,000	213,260	734,635	20,885	9,313	18,039	4,569	17,690	105,895	64,901	1,561,187

* Included in the freehold land is an amount of USD3,680,000, equivalent to RM14.9 million as at 31 December 2017 (31 December 2016: USD3,680,000, equivalent to RM15.5 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.

Notes to the Financial Statements (Cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Factory renovation RM'000	Factory furniture and equipment RM'000	Electrical installation RM'000	Office furniture, equipment and renovation RM'000	Plant and machinery under construction RM'000	Building under construction RM'000	Total RM'000
Group											
Accumulated depreciation											
At 1 January 2016	–	21,795	358,962	11,067	5,602	7,036	2,637	7,944	–	–	415,043
Charge for the year	–	4,784	57,444	2,994	714	1,681	333	1,366	–	–	69,316
Disposals	–	–	(107)	(1,099)	–	–	–	(20)	–	–	(1,226)
Reclassification	–	2	–	–	(2)	–	–	–	–	–	–
Write-off	–	–	(19,832)	–	(134)	–	–	(30)	–	–	(19,996)
Effect of movements in exchange rates	–	66	68	1	–	–	–	–	–	–	135
At 31 December 2016/ 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	–	32,415	456,090	15,404	6,858	10,329	3,272	8,808	–	–	533,176
Carrying amounts											
At 1 January 2016	218,673	186,639	306,929	7,206	3,780	9,265	1,899	7,349	26,860	2,850	771,450
At 31 December 2016/ 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	372,000	180,845	278,545	5,481	2,455	7,710	1,297	8,882	105,895	64,901	1,028,011

Notes to the Financial Statements (Cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Freehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Office furniture and equipment RM'000	Total RM'000
Company						
Cost						
At 1 January 2016		10,100	18,059	5,251	3,714	37,124
Additions		41,382	–	1,386	333	43,101
Disposals		–	–	(765)	(1)	(766)
Transfer to investment properties:						
- Offset of accumulated depreciation		–	(1,955)	–	–	(1,955)
- Transfer of carrying amount	4	(10,100)	(12,305)	–	–	(22,405)
At 31 December 2016/ 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		42,638	3,799	5,518	3,776	55,731
Accumulated depreciation						
At 1 January 2016		–	2,356	3,422	1,918	7,696
Charge for the year		–	81	803	366	1,250
Disposals		–	–	(765)	(1)	(766)
Offset of accumulated depreciation on property transferred to investment properties		–	(1,955)	–	–	(1,955)
At 31 December 2016/ 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		–	563	3,982	2,383	6,928
Carrying amounts						
At 1 January 2016		10,100	15,703	1,829	1,796	29,428
At 31 December 2016/ 1 January 2017		41,382	3,317	2,412	1,763	48,874
At 31 December 2017		42,638	3,236	1,536	1,393	48,803

Notes to the Financial Statements (Cont'd)

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Plant and machinery	19,418	69,163	–	–
Motor vehicles	2,434	3,733	929	1,735
	21,852	72,896	929	1,735

4. INVESTMENT PROPERTIES

	Note	Freehold land RM'000	Buildings RM'000	Total RM'000
Group				
Cost/Carrying amounts				
At 1 January 2016/31 December 2016/ 1 January 2017/31 December 2017		5,223	–	5,223
Company				
Cost				
At 1 January 2016		–	–	–
Transfer from property, plant and equipment	3	10,100	12,305	22,405
At 31 December 2016/1 January 2017/ 31 December 2017		10,100	12,305	22,405
Accumulated depreciation				
At 1 January 2016		–	–	–
Charge for the year		–	392	392
At 31 December 2016/1 January 2017		–	392	392
Charge for the year		–	392	392
At 31 December 2017		–	784	784
Carrying amount				
At 1 January 2016		–	–	–
At 31 December 2016/1 January 2017		10,100	11,913	22,013
At 31 December 2017		10,100	11,521	21,621

Notes to the Financial Statements (Cont'd)

4. INVESTMENT PROPERTIES (CONTINUED)

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

	Company	
	2017 RM'000	**2016 RM'000**
Rental income	623	612
Direct operating expenses:		
- income generating investment properties	(554)	(517)

Fair value information

Fair value of investment properties is categorised as follows:

	Group Level 3 RM'000	**Company Level 3 RM'000**
2017		
Freehold land	10,794	15,573
Buildings	–	20,305
2016		
Freehold land	5,397	15,063
Buildings	–	19,669

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	
	2017 RM'000	**2016 RM'000**
At cost	4,926	4,926

Notes to the Financial Statements (Cont'd)

5. GOODWILL ON CONSOLIDATION (CONTINUED)

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	
	2017 RM'000	2016 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 1% (2016: 4%) supported by historical trend.
- The terminal value was estimated using the perpetuity growth model, with a growth rate to perpetuity of 2% (2016: 2%).
- A pre-tax discount rate of 13.5% (2016: 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.

Notes to the Financial Statements (Cont'd)

6. INTANGIBLE ASSET

	Group and Company 2017 RM'000	2016 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 2017 RM'000	2016 RM'000
At cost	70,807	64,298

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2017 %	2016 %
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
Kossan Sdn. Bhd.	Malaysia	Investment holding	100	100

Notes to the Financial Statements (Cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2017 %	Effective ownership interest 2016 %
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	55
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	55
Subsidiary of Kossan Engineering (M) Sdn. Bhd.				
Kossan Gloves Sdn. Bhd.	Malaysia	Investment holding	100	100
Subsidiary of Kossan Gloves Sdn. Bhd.				
Wear Safe (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing of surgical, procedure and examination gloves	100	100

Notes to the Financial Statements (Cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2017 %	2016 %
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 2017.

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 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
At cost	1,381	1,400	1,400	1,400
Shares of post-acquisition reserves	(19)	(19)	–	–
	1,362	1,381	1,400	1,400

Notes to the Financial Statements (Cont'd)

8. INVESTMENT IN JOINT VENTURE (CONTINUED)

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	
	2017 RM'000	**2016 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	1,056	1,190
Current liabilities	(2)	(97)
	2,723	2,762
Year ended 31 December		
Loss and total comprehensive expenses for the year	(38)	(39)
Group's share of results for the year ended 31 December		
Group's share of losses during the year	(19)	(19)

9. OTHER INVESTMENTS

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Available-for-sale financial assets at amortised cost	166	91	91	91

Notes to the Financial Statements (Cont'd)

10. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group						
Property, plant and equipment	–	–	(80,322)	(75,700)	(80,322)	(75,700)
Revaluation on properties#	–	–	(5,463)	(5,614)	(5,463)	(5,614)
Unutilised reinvestment allowance	797	–	–	–	797	–
Tax loss carry-forwards	–	195	–	–	–	195
Derivatives	–	1,499	(1,718)	–	(1,718)	1,499
Others	95	–	–	(2,637)	95	(2,637)
Tax assets/(liabilities)	892	1,694	(87,503)	(83,951)	(86,611)	(82,257)
Set off of tax	(798)	(1,633)	798	1,633	–	–
Net tax assets/(liabilities)	94	61	(86,705)	(82,318)	(86,611)	(82,257)

	Liabilities		Net	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Company				
Property, plant and equipment	(2,516)	(2,681)	(2,516)	(2,681)
Revaluation on properties#	(614)	(637)	(614)	(637)
	(3,130)	(3,318)	(3,130)	(3,318)

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.

Unrecognised deferred tax assets

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

	Group	
	2017 RM'000	2016 RM'000
Tax loss carry-forwards	51	39
Tax at 24% (2016: 24%)	12	9

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

Notes to the Financial Statements (Cont'd)

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-forwards RM'000	Derivatives RM'000	Others RM'000	Total RM'000
Group								
At 1 January 2016		(65,360)	(5,914)	–	3	134	(1,206)	(72,343)
Recognised in profit or loss	21	(10,340)	300	–	192	1,365	(1,431)	(9,914)
At 31 December 2016/ 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		(80,322)	(5,463)	797	–	(1,718)	95	(86,611)
Company								
At 1 January 2016		(4,266)	(687)	–	–	13	129	(4,811)
Recognised in profit or loss	21	307	50	–	–	(13)	(129)	215
Arising from common control transfer	22	1,278	–	–	–	–	–	1,278
At 31 December 2016/ 1 January 2017		(2,681)	(637)	–	–	–	–	(3,318)
Recognised in profit or loss	21	165	23	–	–	–	–	188
At 31 December 2017		(2,516)	(614)	–	–	–	–	(3,130)

Notes to the Financial Statements (Cont'd)

11. TRADE AND OTHER RECEIVABLES

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Non-current					
Non-trade					
Amount due from subsidiaries	11.1	–	–	154,549	–
Current					
Trade					
Trade receivables		341,355	304,980	22	53
Less: Allowance for impairment loss		(2,078)	(11)	–	–
		339,277	304,969	22	53
Non-trade					
Amount due from subsidiaries	11.2	–	–	85,454	413,001
Amount due from joint venture	11.3	–	91	–	–
Other receivables		34,924	24,498	134	42
Refundable deposits		3,322	2,976	165	274
		38,246	27,565	85,753	413,317
		377,523	332,534	85,775	413,370

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

11.2 The non-trade amount due from subsidiaries are unsecured, subject to interest at 2.6% (2016: nil) per annum and repayable on demand.

11.3 The non-trade amount due from joint venture was unsecured, interest free and repayable on demand.

12. INVENTORIES

	Group 2017 RM'000	Group 2016 RM'000
At cost:		
Raw materials	66,821	56,249
Work-in-progress	11,514	5,309
Finished goods	134,615	149,113
	212,950	210,671

Notes to the Financial Statements (Cont'd)

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash and bank balances	158,049	73,014	110,422	23,795
Short term deposits placed with licensed banks	52,333	36,833	36,000	21,000
	210,382	109,847	146,422	44,795

Included in deposits placed with licensed banks of the Group are amounts of RM108,000 (2016: 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 2017 '000	Amount 2017 RM'000	Number of shares 2016 '000	Amount 2016 RM'000
Ordinary shares, issued and fully paid:				
At 1 January	639,468	319,734	639,468	319,734
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 (Note a)	–	4,151	–	–
At 31 December	639,468	323,885	639,468	319,734
		Note b		

The new Companies Act 2016 ("the Act") which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Pursuant to Section 74 of the Act, all shares issued before or upon the commencement of the Act shall have no par or nominal value.

(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.

Notes to the Financial Statements (Cont'd)

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	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non-current					
Term loans - unsecured	15.1	186,456	55,951	–	–
Finance lease liabilities	15.2	450	3,040	142	486
		186,906	58,991	142	486
Current					
Term loans - unsecured	15.1	38,564	26,566	–	–
Revolving credit - unsecured		78,595	28,000	–	–
Trade finance - unsecured		90,194	51,637	–	–
Finance lease liabilities	15.2	2,487	12,292	345	442
		209,840	118,495	345	442
		396,746	177,486	487	928

Notes to the Financial Statements (Cont'd)

15. LOANS AND BORROWINGS (CONTINUED)

15.1 Term loans – unsecured

Unsecured term loans consisting of:

(a) MYR denominated term loan of RM2.50 million (2016: RM5.40 million) representing 5-year term loan obtained in 2013 with monthly repayment installments, and bears interest rates of 4.75% (2016: 4.75%) per annum,

(b) MYR denominated term loan of RM16.10 million (2016: RM24.60 million) representing 5-year term loan obtained in 2014 with quarterly repayment installments, and bears interest rates of 4.43% (2016: 4.43%) per annum,

(c) MYR denominated term loan of RM37.50 million (2016: RM52.50 million) representing a 5-year term loan obtained in 2015 with quarterly repayment installments, and bears interest rates of 4.40% - 4.45% (2016: 4.30% - 4.55%) per annum,

(d) MYR denominated term loan of RM110.00 million (2016: nil) representing a 5-year term loan obtained in 2017 with quarterly repayment installments, and bears interest rates of 4.47% - 4.83% (2016: nil) per annum, and

(e) MYR denominated term loan of RM58.90 million (2016: nil) representing a 5-year term loan obtained in 2017 with monthly repayment installments, and bears interest rates of 4.25% (2016: nil) per annum.

15.2 Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2017 RM'000	Interest 2017 RM'000	Present value of minimum lease payments 2017 RM'000	Future minimum lease payments 2016 RM'000	Interest 2016 RM'000	Present value of minimum lease payments 2016 RM'000
Group						
Less than one year	2,553	(66)	2,487	12,726	(434)	12,292
Between one and five years	459	(9)	450	3,092	(52)	3,040
	3,012	(75)	2,937	15,818	(486)	15,332
Company						
Less than one year	361	(16)	345	477	(35)	442
Between one and five years	144	(2)	142	504	(18)	486
	505	(18)	487	981	(53)	928

Notes to the Financial Statements (Cont'd)

15. LOANS AND BORROWINGS (CONTINUED)

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

	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

In accordance to MFRS 107.60, comparative information is not required for preceding periods when an entity first applies Disclosure Initiative (Amendments to MFRS 107).

16. TRADE AND OTHER PAYABLES

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Trade					
Trade payables		91,014	96,030	55	89
		91,014	96,030	55	89
Non-trade					
Amount due to holding company	16.1	20	62	–	–
Amount due to related parties	16.1	6,008	2,026	–	–
Other payables		40,070	35,950	344	779
Dividend payables		31,973	31,973	31,973	31,973
Accrued expenses		33,848	34,733	6,642	6,768
		111,919	104,744	38,959	39,520
		202,933	200,774	39,014	39,609

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

Notes to the Financial Statements (Cont'd)

17. DERIVATIVE FINANCIAL LIABILITIES

	2017			2016		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Group						
Derivatives held for trading at fair value through profit or loss						
- Forward foreign exchange contracts	365,188	10,820	–	216,876	–	(14,810)

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Sales of goods	1,957,627	1,667,996	–	–
Dividend income	–	–	1,563	301,203
Management fees	–	–	14,328	14,328
	1,957,627	1,667,996	15,891	315,531

19. FINANCE COSTS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest expense on:				
- Bank overdraft	35	37	1	5
- Finance lease	449	1,449	35	37
- Term loans	5,813	4,480	–	–
- Trade finance	2,961	2,193	–	3
- Revolving credit	2,066	1,876	–	–
	11,324	10,035	36	45

Notes to the Financial Statements (Cont'd)

20. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation are as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors:				
- Fees	285	255	285	255
- Remunerations	18,289	17,861	5,789	5,745
	18,574	18,116	6,074	6,000
Other key management personnel:				
- Remunerations	7,425	6,711	1,964	3,041

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current tax expense				
Current year	42,108	29,225	1,451	266
(Over)/Under provision in prior year	(2,384)	(179)	500	(44)
	39,724	29,046	1,951	222
Deferred tax expense				
Origination and reversal of temporary differences	6,892	13,926	(113)	(219)
(Over)/Under provision in prior year	(2,538)	(4,012)	(75)	4
	4,354	9,914	(188)	(215)
Total tax expense	44,078	38,960	1,763	7

Notes to the Financial Statements (Cont'd)

21. TAX EXPENSE (CONTINUED)

***Recognised in profit or loss* (continued)**

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Reconciliation of tax expense				
Profit before tax				
- continuing operations	228,313	210,008	7,280	302,915
Add:				
Share of losses of equity-accounted joint venture, net of tax	19	19	–	–
	228,332	210,027	7,280	302,915
Income tax calculated using Malaysian tax rate of 24% (2016: 24%)	54,800	50,407	1,747	72,700
Effect of tax rates in foreign jurisdiction	(40)	(194)	–	–
Non-deductible expenses	4,105	3,001	409	260
Tax incentives	(9,597)	(9,850)	–	–
Income not subject to tax	(908)	–	(908)	(72,893)
Others	640	(213)	90	(20)
	49,000	43,151	1,338	47
(Over)/Under provision in prior year				
- income tax expense	(2,384)	(179)	500	(44)
- deferred tax expense	(2,538)	(4,012)	(75)	4
	44,078	38,960	1,763	7

Notes to the Financial Statements (Cont'd)

22. DISCONTINUED OPERATION

Company

In 2016, the Company transferred its manufacturing operation to a wholly owned subsidiary for a purchase consideration of RM26.1 million, where it was satisfied by subscription of share issued by the subsidiary.

Effect of transfer on the financial position of the Company:

	Note	2016 RM'000
Property, plant and equipment		9,522
Inventories		17,897
Deferred tax liabilities	10	(1,278)
Net assets and liabilities transferred		26,141
Settlement by:		
Subscription of shares		(26,141)
Net cash inflow		–

23. PROFIT FOR THE YEAR

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit for the year is arrived at after charging:					
Impairment loss on trade receivables	27.4	2,067	–	–	–
Auditors' remunerations					
- Audit fees					
- KPMG		362	332	83	79
- Other auditors		64	52	–	–
- Non-audit fees		8	208	–	202
Depreciation of property, plant and equipment	3	73,236	69,316	1,328	1,250
Depreciation of investment properties	4	–	–	392	392
Personnel expenses (including key management personnel):					
- Contributions to Employees' Provident Fund		10,309	10,746	514	1,364
- Wages, salaries and others		242,508	226,226	11,664	9,698
Unrealised fair value changes on derivatives		–	14,810	–	–
Property, plant and equipment written off		48	103	–	–
Loss on disposal of property, plant and equipment		76	187	–	–
Unrealised foreign exchange loss on receivables		6,434	–	–	–
Rental of premises		3,334	3,099	–	–
Rental of equipment		200	1	–	–

Notes to the Financial Statements (Cont'd)

23. PROFIT FOR THE YEAR (CONTINUED)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
and after crediting:					
Realised gain on foreign exchange		24,487	14,921	–	88
Unrealised fair value changes on derivatives		10,820	–	–	–
Unrealised foreign exchange gain on receivables		–	19,320	–	–
Unrealised foreign exchange gain on loan		2,355	–	–	–
Gain on disposal of property, plant and equipment		140	134	71	122
Interest on short term deposits		3,667	4,103	2,515	3,012
Interest on amount due from subsidiaries		–	–	5,143	–
Rental income		156	156	623	612

24. EARNINGS PER ORDINARY SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 December 2017 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group 2017 RM'000	Group 2016 RM'000
Profit for the year attributable to owners of the Company	182,061	167,063

Weighted average number of ordinary shares

	Group 2017 000	Group 2016 000
Issued ordinary shares at 1 January/31 December	639,468	639,468

	Group 2017 Sen	Group 2016 Sen
Basic earnings per share	28.47	26.13

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

Notes to the Financial Statements (Cont'd)

25. DIVIDENDS

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2017			
Final 2016 ordinary	6.00	38,368	5 July 2017
Interim 2017 ordinary	5.00	31,973	10 January 2018
		70,341	
2016			
Final 2015 ordinary	6.50	41,565	5 July 2016
Interim 2016 ordinary	5.00	31,973	10 January 2017
		73,538	

26. 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.

Notes to the Financial Statements (Cont'd)

26. OPERATING SEGMENTS (CONTINUED)

Segment capital expenditure

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

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.

	2017 RM'000	2016 RM'000
Group		
Revenue		
Sales office located in Malaysia		
- for local market	109,106	81,408
- for export market	1,794,907	1,542,528
Sales office located outside of Malaysia	53,614	44,060
	1,957,627	1,667,996
Non-current assets		
Located in Malaysia	1,011,493	843,344
Located outside of Malaysia	16,518	19,186
	1,028,011	862,530

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 2017 and 31 December 2016.

Notes to the Financial Statements (Cont'd)

26. OPERATING SEGMENTS (CONTINUED)

	Technical rubber products		Gloves		Cleanroom products		Others		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Business segments										
Total external revenue	161,673	159,997	1,713,732	1,442,410	76,362	65,582	5,860	7	1,957,627	1,667,996
Segment results	16,172	30,638	220,874	184,021	2,931	2,658	(3,988)	(1,358)	235,989	215,959
Share of losses of joint venture									(19)	(19)
Finance costs									(11,324)	(10,035)
Finance income									3,667	4,103
Tax expense									(44,078)	(38,960)
Profit for the year									184,235	171,048
Segment assets	158,033	150,859	1,415,832	1,204,312	42,521	47,723	248,678	149,010	1,865,064	1,551,904
Segment liabilities	19,296	23,403	618,843	398,330	5,042	7,904	43,612	48,071	686,793	477,708
Included in the measure of segment assets are:										
Capital expenditure	8,539	8,988	229,356	109,096	239	185	1,906	43,126	240,040	161,395
Included in the measure of segment results are:										
Depreciation	6,680	6,268	62,406	60,180	802	843	3,348	2,025	73,236	69,316

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS

27.1 Categories of financial instruments

The table below provides an analysis of financial instruments 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
Group				
2017				
Financial assets				
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
Financial liabilities				
Loans and borrowings	(396,746)	(396,746)	–	–
Trade and other payables	(202,933)	(202,933)	–	–
	(599,679)	(599,679)	–	–
2016				
Financial assets				
Other investment	91	–	–	91
Trade and other receivables	332,534	332,534	–	–
Cash and cash equivalents	109,847	109,847	–	–
	442,472	442,381	–	91
Financial liabilities				
Loans and borrowings	(177,486)	(177,486)	–	–
Trade and other payables	(200,774)	(200,774)	–	–
Derivative financial liabilities	(14,810)	–	(14,810)	–
	(393,070)	(378,260)	(14,810)	–

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL -HFT RM'000	AFS RM'000
Company				
2017				
Financial assets				
Other investment	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				
Loans and borrowings	(487)	(487)	–	–
Trade and other payables	(39,014)	(39,014)	–	–
	(39,501)	(39,501)	–	–
2016				
Financial assets				
Other investment	91	–	–	91
Trade and other receivables	413,370	413,370	–	–
Cash and cash equivalents	44,795	44,795	–	–
	458,256	458,165	–	91
Financial liabilities				
Loans and borrowings	(928)	(928)	–	–
Trade and other payables	(39,609)	(39,609)	–	–
	(40,537)	(40,537)	–	–

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.2 Net gains and losses arising from financial instruments

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net gains/(losses) on:				
Financial assets and liabilities of fair value through profit or loss:				
- Forward foreign exchange contracts	10,820	(14,810)	–	–
Loans and receivables	19,653	38,344	7,658	3,100
Financial liabilities measured at amortised cost	(8,969)	(10,035)	(36)	(45)
	21,504	13,499	7,622	3,055

27.3 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

27.4 Credit risk

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

Receivables

Risk management objectives, policies and processes for managing the risk

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

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.4 Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral

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

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

Impairment losses

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

	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
2016			
Not past due	234,161	–	234,161
Past due 0-30 days	40,374	–	40,374
Past due 31-120 days	20,841	–	20,841
Past due more than 120 days	9,604	(11)	9,593
	304,980	(11)	304,969

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

	Gross RM'000	Individual impairment RM'000	Net RM'000
Company			
2017			
Not past due	–	–	–
Past due 0-30 days	–	–	–
Past due 31-120 days	–	–	–
Past due more than 120 days	22	–	22
	22	–	22
2016			
Not past due	–	–	–
Past due 0-30 days	–	–	–
Past due 31-120 days	–	–	–
Past due more than 120 days	53	–	53
	53	–	53

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	11	231	–	220
Impairment loss recognised	2,067	–	–	–
Impairment loss written off	–	(220)	–	(220)
At 31 December	2,078	11	–	–

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

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.4 Credit risk (continued)

Financial guarantees

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM473,386,000 (2016: RM218,025,000) 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.

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

Exposure to credit risk, credit quality and collateral

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

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

Impairment losses

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

27.5 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.

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.5 Liquidity risk (continued)

Maturity analysis

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

	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	2.44 - 5.40	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	–

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.5 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							
2016							
Non-derivative financial liabilities							
Term loans - unsecured	82,517	4.30 - 4.75	88,190	29,633	28,427	30,130	–
Revolving credit - unsecured	28,000	4.15 - 4.75	28,000	28,000	–	–	–
Trade finance - unsecured	51,637	3.70 - 4.49	51,637	51,637	–	–	–
Finance lease liabilities	15,332	2.44 - 5.68	15,818	12,726	2,876	216	–
Trade and other payables	200,774	–	200,774	200,774	–	–	–
	378,260		384,419	322,770	31,303	30,346	–
Derivative financial liabilities							
Forward foreign exchange contracts (gross settled):							
Inflow	–	–	(216,876)	(216,876)	–	–	–
Outflow	14,810	–	231,686	231,686	–	–	–
	393,070		399,229	337,580	31,303	30,346	–

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.5 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							
2017							
Non-derivative financial liabilities							
Finance lease liabilities	487	2.80 - 2.97	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	–	–
2016							
Non-derivative financial liabilities							
Finance lease liabilities	928	3.60 - 5.18	981	477	360	144	–
Trade and other payables	39,609	–	39,609	39,609	–	–	–
Financial guarantee	–	–	218,025	218,025	–	–	–
	40,537		258,615	258,111	360	144	–

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.6 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.

27.6.1 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			
2017			
Trade receivables	87,365	4.1800	365,188
2016			
Trade receivables	51,591	4.2038	216,876

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.6 Market risk (continued)

27.6.1 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 was:

	Group Denominated in USD	
	2017 RM'000	2016 RM'000
Trade receivables	309,383	259,374
Trade payables	(11,537)	(18,030)
Loans and borrowings	(42,950)	–
Derivatives held for trading at fair value through profit or loss	10,820	(14,810)
Net exposure	265,716	226,534

Currency risk sensitivity analysis

A 5% (2016: 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. The analysis assumes that all other variables, in particular interest rates, remained constant.

	Equity		Profit or loss	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group				
USD	–	–	(10,097)	(8,608)

A 5% (2016: 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.

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.6 Market risk (continued)

27.6.2 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 was:

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Fixed rate instruments					
Deposits placed with licensed banks	13	52,333	36,833	36,000	21,000
Term loans - unsecured		(18,620)	(30,017)	–	–
Finance lease liabilities	15.2	(2,937)	(15,332)	(487)	(928)
Revolving credits - unsecured	15	(78,595)	(28,000)	–	–
Trade finance - unsecured	15	(90,194)	(51,637)	–	–
		(138,013)	(88,153)	35,513	20,072
Floating rate instruments					
Term loans - unsecured		(206,400)	(52,500)	–	–
Amount due from subsidiaries		–	–	240,003	–
		(206,400)	(52,500)	240,003	–

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.6 Market risk (continued)

27.6.2 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 (2016: 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		
2017		
Floating rate instruments	(784)	784
2016		
Floating rate instruments	(200)	200
Company		
2017		
Floating rate instruments	912	(912)
2016		
Floating rate instruments	–	–

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.7 Fair value information

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

It was not practicable to estimate the fair value of the Group's and of the Company's other investments due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

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

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group										
2017										
Financial liabilities										
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)
2016										
Financial liabilities										
Finance lease liabilities	–	–	–	–	–	–	(15,013)	(15,013)	(15,013)	(15,332)
Forward foreign exchange contracts	–	(14,810)	–	(14,810)	–	–	–	–	(14,810)	(14,810)
Term loans - unsecured	–	–	–	–	–	–	(76,537)	(76,537)	(76,537)	(82,517)
	–	(14,810)	–	(14,810)	–	–	(91,550)	(91,550)	(106,360)	(112,659)

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.7 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	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company										
2017										
Financial asset										
Amount due from subsidiaries	–	–	–	–	–	–	240,003	240,003	240,003	240,003
Financial liability										
Finance lease liabilities	–	–	–	–	–	–	(475)	(475)	(475)	(487)
2016										
Financial liability										
Finance lease liabilities	–	–	–	–	–	–	(904)	(904)	(904)	(928)

Notes to the Financial Statements (Cont'd)

27. FINANCIAL INSTRUMENTS (CONTINUED)

27.7 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 (2016: 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.

Notes to the Financial Statements (Cont'd)

28. 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 2017 and at 31 December 2016 were as follows:

		Group	
	Note	**2017 RM'000**	**2016 RM'000**
Total borrowings	15	396,746	177,486
Less: Cash and cash equivalents	13	(210,382)	(109,847)
Net debt		186,364	67,639
Total equity		1,155,022	1,045,267
Debt-to-equity ratio		0.16	0.06

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

29. CAPITAL AND OTHER COMMITMENTS

	Group	
	2017 RM'000	**2016 RM'000**
Property, plant and equipment		
Within one year:		
Contracted but not provided for	4,234	4,234

Notes to the Financial Statements (Cont'd)

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 party 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 includes 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.

	2017 RM'000	2016 RM'000
Group		
Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries		
Kossan Holdings (M) Sdn. Bhd.		
Rental expense	(447)	(430)
Kossan Chemical Industries (M) Sdn. Bhd.		
Rental expense	(1,688)	(1,664)
Pleasure Latex Products Sdn. Bhd.		
Sales*	13	–
Improgen Sdn. Bhd.		
Rental expense	(88)	–
Kossan Paint (M) Sdn. Bhd.		
Sales*	162	132
Purchase of consumables and property, plant and equipment	(956)	(1,076)

Notes to the Financial Statements (Cont'd)

30. RELATED PARTIES (CONTINUED)

Significant related party transactions (continued)

	2017 RM'000	2016 RM'000
Group		
Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries (continued)		
Pan Asian Corporation Sdn. Bhd.		
Rental expense	(679)	(679)
Chemtube (M) Sdn. Bhd.		
Technical services fee	93	90
Purchase of consumables and property, plant and equipment	(124)	(1,013)
Transactions with corporations in which Directors have financial interest		
HT Ceramics (M) Sdn. Bhd.		
Sales*	8	12
Purchase of consumables and property, plant and equipment	(7,332)	(3,894)
Kossan F.R.P. Industries (M) Sdn. Bhd.		
Sales*	3	2
Purchase of consumables and property, plant and equipment	(375)	(368)
Gummitech Industries Sdn. Bhd.		
Rental income	108	108
Company		
Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries		
Gummitech Industries Sdn. Bhd.		
Rental income	108	108

Notes to the Financial Statements (Cont'd)

30. RELATED PARTIES (CONTINUED)

Significant related party transactions (continued)

	2017 RM'000	2016 RM'000
Company		
Transactions with subsidiaries		
Kossan Latex Industries (M) Sdn. Bhd.		
Management fee income	4,344	4,344
Perusahaan Getah Asas Sdn. Bhd.		
Management fee income	4,494	4,494
Rental income	24	24
Wear Safe (Malaysia) Sdn. Bhd.		
Management fee income	3,732	3,732
Ideal Quality Sdn. Bhd.		
Management fee income	750	750
Kossan Industries Sdn. Bhd.		
Management fee income	810	810
Rental income	491	480
Hibon Corporation Sdn. Bhd.		
Management fee income	198	198

* 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.

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 60 to 131 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 2017 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 2018

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 60 to 131 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 2018.

....

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 2017 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 60 to 131.

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 2017, 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 2017, the Group has significant trade receivables with a total carrying value of RM339 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 obtained and tested the accuracy of the receivables ageing as at year end;
- We assessed the post year end cash received for invoices outstanding for more than the Group's average days sales; and
- We evaluated the past 12 month's collection trend from receivables with debts outstanding more than the Group's average days sales.

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.

Independent Auditors' Report (Cont'd)

to the members of Kossan Rubber Industries Bhd.

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.

Independent Auditors' Report (Cont'd)

to the members of Kossan Rubber Industries Bhd.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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.

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 & AF0758)
Chartered Accountants

Lee Yee Keng
Approval Number: 02880/04/2019 J
Chartered Accountant

Petaling Jaya, Malaysia

Date: 12 April 2018

LIST OF PROPERTIES

as at 31 December 2017

Location	Description	Date of Acquisition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2017 RM '000
HSD 27360 PT12772 No 14 Lrg Sg Puloh Tmn Klg Utama 42100 Klang	1 unit double storey link house	24/3/1995 *	24 yrs	990 sq.ft	Freehold	Staff quarters	58
HSD 27361 PT12773 No 16 Lrg Sg Puloh Tmn Klg Utama 42100 Klang	1 unit double storey link house	24/3/1995 *	24 yrs	990 sq.ft	Freehold	Staff quarters	58
Lot 754 Jalan Hj Sirat 42100 Klang	Industrial land Factory	1/1/2011 *	– 23 yrs	246,550 sq.ft	Freehold	– Factory	7,691 7,867
Lot 782 Jalan Sg Putus 42100 Klang	Industrial land Factory and office 5 storey office	1/1/2011 *	– Factory-30 yrs Office-23 yrs 10 yrs	47,480 sq.ft	Freehold	– Factory and office Office	1,109 1,057 3,236
HSM 21404 Lot 16632 Jalan Meru 41050 Klang	Industrial land Factory/office	24/3/1995 *	– 28 yrs	6,055 sq.mtr	Freehold	– Factory/ office	1,043 1,116
GM 551 Lot 2401 Batu 17 Jln Sungai Sembilang 45800 Jeram	Industrial land Factory	1/1/2011 *	– 19 yrs	94,895 sq.ft	Freehold	– Factory	1,300 2,296
HSM 3930 PT 5708 (a) (formerly Lot 2796)	Industrial land Factory	1/1/2011 *	– 15 yrs	213,916 sq.ft	Freehold	– Factory	4,224 4,037
(b) (formerly Lot 1365) Jln Sungai Sembilang 45800 Jeram	Industrial land Factory/Office Factory	1/1/2011 *	– 19 yrs 10 yrs	217,800 sq.ft	Freehold	– Factory/ Office Factory	1,114 6,042 4,140
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	24 yrs	174 sq.mtr	Freehold	Hostel	185
HS (M) 1168 PT 476 Batu 15 1/4 Jalan Kapar Mukim Jeram	Industrial land Staff quarters	27/2/2003	– 14 yrs	5,527 sq.mtr	Freehold	– Staff quarters	355 120
HSM 4378 PT 7355 (formerly Lot 6134 and 6135) Batu 16 Jalan Kapar, Jeram	Industrial land Factory	1/1/2011 *	– 7 yrs	20,357 sq.mtr	Freehold	– Factory	2,457 6,902
Geran 244725 Lot 12262 (formerly Geran 40417 Lot 4761) Mukim Jeram, Kuala Selangor	Industrial land Factory	19/5/2004	– 13 yrs	2.969 hectares	Freehold	– Factory	1,148 2,623

List of Properties (Cont'd)

as at 31 December 2017

Location	Description	Date of Acquisition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2017 RM '000
Geran 125449 Lot 6129 5 1/4 Mile,Jln Hj Abdul Manan, Jln Meru 41050 Klang	Industrial land Factory	1/1/2011 *	– 11 yrs	37,411 sq.mtr	Freehold	– Factory/ Office	10,229 19,927
Geran 173931 Lot 63617 (formerly HSD 116842 PT 54925) Mukim Kapar Daerah Klang	Industrial land Factory Extension of buildings	1/1/2011 *	– 4 yrs 3 yrs	4.355 hectares	Freehold	– Factory Factory	6,570 27,736 1,158
Geran 173929 Lot 63616 (formerly HSD 116841 PT 54924) Mukim Kapar Daerah Klang	Industrial land Factory/Office Plant A Plant B Plant C	1/1/2011 *	– 7 yrs 6 yr n/a	4.544 hectares	Freehold	– Factory and office Under construction	6,800 16,021 6,229 4,106
Geran 128405 Lot 24077 (formerly Lot PT 13726) Jln Meru 41050 Klang	Industrial land Factory	1/1/2011 *	– 10 yrs	21,805 sq.mtr	Freehold	– Factory/ Office	5,900 19,473
HSM 43179 PT 71276 (formerly GM 1724 & 1725 Lot 5068 & 5069) Jalan Meru 41050 Klang	Industrial land Factory	9/11/2010	– 5 yrs	21,105 sq.mtr	Freehold	– Factory/ Office	10,404 17,462
Geran 45715 Lot 6130 Jln Meru 41050 Klang	Industrial land Factory	1/1/2011 *	– 9 yrs	4.0519 hectares	Freehold	– Factory	15,603 30,563
HSM 4233 PT 7201 (formerly Lot 1367) Jalan Kapar Mukim Jeram	Vacant agriculture land	21/7/2009	n/a	0.8043 hectares	Freehold	Vacant	836
GRN 52936 Lot 6104; GRN 52937 Lot 6106; GRN 52939 Lot 6108 Mukim Kapar	Industrial land Factory	10/6/2013	n/a n/a	12.766 acres	Freehold	Vacant Under Construction	21,506 7,189
5100 E. 2nd Street Benecia CA 94510 United States of America	Industrial land and warehouse	31/5/2012	18 yrs	4.15 acres	Freehold	Warehouse and office	13,400
HSD 116993 Lot 55083 No 3 Jalan Korporat Mukim Kapar	Factory & hostel constructed on rented property	1/1/2014	4 yrs	12,000 sq.ft	Rental	Factory and hostel	1,289

List of Properties (Cont'd)
as at 31 December 2017

Location	Description	Date of Acquisition/ Valuation*	Age of Building	Land Area	Tenure	Existing Use	Net Book Value 2017 RM '000
Geran 45732 Lot 6075, Mukim Kapar Daerah Klang.	Vacant land Factory	2/12/2013	n/a n/a	10 acres (3.7492 hectares)	Freehold	Vacant Under Construction	20,191 34,229
HSD 283117 PT 7414 Mukim Bestari Jaya Daerah Kuala Selangor	Vacant land Factory	18/3/2014	n/a n/a	56 acres (226,620 sq.mtr)	Freehold	Vacant Under Construction	36,588 5,813
LOT 54933 Mukim Kapar Daerah Klang	Hostel under Construction		n/a	69,770 sq.ft	Rental	Hostel	6,472
Geran 52935 Lot 6103 Mukim Kapar Daerah Klang.	Industrial land Factory	12/12/2014	n/a n/a	5.3292 hectares	Freehold	Vacant Under Construction	40,349 1,303
Geran Mukim 3334 Lot 779, Mukim Kapar Daerah Klang.	Vacant land Factory and office	22/6/2015	n/a 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	Commercial land	5/2/2016	n/a	2.5 acres	Freehold	Vacant	42,638
4-10 Jalan Rantau Panjang KU/4, Rantau Panjang, 42100 Klang.	Apartment	7/10/2015	17 yrs	830 sq.mtr	Freehold	Hostel - FW	110
Geran HS (D) 7768 PT 7836 Mukim Kapar, Lot 7836, Jalan Haji Abdul Manan, Off Jalan Meru	Industrial land Factory and office	9/5/2016	– 2 yrs	9,822.5257 sq.mtr	Freehold	R & D center Under Construction	14,466 5,686
PT 41538 Mukim Tanjung Dua Belas, Daerah Kuala Langat.	Vacant land	30/8/2017	n/a	396,336 sq.mtr	Freehold	Vacant	98,115
							617,746
Investment Properties							
J1, Utama Modern Industri Blok AH No.2, Sukatani, Serang Indonesia	Industrial land	22/3/2013	n/a	22,000 sq.mtr	Freehold	Vacant	5,223
							622,969

ADDITIONAL COMPLIANCE INFORMATION

A. Executive Share Option Scheme (ESOS)

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

B. Utilization Of Proceeds

The Company did not implement any fund raising exercise.

C. Share Buy-Back

The shareholders of the Company approved the renewal of the Share Buy-Back Scheme at the 37th Annual General Meeting held on 23 May 2017.

During the financial year ended 31 December 2017, the Company did not buy back any shares. The Company also did not hold any Treasury Shares.

D. Options, Warrants or Convertible Securities Exercised

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

E. American Depository Receipt ("ADR") Or Global Depository Receipt ("GDR")

The Company did not sponsor any ADR or GDR program.

F. Conflict Of Interest

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

G. Material Contracts

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

H. Sanctions And / Or Penalties

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

I. Audit Fees and Non-audit Fees

During the financial year ended 31 December 2017, the amount of audit fees and non-audit fees paid or payable to the external auditors of the Company and the Group are as follows:

	Group (RM)	Company (RM)
Audit fess	362,200	82,500
Non-audit fess	8,400	8,400

Additional Compliance Information (Cont'd)

J. Variation In Results

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

K. Profit Guarantee

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

L. Revaluation Policy

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

STATISTICS ON SHAREHOLDINGS

as at 15 March 2018

ANALYSIS OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	92	2.49	1,596	0.00
100 - 1,000	909	24.63	608,085	0.10
1,001 - 10,000	1,584	42.93	6,950,268	1.09
10,001 - 100,000	847	22.95	26,615,562	4.16
100,001 to less than 5% of issued shares	255	6.92	261,614,013	40.91
5% and above of issued shares	3	0.08	343,678,380	53.74
Total	**3,690**	**100.00**	**639,467,904**	**100.00**

DIRECTORS' SHAREHOLDINGS

		No. of Shares	
No.	Name of Directors	Direct Interest	%
1	Tan Sri Dato' Lim Kuang Sia - Cimsec Nominees (Tempatan) Sdn Bhd CIMB for Lim Kuang Sia (PB)	763,776	0.12
2	Lim Leng Bung	–	0.00
3	Tan Kong Chang	–	0.00
4	Lim Siau Tian	–	0.00
5	Lim Siau Hing	–	0.00
6	Lim Ooi Chow	–	0.00
7	Lee Choo Hock	–	0.00
8	Mohamed Shafeii Bin Abdul Gaffor	–	0.00
9	Hoh Kim Hyan	–	0.00

Statistics on Shareholdings (Cont'd)

SUBSTANTIAL SHAREHOLDERS

No.	Name of Substantial Shareholders		No. of Shares	%
1	Kossan Holdings (M) Sdn Bhd		326,512,480	51.06
	- Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Kossan Holdings (M) Sdn Bhd	*40,000,000*		
	- Amsec Nominees (Tempatan) Sdn Bhd Pledged Securities Account-AmBank (M) Berhad for Kossan Holdings (M) Sdn Bhd	*16,000,000*		
	- Kossan Holdings (M) Sdn Bhd	*270,512,480*		
2	Employees Provident Fund Board		54,540,700	8.53
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (F TEMPLETON)	*564,800*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (AM INV)	*204,800*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (NOMURA)	*14,695,700*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	*4,981,300*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	*33,165,900*		
	- Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (ASIANISLAMIC)	*928,200*		

30 LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	%
1	KOSSAN HOLDINGS (M) SDN BHD	270,512,480	42.30
2	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD PLEDGED SECURITIES ACCOUNT FOR KOSSAN HOLDINGS (M) SDN BHD (05-00042-000)	40,000,000	6.26
3	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	33,165,900	5.19
4	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	23,977,800	3.75
5	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT - AMBANK (M) BERHAD FOR KOSSAN HOLDINGS (M) SDN BHD	16,000,000	2.50
6	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	14,695,700	2.30
7	TIAN SENN RESOURCES SDN BHD	10,005,000	1.56
8	AMANAHRAYA TRUSTEES BERHAD PUBLIC ITTIKAL SEQUEL FUND	8,391,200	1.31
9	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	7,000,000	1.09
10	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SECTOR SELECT FUND	6,525,000	1.02
11	CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	6,026,200	0.94

Statistics on Shareholdings (Cont'd)

30 LARGEST SHAREHOLDERS (CONTINUED)

No.	Name of Shareholders	No. of Shares	%
12	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)	4,981,300	0.78
13	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT TREASURES FUND	4,680,100	0.73
14	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC OPPORTUNITIES FUND	4,576,200	0.72
15	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100)	4,312,100	0.67
16	HSBC NOMINEES (ASING) SDN BHD BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	4,222,300	0.66
17	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	4,089,700	0.64
18	AMSEC NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)	4,053,300	0.63
19	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT - AMBANK (M) BERHAD FOR RUBY TECHNIQUE SDN BHD	3,967,000	0.62
20	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	3,812,400	0.60
21	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	3,372,900	0.53
22	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (CIMB EQUITIES)	3,360,500	0.53
23	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK	3,138,100	0.49
24	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC TREASURES GROWTH FUND	3,078,500	0.48
25	PERTUBUHAN KESELAMATAN SOSIAL	2,977,000	0.47
26	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AIA BHD	2,937,200	0.46
27	DB (MALAYSIA) NOMINEE (TEMPATAN) SDN BHD EATSPRING INVESTMENTS ISLAMIC SMALL-CAP FUND	2,925,500	0.46
28	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	2,884,200	0.45
29	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 9)	2,797,635	0.44
30	AMANAHRAYA TRUSTEES BERHAD PUBLIC DIVIDEND SELECT FUND	2,457,600	0.38

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty Eighth (38th) 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 Tuesday, 22 May 2018 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 2017 together with the Reports of the Directors and the Auditors thereon.

2. To approve payment of a final tax exempt dividend of 6.0 sen per ordinary share for the financial year ended 31 December 2017. ***(Ordinary Resolution 1)***

3. To approve the payment of Directors' fees of RM285,000.00 for the financial year ended 31 December 2017. (2016: RM255,000.00) ***(Ordinary Resolution 2)***

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

   (i) Tan Sri Dato' Lim Kuang Sia ***(Ordinary Resolution 3)***

   (ii) Lim Ooi Chow ***(Ordinary Resolution 4)***

   (iii) Tan Kong Chang ***(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."

Notice of Annual General Meeting (Cont'd)

7. Proposed Renewal Of And New 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 and new 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 And New Shareholders' Mandate"), 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 2018.

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 And New Shareholders' Mandate."

Notice of Annual General Meeting (Cont'd)

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

NOTICE OF DIVIDEND PAYMENT

NOTICE IS ALSO HEREBY GIVEN that the final tax exempt dividend of 6.0 sen per ordinary share each in respect of the financial year ended 31 December 2017, if approved by members at the Annual General Meeting to be held on Tuesday, 22 May 2018, will be paid on 3 July 2018. The entitlement date for the dividend will be 6 June 2018.

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 6 June 2018 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 2018

Notice of Annual General Meeting (Cont'd)

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 16 May 2018 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, 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 38th AGM on Resolution 2 on payment of directors' fees for the preceding year 2017. None of the non-executive directors received any benefits in 2017.

3.2 Any NED who are shareholders of the Company will abstain from voting on Resolution 2 concerning the remuneration to NED.

Notice of Annual General Meeting (Cont'd)

4. Ordinary Resolutions 3 to 5: Re-election of Directors who retire in accordance with Article 108 of the Company's Articles of Association.

4.1 Article 108 of the Articles of Association 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 Articles of Association.

a) For the purpose of determining the eligibility of the Director to stand for re-election at the 38th 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 ("SPA") and results of the Board Effectiveness Evaluation ("BEE") for 2017;

(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 22 February 2018 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 2017 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 2018 approved the AC's recommendation for the shareholders' approval to be sought at the 38th AGM on the appointment of KPMG PLT as external auditors of the Company for the FY 2018 under Resolution 6.

Notice of Annual General Meeting (Cont'd)

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 and new 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 and new 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 2018 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 2018.

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 2018, which is despatched together with the Company's 2017 Annual Report.

Notice of Annual General Meeting (Cont'd)

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.

KOSSAN RUBBER INDUSTRIES BHD.
Company No. 48166-W
(Incorporated in Malaysia)

STRETCHING LIMITS • SINCE 1979

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 Eighth (38th) 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 Tuesday, 22 May 2018 at 10.30 a.m. and at any adjournment thereof, in the manner indicates below:

Agenda		First Proxy A For	First Proxy A Against	Second Proxy B For	Second Proxy B Against
AS ORDINARY BUSINESS:					
Ordinary Resolution 1	To approve final tax exempt dividend.				
Ordinary Resolution 2	To approve Directors' fees of RM285,000.00 for the financial year ending 31 December 2017.				
Ordinary Resolution 3	To re-elect Tan Sri Dato' Lim Kuang Sia retiring pursuant to Article 108 of the Company's Articles of Association.				
Ordinary Resolution 4	To re-elect Lim Ooi Chow retiring pursuant to Article 108 of the Company's Articles of Association.				
Ordinary Resolution 5	To re-elect Tan Kong Chang retiring pursuant to Article 108 of the Company's Articles of Association.				
Ordinary Resolution 6	To re-appoint Messrs. KPMG PLT as Auditors of the Company and to authorize the Directors to fix their remuneration.				
AS SPECIAL BUSINESS					
Ordinary Resolution 7	Proposed authority to allot shares pursuant to section 75 of the Companies Act 2016.				
Ordinary Resolution 8	Proposed renewal of and new shareholders' mandate for recurrent related party transactions of a revenue or trading nature:				
Ordinary Resolution 9	Proposed renewal of mandate for share buy-back.				

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 _____________ 2018.

____
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 16 May 2018 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, 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.
c/o 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

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www.kossan.com.my

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

Wisma Kossan, Lot 782 Jalan Sungai Putus
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Selangor Darul Ehsan, Malaysia.
Tel: 603 3291 2657
Fax: 603 3291 2903
email: kossan@kossan.com.my