

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors (“Board”) of Kossan Rubber Industries Bhd is committed and will continue to endeavor to comply with the principles and recommendations set out in the Malaysia Code of Corporate Governance 2012 (“Code”). The Board will regularly review and maintain all identifiable means to ensure the Company’s corporate governance standards meet the requirements of the Code. This practice will ensure / assure continuous and sustainable growth of the Group for the interest of all stakeholders.

The Board is pleased to provide the following statement, which outlined how the Group had applied the principles and recommendations of the Code that were in place throughout the financial year ended 31 December 2016.

(A) PRINCIPLE 1: ESTABLISH CLEAR ROLE AND RESPONSIBILITIES

Board composition and balance

The Board currently has nine (9) members, comprising six (6) executive directors and three (3) independent non-executive directors. This composition meets the requirements of the Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) which stipulate that at least two (2) directors or one third of the Board, whichever is higher, must be independent.

The Directors, with their different backgrounds, specialisations, qualifications and experiences, bring with them a wide range of knowledge and expertise, particularly in the fields of accountancy, banking, business, marketing, chemical engineering and administration 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 19 of the Annual Report.

The current Board composition also broadly balances and reflects the interest of the major shareholders, management and minority shareholders.

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

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

The Chairman is primarily responsible for the leadership of the Board and ensures Board effectiveness and to facilitate constructive deliberations during Board meetings. He has authority over the agenda of each Board meeting, ensures all Board members are provided with the relevant information on a timely basis on matters to be deliberated at meetings and regulates the conduct at the meetings.

The Chief Executive Officer has overall responsibility for the Group’s business operations, organizational effectiveness and the implementation of Board’s policies and decisions.

Mr. Lee Choo Hock has been identified as the Senior Independent Non-Executive Director of the Board to which concern relating to the affairs of the Group may be conveyed.

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 and the management to ensure accountability. The Board charter will be subject to annual review by the Board to ensure it remains consistent with the Board’s objectives and responsibilities.

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(A) PRINCIPLE 1: ESTABLISH CLEAR ROLE AND RESPONSIBILITIES (CONT'D)

Roles and Responsibilities of the Board (Cont'd)

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

- review and adopt strategic plans and 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 minimize the risks;
- establish succession planning to ensure sustainability;
- establish, implement and monitor communications with shareholders; and
- review the adequacy of the internal control system and management information system.

Directors' Code of Conduct/Ethics

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

Corporate's strategy to promote sustainability

The Board in formulating its Sustainability Statement has taken cognisance of the impact of the Group's businesses on the environment, the community and stakeholders.

Supply of Information

All Directors have unrestricted and timely access to all information concerning the Company's 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 the meetings to enable them to seek clarification and/or explanation, where necessary, to expedite the decision making process.

The Board is supported by a qualified, experienced and competent Company Secretary, who is a member of a professional body. The Company Secretary plays an advisory role to the Board in relation to the Company's constitution and advises and updates the Board on new statutory and regulatory requirements.

All Directors have access to the advice and services of the Company Secretary and senior management staff in the Group. They may also obtain independent professional advices at the Company's expense in furtherance of their duties.

Board Meeting

The Board meets at least five (5) times a year at quarterly intervals with additional meetings convene as necessary. During the financial year ended 31 December 2016, six (6) Board Meetings were held and the attendance of the Directors at the Board Meetings were as follows:

Details of Board Meetings

Date of meeting	Time
23.02.2016	4.00 pm
23.03.2016	11.30 am
24.05.2016	3.45 pm
23.08.2016	4.00 pm
22.11.2016	4.00 pm
06.12.2016	4.00 pm

All the meetings were held at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3³/₄, Jalan Kapar, 42100 Klang, Selangor Darul Ehsan.

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(A) PRINCIPLE 1: ESTABLISH CLEAR ROLE AND RESPONSIBILITIES (CONT'D)

Details of Board Meetings (Cont'd)

Director	No. of meeting attended
Dato' Haji Mokhtar Bin Haji Samad	6/6
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
Tong Siew Choo	6/6
Lee Choo Hock	6/6

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.

(B) PRINCIPLE 2: STRENGTHEN COMPOSITION

1. Nominating Committee

The Nominating Committee of the Company as at 31 December 2016 comprises exclusively of Independent Non-Executive Directors as follows:

Dato' Haji Mokhtar Bin Haji Samad - Chairman
Tong Siew Choo
Lee Choo Hock

The Nominating Committee meets as and when required and at least once a year. The Committee met once in the financial year ended 31 December 2016.

The Committee'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 candidates for Board/ Committee membership. Factors taken into consideration will include the required mix of skills, knowledge, expertise, experience, professionalism and integrity.

The Committee also assesses on an annual basis the effectiveness of the Board as a whole, the Board committees and the individual contributions of each Director. All assessments and evaluations carried out are properly documented.

For the financial year ended 31 December 2016, 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 took note of the recommendation on boardroom diversity and will endeavor to comply should the right candidate with the required skills, knowledge and experience is available. Appointment based on merit and contributions would benefit the Company. The Company currently has one female director.

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(B) PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

1. Nominating Committee (Cont'd)

Re-elections of Directors

The Committee also conduct an assessment of the Directors who are subject to retirement at the forthcoming annual general meeting ("AGM") in accordance with the Articles of Association of the Company and the relevant provision of the Companies Act, 2016.

The Company's Articles provide that a Director appointed during the year is required to retire and seek re-election at the following AGM immediately after his appointment. The Articles also provide for one third of the Board, including the Managing Director, to retire by rotation and to seek re-election at every AGM, such that each Director should submit for re-election once in every three years.

2. Remuneration Committee

The Remuneration Committee of the Company comprises a majority of independent non-executive Directors. Its composition as at 31 December 2016 is as follows:

Dato' Haji Mokhtar Bin Haji Samad - Chairman/Independent Non-Executive
 Tong Siew Choo - Independent Non-Executive
 Dato' Lim Kuang Sia - Chief Executive Officer and Managing Director / Executive

The Committee is responsible for reviewing the policy and making recommendations to the Board on the remuneration package and terms of employment of Executive Directors. The determination of the remuneration for the Non-Executive Directors will be decided by the Board as a whole, with the Director concerned abstaining from deliberations and voting in respect of his individual remuneration package.

The fees payable to the Non-Executive Directors will be recommended by the Board for approval of shareholders at the AGM.

Details of the 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 2016 are as follows:

Company	Fees	Benefit in kind	Salaries & other emoluments	Total
Executive	-	15,500	5,729,525	5,745,025
Non-Executive	255,000	-	-	255,000
Total	255,000	15,500	5,729,525	6,000,025

Group	Fees	Benefit in kind	Salaries & other emoluments	Total
Executive	-	144,900	10,779,330	10,924,230
Non-Executive	255,000	-	-	255,000
Total	255,000	144,900	10,779,330	11,179,230

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(B) PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2. Remuneration Committee (Cont'd)

Details of the Directors' Remuneration (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	Company		Group	
	Number of Director		Number of Director	
	Executive	Non Executive	Executive	Non Executive
RM50,001 - RM100,000	0	3	0	3
RM200,001 - RM250,000	1	0	0	0
RM600,001 - RM650,000	0	0	1	0
RM800,001 - RM850,000	0	0	1	0
RM1,150,001 - RM1,200,000	0	0	2	0
RM1,500,001 - RM1,550,000	0	0	1	0
RM5,450,001 - RM5,500,000	1	0	1	0
	2	3	6	3

(C) PRINCIPLE 3: REINFORCE INDEPENDENCE

Assessment of Independent Directors

The Board recognises the importance of independence and objectivity in its decision making process. The presence of the Independent Directors is essential to ensure unbiased and impartial opinion, advice and judgment are taken into account in arriving at decisions that may have impact on the Group, its shareholders, employees, customers and the communities in which the Group conducts its business.

The Board, through the Nominating Committee, assesses the independence of its Independent Non-Executive Directors on an annual basis based on the criteria used in the definition of "Independent Directors" as prescribed in the MMLR.

Based on the assessment, the current three (3) Independent Non-Executive Directors have fulfilled the criteria of "Independence" and remain objective and independent.

Tenure of Independent Directors

The Company does not have term limits for all its Directors, including the Independent Directors. The Board believes that as long as the Independent Directors can continue to contribute positively towards the Company, their tenure may be retained.

The Nominating Committee takes cognizance of

- Recommendation 3.2 of the Code - An independent director completing nine (9) years of services may be retained but reclassified as non independent;
- Recommendation 3.3 of the Code - An independent director who has served nine (9) years of services may be retained as independent director if the Board can provide justification and obtain shareholders' approval at the AGM.

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(D) PRINCIPLE 4: FOSTER COMMITMENTS

Recommendation 4.1 of the Code recommends the Board to set out expectation on time commitment for its members and protocol for accepting new directorship.

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.

Directors' Training

All the Directors including the two (2) new independent non-executive directors appointed in 2017, had attended the Mandatory Accreditation Programme (MAP) prescribed by Bursa Malaysia Securities Berhad.

The Directors should continually attend seminars/courses to keep themselves abreast with the latest economic and corporate development, new regulations and statutory requirements.

Directors are encouraged to evaluate their own training needs to best enable them to enhance their knowledge and contribution to the Board.

The Board is also updated by the Company Secretary on the latest updates/amendments to the MMLR and other regulatory requirements relating to the discharge of their duties and responsibilities.

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(D) PRINCIPLE 4: FOSTER COMMITMENTS (CONT'D)

During the financial year, the Directors had attended the following programs:

Director		Program/Courses/ Forums/Training		Date
1.	Dato' Lim Kuang Sia	(i)	SERC Global Economic Conference 2016	30.05.2016
		(ii)	OCBC Global Treasury Economic & Business Forum 2016	14.07.2016
		(iii)	Rabobank Financial Outlook 2017	05.09.2016
		(iv)	8th International Rubber Glove Conference and Exhibition (2016)	6-8.09.2016
2.	Tan Kong Chang		Corporate Governance Breakfast Series	
		(i)	Thought Leadership Session for Directors-Improving Board Risk Oversight Effectiveness	26.02.2016
		(ii)	The Strategy, the Leadership, the Stakeholders and the Board	06.05.2016
3.	Lee Choo Hock	(i)	HSBC/HSBCAMANA	
			- Economic & FX Outlook 2016	19.01.2016
			- Financial Crime Risk	29.04.2016
			- Board Offsite	31.05.2016
(ii)	FIDE			
	- Effective Board Evaluation	25.07.2016		
	- Fin Tech: Business Opportunity or Disruptor	04.08.2016		
(iii)	WORLD BANK and BNM			
	- Global Symposium on Innovative Financial Inclusion	21-22.09.2016		
(iv)	ICLIF			
	- Leadership Energy Summit Asia (LESA) 2016	8-9.11.2016		
4.	Lim Siau Hing	(i)	Comprehending Financial Statements For Directors and Senior Management	11.10.2016
		(ii)	Senior Management Development Program-Certified Toyota Production System (TPS) Manager Professional, Nagoya Japan	7-10.11.2016
5.	Lim Ooi Chow		Corporate Governance Breakfast Series	
		(i)	The Strategy, the Leadership, the Stakeholders and the Board	06.05.2016
		(ii)	The Malaysian Rubber Board-National Rubber Economic Conference (NREC)	27-28.09.2016
6.	Lim Siau Tian	(i)	SERC Global Economic Conference 2016	30.05.2016
		(ii)	8th International Rubber Glove Conference and Exhibition (2016)	6-8.09.2016
		(iii)	Halal Industry Awareness Program	15.09.2016

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(E) PRINCIPLE 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING

(i) Financial Reporting

In presenting the annual audited financial statements to the shareholders, the Board takes responsibility to present a balanced and meaningful assessment of the Group's financial performance and prospects and ensures that the financial statements reviewed and recommended by the Audit Committee for the Board's approval are prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Financial Reporting Standards so as to present a true and fair view of the state of affairs of the Group.

A statement by the Directors of their responsibilities in the preparation of financial statements is set out below:

(ii) Statement of Directors' Responsibility in respect of the Financial Statements

The Companies Act, 2016 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group at the end of that financial year and of the result and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:-

- (a) select appropriate accounting policies and apply them consistently;
- (b) state whether applicable financial reporting standards have been followed, subject to any material departures being disclosed and explained in the financial statements;
- (c) make judgements and estimates that are reasonable and prudent; and
- (d) prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with accuracy the financial position of the Company and of the Group and which will enable them to ensure that the financial statements comply with the Companies Act, 1965. The Directors are also responsible for safeguarding the assets of the Group and are required to take reasonable steps for the prevention and detection of fraud and other irregularities.

(iii) Relationship with the auditors

Through the Audit Committee, the Company has established an active, transparent and professional relationship with the Group's auditors, both internal and external in seeking professional advice and ensuring compliance with the relevant accounting standards. From time to time, the auditors highlight to the Audit Committee and the Board on matters that require the Board's attention, including the latest amendments to the Malaysian Financial Reporting Standards and their implementations thereof.

In addition, the external auditors were invited to attend the Company's Annual General Meeting ("AGM") in order to address clarifications pertaining to the Audited Financial Statements sought by shareholders.

The Audit Committee is responsible for the annual assessment of the competency and independence of the external auditors. Having assessed their performance and independence, the Audit Committee 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 Audit Committee 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 Audit Committee of the Company.

The Audit Committee 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 2016 was RM208,000.

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(F) PRINCIPLE 6: RECOGNISE AND MANAGE RISKS

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 are required to ensure that an effective system of internal control, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations as well as with internal procedures and guidelines is in place within the Group.

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

To assist the Board in maintaining a sound system of internal control for the purposes of safeguarding shareholders' investment and the Company's assets, the Group has in place an internal audit department. The activities of this department are reported regularly to the Audit Committee and provides the Board with much of the assurance it requires regarding the adequacy and integrity of the system of internal control. As proper risk management is a significant component of a sound system of internal control, the Group has also put in place a risk management process to help the Board in identifying, evaluating and managing risks. The implementation and maintenance of the risk management process is carried out by the Risk Management Committee of the Group.

A Statement on Risk Management and Internal Control of the Group which provides an overview of the state of internal controls within the Group is set out on pages 44 to 47 of the Annual Report.

(G) PRINCIPLE 7: ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

The Board will ensure that it adheres to and complies 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 of the Group. Alternatively, they may obtain the Company's latest announcements via the website of Bursa Malaysia Securities Berhad at www.bursamalaysia.com.

(H) PRINCIPLE 8: STRENGTHEN RELATIONSHIPS BETWEEN COMPANY AND SHAREHOLDERS

The Company's Annual General Meeting ("AGM") remains the principal forum for dialogue with private and institutional shareholders and aims to provide 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 included 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 will implement poll voting on all resolutions tabled at general meetings.

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(H) PRINCIPLE 8: STRENGTHEN RELATIONSHIPS BETWEEN COMPANY AND SHAREHOLDERS (CONT'D)

Dialogue between the Company and shareholders

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

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

COMPLIANCE WITH THE CODE

The Board is satisfied that the Company has, in all material aspects, complied with the principles and recommendations of the Code that were in place during the financial year ended 31 December 2016.

This Statement is made in accordance with the resolution of the Board of Directors dated 13 April 2017.

Mohamed Shafeii Bin Abdul Gaffoor
Chairman

Dato' Lim Kuang Sia
Managing Director and Chief Executive Officer

OTHER INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS

During the financial year under review

(a) Executive Share Option Scheme (ESOS)

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

(b) Utilization Of Proceeds

The Company did not implement any fund raising exercise.

(c) Share Buy-Back

The shareholders of the Company approved the renewal of the Share Buy-Back Scheme at the 36th Annual General Meeting held on 19 May 2016.

During the financial year ended 31 December 2016, the Company did not buy back any shares. The Company also did not hold any Treasury Shares.

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OTHER INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS (CONT'D)

During the financial year under review (Cont'd)

(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 2016, 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	332,200	78,600
Non-audit fess	208,000	202,000

The non-audit fess were paid for consultancy services rendered on risk management and sustainability reporting.

(j) Variation In Results

There was no material variance between the results 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.