

KHIND
Delivering Happiness

KHIND

annual report

laporan tahunan

2013

Khind 3.0
we deliver happiness

KHIND
Delivering Happiness

KHIND HOLDINGS BERHAD (380310-D)

laporan tahunan - annual report
2013

RATIONALE

“Khind 3.0 - We Deliver Happiness” represents this year’s cover. This design was selected to reflect Khind Holdings Berhad’s new Vision and Values. It also includes the Company’s refreshed and newly-introduced corporate and brand logo that showcases Khind’s move to appeal to a younger and more technologically-savvy consumer in the 21st Century.

Delivering Happiness to Stakeholders

Shareholders

Good returns from investment, share price appreciation, good dividend, good growth - sales and profitability.

Employees

Remuneration package, welfare, work-life balance, growth potential, learning, meaningful work, pride, conducive work environment, job security.

Customers

Profit from Khind products. Value for money, good quality products and services. Green products, energy efficiency.

Suppliers

Growth, win-win partnership.

Community

Care for community, animal and planet. Financial support and active participation in community work.

Company

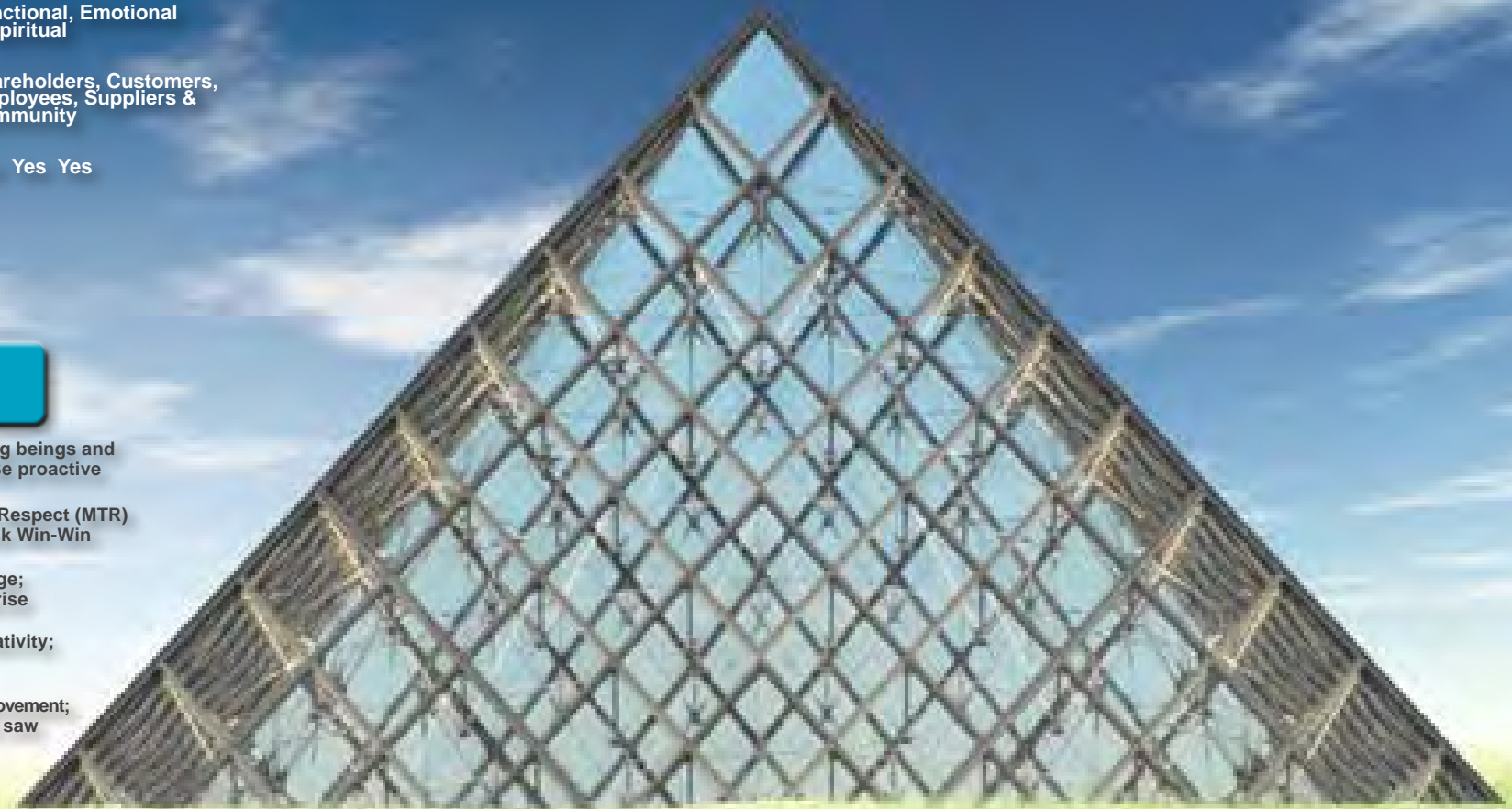
Growth in sales, profitability and market share, healthy cash flow, competitiveness, branding, excellent HR performance and practices, excellent quality products and services, strong customer base, respectable organisation and market relationship.

A Natural Evolution

| | Khind 1.0 Product-centric | Khind 2.0 Consumer-oriented | Khind 3.0 Value-driven |
|-----------------------|------------------------------|--|---|
| YEAR | 1961 - 1991 | 1992 - 2012 | 2013 onwards |
| PHASE | Traditional | Professional | Deliver Happiness |
| OBJECTIVE | Sell Products | Satisfy & Retain the Customers | Make the World a Better Place |
| ENABLING FORCES | Industrial Capability | Information Technology Professionalism | New Wave Technology |
| KEY MARKETING CONCEPT | Product Development | Differentiation | Values |
| VALUE PROPOSITIONS | Functional | Functional & Emotional | Functional, Emotional & Spiritual |
| MAIN BENEFICIARIES | Shareholders | Shareholders, Customers & Employees | Shareholders, Customers, Employees, Suppliers & Community |
| WORK LIFE BALANCE | No | Yes | Yes Yes Yes |

Our Core Values

| | What | Why | How |
|-------------|------------------------------------|-----------------------------|--|
| KINDNESS | We do good | The foundation of happiness | Helping all living beings and Mother Earth; Be proactive |
| HARMONY | We work together happily | Unity is strength | Mutual Trust & Respect (MTR) Synergize; Think Win-Win |
| INTERESTING | Wow!!! | Feel good | Dare to challenge; Have fun; Surprise |
| NOVELTY | We do different things differently | To stay ahead | Innovation; Creativity; Originality |
| DEVELOPMENT | We better ourselves | For a better life | Continuous improvement; Sharpening the saw |





HOUSE OF KHIND 3.0

KINDNESS
We do good

HARMONY
We work together happily

INTERESTING
Wow

NOVELTY
We do different things differently

DEVELOPMENT
We better ourselves

QUALITY



YOK JAKARTA OCTOBER 2013





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Chairman and Group Chief Executive Officer's Joint Statement

Dear Shareholders,

We are pleased to present this year's Annual Report to shareholders. 2013 has certainly been a commendable year for your Company and its subsidiaries. It also marked the year in which the entire Khind Group evolved to better reflect the changing needs and desires of various stakeholders at large.

The Khind Group underwent both a physical and self-introspectively driven change in the shape of a new Vision of "We Deliver Happiness" to all its stakeholders; and the roll-out of a new Khind Corporate Logo that reflected the Group's understanding that the imminent 21st Century customer would be looking to do business with a Company that understood the needs of a more technologically-savvy society.

Malaysia continues to move ahead

Despite the various global economic and political challenges in 2013, Malaysia continued to press forward with growth, albeit at a moderated level. For the year, the Malaysian economy turned in a 4.7 per cent growth versus 5.1 per cent in 2012, while the headline consumer price index ("CPI") hit around 107.47 points, marginally higher than in 2012 due to the increase in the fuel bill and food costs.

Against this moderated growth backdrop, your Company and its subsidiaries turned in a noteworthy performance.

Khind 3.0 - A Natural Evolution

During the year, your Company embarked on a worthy and much needed self-introspective exercise to define where it wanted to be in the 21st Century and beyond. With an ever growing audience of technologically-savvy consumers and users around the globe, there was a need for Khind to re-visit its core vision and mission. Over the last 53 years of Khind's development, one constant remained - change.

During its initial first two (2) decades of growth, your Company was focused on providing sustenance to its founders and scions. This was generally known as Khind 1.0. Subsequently, the next three decades represented the fruitful years of success or better identified as Khind 2.0.

As your Company arrived to maturity after five (5) decades of success and challenges, it was timely to reinvigorate what the Company stood for going into the new century.

This resulted in "Khind 3.0 - We Deliver Happiness" being launched in 2013.

A simple mantra, yet one that was meaningful and resonated with the very core values that your Company wanted to deliver to all stakeholders.

Khind 3.0 was rolled out to address a changing business landscape that took into consideration the needs and wants of a new generation of audiences that wanted to see a more responsive, responsible and resolute company

that could bring a little ray of happiness to their lives. And in so doing, "We Deliver Happiness" - is the Company's new vision going forward. This new vision will be firmly supported by the core foundation of Quality and five core values of: Kindness, Harmony, Interesting, Novelty and Development - depicted by its acronym of K.H.I.N.D.

With a new vision, mission and core values, your Company also embarked on a journey to freshen up its corporate logo. The decision to do this was mainly two-fold - one, to better reflect your Company's new vision and mission; and secondly, to appeal to an increasingly younger generation of customers. Your Board believes that this new corporate identity will help Khind propel ahead to capture a new group of younger customers. The Company is committed and excited to move forward with delivering happiness supported by an iconic logo.

2013 - Delivering Financial Happiness

Your Company turned in a revenue of RM325.0 million for the year ended December 31, 2013 - representing a 12.6 per cent increase over the previous year of RM288.6 million. Profit before tax came in at RM20.1 million, a 50 per cent increase over the previous year of RM13.4 million.

Domestic sales contributed approximately 58 per cent to revenue, while the remaining 42 per cent from international contributions. The Group's Consumer business continued to spearhead sales with 86 per cent, with the Industrial products side turning in the remaining 14 per cent.

The better profit before tax performance was also attributed to a one-off gain on disposal of properties for RM4.2 million.

Better turnaround performance by subsidiary Khind Alliances Sdn Bhd helped bring in higher sales as this subsidiary was able to reorganize its product mix, specifically its "Honeywell" range of air cooling products that attracted more Malaysian consumers.

Given the macro-economic and socio-political changes during the year, overall your Company and its subsidiaries still managed to return a positive performance and managed to declare a total Dividend of 10 per cent for the year ended December 31, 2013.

Delivering Happiness Operationally

As your Company and its subsidiaries faced the challenges of 2013, domestically and globally, one important fact remained - having a competent and well-trained team of Khind personnel who were able to deliver happiness to various stakeholders. As such, your Company invested in a series of leadership training programmes that targeted the second echelon within the Company with a view of helping them acquire the right management skills and techniques; adopt best practice behavior at the work place; and enhance greater understanding amongst the different subsidiaries through teamwork.

Called Project WOW - this leadership series was targeted at helping your Company identify, shape and prepare future leaders within the Khind Group so that the business will continue to flourish unabated.

Additionally, the Company invested a large amount of time, effort and resources to improve its overall in-house information technology capabilities across the group, especially in the enterprise resource planning ("ERP") management area. This allowed for better control and planning of resources - resulting in overall operational effectiveness in delivering happiness to employees who were its main users.

Delivering Happiness to consumers around the globe

With the roll-out of "Khind 3.0 - Delivering Happiness" and its new logo - your Company rejuvenated and enthused, firmly set its sights on targeting a growing young population of new users.

The Company increased online marketing efforts through its own website: www.khindonline.com that resulted in a significant jump in sales through this channel.

Since 2013, when this new sales channel actively began online sales, the results have been very encouraging. The Company will certainly look at ways of enhancing this capability even further in the future as it helps complement traditional marketing and sales channels. This will be supported by an increased presence within social networks that are regularly visited and used by younger technology-savvy users who represent the Company's customers of the future.

Overall the Company expended seven (7%) per cent of its total revenue to continue to strengthen its two flagship brands - 'Khind' and 'Mistral' for the domestic market. Various marketing channels such as traditional media advertising; new point-of-sales ("P.O.S") materials; and improved trade promotional measures were carried out. More significantly, a better trade partner reward programme was also rolled-out to incentivize the Company's trade dealers.

In Singapore, through subsidiary Mayer Marketing Pte. Ltd. the Company also appointed a leading television chef and talk show personality Cavin Soh to be Brand Ambassador for the Mistral line of "Naturai" Multi-function Nutrient Machine.

Likewise, during the year, your Company through its subsidiary Khind Middle East FZE in Dubai - spearheaded the establishment of a physical beach-head in North Africa with the opening of a full-fledged marketing office in Algiers, Algeria. Your Company is positive that in time, North Africa will be a positive contributor to sales.

Delivering Happiness to Employees

While your Company is cognizant of the need to deliver healthy financial returns, it recognizes that it cannot do so at the cost of neglecting its employees numbering over 800 men and women who are expected to deliver success consistently.

As such, efforts to improve overall work surroundings for employees were also implemented. At Khind's headquarters in Bukit Jelutong, Shah Alam - additional amenities such as: a yoga area and karaoke room were put in place to further improve its Wellness Centre catering to employees. Similarly, at its manufacturing facility at Sekinchan, improved landscaping and the creation of a mini garden park helped green the environment and provided a more pleasant surrounding for Khind's manufacturing employees.

Throughout Khind's 53 years, the spirit of assisting its employees was ever present. This was no different in 2013. Under the auspices of the Group's Human Resource Department, Khind handed out over 200 sets of school uniforms and bags to employees within the Group.

Regionally, Mayer Marketing Pte. Ltd. and Mistral Singapore Pte. Ltd. also moved to new office premises that allowed better accessibility and facilities. Likewise in Hong Kong, new office premises were also provided for staff. While in the Dubai office, additional recreational amenities were introduced.

For the first time in the Company's annals, over 500 employees from the Khind Group gathered in Jakarta, Indonesia to attend its Annual Company Dinner. With a diverse group of employees from domestic and international operations, this represented a significant moment that allowed fellow Khind staff members to interact and get-to-know one another informally, and creating a platform to open opportunities for better interaction and teamwork.

Your Company understands that a happier work force translates into better productivity and higher levels of motivation. In this regard, delivering happiness to all employees will continue.

Delivering Happiness to the Community

A joint community initiative with SP Setia Berhad, Top Glove Corporation Berhad, Tzu Chi Foundation and Khind titled "Our Environment, Our Health" was held at a leading mall in Shah Alam to help introduce to surrounding communities to healthy living and lifestyle tips. A total of 105 Khind employees participated in this community project.

Your Company also recognised that the less privileged and neglected members of society continued to need help.



Delivering Happiness to the Community (continued)

On-going staff volunteer programmes to bring cheer and assistance to five (5) orphanages and old folks homes in the Klang Valley remained a key feature in the Company's community calendar. Likewise, volunteering at The Kechara Soup Kitchen, a Kuala Lumpur-based soup kitchen to help feed the less fortunate sustained.

On the cultural and arts front, your Company was also one of the sponsors for Dua Space Dance - an award winning Malaysian professional dance troupe for one its performances titled: "Ancient Inscriptions"

At the close of 2013, your Company also arrived at an important milestone when it received approval from the Malaysian Inland Revenue Board ("IRB") to establish a tax-exempt status charitable foundation.

Khind Starfish Foundation - your Company's contribution to being a better corporate citizen took shape under the auspices of its Group Chief Executive Officer ("CEO") Cheng Ping Keat. Recognising that there was a need to "do our part in bringing a little happiness" to the less fortunate, Khind Starfish Foundation was established to manage and coordinate the Khind Group's Malaysian corporate responsibility ("CR") programmes. An official launch of the Foundation and a major CR activity called "Project for Happiness" was launched in March 2014.

Delivering Happiness in 2014

Looking forward, your Company will continue to deliver happiness to the various stakeholders that it has a relationship with. From a financial perspective, 2014 represents another exciting, albeit challenging year ahead. The implementation of a mandatory Malaysian Goods and Services Tax ("GST") will be introduced in the second quarter of 2014. While the new taxation system is expected to generate positive revenues for the Malaysian Government, its implementation effectiveness will be monitored closely by businesses. Your Company has already been readying itself for the eventual introduction of this new tax.

Inflationary pressure is also expected to impact your Company's financial performance. However, Khind will continue to keep a firm eye on rising costs by constantly reviewing and stripping away unwanted costs throughout its entire value chain.

Early indications for 2014 also point to a slightly weaker retail sentiment in the domestic market as more consumers become cautious in their spending. Khind takes note of this fact and will do its best to continue to remind Malaysian consumers that it remains the best choice for delivering affordably-priced and reliable home consumer products through its 'Khind' and 'Mistral' brands.

Internationally, your Company will forge ahead with opening new market opportunities for its consumer and industrial electrical businesses. As more normalcy returns to the

political environment in countries in the Middle East and North Africa, Khind is optimistic that this will also translate into better business conditions.

Gratitude for Happiness

Despite the numerous business and market challenges of 2013, your Company continued to deliver happiness to its ecosystem of diverse stakeholders. Khind is appreciative of their support throughout the year. From its over 800 employees; board members; trade partners; accounting and legal business partners; customers; and various communities - Khind extends its warm appreciation for their constant support.

Your Company looks forward to delivering more happiness in 2014.

CHENG KING FA
CHAIRMAN

CHENG PING KEAT
GROUP CHIEF EXECUTIVE OFFICER ("CEO")

Corporate Structure

KHIND
KHIND HOLDINGS BERHAD (380310-D)





Corporate Information



Registered Office :

Level 18, The Gardens North Tower
Mid Valley City
Lingkar Syed Putra
59200 Kuala Lumpur
Tel: 603-2264 3888
Fax: 603-2282 2733



Website Address :

www.khind.com / www.khind.com.my / www.khind.ae
www.mistral.com.my / www.mistral.com.sg
www.khindalliances.com
www.khind-systems.com/www.relitespecialty.com/www.swisher.com
www.khindelectrical.com.hk / www.khindenergy.com.hk
www.mayer.com.sg / www.mayer.com.bn

Share Registrar :

Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkar Syed Putra
59200 Kuala Lumpur
Tel: 603-2264 3883
Fax: 603-2282 1886

Company Secretaries :

Kuan Hui Fang (MIA 16876)
Wong Wai Foong (MAICSA 7001158)

Stock Exchange Securities :

Main Market of Bursa Malaysia Securities Berhad
Stock Code : 7062

External Auditors :

KPMG Chartered Accountants (AF 0758)

Internal Auditors :

BDO Governance Advisory Sdn Bhd

Principal Bankers:

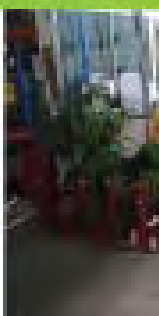
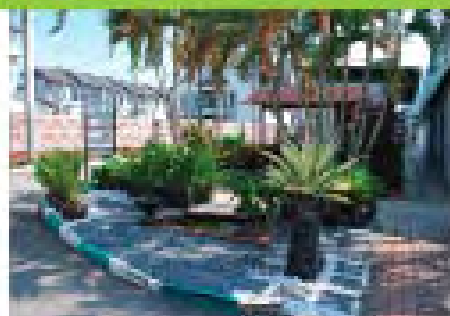
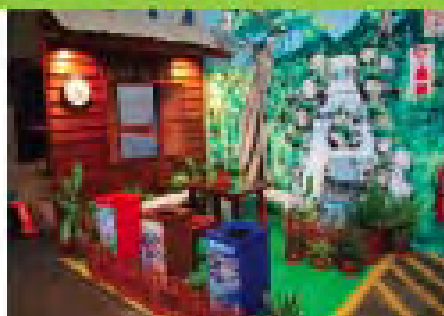
CIMB Bank Berhad
Citibank Berhad
DBS Bank Ltd
EON Bank Berhad
Hong Leong Bank Berhad
ICBC (Malaysia) Berhad
Malayan Banking Berhad
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Standard Chartered Bank Malaysia Berhad
United Overseas Bank Limited
United Overseas Bank (M) Berhad

Solicitors :

Ong & Partnership
Shearn Delamore & Co
Khor, Anuar & Khong



Go Green Go Garden Factory





Profile of Board of Directors



MR. CHENG KING FA - Malaysian - Founder/Chairman

Mr. Cheng King Fa, aged 75, is the Founder of the KHIND group, which commenced as a small family business 52 years ago. Under his vision and guidance, the business has grown into one of Malaysia's leading local electrical products manufacturer. With 52 years experience in the electrical industry, he provides invaluable advice to the Group on production, marketing, new product research and development.

He was appointed Executive Chairman of the Group on 20 April 1998 prior to the Company's listing on the Second Board of Bursa Malaysia Securities Berhad on 12 August 1998. On 1 March 2005, he was re-designated as Founder/Chairman.

He has no convictions for any offence within the past ten years and has no conflict of interest with KHIND. In 2013, he attended all five meetings of the Board. He is the father of Mr. Cheng Ping Keat.

MR. CHENG PING KEAT - Malaysian - Group Chief Executive Officer

Mr. Cheng Ping Keat, aged 53, was appointed as the Executive Director of KHIND on 20 April 1998. He graduated with a Bachelor of Commerce degree from the University of Melbourne, Australia in 1984. Post graduation, he had a short stint in audit, accountancy and receivership, both locally and abroad. He joined the KHIND group in September 1987. In 1996, he obtained his Master of Business Administration from Bath University, U.K.

He was appointed and designated as the Group Chief Executive Officer of the KHIND Group on 18 November 2003. He is now responsible for the overall strategic planning and operations relating to manufacturing, marketing, financial, export management and brand building for the KHIND Group.

He has no convictions for any offence within the past ten years and has no conflict of interest with KHIND. In 2013, he attended all five meetings of the Board. He is the son of Mr Cheng King Fa.

**EN. KAMIL BIN DATUK HJ.
ABDUL RAHMAN**
- Malaysian
- Senior Independent
Non-Executive Director
- Chairman of Audit Committee
- Member of Nomination and
Remuneration Committee

En. Kamil bin Datuk Hj. Abdul Rahman, aged 65, was appointed as an Independent Non-Executive Director of KHIND on 30 July 2001. At the same time, he became an independent member of the KHIND Audit Committee. His area of specialization is in corporate governance, corporate finance and risk management.

He was appointed as the Chairman of the Audit Committee on 5 August 2008 and as the Senior Independent Director on 31 March 2009. He is also a member of the Nomination and Remuneration Committee.

He graduated with a Bachelor of Commerce degree from the University of Otago, New Zealand and subsequently qualified as a Chartered Accountant of the Institute of Chartered Accountants of New Zealand. He is also a Fellow Chartered Secretary of the Institute of Chartered Secretaries and Administrators, United Kingdom, and a Chartered Accountant of the Malaysian Institute of Accountants.

His previous senior positions were as Senior Vice President of the Bank of Commerce (M) Berhad and as Executive Director of Commerce International Merchant Bankers Berhad. He is also a Director of Global Carriers Berhad, *Bukit Katil Resources Berhad, *WDM Holdings Berhad (*not listed on Bursa Malaysia), and the Malaysia South Africa Business Council (company limited by guarantee).

He has no family relationship with any Director and/or major shareholder of the Company, no conflict of interest with KHIND and has no convictions for any offence within the past ten years. He attended all five meetings of the Board in 2013.

**MR. LEE AH LAN @
LEE KEOK HOOI**
- Malaysian
- Independent
Non-Executive Director
- Member of the
Audit Committee
- Member of the Nomination
and Remuneration Committee

Mr. Lee Keok Hooi, aged 67, was appointed as a Non-independent Non-Executive Director of KHIND on 26 March 1999. He was redesignated as an Independent Director on 17 April 2013. He is a member of the Nomination & Remuneration Committee and Audit Committee of KHIND.

Mr. Lee holds a Bachelor of Commerce degree in Accounting from the University of Western Australia and is a Chartered Accountant (Malaysia) and a CPA (Australia).

He has no family relationship with any Director and/or major shareholder of KHIND and has no convictions for any offence within the past ten years. He attended all five meetings of the Board in 2013.

He does not have any conflict of interest with KHIND.



MR. WONG CHIN MUN

- Malaysian
- Independent
Non-Executive Director
- Chairman of the Nomination
and Remuneration Committee
- Member of the
Audit Committee

Mr. Wong Chin Mun, aged 69, was appointed as an Independent Non-Executive Director of KHIND on 19 July 2010. He holds degrees in Bachelor of Business (Secretarial Administration) and (Accounting) from Curtin University of Western Australia and has a Teacher's Certificate from the Ministry of Education, Malaysia. He is a Fellow of the Australian Society of Certified Practising Accountants (FCPA) & Associate of Malaysian Institute of Accountants.

On 19 July 2010, Mr. Wong was also appointed as an Independent Member of the Audit Committee and Nomination & Remuneration Committee. On 1 March 2011, he became the Chairman of the Nomination & Remuneration Committee.

He is currently the Chairman of Vistage Malaysia Sdn. Bhd., which has the rights for the Vistage System from Vistage International Inc., USA, aimed at assisting chief executive officers and entrepreneurs to proactively manage change and grow their businesses. He joined Nylex Malaysia Berhad ("Nylex") as Financial Controller/Company Secretary in January 1976 and became the first local General Manager/Director of Nylex in 1980. He was promoted to the position of Managing Director in 1985 and when he left at the end of June 1994 to found Vistage Malaysia, he was appointed and served as non-executive Deputy Chairman of the Nylex Malaysia Group of Companies up to October 1999.

Accredited as a Vistage Chair/Coach in USA in 1994, today he still coaches about 20 CEOs and Business Owners. He is currently the Independent Non-Executive Director of Sunway Berhad and Chairman of its Remuneration Committee as well as a Member of the Remuneration Committees. He serves on the Board of Trustees of Scientex Foundation since 2008. He is a Council Member of Federation of Malaysian Manufacturers and Chairman of its Business Ethics and Building Committees. He is a member of the Advisory Board of STOP HUNGER NOW (Malaysia).

He has no family relationship with any Director and/or major shareholder of KHIND and has no convictions for any offence within the past ten years. He attended all five meetings of the Board in 2013.

He does not have any conflict of interest with KHIND.

Statement on Corporate Governance

The Board of Directors of Khind Holdings Berhad recognizes the importance of good corporate governance throughout the Group as a fundamental process of discharging its responsibilities to protect and enhance shareholders' value and financial performance of the Group.

The Board is committed to maintaining high standards of corporate governance by adopting and implementing the prescription of the principles and best practices set out in Malaysian Code on Corporate Governance 2012 ("the Code").

The Board believes that the Company has substantially followed the Principles as set out in the Code.

A. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Clear Functions of the Board and Management

The Board's principal role is overseeing the overall strategic direction, development and control of the Group in an effective and responsible manner. The role of Management is to run the general business operations and activities and manage the Group's financial matters in accordance with established delegated authority from the Board. In discharging its stewardship, the Board is constantly mindful of safeguarding the interests of all stakeholders.

Clear Roles and Responsibilities

The Board assumes the following 6 principal responsibilities:-

- (a) reviewing, adopting and monitoring the implementation of a strategic plan for the Company and its subsidiaries ("Group");
- (b) overseeing the conduct of the Group's business to evaluate whether it is properly managed;
- (c) identifying principal risks and ensuring the implementation of appropriate controls and systems to monitor and manage these risks;
- (d) succession planning including appointing, training, fixing the remuneration and where appropriate, replacing senior management;
- (e) overseeing the development and implementation of a shareholders' communication policy for the Company to ensure effective communication with its shareholders and other stakeholders; and
- (f) reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for ensuring compliance with applicable laws, regulations, rules, directives and guidelines.

Other than those statutorily and regulatory required and powers accorded under Articles of Association, the following are matters reserved for Board deliberation and decision which are non-exhaustive and may be varied from time to time:-

- (a) delegation of powers to Board Committees;
- (b) receiving and approving reports and recommendations from Board Committees;
- (c) approving strategic business plans, mergers and acquisitions of a substantial value;
- (d) major investment or divestment of current businesses;
- (e) changes to the group structure;
- (f) provision of indemnities or corporate guarantees;
- (g) appointment of a senior independent director from among the members.

Formalized Ethical Standards through Code of Ethics

The Board shall observe and adhere to the Directors' Code of Ethics as set out in the Board Charter. The Group also has in place a Whistle Blowing Policy designed to create a positive environment in which employees can raise genuine concerns without fear of recrimination and enable prompt corrective action to be taken where appropriate. The Whistle Blowing Policy can be accessed on the Company's website at www.khind.com.



Statement on Corporate Governance *(continued)*

Strategies Promoting Sustainability

The Board promotes good Corporate Governance in the application of sustainability practices throughout the Company, the benefits of which are believed to translate into better corporate performance. A detailed report on sustainability activities, demonstrating the Company's commitment to the global environment, social, governance and sustainability agenda, appears in the Statement on Corporate Responsibility of this Annual Report and corporate website.

Access to Information and Advice

All Directors have full and unrestricted access to information pertaining to the Company. The agenda for every Board Meeting, together with a comprehensive set of board papers are furnished to all Directors for their perusal in advance of the Board Meeting date. This is to ensure sufficient time is given to enable the Directors to review and consider the agenda items to be deliberated at the Board Meetings. The Board papers include, amongst others, quarterly financial reports, year-end financial statements of the Group, annual budget, other major operational financial and legal issues.

Corporate plans and annual budgets, acquisitions and disposals of undertakings and properties with a substantial value, major investments and financial decisions, including key policies and procedures and delegated authority limits are subject to Board approval. All deliberations in relation to matters discussed and the conclusions are recorded.

The Directors are provided with non-financial indicators like customer service performance, safety & health compliance, market information when dealing with such matters on the agenda.

The Directors have unrestricted access to advice and services of the company secretary, senior management and independent professional advisers including the external auditors, at the Company's expense.

Company Secretary

The Company Secretary plays an advisory role to the Board in relation to the Company's constitution, Board's policies and procedures and compliance with the relevant regulatory requirements, codes or guidance and legislations. The Company Secretary also ensures that deliberations at the Board meetings are recorded in the minutes.

Board Charter

This Board Charter was adopted by the Board on 17 April 2013. The Board Charter shall be periodically reviewed and updated in accordance with the needs of the Company and any new regulations that may have an impact on the discharge of the Board's duties and responsibilities.

The Board Charter is made available for reference in the Company's website at www.khind.com.

B. STRENGTHEN COMPOSITION

Nomination and Remuneration Committee ("NRC")

The NRC which was established on 15 November 2001 comprises three (3) members who are Independent Directors.

The members of the NRC who served during the financial year are:

Wong Chin Mun - Chairman
Kamil bin Datuk Haji Abdul Rahman - Member
Lee Ah Lan @ Lee Keok Hooi - Member

The NRC is chaired by Mr. Wong Chin Mun and not Encik Kamil bin Datuk Haji Abdul Rahman, the Senior Independent Director and the Chairman of the Audit Committee. The Board believes that having different chairmen in the NRC and Audit Committee allows each Independent Director to carry out equitable roles and responsibilities in discharging the duties and responsibilities delegated by the Board effectively. As such, the Board has decided to maintain the current composition for these two Board Committees.

Appointments to the Board

The NRC makes independent recommendations for appointments to the Board. In making these recommendations, the NRC assesses the suitability of candidates, taking into account the character, integrity, competence, time commitment and other qualities of the candidates, before recommending their appointment to the Board for approval.

Statement on Corporate Governance *(continued)*

B. STRENGTHEN COMPOSITION *(continued)*

Re-election of Directors and re-appointment of Directors who are over the age of 70

In accordance with the Company's Articles, all Directors who are appointed by the Board may only hold office until the next following Annual General Meeting ("AGM") subsequent to their appointment and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at that AGM. The Articles also provide that one-third of the Directors, or if their number is not three or a multiple of three, then the number nearest to one-third, are subject to retirement by rotation at every AGM but are eligible for re-election provided always that all Directors including the Managing Director and Executive Directors shall retire from office at least once in every three years.

Pursuant to Section 129 of the Companies Act, 1965, the office of a director of or over the age of 70 years becomes vacant at every AGM unless he is reappointed by a resolution passed at such an AGM of which no shorter notice than that required for the AGM has been given and the majority by which such resolution is passed is not less than three-fourths of all members present and voting at such AGM.

The Board has considered the assessment of Mr. Wong Chin Mun, the Director standing for re-election and Mr. Cheng King Fa, the Director standing for re-appointment and collectively agree that they meet the criteria of character, experience, integrity, competence and time to effectively discharge their respective roles as Directors as prescribed by the Main Market Listing Requirements.

Boardroom and Gender Diversity

The Board does not have any boardroom and gender diversity policies or targets. All appointments are strictly based on merits, experience and qualifications.

Summary of activities undertaken by the NRC

During the financial year 2013, the following activities were undertaken by NRC:

- (i) Assessed the effectiveness and required mix of skills and experience and other qualities, including core competencies of the Board as a whole, the committees of the Board and the contribution of each existing Director and thereafter, recommend its findings to the Board;
- (ii) Reviewed and made recommendations to the Board on the re-election and re-appointment of Directors based on the assessment conducted.
- (iii) Assessed the independence of the Independent Directors.

Remuneration Policies

The NRC also examines and recommends to the Board the remuneration package of the Executive Directors. The level of remuneration reflects the experience and responsibilities undertaken by the Executive Directors. The determination of the fees of the Non-Executive Directors is decided by the Board as a whole.

The details of the aggregate amount of remuneration of Directors of the Company during the year were as follows:

| Directors' Remuneration & Benefit-in-Kind | | | | | | |
|---|----------------|----------------------------------|----------------|----------------------------------|---------------------------|-------------------|
| Directors | Fees RM | Salaries and allowances RM | Bonus RM | EPF- Employer Contribution | Benefit-in- Kind RM | Grand Total RM |
| | | | | @ 15% RM | | |
| Executive Directors | - | 1,022,260 | 506,000 | 251,700 | 366,522 | 2,146,482 |
| Non-Executive Directors | 180,000 | 17,000 | - | - | 9,000 | 206,000 |
| TOTAL | 180,000 | 1,039,260 | 506,000 | 251,700 | 375,522 | 2,352,482 |

The Board is of the view that the Directors' Remuneration disclosures by band fulfill the transparency and accountability aspects of corporate governance.



Statement on Corporate Governance *(continued)*

B. STRENGTHEN COMPOSITION *(continued)*

Remuneration Policies *(continued)*

The number of Executive and Non-executive Directors whose total remuneration falls into the following bands are tabulated as follow:

| Remuneration Bands | Number of Directors | | Total |
|----------------------------|---------------------|---------------|----------|
| | Executive | Non-Executive | |
| Up to RM50,000 | - | - | - |
| RM50,001 - RM100,000 | - | 3 | 3 |
| RM750,001 – RM800,000 | 1 | - | 1 |
| RM1,250,001 to RM1,500,000 | 1 | - | 1 |
| Total | 2 | 3 | 5 |

C. REINFORCE INDEPENDENCE

Annual Assessment of Independence

The Board has set out policies and procedures to ensure effectiveness of the Independent Directors on the Board, including new appointment. The Board assesses the independence of the Independent Directors annually, taking into account the individual Director's ability to exercise independent judgment at all times and to contribute to the effective functioning of the Board.

The Independent Directors are not employees and they do not participate in the day-to-day management as well as the daily business of the Company. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinize the performance of Management in meeting approved goals and objectives, and monitor risk profile of the Company's business and the reporting of monthly business performance.

The Board has assessed the independence of the Independent Directors and is satisfied with the level of independence demonstrated by all the Independent Directors and their ability to act in the best interest of the Company.

Tenure of Independent Directors and shareholders' approval for the re-appointment of Independent Directors who have served more than 9 years

The Code recommends that the tenure of an Independent Director should not exceed nine (9) years cumulatively. Upon completion of the nine (9) years, an Independent Director may continue to serve on the board subject to his re-designation as a Non-Independent Director. Notwithstanding that Encik Kamil bin Datuk Haji Abdul Rahman has served on the Board for more than nine (9) years, the Board proposes to retain his status as an Independent Director. The Board holds the view that a Director's independence cannot be determined arbitrarily with reference to a set period of time. The Group benefits from long serving Directors, such as Encik Kamil bin Datuk Haji Abdul Rahman, who has a strong understanding of the Group's corporate history and business, has devoted sufficient time and commitment to discharge his responsibilities as an Independent Director.

The Board has assessed Encik Kamil bin Datuk Haji Abdul Rahman to be independent in character and judgment, independent of management and free from any relationships or circumstances which are likely to affect or could appear to affect his judgment. The Board will table a proposal to retain Encik Kamil bin Datuk Haji Abdul Rahman as an Independent Director for shareholders' approval at the upcoming AGM of the Company.

Separation of Positions of the Chairman and Group Executive Officer ("Group CEO")

The positions of Chairman and Group CEO are held by two different individuals. The Chairman is responsible for the leadership of the Board and ensures effectiveness of the Board while the Group CEO manages the business and operations and implements the Board decision. The distinct and separate role of the Chairman and Group CEO, with a clear division of responsibilities, ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making.

Statement on Corporate Governance *(continued)*

C. REINFORCE INDEPENDENCE *(continued)*

Composition of the Board

The Code recommends that if the Chairman of the Board is not an independent Director, the Board must comprise a majority of Independent Directors.

The Board comprises three (3) Independent Directors and 2 Executive Directors (including the Chairman). The Chairman is the founder of the Khind Group. Under his vision and strong leadership, the Group has grown from a humble start up into one of Malaysia's leading local electrical products manufacturer with subsidiaries abroad. The Group benefits from the Chairman who possesses in-depth knowledge of the Group's businesses and has proven commitment, experience and competence to effectively discharge his responsibilities. The presence of a majority of Independent Directors provides the necessary check and balance on the conduct of the Chairman and the Group CEO.

Encik Kamil bin Datuk Haji Abdul Rahman is the Senior Independent Director to whom all concerns or queries pertaining to the Company may be conveyed by shareholders and stakeholders.

D. FOSTER COMMITMENT

Time Commitment

The Board is satisfied with the level of time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of the Company. During the year, four (4) Ordinary Board Meetings and one (1) Special Board Meeting were held and the attendance record of the Board members is reflected as follows:

| DIRECTORS' BOARD MEETINGS IN YEAR 2013 | |
|---|--|
| Directors | Total Number of Meetings Attended by Directors |
| 1. Mr. Cheng King Fa | 5/5 |
| 2. Mr. Cheng Ping Keat | 5/5 |
| 3. En. Kamil bin Datuk Hj. Abdul Rahman | 5/5 |
| 4. Mr. Lee Ah Lan @ Lee Keok Hooi | 5/5 |
| 5. Mr. Wong Chin Mun | 5/5 |

To facilitate the Directors' time planning, an annual meeting calendar is prepared and circulated to update to them before the meeting of every year. It provides the scheduled dates for meetings of the Board and Board Committees as well as the AGM.

Training

The Board encourages its Directors to attend talks, seminars, workshops and conference to update and enhance their skills and knowledge to enable them to carry out their roles effectively as directors in discharging their responsibilities towards corporate governance, operational and regulatory issues. The Directors will continue to attend other relevant training programs either on their own arrangement or organized by the Company on continuous basis in compliance with Paragraph 15.08(2) of the Listing Requirements. The Directors are briefed by the Company Secretary on the letters and circulars issued by Bursa Securities at Board Meeting. All Directors have completed the Mandatory Accreditation Programme required by Bursa Securities.



Statement on Corporate Governance *(continued)*

D. FOSTER COMMITMENT *(continued)*

Training *(continued)*

Some of the trainings/courses attended by the Directors during the financial year ended 31 December 2013 are as follows:

| No | Course Title | Date |
|-----|--|-------------------------|
| 1. | The Art and Practice of Ontological Coaching (9-month coaching program) | June 2012 to March 2013 |
| 2. | Ace Your Global Expansion Strategies | 20 March 2013 |
| 3. | Asian World Summit SME Development Forum | 11 April 2013 |
| 4. | The Next Steps of Corporate Sustainability & Responsibility in Malaysia | 30 April 2013 |
| 5. | Competitive Laws and Their Impact on Your Business | 10 May 2013 |
| 6. | Better Times Ahead for Malaysia? Predictions, Trends & Outlook for 2013-2020 | 18 June 2013 |
| 7. | Fine Tuning Your Business For Success | 19 July 2013 |
| 8. | DNA Profiling in Health Ageing and Living | 16 August 2013 |
| 9. | Business Leadership Series | 18 September 2013 |
| 10. | The Dilemma of Businessmen - Will, Trust & Foundation | 11 October 2013 |
| 11. | Neuromarketing Strategy Workshop | 28 October 2013 |

E. UPHOLD INTEGRITY IN FINANCIAL REPORTING

Compliance and Applicable Financial Reporting Standards

In presenting the annual audited financial statements and quarterly results to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The Directors are responsible for ensuring that the financial statements are prepared in accordance with the provision of the Companies Act, 1965 and approved accounting standards, subject to any explanations and material departures disclosed in the notes to the financial statements.

The Board is assisted by the Audit in overseeing the Group's financial reporting process to ensure accuracy, adequacy of all relevant information of disclosure and quality of the financial reporting. The financial statements and quarterly results are reviewed by the Audit Committee and approved by the Board before releasing to Bursa Securities. The Board has taken due care and reasonable steps to ensure that the requirement of accounting standards and relevant regulation were fully complied.

Assessment of Suitability and Independence of External Auditors

The Board has maintained an appropriate and transparent relationship with the External Auditors through the Audit Committee. The Audit Committee has been explicitly accorded the power to communicate directly with both the External Auditors and Internal Auditors. Both the External Auditors and Internal Auditors are invited to attend the Audit Committee Meetings to facilitate the exchange of view on issues requiring attention.

A full Audit Committee report enumerating its role in relation to the Auditors is set out on pages 28 to 30 of this Annual Report.

For the financial year ended 31 December 2013, the amount of non-audit fees paid/payable by the Company to the External Auditors amounted to RM12,000.

Statement on Corporate Governance *(continued)*

F. RECOGNISE AND MANAGE RISKS

Sound Framework to Manage Risk

The Board acknowledges that it is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets as required by the Code. The Group adheres to Bursa Securities' Statement on Internal Control; Guideline for Directors of Listed Issuer, as guidance for compliance with these requirement.

The Group's Statement on Risk Management and Internal Control is set out on page 26 to 27 of this Annual Report.

Internal Audit Function

The Board acknowledges the importance of the internal audit function and has outsourced to consultant, as part of its efforts in ensuring that the Group's systems of internal control are adequate and effective. The internal audit activities of the Group are carried out according to an annual audit plan approved by the Audit Committee.

The internal audit function was performed by an external consultant during the year to identify and assess the principal risks and to review the adequacy and effectiveness of the internal controls of the Group. Areas for improvement were highlighted and the implementation of recommendations was monitored. The results of the internal audit assessment are reported periodically to the Audit Committee.

G. ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Corporate Disclosure Policies

The Company recognises the value of transparent, consistent and coherent communications with investment community consistent with commercial confidentiality and regulatory considerations. The Company aims to build long-term relationships with shareholders and potential investors through appropriate channels for the management and disclosure of information. These investors are provided with sufficient business, operations and financial information on the Group to enable them to make informed investment decision.

The Company is guided by the Corporate Disclosure Guide issued by Bursa Securities with the consultation of the Company Secretary, advisers and/or other service providers. However, the Board of Directors will review the necessity for formalising an internal corporate disclosure policies and procedures if required.

Leverage on Information Technology for Effective Dissemination of Information

The Company's website incorporates an Investor Relations section which provides all relevant information on the Company and is accessible by the public. This Investor Relations section enhances the Investor Relations function by including all announcements made by the Company. The announcement of the quarterly financial results is also made via Bursa Link immediately after the Board's approval. This is important in ensuring equal and fair access to information by the investing public.

H. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

Encourage Shareholder Participation at General Meetings

The Company provides information to the shareholders with regard to, amongst others, details of the AGM, their entitlement to attend the AGM, the right to appoint a proxy and also the qualifications of a proxy.

To further promote participation of members though proxy(ies), which is in line with the insertion of Paragraph 7.21 of the Main Market Listing Requirements, the Company had on the last AGM, amended its Articles of Association to include explicitly the right of proxies to speak at general meetings, to allow a member who is an exempt authorized nominee to appoint multiple proxies for each omnibus account it holds and expressly disallow and restriction on proxy's qualification.



Statement on Corporate Governance *(continued)*

H. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS *(continued)*

Encourage Poll Voting

At the commencement of the AGM, the Chairman shall inform the shareholders the substantive resolutions put forth for shareholders' approval and encourage the voting of all substantive resolutions by polling pursuant to the Code. To assist the shareholders in exercising their rights, the Chairman shall read out the provisions of the Articles of Association on the shareholders' right to demand a poll vote.

Effective Communication and Proactive Engagement

In maintaining the commitment to effective communication with shareholders, the Group adopts the practice of comprehensive, timely, and continuing disclosures of information to its shareholders as well as to the general investing public. The practice of disclosure of information is not just established to comply with the requirements of the Main Market Listing Requirements pertaining to continuing disclosures; it also adopts the best practices as recommended in the Code with regard to strengthening engagement and communication with shareholders. Where possible and applicable, the Group also provides additional disclosure of information on a voluntary basis.

The Annual Report is the main channel of communication between the Company and its shareholders. The Annual Report communicates comprehensive information of the financial results and activities undertaken by the Group. As a listed issuer, the contents and disclosure requirements of the annual report are also governed by the Main Market Listing Requirements.

Another key avenue of communication with its shareholders is the Company's AGM, which provides a useful forum for shareholders to engage directly with the Directors. The Company sends the Notice of AGM and the Annual Report to shareholders at least twenty-one (21) days before the meeting.

ADDITIONAL COMPLIANCE INFORMATION

The following information is provided in compliance with the Main Market Listing Requirements of Bursa Securities:

1. **Utilisation of proceeds**
There were no corporate proposals announced at the date of this annual report.
2. **Share Buybacks**
During the financial year, there were no share buybacks by the Company.
3. **Option, Warrants or Convertible Securities**
There were no options, warrants or convertible securities issued by the Company during the financial year.
4. **Depository Receipt Programme**
During the financial year, the Company did not sponsor any Depository Receipt Programmes.
5. **Sanctions / Penalties**
There were no sanctions and/or penalties (that were made public) imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year.
6. **Profits estimates, forecast or projection**
There was no material variance between the results of the financial year and the unaudited results previously released by the Company. The Company did not release any profit estimate, forecast or projection during the financial year.
7. **Profit guarantee**
No profit guarantee was given by the Company during the financial year.
8. **Material Contract**
There were no material contracts entered into by the Company or its subsidiaries involving Directors or major shareholders' interests during the financial year.
9. **Employee Share Scheme**
The Company does not have an Employee Share Scheme in existence.
10. **Recurrent Related Party Transaction (RRPT)**
The Group had made full disclosures on the Related Party Transactions of a revenue or trading nature, which are necessary for its day-to-day operations and in the ordinary course of business of the Company and its subsidiaries. The details set in the Recurrent Party Transaction are disclosed in Note 30 of the financial statements.

Statement on Corporate Responsibility





Statement on Corporate Responsibility *(continued)*

Corporate Responsibility (CR) has been defined by Bursa Malaysia CSR Framework as open and transparent business practices, based on the ethical values and respect for employees, communities and the environment.

As part of the Khind's new core value "Kindness", the CR activities focus on four main areas: community; education; environment; and the workplace. CR is about delivering benefits to our local communities and global environment via our business operations.

Khind Starfish Foundation

In April 2012, Khind formed "Khind Starfish Foundation" to undertake CR activities for Khind group. Khind Starfish Foundation obtained the tax exempt status from Inland Revenue Board on 15 March 2013. From July 2013, the Khind group of companies had injected an initial contribution of RM1 million into Khind Starfish Foundation.

The Foundation will carry out activities in the following areas

- i) to organize, carry out and support schemes for the relief of poverty, distress and human suffering;
- ii) to assist or support schemes to improve living conditions and improve the welfare of the poor, needy, distressed, disadvantage or deprived;
- iii) to support activities in connection with culture, arts and heritage.



Khind Group CR activities

1.1 Community

a) Kindness to our environment - "Our Environment, Our Health" exhibition and talk on 27 October 2013

A joint effort on environmental protection and health awareness entitled "Our Environment, Our Health" on 27 October 2013 campaigned by three (3) public listed companies: Khind Holdings Berhad, Top Glove Corporation Berhad and SP Setia Berhad in collaboration with Tzu Chi Foundation at Setia City Convention Centre, Shah Alam. Yang Berhormat Tan Sri Dato' Seri Abdul Khalid Ibrahim, the Chief Minister of Selangor officiated the opening of this event. More than 1,000 people attended this exhibition and talk to learn about environmental protection and healthy eating lifestyle.



b) Kindness for underprivileged communities

Khind subsidiaries and staff undertook various proactive initiatives to visit old folks homes, orphanages and low income families in Malaysia to assess and provide repair or installation of these homes' basic appliances such as ceiling fans, wall fans and water heaters. As these homes do not have extra budget for the maintenance of such electrical appliances, Khind's contribution will ensure the residents of these homes continue to live in a comfortable environment. Khind staff also took the opportunity to educate the children in the homes about electrical safety.

Statement on Corporate Responsibility *(continued)*

Khind Group CR activities (continue)

1.1 Community (continued)

b) Kindness for underprivileged communities (continued)

Besides, Khind staff participated in monthly visits to a Klang mentally challenged and handicapped children's home; quarterly visits to Kechara Soup Kitchen to help in providing meals for the homeless in the Klang Valley area; "Stop Hunger Project" to provide meals to low income families. During festive seasons, staff members also brought children from various orphanages in Sekinchan and Kuala Selangor to purchase new clothes and shoes.

Regionally, Khind Hong Kong staff guided the blind for a 10 kilometre hiking trip, while Khind Group has also contributed 2 million Thai Bhat to the Ramathibodi Hospital in Bangkok, Thailand for medical research.

1.2 Promotion of Arts and Culture

To promote local arts and culture, Khind was a proud sponsor for Hands Percussion and Dua Space. Hands Percussion is a well-known arts troupe using various types of drum instruments for performances, while Dua Space is known for its dance performances.

1.3 Work place

Khind believes its greatest assets are its employees. The Company implemented the following activities for its staff:

a) Training and education assistance programme

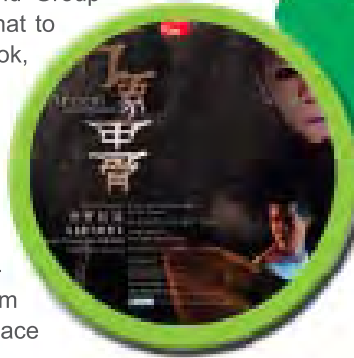
Khind allocated 3% of its annual basic payroll into an annual training budget to enhance skills and knowledge among the employees. Additionally, Khind also offered education assistance schemes to encourage staff to further their academic studies.

b) Tabung Amal

A general fund was established by Khind to provide financial aid to less fortunate employees working at its manufacturing plant in Sekinchan.

c) Employee's children benefits

In December 2013, Khind handed out school bags, shoes, socks and uniforms for Khind staff's children who are studying at primary and secondary school. This helped Khind's employees to alleviate additional costs related to their children's education.





Statement on Corporate Responsibility *(continued)*

Khind Group CR activities (continue)

1.3 Work place (continued)

d) Safety and health program

Every year, Khind's Safety and Health Committee organises various events such as: health checks for employees; blood donation campaign for the National Blood Bank; annual training for operating forklift drivers, fire and evacuation preparedness in areas such as the correct use of fire extinguishers, safety audits; and other practices to ensure appropriate occupational safety practices are followed.

e) Employee volunteerism

To encourage employees to volunteer for CR initiatives, Khind provides all employees a maximum of three (3) work days per year to carry out volunteer work on external CR activities which are approved by the Company.

f) Sports and social club

Khind established a Khind Wellness Center at its head office. The centre provides gym equipment, table tennis table, and holds yoga classes to encourage staff to lead a healthier lifestyle. The sports club committee also organized various outdoor trips and sports game (such as bowling, badminton, flying fox and paint ball) for employee to participate and foster better teamwork among various departments.



Statement on Risk Management and Internal Control

The Board of Directors (“Board”) is pleased to provide the following statement that was prepared in accordance with the guideline, namely the “Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers”, which outlines the nature and scope of risk management and internal control activities of the Group during the year under review.

The system of risk management and internal control covers risk management, controls over financial, operational and compliance activities, and all other policies and procedures, both local and foreign, to achieve the following objectives:

- Safeguard assets of the Group and shareholders’ interests;
- On-going process for identifying, evaluating and managing significant risks encountered or potentially to be encountered by the Group;
- Compliance with regulatory requirements; and
- Close monitoring of operational results, and prompt explanation of substantial variances.

BOARD RESPONSIBILITY

The Board is responsible for maintaining a sound and effective risk management and internal control system for the Group, and for reviewing the adequacy and integrity of these systems to safeguard shareholders’ investment and the Group’s assets. However, there are limitations inherent in any system of risk management and internal control, in that such systems are designed to manage, rather than eliminate, the risk of failure to achieve the policies and business objectives of the Group. Accordingly, these systems can only provide reasonable, and not absolute, assurance against material misstatement, losses, fraud or breaches of laws or regulations. It should be further noted that the cost of the system should not outweigh the benefits.

Management’s Accountability

Management is accountable to the Board for the implementation of the processes in identifying, evaluating, monitoring and reporting of risks and internal control as prescribed above. The Group Chief Executive Officer, Group Chief Operating Officer and Group Chief Financial Officer provide the Board with assurance that the internal control system of the Group is operating adequately and effectively in all material aspects to ensure achievement of corporate objectives.

RISK MANAGEMENT

The Board is ultimately responsible for the overall management of risk. Its responsibilities include reviewing and ensuring adequacy of risk management policies and procedures, reviewing risk exposures and ensuring infrastructure, resources and system are in place for risk management activities. At the forefront, the management of operating units are responsible for identification and management of risks within their operations.

The Board is supported by the Audit Committee, whose responsibility is to provide an independent assessment on the adequacy and reliability of the risk management processes and internal control, as well as compliance with risk policies and regulatory requirements.

To this end, BDO Governance Advisory Sdn. Bhd. (“BDO GA”) was appointed to assist in the establishment of a risk management framework for the Company. The scope of work undertaken by BDO GA entailed the following:

- Obtained an understanding of the strategic analysis and business planning processes within the Company, as well as the risk culture and risk tolerance;
- Identified and assessed the key elements of control environment and control activities in place;
- Identified and evaluated the communication and monitoring processes in place; and
- Identified key gaps and proposed recommendations to close the identified gaps.

Risk Appetite and Risk Management Process

The development and documentation of processes to oversee risk appetite and risk management is in progress and the Board will report on the said development in due course.

KEY INTERNAL CONTROL PROCESSES

The Group’s system of internal controls comprises the following key elements:

- **Terms of Reference**
Clear definition of the terms of reference, i.e. functions, authorities and responsibilities of the various committees of the Board of Directors has been established.
- **Control procedures**
Operating Procedures Manuals that set out the policies, procedures and practices are adopted by all the companies in the Group to ensure clear accountabilities and control procedures are in place for all business units.



Statement on Risk Management and Internal Control *(continued)*

KEY INTERNAL CONTROL PROCESSES *(continued)*

- **Organisational structure and accountability levels**

The Group has a defined organisational structure with clear lines of responsibility and delegation of authority to ensure proper identification of accountabilities and segregation of duties.

The Board relies on the Group Chief Executive Officer and Group Chief Operating Officer with relevant industry experience to run and manage the operations and business of the Group.

- **Budgeting, Reporting and Review**

The Group prepares comprehensive budgets that roll up into an annual budget that is approved by the Board prior to the commencement of the financial year. The management team performs monthly monitoring and review of financial results and forecasts for all businesses within the Group. Actual results are then compared with budgeted results and any significant matter is brought forward for the Board's consideration and decision at least on a quarterly basis.

- **Independence of the Audit Committee**

The Audit Committee comprises non-executive members of the Board who are majority independent directors. The Committee holds regular meetings to deliberate on findings and recommendations and reports back to the Board.

- **Internal Audit**

The Board has outsourced the internal audit function to BDO GA, with the primary objective of assisting the Board in reviewing the adequacy and integrity of the Group's system of internal controls to manage the risks areas faced by the Group. The audit findings, recommendations for improvement and status of actions taken by the management to address the issues were reported to the Audit Committee. The annual fee incurred for the internal audit function is RM70,000.

The scope of work undertaken by BDO GA during the financial year 2013 was as below:

- Developed an Internal Audit Plan for 2013 using a risk-based approach to support and execute internal control reviews;
- Conducted four (4) Internal Control Reviews for the year covering:
 - (i) Inventory management for Khind-Mistral (Malaysia) Sdn. Bhd.;
 - (ii) Production and inventory management for Khind-Mistral Industries Sdn. Bhd.;
 - (iii) Sales, procurement of non-trade items and inventory management for Khind Middle East FZE; and
 - (iv) Sales to receipt and inventory management for Khind-Mistral (Borneo) Sdn. Bhd.
- Presented audit findings to the Audit Committee of KHIND during its quarterly meetings.

- **Management Visits**

Senior management of the Group conducts regular visit to the operating bases to review and gain better understanding of the operation.

CONCLUSION

The Board is of the view that the internal controls system in place for the year under review and up to the date of issuance of the financial statements is adequate and effective to safeguard the shareholders' investment, the Group's assets and the interests of customers, regulators and employees.

During the year, a number of improvements to internal controls were identified and addressed. There have been no significant weaknesses noted which have resulted in any material losses, contingencies or uncertainties for the financial year under review. The Group will continue to take the necessary measures to strengthen its risk management and internal control systems.

This statement is made in accordance with a resolution of the Board of Directors dated 18 April 2014.

Audit Committee Report

1. MEMBERSHIP AND MEETINGS

The Audit Committee (“AC”) comprises three (3) members who are Independent Non-Executive Directors.

Every member of the AC viz. the Chairman, Mr. Lee Ah Lan @ Lee Keok Hooi and Mr. Wong Chin Mun, has accounting and financial qualifications.

The AC met four (4) times during the financial year and the attendance is detailed below:

| AUDIT COMMITTEE MEETINGS IN YEAR 2013 | |
|---|--|
| Members | Total Number of Meetings Attended by Directors |
| <i>Independent Non-Executive Director</i> | |
| Kamil bin Datuk Hj. Abdul Rahman (Chairman) | 4/4 |
| Wong Chin Mun | 4/4 |
| Lee Ah Lan @ Lee Keok Hooi | 4/4 |

2. SUMMARY OF THE TERMS OF REFERENCE

A. Composition of the AC

- (1) The AC shall be appointed by the Board of Directors (“BOD”) from amongst their members and shall consist of at least three (3) members.
- (2) All AC members must be Non-Executive Directors with a majority of them being Independent Directors.
- (3) At least one (1) of the AC:
 - (i) must be a member of the Malaysian Institute of Accountants; or
 - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years’ working experience and:
 - (a) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
 - (b) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountant Act 1976; or
 - (iii) fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.
- (4) No alternate Director(s) shall be appointed as member(s) of the AC.
- (5) The members of the AC shall elect a Chairman from amongst its members who shall be an Independent Director.
- (6) The Board shall review the term of office and performance of the AC and each of its members at least once in every 3 years to determine whether the AC and members have carried out their duties in accordance with the Terms of Reference.



Audit Committee Report *(continued)*

2. SUMMARY OF THE TERMS OF REFERENCE (continued)

B. Power and Authority of the AC

The AC shall in accordance with the procedure determined by the Board and at the cost of the Company:

- (a) have authority to investigate any matter within the terms of reference;
- (b) have the resources which the AC requires to perform its duties;
- (c) have full and unrestricted access to any information which the AC requires in the course of performing its duties;
- (d) have direct communication channels with the external auditors and person carrying out the internal audit function;
- (e) be able to obtain independent professional or other advice in the performance of its duties at the cost of the Company; and
- (f) be able to convene meetings with the external auditors, internal auditors or both without the attendance of other directors and employees of the Company, whenever deemed necessary.

The full Terms of Reference of the Audit Committee can be obtained from www.khind.com.

3. INTERNAL AUDIT FUNCTION

The internal audit function is outsourced to BDO Governance Advisory Sdn. Bhd. Our Internal Auditors have developed an annual audit plan to support and execute internal control reviews. The internal audit function includes the conduct of follow-up reviews on the status of implementation of recommendations agreed by Management in the earlier audits and the conduct of four (4) internal control reviews for 2013. The Internal Auditors would present an internal audit report to the AC on a quarterly basis or when required. The Internal Auditors would also provide feedback to the Board of Directors, AC and Senior Management in respect of corporate governance issues in the course of their internal audit reviews.

During the financial year ended 31 December 2013, the Internal Auditors have carried out reviews on the following business processes:

- Inventory management and production of the Manufacturing Division;
- Sales, sales to receipt, procurement of non-trade items and inventory management of the local and overseas Trading Division.

The total cost incurred for outsourcing of the internal audit function of the Group during the financial year ended 31 December 2013 amounted to RM70,000.

4. ACTIVITIES OF THE COMMITTEE

The Chairman of the AC reports regularly to the Board on the activities carried out by the AC in the discharge of its duties and responsibilities, as set out in its Terms of Reference which is available on Khind's website. The main activities undertaken by the Committee during the year are as follows:

- (a) Discussed with the external auditors, the nature, scope and quality of external audit plan/arrangements;
- (b) Reviewed quarterly results and year-end financial statements of the Company, prior to approval by the Board;
- (c) Reviewed management letter sent by the external auditors to the Company and Management's response to such letter;
- (d) Reviewed the findings from the interim and final audits;

Audit Committee Report *(continued)*

4. ACTIVITIES OF THE COMMITTEE *(continued)*

- (e) Reviewed the internal audit programme and results of the internal audit process or investigation undertaken and whether or not appropriate action is taken on the recommendation of the internal audit function;
- (f) Reviewed the follow up actions by Management on the weakness of internal accounting procedures and controls;
- (g) Reviewed any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.



Financial Statements

2013 annual report



Five-year Financial Highlights

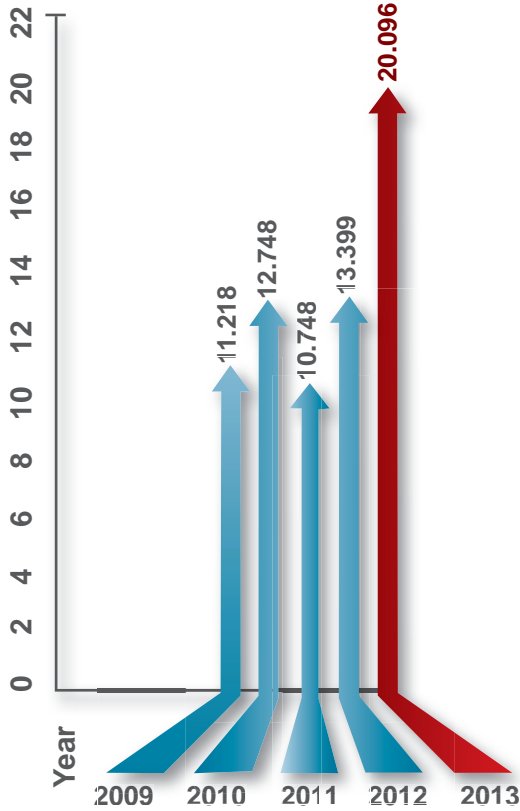


| In RM'000 | Year ended 31 December | | | | |
|---|------------------------|---------|---------|---------|---------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Revenue | 183,601 | 196,025 | 241,850 | 288,591 | 325,035 |
| Profit before tax | 11,218 | 12,748 | 10,748 | 13,399 | 20,096 |
| Profit for the year | 8,061 | 8,318 | 7,867 | 10,607 | 16,236 |
| Profit attributable to owners | 8,061 | 8,318 | 7,867 | 10,607 | 16,236 |
| Total equity attributable to owners | 71,583 | 76,496 | 82,002 | 90,794 | 103,998 |
| Total assets | 125,625 | 150,950 | 179,627 | 210,975 | 232,836 |
| Total borrowings | 24,900 | 40,017 | 50,275 | 66,705 | 70,858 |
| Basic earnings per share (sen) | 20.12 | 20.76 | 19.64 | 26.48 | 40.53 |
| Net assets per share (RM) | 1.79 | 1.91 | 2.05 | 2.27 | 2.60 |
| Return on equity attributable to owners | 11.3% | 10.9% | 9.6% | 11.7% | 15.6% |
| Return on total assets | 6.4% | 5.5% | 4.4% | 5.0% | 7.0% |
| Debt equity ratio | 0.3 | 0.5 | 0.6 | 0.7 | 0.7 |

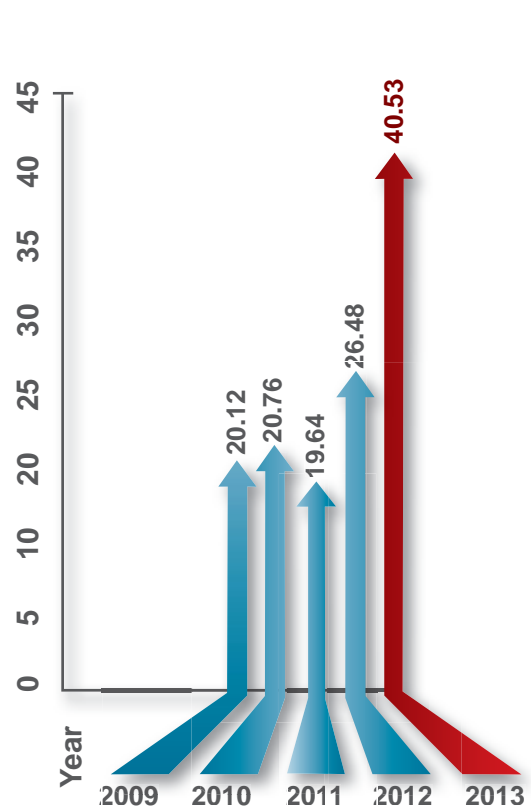


Financial Statements

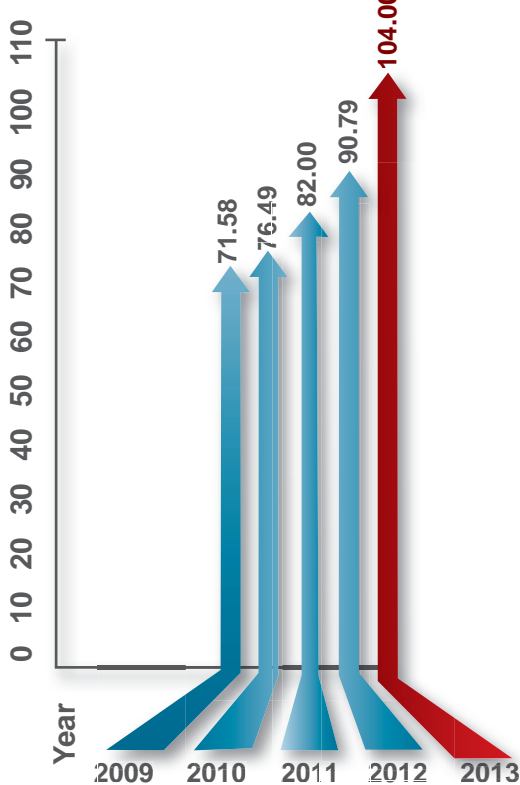
Profit Before Income Tax
RM Million



Earnings Per Share
SEN



Shareholders' Funds
RM Million



Group Turnover
RM Million

