

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 MCGG.

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 <i>(retired on 23.1.2017)</i>	1/1
Tong Siew Choo <i>(retired on 23.1.2017)</i>	1/1
Mohamed Shafeii Bin Abdul Gaffoor <i>(appointed on 23.1.2017)</i>	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 <i>(appointed on 23.1.2017)</i>	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 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.

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.