## DIRECTORS' TRAINING AND EDUCATION

All Directors have attended the Mandatory Accreditation Program prescribed by Bursa Malaysia.

All the Directors are committed to continue with training on an annual basis to keep abreast of new regulatory development and listing requirements and to enhance their knowledge in developments relevant to the Group.

During the financial year, Mdm. Tong Siew Choo (Independent Non-Executive Director) had attended the following seminars:
(a) Members Engagement Session 2011
(b) Budget 2012
(c) Update of case law development.

## BOARD COMMITTEES

To facilitate the smooth transaction of business within the Company, the Board has established the following Board Committees. The terms of reference of each Committee has been approved by the Board and where applicable, comply with the recommendations of the Code.

### Nominating Committee

The Nominating Committee comprises three (3) Independent Non-Executive Directors as follows:

| | |
|---|---|
| Dato' Tai Chang Eng @ Teh Chang Ying | – (Chairman, Independent Non-Executive) |
| Dato' Haji Mokhtar Bin Haji Samad | – (Independent Non-Executive) |
| Tong Siew Choo | – (Independent Non-Executive) |

The Committee is responsible for proposing new nominees to the Board and the appointment to Board Committees and to assess the contributions of each individual Director and the overall effectiveness of the Board on an on-going basis. The final decision as to who shall be appointed a Director remains the responsibility of the full Board, after considering the recommendations of the Committee.

The Board through this Committee is actively pursuing the issue of succession planning for the Chief Executive Officer.

The Company Secretary ensures that all necessary information are obtained from the Directors and that appointments to the Board are properly made in accordance with the regulatory requirements. The Committee met on one (1) occasion in the financial year 2011.

### Remuneration Committee

The Remuneration Committee comprises one (1) Non-Independent Executive Director and two (2) Independent Non-Executive Directors, as follows:

| | |
|---|---|
| Dato' Tai Chang Eng @ Teh Chang Ying | – (Chairman, Independent Non-Executive) |
| Dato' Haji Mokhtar Bin Haji Samad | – (Independent Non-Executive) |
| Dato' Lim Kuang Sia | – (Non-Independent Executive) |

The Remuneration Committee assists in the evaluation of the performance of the Directors and recommends to the Board rewards and benefits for all Directors, commensurate with their contributions to the Group's overall performance.

The Committee met on one (1) occasion in the financial year 2011.

**Audit Committee**

The Audit Committee reviews issues of accounting policies, presentation for external financial reporting, the audit findings of both the external and internal auditors arising from the Company's financial statements, any other issues raised by the Auditors and monitors the adequacy and effectiveness of the internal control system in place.

The report of the Audit Committee for the year ended 31 December 2011 is set out on pages 23 to 25.

Six (6) meetings were held during the financial year under review.

**Corporate Social Responsibility Committee ("CSR Committee")**

The Group strongly recognizes its commitments to contribute positively to the community and society. The CSR Committee is tasked with responsibilities of reviewing the Company's management of corporate social responsibility.

The members of the CSR Committee as at 31 December 2011 are as follows:

| | |
|---|---|
| Dato' Lim Kuang Sia | – Chairman |
| Tong Siew Choo | – Member |

## SHAREHOLDERS

**Dialogue Between Company And Investors**

The Board acknowledges the need for shareholders to be informed of all material business matters affecting the Company. Announcements and release of financial results on a quarterly basis provide the shareholders and the investing public with an overview of the Group's performance and operations.

Dialogues are also held with investment analysts and fund managers to keep them abreast with corporate and financial developments within the Group.

**Annual General Meeting**

The Annual General Meeting provides a forum for communication with shareholders. At each Annual General Meeting, the Board presents the progress and performance of the business of the Group. The Company encourages shareholders to participate in the question and answer session. The Chairman, Board members and the external auditors are available to reply and provide explanation to any questions raised.

Shareholders can also obtain up-to-date information on the Group's activities by accessing its web site at www.kossan.com.my.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

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

### Internal Control

The Directors acknowledge the responsibility of maintaining a good system of internal control, including risk assessments, and the need to review its effectiveness regularly in order to safeguard the Group's assets and therefore shareholders' investments in the Group. This system, by its nature, can only provide reasonable but not absolute assurance against material misstatement, loss or fraud. Reviews are continuously on going to ensure the effectiveness, adequacy and integrity of the system of internal control in safeguarding the Company's assets.

The Group's Statement on Internal Control for the year ended 31 December 2011 as set out on pages 21 to 22 of this Annual Report provides an overview of the state of internal control within the Group and the Company.

### Relationship with Auditors

The Board has established a formal and transparent relationship with the auditors. The Audit Committee recommends the appointment of the external auditors and their remuneration. The appointment of external auditors is subject to the approval of shareholders in general meeting whilst their remuneration is determined by the Board.

The role of the Audit Committee in relation to the auditors is described in the Audit Committee Report.

This Corporate Governance Statement is made in accordance with a resolution of the Board of Directors dated 19 April 2012.

## OTHER INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS

**(a) Executive Share option Scheme (ESOS)**
The ESOS approved by shareholders in 2005 had not been implemented.

**(b) Utilization of proceeds**
The Company did not implement any fund raising exercise.

**(c) Share Buy-Back**
The shareholders of the Company approved the renewal of the Share Buy-Back Scheme at the 31st Annual General Meeting held on 21 June 2011.

During the financial year ended 31 December 2011, the Company purchased a total of 145,000 ordinary shares of RM0.50 each of the issued share capital from the open market at an average price of RM2.96 per share. The total consideration of RM428,804 was financed from internally generated funds.

All the shares purchased during the financial year ended 31 December 2011 have been retained as treasury shares. None of the treasury shares held were resold or cancelled during the financial year. The number of shares retained as treasury shares as at 31 December 2011 was 1,114,400 ordinary shares of RM0.50 each.

Information on the shares purchased by the Company during the financial year ended 31 December 2011 are as follows:

| Monthly Breakdown | Shares Purchased And Retained As Treasury Shares | Purchase Price Per Share (RM) | | Average Cost Per Share (RM) | Total Consideration (RM) |
|---|---|---|---|---|---|
| | | Lowest | Highest | | |
| March 2011 | 145,000 | 2.92 | 2.96 | 2.96 | 428,804 |

**(d) Options, Warrants or Convertible Securities exercised**
The Company did not issue any options, warrants or convertible securities.

**(e) American Depository Receipt (“ADR”) or Global Depository Receipt (“GDR”)**
The Company did not sponsor any ADR or GDR program.

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

**(g) Material Contracts**
The Company did not have any material contracts involving directors’ and major shareholders’ interest either still subsisting at the end of the financial year or, if not subsisting, entered into since the end of the previous financial year.

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

**(i) Non-audit fees**
Apart from the RM233,500.00 audit fees paid to the external auditors, the Company also paid RM10,000.00 in non audit fees for the year ended 31 December 2011.

**(j) Variation in results**
There is no material variance between the result for the financial year and the unaudited results previously announced by the Company.

**(k) Profit guarantee**
The Company did not issue any profit forecast or profit guarantee.

**(l) Revaluation policy**
The Company did not have a policy on revaluation of landed properties.

## CORPORATE SOCIAL RESPONSIBILITY

The Group has long recognized and acknowledged the importance of a corporate culture that emphasizes good corporate social responsibility ("CSR") and corporate citizenship. While delivering sustainable and growing stakeholder value through the core business, the Group also contributes and works for the betterment of the employee welfare, market place and community.

### Workplace

The Group believes that human capital development is very important to ensure that the Group has the right and relevant skill set and knowledge in ensuring business sustainability and growth. As such, the Group has conducted trainings with emphasis on quality for the staff to improve further their quality of work. Health and Safety at the workplace is also another area of importance to the Group.

All our employees are reasonably covered for any unforeseen mishaps through the various levels of insurance including coverage on medical, hospitalization benefits and critical illness besides the usual personal accident insurance. The Group has employed a significant number of foreign and out-stationed workers; as such the Group has constructed hostels within the vicinity of our factories to provide accommodation for this group of employees.

On occupational safety, the Group strives to comply with all the Department of Occupational Safety and Health Malaysia ("DOSH") standards on health and safety. The Group complies with the Occupational Safety and Health Act ("OSHA") strictly. The Group has set up a Work Safety Committee to develop policies and maintain a safe and healthy workplace for all its employees, contractors and visitors. Regular trainings, meetings, inspections and prevention programs are carried out to continuously alert the employees on the importance of the safety and hygiene conditions of the workplace.

### Market place

As we consider CSR part of good corporate governance, we are fully supportive of our local suppliers and treasure our relationships with our key customers. We conduct annual satisfaction surveys as part of our efforts to improve our products, services and relationship.

### Community

At the corporate level, the Group donates to various charitable bodies and private schools for their regular expenses as well as building funds.

# Statement of Responsibility by Directors



The Directors are required by the Companies Act, 1965 ("the Act") to prepare financial statements for each financial year which gives a true and fair view of the state of affairs of the Group and of the Company and the results and cash flow of the Group and of the Company for each financial year. As required by the Act and the Listing Requirements of Bursa Malaysia Securities Berhad, the financial statements have been prepared in accordance with applicable approved accounting standards in Malaysia and the provisions of the Act.

In preparing these financial statements, the Directors have:

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

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

(c) ensured that all applicable approved accounting standards have been followed.

The Directors have overall responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to ensure these financial statements comply with the Act. The Directors are also responsible and shall take such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This Statement of Responsibility by Directors is made in accordance with the resolution of the Board of Directors dated 19 April 2012.

# Statement on Internal Control

## BOARD'S RESPONSIBILITY

The Board in discharging its responsibilities is committed to maintaining a sound internal control system to safeguard shareholders' investments and the Group's assets.

The Board recognises that it is responsible for the Group's system of internal control and risk management, and reviewing its adequacy and integrity. The Group's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Notwithstanding and due to the limitations that are inherent in any system of internal control, the system can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

## ENTERPRISE RISK MANAGEMENT

The Board has always regarded risk management as an integral part of the Group's business operations and therefore has put in place an Enterprise Risk Management ('ERM') framework for identifying, evaluating and managing the key business risks faced by the Group.

The ERM framework contains the following key elements:

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

- A risk management policy and guidelines manual which outline mainly the risk management strategies and policies and risk management structure in term of the lines of reporting and responsibility at the Board, Audit Committee, Risk Management Committee, and Management levels. This document is subject to review and improvement from time to time in order to enhance the risk management process and framework within the Group; and

- A Risk Management Committee, set-up with the responsibility to identify and communicate to the Board with regards to the present and potential critical risks of the Group and formulates action plans with implementation timescales to address key risks and control issues in line with their risk profiles of the Group.

The Board believes that maintaining a sound system of internal controls is premised on a clear understanding and appreciation of the aforementioned key elements of the ERM framework.

## SYSTEM OF INTERNAL CONTROLS

The Board entrusts the daily running of the business to the Managing Director ('MD') and his management team. The Board members receive timely information pertaining to performance and profitability of the Group through quarterly Board papers, which include business development, management and corporate issues for discussion and deliberation.

The MD plays a pivotal role in communicating the Board's expectations of the system of internal control to management. This is achieved, on a day-to-day basis, through his active participation in the operations of the business as well as attendance at various scheduled management and operational level committee meetings where operational and financial risks are discussed and dealt with. The MD will update the Board of any significant matters that require the latter's immediate attention.

The key features and roles of management on the system of internal controls are described as follows:-

- Clearly defined organisation structure defining the delegation of authority and responsibility of the management and reporting mechanism.

- Monthly review of the financial and manufacturing operational performance of business units including productivity, efficiency and effectiveness. This includes evaluation of factors such as business, operational and key management issues impacting on their performance.

- Regular visits to business and manufacturing units by MD, Executive Directors and Senior Management personnel.

- Review of quarterly financial results of the Group by the Audit Committee and the Board.

- Identify and review the risk elements that impact on the financial performances of the Group and establish mechanism to manage risk including and not limiting to volatility of foreign exchange rates, escalating cost of operations and competitive pricing of products.

- Quarterly review on the adequacy and integrity of the Group's internal control systems and to follow-up on action plans by Management on the recommendations proposed by the internal audit firm.

The existing system of internal control has been in place for the year under review.

## OTHER ASSURANCE MECHANISM

The Board has assigned the Audit Committee ('AC') with the duty of reviewing and monitoring the effectiveness of the Group's system of internal control. The Group has outsourced its internal audit function to an internal audit firm to assist the AC in discharging its duties with all aspects of internal controls within the Group. The internal audit firm is independent of the day-to-day operations of the Group and provides support to the AC in discharging its duties to ensure that significant risks are identified and that the adequacy and integrity of the Group's internal control systems is in place.

The internal audit firm reviews the Group's system of internal control on a systematic and cyclic basis and on selected functions, and tables the results of the review at the Audit Committee meetings on a quarterly basis. The Audit Committee reviewed the findings, recommendations and management response and action plans and presented the findings and recommendations to the Board of Directors.

The Board reviews the minutes of the AC's meetings. The Report of the AC is set out on pages 23 to 25 of the Annual Report.

Additionally, as part of the requirements of the ISO 9001, ISO 13485 and 1SO/TS 16949 certifications, scheduled audits are being conducted internally as well as by external auditors from accredited certification bodies. Results of these audits are reported to the Quality Management Committee, which is chaired by the MD.

## BOARD'S COMMITMENT

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

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

This statement is signed in accordance with a resolution of the Board of Directors dated 19 April 2012.

# Report of the Audit Commitee

The Board of Directors have pleasure in submitting the report of the Audit Committee of the Board for the year ended 31 December 2011.

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### 1. Composition

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

### 2. Authority

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

### 3. Responsibility

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

### 4. Functions

The duties of the Audit Committee shall include the following:

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

(ii) To discuss with the external auditor before the audit commences, the nature and scope of the audit;

(iii) To review the quarterly and year-end financial statements of the Company and the Group, focusing particularly on:

- any changes in major accounting policies and practices;
- significant adjustments arising from the audit;
- significant and unusual events;
- the going concern assumption;
- compliance with approved accounting standards and other legal requirements;

(iv) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss;

(v) To review the external auditor's audit report, management letter and management's response;

(vi) To review the assistance given by the employees of the Company and its subsidiaries to the external auditor;

(vii) To consider the appointment of the internal auditor, their remuneration and any questions of their resignation or dismissal;

(viii) To review the internal audit functions namely:

- the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
- the internal audit program and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal auditor;
- the performance of the internal auditor, whose role includes the examination and evaluation of the Company's operations and their compliance with the relevant policies, codes and legislations;

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

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

(xi) To consider other topics as defined by the Board.

**5. Meeting and Minutes**

(i) The Audit Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.

(ii) The quorum for any meeting shall be at least two, the majority of whom must be independent Directors.

(iii) The Secretary of the Committee shall be the Company Secretary.

## COMPOSITION AND ATTENDANCE AT MEETINGS

The Audit Committee comprises the following members and details of attendance of each member at committee meetings held during the year ended 31 December 2011 are as follows:-

| Composition of the Committee | Attendance |
|---|---|
| Dato' Haji Mokhtar Bin Haji Samad<br>(Chairman/ Independent Non-Executive Director) | 6/6 |
| Dato' Tai Chang Eng @ Teh Chang Ying<br>(Member / Independent Non-Executive Director) | 6/6 |
| Tong Siew Choo<br>(Member / Independent Non-Executive Director) | 6/6 |

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

The Group's external auditors attended three (3) of the meetings.

## ACTIVITIES

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

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

(b) reviewed the Statement on Internal Control before submission to the Board for approval;

(c) reviewed and approved the Annual Report of the Audit Committee;

(d) reviewed the terms of the Shareholders' Mandate for Recurrent Related Party Transactions ("RRPT") of a revenue or trading nature and be satisfied the review procedures are sufficient to ensure RRPT will be at arm's length and in accordance with the Group's normal commercial terms and not prejudicial to the shareholders or disadvantageous to the Group;

(e) reviewed with external auditors their audit plan prior to commencement of audit;

(f) discussed and reviewed the Group's financial year end statements with the external auditors including issues and findings noted in the course of the audit of the Group's financial statements;

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

(h) reviewed the credit policy and risk management framework of the Group.

(i) reviewed and appraised the audit report submitted by the internal auditors. The audit reports covered all business sectors of the Group incorporating audit findings and recommendations on system and control weaknesses noted during the course of the audit;

(j) reviewed the audit fees and remuneration payable to external and internal auditors; and

(k) reviewed the viability of acquisition of business.

(l) appraised the adequacy of actions and remedial measures taken by the management in resolving audit issues reported.

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

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding and manufacturing and sales of rubber products, whilst the principal activities of the subsidiaries are as stated in Note 4 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

## RESULTS

| | GROUP<br>RM | COMPANY<br>RM |
|---|---|---|
| Profit for the year attributable to: | | |
| Owners of the Company | 89,684,600 | 43,045,880 |
| Non-controlling interests | 1,396,663 | - |
| | 91,081,263 | 43,045,880 |

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the year under review except as disclosed in the financial statements.

## DIVIDENDS

Since the end of the previous financial year, the Company paid:

i) a final dividend of 8.0 sen per ordinary share, tax exempted, totalling RM25,489,564 in respect of the year ended 31 December 2010 on 19 July 2011; and

ii) an interim ordinary dividend of 3.0 sen per ordinary share, tax exempted, totalling RM9,558,587 in respect of the year ended 31 December 2011 on 20 December 2011.

The final ordinary dividend recommended by the Directors in respect of the year ended 31 December 2011 is 4.0 sen per ordinary share, tax exempted, totalling RM12,744,782.

## DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Dato' Lim Kuang Sia
Lim Kuang Yong
Heng Bak Tan
Lim Kuang Wang
Lim Kwan Hwa
Dato' Haji Mokhtar bin Haji Samad
Dato' Tai Chang Eng @ Teh Chang Ying
Tong Siew Choo
Lim Leng Bung (alternate to Lim Kuang Wang)

## DIRECTORS' INTERESTS

The interest and deemed interest in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

| | Number of ordinary shares of RM0.50 each | | | | |
|---|---|---|---|---|---|
| | At 1.1.2011 | Bought | Sold | Bonus issue | At 31.12.2011 |
| **Direct interest** | | | | | |
| Dato' Lim Kuang Sia | 381,888 | - | - | - | 381,888 |
| Lim Kuang Wang | 718,848 | - | - | - | 718,848 |
| Dato' Tai Chang Eng @ Teh Chang Ying | 229,520 | - | - | - | 229,520 |
| Tong Siew Choo | 29,952 | - | - | - | 29,952 |
| **Deemed interest** | | | | | |
| Dato' Lim Kuang Sia | | | | | |
| - ultimate holding company | 165,456,240 | - | - | - | 165,456,240 |
| - spouse | 522,248 | - | - | - | 522,248 |
| Lim Kuang Yong | | | | | |
| - ultimate holding company | 165,456,240 | - | - | - | 165,456,240 |
| Heng Bak Tan | | | | | |
| - spouse | 28,896 | - | - | - | 28,896 |
| Lim Kuang Wang | | | | | |
| - ultimate holding company | 165,456,240 | - | - | - | 165,456,240 |
| Lim Kwan Hwa | | | | | |
| - ultimate holding company | 165,456,240 | - | - | - | 165,456,240 |
| Lim Leng Bung | | | | | |
| - ultimate holding company | 165,456,240 | - | - | - | 165,456,240 |

By virtue of their interests in the shares of the Company, all Directors except for Dato' Tai Chang Eng @ Teh Chang Ying, Dato' Haji Mokhtar bin Haji Samad and Tong Siew Choo, are deemed interested in the shares of the subsidiaries during the financial year to the extent Kossan Rubber Industries Bhd. has an interest.

None of the other Directors holding office at 31 December 2011 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

## DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business.

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

## ISSUE OF SHARES AND DEBENTURES

There were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

## OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the year.

## OTHER STATUTORY INFORMATION

Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate allowance made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

i) that would render the amount written off for bad debts, or the amount of allowance for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the Group's and in the Company's financial statements misleading, or

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2011 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

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

.....................................................................
Dato' Lim Kuang Sia

.....................................................................
Lim Kuang Yong

Klang, Selangor Darul Ehsan

Date: 19 April 2012

# Statements of Financial Position
## at 31 December 2011



| | NOTE | GROUP 2011 RM | GROUP 2010 RM | COMPANY 2011 RM | COMPANY 2010 RM |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment | 3 | 432,957,973 | 409,514,776 | 29,522,099 | 32,712,713 |
| Investments in subsidiaries | 4 | - | - | 22,051,592 | 8,441,959 |
| Other investments | 5 | 116,000 | 116,000 | 116,000 | 116,000 |
| Deferred tax assets | 6 | 45,876 | 136,217 | - | - |
| Goodwill | 7 | 4,926,380 | 864,456 | - | - |
| **TOTAL NON-CURRENT ASSETS** | | 438,046,229 | 410,631,449 | 51,689,691 | 41,270,672 |
| Inventories | 8 | 163,779,146 | 123,656,566 | 16,753,311 | 14,804,566 |
| Trade and other receivables, including derivatives | 9 | 156,061,412 | 148,379,139 | 123,849,654 | 89,077,079 |
| Prepayments and other assets | | 1,557,236 | 2,136,346 | 86,013 | 98,242 |
| Current tax assets | | 1,379,231 | 1,030,278 | 780,208 | 762,967 |
| Cash and cash equivalents | 10 | 51,623,671 | 91,509,094 | 33,084,370 | 73,124,029 |
| **TOTAL CURRENT ASSETS** | | 374,400,696 | 366,711,423 | 174,553,556 | 177,866,883 |
| **TOTAL ASSETS** | | 812,446,925 | 777,342,872 | 226,243,247 | 219,137,555 |
| **EQUITY** | | | | | |
| Share capital | | 159,866,976 | 159,866,976 | 159,866,976 | 159,866,976 |
| Share premium | | 10,601 | 10,601 | 10,601 | 10,601 |
| Translation reserve | | 2,713 | (45,935) | - | - |
| Treasury shares | | (3,459,787) | (3,030,984) | (3,459,787) | (3,030,984) |
| Revaluation reserve | | 1,122,129 | 1,183,147 | 523,887 | 584,905 |
| Retained earnings | | 339,310,340 | 284,612,873 | 51,618,283 | 43,559,536 |
| **TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | 496,852,972 | 442,596,678 | 208,559,960 | 200,991,034 |
| **NON-CONTROLLING INTERESTS** | | 9,480,126 | 2,018,302 | - | - |
| **TOTAL EQUITY** | 11 | 506,333,098 | 444,614,980 | 208,559,960 | 200,991,034 |
| **LIABILITIES** | | | | | |
| Loans and borrowings | 12 | 25,996,898 | 27,658,718 | 307,968 | 539,789 |
| Deferred tax liabilities | 6 | 34,194,552 | 32,301,989 | 4,172,114 | 4,459,476 |
| **TOTAL NON-CURRENT LIABILITIES** | | 60,191,450 | 59,960,707 | 4,480,082 | 4,999,265 |
| Loans and borrowings | 12 | 133,964,626 | 150,095,656 | 2,849,972 | 3,725,347 |
| Trade and other payables, including derivatives | 13 | 103,460,242 | 113,129,741 | 10,353,233 | 9,421,909 |
| Current tax liabilities | | 8,497,509 | 9,541,788 | - | - |
| **TOTAL CURRENT LIABILITIES** | | 245,922,377 | 272,767,185 | 13,203,205 | 13,147,256 |
| **TOTAL LIABILITIES** | | 306,113,827 | 332,727,892 | 17,683,287 | 18,146,521 |
| **TOTAL EQUITY AND LIABILITIES** | | 812,446,925 | 777,342,872 | 226,243,247 | 219,137,555 |

The notes on pages 37 to 93 are an integral part of these financial statements.

# Statements of Comprehensive Income
## for the year 31 December 2011

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | NOTE | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| Revenue | 14 | 1,089,969,244 | 1,046,886,637 | 139,414,204 | 129,169,219 |
| Other income | | 10,420,083 | 4,336,672 | 2,409,002 | 1,007,959 |
| Changes in inventories of finished goods and work-in- progress | | 34,006,049 | 6,684,773 | 2,278,373 | (1,076,431) |
| Raw materials and consumables used | | (754,037,310) | (662,308,444) | (57,425,854) | (44,806,827) |
| Goods purchased for resale | | (3,873,067) | (3,622,336) | (221,294) | (2,000,954) |
| Staff costs | | (109,355,429) | (102,815,950) | (24,266,143) | (22,359,998) |
| Depreciation of property, plant and equipment | 3 | (40,280,215) | (34,222,032) | (3,601,655) | (3,843,108) |
| Other expenses | | (106,464,217) | (106,302,739) | (14,477,648) | (13,516,475) |
| **RESULTS FROM OPERATING ACTIVITIES** | | 120,385,138 | 148,636,581 | 44,108,985 | 42,573,385 |
| Finance costs | 15 | (7,464,738) | (7,985,883) | (82,708) | (307,821) |
| **PROFIT BEFORE TAX** | 16 | 112,920,400 | 140,650,698 | 44,026,277 | 42,265,564 |
| Income tax expense | 18 | (21,839,137) | (26,886,978) | (980,397) | (3,371,745) |
| **PROFIT AFTER TAX** | | 91,081,263 | 113,763,720 | 43,045,880 | 38,893,819 |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | | | | | |
| Transfer (from)/to: | | | | | |
| - Revaluation reserve | | (61,018) | (61,018) | (61,018) | (61,018) |
| - Retained profits | | 61,018 | 61,018 | 61,018 | 61,018 |
| Foreign currency translation differences for foreign operations | | 2,713 | - | - | - |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | 2,713 | - | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 91,083,976 | 113,763,720 | 43,045,880 | 38,893,819 |
| **PROFIT ATTRIBUTABLE TO:** | | | | | |
| Owners of the Company | | 89,684,600 | 113,376,256 | 43,045,880 | 38,893,819 |
| Non-controlling interests | | 1,396,663 | 387,464 | - | - |
| **PROFIT FOR THE YEAR** | | 91,081,263 | 113,763,720 | 43,045,880 | 38,893,819 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | | | |
| Owners of the Company | | 89,687,313 | 113,376,256 | 43,045,880 | 38,893,819 |
| Non-controlling interests | | 1,396,663 | 387,464 | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 91,083,976 | 113,763,720 | 43,045,880 | 38,893,819 |
| **BASIC EARNINGS PER ORDINARY SHARE (SEN)** | 19 | 28.15 | 35.46 | | |

The notes on pages 37 to 93 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity
## for the year ended 31 December 2011

| | | ← Attributable to owners of the Company | | | | | → | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | ← Non-distributable | | | → | Distributable | | | | |
| | | Share capital | Share premium | Translation reserve | Treasury shares | Revaluation reserve | Retained earnings | Total | Minority interest | Total equity |
| NOTE | NOTE | RM | RM | RM | RM | RM | RM | RM | RM | RM |
| **GROUP** | | | | | | | | | | |
| **At 1 January 2010** | | 79,933,488 | 10,601 | (45,935) | - | 1,244,165 | 265,497,115 | 346,639,434 | 1,630,838 | 348,270,272 |
| Transfer from revaluation reserve to retained earnings | | - | - | - | - | (61,018) | 61,018 | - | - | - |
| Total other comprehensive income for the year | | - | - | - | - | (61,018) | 61,018 | - | - | - |
| Profit for the year | | - | - | - | - | - | 113,376,256 | 113,376,256 | 387,464 | 113,763,720 |
| Total comprehensive income for the year | | - | - | - | - | (61,018) | 113,437,274 | 113,376,256 | 387,464 | 113,763,720 |
| Issue of bonus shares | 11 | 79,933,488 | - | - | - | - | (79,933,488) | - | - | - |
| Dividends to owners of the Company | 20 | - | - | - | - | - | (14,388,028) | (14,388,028) | - | (14,388,028) |
| Share buy-back | 11 | - | - | - | (3,030,984) | - | - | (3,030,984) | - | (3,030,984) |
| **At 31 December 2010 / 1 January 2011** | | 159,866,976 | 10,601 | (45,935) | (3,030,984) | 1,183,147 | 284,612,873 | 442,596,678 | 2,018,302 | 444,614,980 |
| Reserve realised upon disposal of a subsidiary | | - | - | 45,935 | - | - | - | 45,935 | - | 45,935 |
| Foreign currency translation differences from foreign operations | | - | - | 2,713 | - | - | - | 2,713 | - | 2,713 |
| Transfer from revaluation reserve to retained earnings | | - | - | - | - | (61,018) | 61,018 | - | - | - |
| Total other comprehensive income for the year | | - | - | 2,713 | - | (61,018) | 61,018 | 2,713 | - | 2,713 |
| Profit for the year | | - | - | - | - | - | 89,684,600 | 89,684,600 | 1,396,663 | 91,081,263 |
| Total comprehensive income for the year | | - | - | 2,713 | - | (61,018) | 89,745,618 | 89,687,313 | 1,396,663 | 91,083,976 |
| Non-controlling interests arising from acquisition of new a subsidiary | | - | - | - | - | - | - | - | 4,913,546 | 4,913,546 |
| Changes in ownership interests in a subsidiary | | - | - | - | - | - | - | - | 1,151,615 | 1,151,615 |
| Dividends to owners of the Company | 20 | - | - | - | - | - | (35,048,151) | (35,048,151) | - | (35,048,151) |
| Share buy-back | 11 | - | - | - | (428,803) | - | - | (428,803) | - | (428,803) |
| **At 31 December 2011** | | 159,866,976 | 10,601 | 2,713 | (3,459,787) | 1,122,129 | 339,310,340 | 496,852,972 | 9,480,126 | 506,333,098 |
| | | Note 11.1 | Note 11.2 | Note 11.3 | Note 11.4 | Note 11.5 | | | | |



The notes on pages 37 to 93 are an integral part of these financial statements.

# Statement of Changes in Equity
## for the year ended 31 December 2011

| | | Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | Non-distributable | | | | Distributable | |
| | NOTE | Share capital RM | Share premium RM | Treasury shares RM | Revaluation reserve RM | Retained earnings RM | Total equity RM |
| **COMPANY** | | | | | | | |
| **At 1 January 2010** | | 79,933,488 | 10,601 | - | 645,923 | 98,926,215 | 179,516,227 |
| Transfer from revaluation reserves to retained earnings | | - | - | - | (61,018) | 61,018 | - |
| Total other comprehensive income for the year | | - | - | - | (61,018) | 61,018 | - |
| Profit for the year | | - | - | - | - | 38,893,819 | 38,893,819 |
| Total comprehensive income for the year | | - | - | - | (61,018) | 38,954,837 | 38,893,819 |
| Dividends to owners of the Company | **20** | - | - | - | - | (14,388,028) | (14,388,028) |
| Issue of bonus shares | **11** | 79,933,488 | - | - | - | (79,933,488) | - |
| Share buy-back | **11** | - | - | (3,030,984) | - | - | (3,030,984) |
| **At 31 December 2010 / 1 January 2011** | | 159,866,976 | 10,601 | (3,030,984) | 584,905 | 43,559,536 | 200,991,034 |
| Transfer from revaluation reserves to retained earnings | | - | - | - | (61,018) | 61,018 | - |
| Total other comprehensive income for the year | | - | - | - | (61,018) | 61,018 | - |
| Profit for the year | | - | - | - | - | 43,045,880 | 43,045,880 |
| Total comprehensive income for the year | | - | - | - | (61,018) | 43,106,898 | 43,045,880 |
| Dividends to owners of the Company | **20** | - | - | - | - | (35,048,151) | (35,048,151) |
| Share buy-back | **11** | - | - | (428,803) | - | - | (428,803) |
| **At 31 December 2011** | | 159,866,976 | 10,601 | (3,459,787) | 523,887 | 51,618,283 | 208,559,960 |
| | | Note 11.1 | Note 11.2 | Note 11.4 | Note 11.5 | Note 11.6 | |

The notes on pages 37 to 93 are an integral part of these financial statements.

# Statements of Cash Flows
## for the year ended 31 December 2011

| | Note | Group 2011 RM | Group 2010 RM | Company 2011 RM | Company 2010 RM |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit before tax | | 112,920,400 | 140,650,698 | 44,026,277 | 42,265,564 |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | 3 | 40,280,215 | 34,222,032 | 3,601,655 | 3,843,108 |
| Dividend income | 14 | - | - | (40,000,120) | (40,270,118) |
| Finance costs | 15 | 7,464,738 | 7,985,883 | 82,708 | 307,821 |
| (Gain)/ Loss on disposal of property, plant and equipment | 16 | (70,835) | 189,078 | (10,874) | (22,720) |
| Finance income | | (1,587,671) | (1,120,036) | (1,034,217) | (424,683) |
| Property, plant and equipment written off | 16 | 634,719 | 1,529,989 | - | - |
| Net of unrealised derivatives | 16 | 655,551 | (3,586,392) | - | - |
| Net of unrealised foreign exchange differences | 16 | (1,268,081) | (1,433,756) | - | - |
| Negative goodwill | 16 | 52,365 | - | - | - |
| **Operating profit before changes in working capital** | | 159,081,401 | 178,437,496 | 6,665,429 | 5,698,972 |
| Changes in working capital: | | | | | |
| Inventories | | (36,708,561) | (13,739,102) | (1,948,745) | 393,836 |
| Trade and other receivables, prepayments and other financial assets | | (994,168) | (14,821,791) | (35,860,972) | 56,289,416 |
| Trade and other payables | | (13,147,645) | 15,646,934 | 2,031,950 | 933,920 |
| Cash generated from/(used in) operations | | 108,231,027 | 165,523,537 | (29,112,338) | 63,316,144 |
| Dividends paid | 20 | (35,048,151) | (14,388,028) | (35,048,151) | (14,388,028) |
| Interest received | | 1,587,671 | 1,120,036 | 1,034,217 | 424,683 |
| Interest paid | | (7,464,738) | (7,985,883) | (82,708) | (307,821) |
| Income tax paid | | (21,395,321) | (6,420,662) | (1,285,000) | (809,711) |
| **Net cash from/(used in) operating activities** | | 45,910,488 | 137,849,000 | (64,493,980) | 48,235,267 |



The notes on pages 37 to 93 are an integral part of these financial statements.

# Statements of Cash Flows
## for the year ended 31 December 2011

| | Note | Group 2011 RM | Group 2010 RM | Company 2011 RM | Company 2010 RM |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Proceeds from disposal of property, plant and equipment | | 87,130 | 230,050 | 14,430 | 40,000 |
| Purchase of property, plant and equipment | *(ii)* | (39,784,522) | (85,152,104) | (414,597) | (984,888) |
| Proceeds from insurance claim | | - | 45,545,779 | - | - |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | 24 | (8,815,622) | - | (9,176,002) | - |
| Proceeds from rights issue in a subsidiary | | 1,151,615 | - | - | - |
| Increase in investments in subsidiaries | | - | - | (4,433,631) | (199,996) |
| Dividend received | | - | - | 40,000,120 | 37,702,611 |
| **Net cash (used in)/from investing activities** | | (47,361,399) | (39,376,275) | 25,990,320 | 36,557,727 |
| **Cash flows from financing activities** | | | | | |
| Increase in deposits pledged | | (264,699) | - | - | - |
| Repayment of finance lease liabilities | | (18,932,519) | (20,747,387) | (247,534) | (492,856) |
| Drawdown of borrowings | | - | 13,546,011 | - | - |
| Repayment of borrowings | | (11,846,166) | (24,983,698) | (708,000) | (6,701,000) |
| Repurchase of treasury share | | (428,803) | (3,030,984) | (428,803) | (3,030,984) |
| **Net cash used in financing activities** | | (31,472,187) | (35,216,058) | (1,384,337) | (10,224,840) |
| Net (decrease)/increase in cash and cash equivalents | | (32,923,098) | 63,256,667 | (39,887,997) | 74,568,154 |
| Cash and cash equivalents at 1 January | | 80,659,080 | 17,402,413 | 71,269,784 | (3,298,370) |
| **Cash and cash equivalents at 31 December** | *(i)* | 47,735,982 | 80,659,080 | 31,381,787 | 71,269,784 |

The notes on pages 37 to 93 are an integral part of these financial statements.

## *i) Cash and cash equivalents*

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2011 | 2010 | 2011 | 2010 |
| | | RM | RM | RM | RM |
| Cash and bank balances | 10 | 32,307,671 | 5,817,793 | 24,084,370 | 1,124,029 |
| Short term deposits | 10 | 19,316,000 | 85,691,301 | 9,000,000 | 72,000,000 |
| Bank overdrafts | 12 | (2,931,689) | (10,158,713) | (1,702,583) | (1,854,245) |
| | | 48,691,982 | 81,350,381 | 31,381,787 | 71,269,784 |
| Less: Deposits pledged | 10 | (956,000) | (691,301) | - | - |
| | | 47,735,982 | 80,659,080 | 31,381,787 | 71,269,784 |

## *ii) Acquisition of property, plant and equipment*

During the year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM59,593,225 (2010: RM86,430,504) and RM414,597 (2010: RM1,933,888) respectively of which RM19,808,703 (2010:RM1,278,400) and Nil (2010: RM949,000) respectively were acquired by means of finance leases.

# Notes to the Financial Statements

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

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities"). The financial statements of the Company as at and for the year ended 31 December 2011 do not include other entities.

The Company is principally involved in investment holding and manufacturing and sales of rubber products, whilst the principal activities of the subsidiaries are as stated in Note 4 to the financial statements.

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

The financial statements were authorised for issuance by the Board of Directors on 19 April 2012.

## 1. Basis of preparation

### (a) Statement of compliance

The financial statements have been prepared in accordance with Financial Reporting Standards (FRS), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

The following accounting standards, amendments and interpretations of the FRS framework that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Group and the Company:

***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011***
- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*

***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012***
- FRS 124, *Related Party Disclosures* (revised)
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
- Amendments to FRS 112, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012***
- Amendments to FRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

## 1. Basis of preparation (continued)

### (a) Statement of compliance (continued)

***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013***

- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits (2011)*
- FRS 127, *Separate Financial Statements (2011)*
- FRS 128, *Investments in Associates and Joint Ventures (2011)*
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014***

- Amendments to FRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015***

- FRS 9, *Financial Instruments (2009)*
- FRS 9, *Financial Instruments (2010)*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Mandatory Date of FRS 9 and Transition Disclosures*

The Group's and the Company's financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (MFRSs) issued by the MASB and International Financial Reporting Standards (IFRSs). As a result, the Company will not be adopting the above FRSs, Interpretations and amendments.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM, unless otherwise stated.

### (d) Use of estimates and judgements

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

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

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

## 2. Significant accounting policies

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

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

#### (ii) Accounting for business combinations

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

The Group changed its accounting policy with respect to accounting for business combinations.

From 1 January 2011 the Group has applied FRS 3, Business Combinations (revised) in accounting for business combinations. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share.

***Acquisitions on or after 1 January 2011***

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

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

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (ii) Accounting for business combinations (continued)

***Acquisitions on or after 1 January 2011 (continued)***

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

***Acquisitions between 1 January 2006 and 1 January 2011***

For acquisitions between 1 January 2006 and 1 January 2011, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

***Acquisitions prior to 1 January 2006***

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

#### (iii) Accounting for acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

#### (iv) Loss of control

The Group applied FRS 127, Consolidated and Separate Financial Statements (revised) since the beginning of the reporting period in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share. Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

In the previous years, if the Group retained any interest in the previous subsidiary, such interest was measured at the carrying amount at the date that control was lost and this carrying amount would be regarded as cost on initial measurement of the investment.

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (v) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company.

Non-controlling interests in the results of the Group is presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

Since the beginning of the reporting period, the Group has applied FRS 127, *Consolidated and Separate Financial Statements* (revised) where losses applicable to the non-controlling interests in a subsidiary are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. This change in accounting policy is applied prospectively in accordance with the transitional provisions of the standard and does not have impact on earnings per share.

In the previous years, where losses applicable to the non-controlling interests exceed their interests in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, were charged against the Group's interest except to the extent that the non-controlling interests had a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest was allocated with all such profits until the non-controlling interests' share of losses previously absorbed by the Group has been recovered.

#### (vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency

#### (i) Foreign currency transactions

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

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

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

## 2. Significant accounting policies (continued)

### (b) Foreign currency (continued)

#### (i) Foreign currency transactions (continued)

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

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2006 which are reported using the exchange rates at the dates of the acquisitions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR within equity.

### (c) Financial instruments

#### (i) Initial recognition and measurement

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

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

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

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

The Group and the Company categorise financial instruments as follows:

***Financial assets***

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

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

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

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

***(b) Loans and receivables***

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

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

***(c) Available-for-sale financial assets***

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

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

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

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

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

***Financial liabilities***

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

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

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

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

#### (iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

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

### (d) Property, plant and equipment

#### (i) Recognition and measurement

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

The Group has availed itself to the transitional provision when MASB first adopted IAS 16 Property, Plant and Equipment in 1998. Certain freehold land and buildings were revalued in 1995 and no later valuation has been recorded for these properties.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

## 2. Significant accounting policies (continued)

### (d) Property, plant and equipment (continued)

#### (i) Recognition and measurement (continued)

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

#### (ii) Subsequent costs

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

#### (iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

| | |
|---|---|
| • Buildings | 50 years |
| • Plant and machinery | 5 - 10 years |
| • Motor vehicles | 5 years |
| • Factory renovation | 10 years |
| • Factory furniture and equipment | 10 years |
| • Electrical installation | 10 years |
| • Office furniture, equipment and renovation | 10 years |

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

## 2. Significant accounting policies (continued)

### (e) Leased assets

#### (i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition of the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

#### (ii) Operating lease

Leases, where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the Group's statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

### (f) Intangible assets

#### Goodwill

Goodwill arises on business combinations and is measured at cost less any accumulated impairment losses.

## 2. Significant accounting policies (continued)

### (g) Inventories

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

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

### (h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

### (i) Impairment

#### (i) Financial assets

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

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

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

## 2. Significant accounting policies (continued)

### (i) Impairment (continued)

#### (i) Financial assets (continued)

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

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

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

#### (ii) Other assets

The carrying amounts of other assets (except for inventories and deferred tax asset) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) *on a pro rata* basis.

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

## 2. Significant accounting policies (continued)

### (j) Equity instruments

All equity instruments are stated at cost on initial recognition and are not remeasured subsequently.

#### (i) Issue expenses

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

#### (ii) Repurchase, disposal and reissue of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Where treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

Where treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

#### (iii) Dividend to owners of the Company

Dividends on ordinary shares are recognised as liabilities when declared, before the end of the reporting period. A dividend declared after the end of the reporting period, but before the financial statements are authorised for issue, is not recognised as a liability at the end of the reporting period. Upon the dividend becoming payable, it will be accounted for as a liability.

### (k) Employee benefits

#### (i) Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (ii) State plans

The Group’s contributions to the statutory pension funds are charged to the profit or loss in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

## 2. Significant accounting policies (continued)

### (l) Revenue and other income

#### (i) Goods sold

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

#### (ii) Interest income

Interest income is recognised as it accrues, using the effective interest method.

#### (iii) Dividend income

Dividend income is recognised in the profit or loss on the date that the Group's or the Company's right to receive payment is established.

### (m) Borrowing costs

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

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

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### (n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

## 2. Significant accounting policies (continued)

### (n) Income tax (continued)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentives can be utilised.

### (o) Earnings per share

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

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

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

### (p) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. An operating segment’s operating results are reviewed regularly by the chief operating decision maker, which in this case is the Managing Director of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

## 3. Property, Plant and Equipment

| GROUP | Freehold land RM | Buildings RM | Plant and machinery RM | Motor vehicles RM | Factory renovation RM | Factory furniture and equipment RM | Electrical installation RM | Office furniture, equipment and renovation RM | Plant and machinery under construction RM | Building under construction RM | Total RM |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Cost/Valuation*** | | | | | | | | | | | |
| At 1 January 2010 | 50,730,521 | 95,007,004 | 351,101,512 | 7,925,623 | 4,056,768 | 4,939,541 | 2,655,451 | 7,391,704 | 2,881,966 | 373,118 | 527,063,208 |
| Additions | 920,857 | 955,622 | 19,433,108 | 1,534,201 | 1,049,377 | 363,538 | 781,396 | 528,116 | 40,951,095 | 19,913,194 | 86,430,504 |
| Disposals | - | - | (12,364,166) | (219,923) | - | - | - | (2,600) | - | - | (12,586,689) |
| Write-off | - | - | (9,413,861) | - | - | - | - | (1,350) | - | - | (9,415,211) |
| At 31 December 2010/ 1 January 2011 | 51,651,378 | 95,962,626 | 348,756,593 | 9,239,901 | 5,106,145 | 5,303,079 | 3,436,847 | 7,915,870 | 43,833,061 | 20,286,312 | 591,491,812 |
| Acquisition through business combination | - | 1,064,069 | 6,869,502 | - | - | - | - | 184,823 | - | - | 8,118,394 |
| Additions | 9,379,365 | 1,847,260 | 12,466,877 | 911,287 | 1,068,433 | 605,906 | 98,878 | 808,490 | 24,373,385 | 8,033,344 | 59,593,225 |
| Disposals | - | - | (13,700) | (379,659) | - | - | - | (7,621) | - | - | (400,980) |
| Write-off | - | - | (671,885) | (41,055) | - | - | - | - | - | - | (712,940) |
| Transfer | - | 21,516,800 | 48,634,942 | 160,000 | 1,525,169 | 1,546,577 | - | 504,537 | (53,601,713) | (20,286,312) | - |
| Effect of movements in exchange rates | - | (19,951) | 181,565 | - | - | - | - | 7,465 | - | - | 169,079 |
| **At 31 December 2011** | **61,030,743** | **120,370,804** | **416,223,894** | **9,890,474** | **7,699,747** | **7,455,562** | **3,535,725** | **9,413,564** | **14,604,733** | **8,033,344** | **658,258,590** |
| Representing items: | | | | | | | | | | | |
| At cost | 55,148,947 | 108,762,600 | 416,223,894 | 9,890,474 | 7,699,747 | 7,455,562 | 3,535,725 | 9,413,564 | 14,604,733 | 8,033,344 | 640,768,590 |
| At valuation | 5,881,796 | 11,608,204 | - | - | - | - | - | - | - | - | 17,490,000 |
| **At 31 December 2011** | **61,030,743** | **120,370,804** | **416,223,894** | **9,890,474** | **7,699,747** | **7,455,562** | **3,535,725** | **9,413,564** | **14,604,733** | **8,033,344** | **658,258,590** |
| ***Accumulated depreciation*** | | | | | | | | | | | |
| At 1 January 2010 | - | 9,966,921 | 143,579,218 | 6,390,603 | 1,841,693 | 1,860,220 | 1,379,811 | 2,789,321 | - | - | 167,807,787 |
| Charge for the year | - | 2,023,663 | 29,656,005 | 814,505 | 430,037 | 382,824 | 225,332 | 689,666 | - | - | 34,222,032 |
| Disposals | - | - | (11,978,001) | (189,343) | - | - | - | (217) | - | - | (12,167,561) |
| Write off | - | - | (7,884,038) | - | - | - | - | (1,184) | - | - | (7,885,222) |
| At 31 December 2010/ 1 January 2011 | - | 11,990,584 | 153,373,184 | 7,015,765 | 2,271,730 | 2,243,044 | 1,605,143 | 3,477,586 | - | - | 181,977,036 |
| Acquisition through business combination | - | 679,123 | 2,664,074 | - | - | - | - | 122,376 | - | - | 3,465,573 |
| Charge for the year | - | 2,478,469 | 34,606,502 | 894,522 | 646,014 | 705,908 | 256,067 | 692,733 | - | - | 40,280,215 |
| Disposals | - | - | (972) | (379,648) | - | - | - | (4,065) | - | - | (384,685) |
| Write off | - | - | (37,167) | (41,054) | - | - | - | - | - | - | (78,221) |
| Effect of movements in exchange rates | - | (12,816) | 48,846 | - | - | - | - | 4,669 | - | - | 40,699 |
| **At 31 December 2011** | **-** | **15,135,360** | **190,654,467** | **7,489,585** | **2,917,744** | **2,948,952** | **1,861,210** | **4,293,299** | **-** | **-** | **225,300,617** |
| ***Carrying amounts*** | | | | | | | | | | | |
| At 1 January 2010 | 50,730,521 | 85,040,083 | 207,522,294 | 1,535,020 | 2,215,075 | 3,079,321 | 1,275,640 | 4,602,383 | 2,881,966 | 373,118 | 359,255,421 |
| At 31 December 2010/ 1 January 2011 | 51,651,378 | 83,972,042 | 195,383,409 | 2,224,136 | 2,834,415 | 3,060,035 | 1,831,704 | 4,438,284 | 43,833,061 | 20,286,312 | 409,514,776 |
| **At 31 December 2011** | **61,030,743** | **105,235,444** | **225,569,427** | **2,400,889** | **4,782,003** | **4,506,610** | **1,674,515** | **5,120,265** | **14,604,733** | **8,033,344** | **432,957,973** |

## 3. Property, Plant and Equipment

| COMPANY | Freehold land RM | Buildings RM | Plant and machinery RM | Motor vehicles RM | Factory renovation RM | Office furniture and equipment RM | Total RM |
|---|---|---|---|---|---|---|---|
| ***Cost/Valuation*** | | | | | | | |
| At 1 January 2010 | 5,688,582 | 17,036,482 | 47,343,091 | 2,491,340 | 133,158 | 2,074,351 | 74,767,004 |
| Additions | - | - | 757,042 | 1,132,254 | - | 44,592 | 1,933,888 |
| Disposals | - | - | (10,000) | (148,923) | - | - | (158,923) |
| At 31 December 2010/ 1 January 2011 | 5,688,582 | 17,036,482 | 48,090,133 | 3,474,671 | 133,158 | 2,118,943 | 76,541,969 |
| Additions | - | - | 236,592 | 97,938 | - | 80,067 | 414,597 |
| Disposals | - | - | - | (68,846) | - | (7,621) | (76,467) |
| At 31 December 2011 | 5,688,582 | 17,036,482 | 48,326,725 | 3,503,763 | 133,158 | 2,191,389 | 76,880,099 |
| Representing items: | | | | | | | |
| At cost | 849,786 | 7,438,278 | 48,326,725 | 3,503,763 | 133,158 | 2,191,389 | 62,443,099 |
| At valuation | 4,838,796 | 9,598,204 | - | - | - | - | 14,437,000 |
| At 31 December 2011 | 5,688,582 | 17,036,482 | 48,326,725 | 3,503,763 | 133,158 | 2,191,389 | 76,880,099 |
| ***Accumulated depreciation*** | | | | | | | |
| At 1 January 2010 | - | 3,774,027 | 33,642,557 | 2,217,213 | 133,158 | 360,836 | 40,127,791 |
| Charge for the year | - | 341,055 | 2,966,868 | 324,954 | - | 210,231 | 3,843,108 |
| Disposals | - | - | (10,000) | (131,643) | - | - | (141,643) |
| At 31 December 2010/ 1 January 2011 | - | 4,115,082 | 36,599,425 | 2,410,524 | 133,158 | 571,067 | 43,829,256 |
| Charge for the year | - | 341,054 | 2,736,544 | 306,793 | - | 217,264 | 3,601,655 |
| Disposals | - | - | - | (68,846) | - | (4,065) | (72,911) |
| At 31 December 2011 | - | 4,456,136 | 39,335,969 | 2,648,471 | 133,158 | 784,266 | 47,358,000 |
| ***Carrying amounts*** | | | | | | | |
| At 1 January 2010 | 5,688,582 | 13,262,455 | 13,700,534 | 274,127 | - | 1,713,515 | 34,639,213 |
| At 31 December 2010/ 1 January 2011 | 5,688,582 | 12,921,400 | 11,490,708 | 1,064,147 | - | 1,547,876 | 32,712,713 |
| At 31 December 2011 | 5,688,582 | 12,580,346 | 8,990,756 | 855,292 | - | 1,407,123 | 29,522,099 |

## 3. Property, plant and equipment (continued)

### *3.1 Leased plant and machinery*

At 31 December 2011, the net carrying amount of leased plant and machinery was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **RM** | **RM** | **RM** | **RM** |
| Plant and machinery | 49,806,942 | 65,848,730 | - | 123,589 |
| Motor vehicles | 1,248,562 | 1,212,581 | 650,063 | 859,371 |
| | 51,055,504 | 67,061,311 | 650,063 | 982,960 |

### *3.2 Security*

The carrying amount of the following property, plant and equipment have been pledged to the banks for credit facilities granted to the Group and the Company (see Note 12):

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **RM** | **RM** | **RM** | **RM** |
| Freehold land and building | 81,546,531 | 82,803,009 | 8,222,858 | 8,290,469 |

### *3.3 Property, plant and equipment under the revaluation model*

The freehold land and buildings of the Group and of the Company were revalued in 1995 by the Directors at values of approximately RM17,490,000 and RM14,437,000 respectively, which were based on valuations performed by a firm of professional valuer on the open market value basis at 24 March 1995. The surplus arising from this revaluation has been credited to revaluation reserve account.

Had the revalued assets been carried at historical cost less accumulated depreciation and impairment, the carrying amount of the Group's and Company's revalued assets that would have been included in the financial statements are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **RM** | **RM** | **RM** | **RM** |
| Freehold land and building | 7,923,503 | 8,024,343 | 6,184,395 | 6,220,483 |

## 4. Investments in subsidiaries

| | Company 2011 RM | Company 2010 RM |
|---|---|---|
| Unquoted shares, at cost | 22,051,592 | 8,441,959 |

Details of the subsidiaries are as follows:

| Name of subsidiary | Country of incorporation | Principal activities | Effective ownership interest 2011 % | Effective ownership interest 2010 % |
|---|---|---|---|---|
| Kossan Latex Industries (M) Sdn. Bhd. | Malaysia | Manufacturing of latex examination gloves | 100 | 100 |
| Perusahaan Getah Asas Sdn. Bhd. | Malaysia | Manufacturing of latex examination gloves | 100 | 100 |
| Hibon Corporation Sdn. Bhd. | Malaysia | Manufacturing and marketing of rubber based parts and products | 100 | 100 |
| Doshin Rubber Products (M) Sdn. Bhd. | Malaysia | Manufacturing and dealing in rubber products | 70 | 70 |
| Ideal Quality Sdn. Bhd. | Malaysia | Manufacturing of latex examination gloves | 100 | 100 |
| Kossan Engineering (M) Sdn. Bhd. | Malaysia | Fabrication and installation of machinery | 100 | 100 |
| Top Calibre Sdn. Bhd. | Malaysia | Investment holding | 100 | 100 |
| Kossan Sdn. Bhd. | Malaysia | Dormant | 100 | 100 |
| Premium Medical Product Sdn. Bhd. | Malaysia | Investment holding | 100 | - |
| Cleanera (M) Sdn. Bhd. | Malaysia | Trading of latex examination gloves and cleanroom products | 100 | - |
| Cleanera HK Limited# | Hong Kong | Investment holding and the , manufacturing of cleanroom gloves | 55 | - |

## 4. Investments in subsidiaries (continued)

| Name of subsidiary | Country of incorporation | Principal activities | Effective ownership interest 2011 % | 2010 % |
|---|---|---|---|---|
| **Subsidiary of Doshin Rubber Products (M) Sdn. Bhd.** | | | | |
| Quality Profile Sdn. Bhd. | Malaysia | Manufacturing and dealing in rubber products | 70 | 70 |
| **Subsidiary of Ideal Quality Sdn. Bhd** | | | | |
| Normadin Pacific Holdings Corp. # * | Malaysia | Trading of latex examination gloves | - | 51 |
| **Subsidiary of Cleanera HK Limited** | | | | |
| Dongguang Cleanera Cleanroom Products Company Limited# | The People's Republic of China | Manufacturing and dealing in cleanroom products | 55 | - |
| **Subsidiary of Kossan Engineering (M) Sdn. Bhd.** | | | | |
| Envi-Care Sdn. Bhd. | Malaysia | Investment holding | 100 | 100 |
| **Subsidiary of Envi-Care Sdn. Bhd.** | | | | |
| Wear Safe (Malaysia) Sdn. Bhd. | Malaysia | Manufacturing of surgical, procedure and examination gloves | 100 | 100 |

# Not audited by member firms of KPMG International.

* The sub-subsidiary was liquidated on 7 January 2011 and the costs relating to the liquidation had been taken up in the previous financial year.

## 5. Other investments

| | Group and Company 2011 RM | 2010 RM |
|---|---|---|
| **Non-current** | | |
| Investment in club membership | | |
| - Available-for-sale financial assets at amortised cost | 116,000 | 116,000 |

## 6. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| **Group** | | | | | | |
| Property, plant and equipment | - | - | (38,761,592) | (33,953,000) | (38,761,592) | (33,953,000) |
| Revaluation on properties | - | - | (662,898) | (683,237) | (662,898) | (683,237) |
| Unabsorbed capital allowance | - | 113,639 | - | - | - | 113,639 |
| Unutilised reinvestment allowance | 5,170,202 | 3,387,559 | - | - | 5,170,202 | 3,387,559 |
| Tax loss carry-forwards | 2,887 | 181,968 | - | - | 2,887 | 181,968 |
| Derivatives | 163,888 | - | - | (896,598) | 163,888 | (896,598) |
| Other item | - | - | (61,163) | (316,103) | (61,163) | (316,103) |
| Tax assets/(liabilities) | 5,336,977 | 3,683,166 | (39,485,653) | (35,848,938) | (34,148,676) | (32,165,772) |
| Set off | (5,291,101) | (3,546,949) | 5,291,101 | 3,546,949 | - | - |
| Net tax assets/(liabilities) | 45,876 | 136,217 | (34,194,552) | (32,301,989) | (34,148,676) | (32,165,772) |
| **Company** | | | | | | |
| Property, plant and equipment | - | - | (3,542,301) | (3,851,661) | (3,542,301) | (3,851,661) |
| Revaluation on properties | - | - | (629,813) | (650,152) | (629,813) | (650,152) |
| Others | - | 42,337 | - | - | - | 42,337 |
| Tax assets/(liabilities) | - | 42,337 | (4,172,114) | (4,501,813) | (4,172,114) | (4,459,476) |
| Set off | - | (42,337) | - | 42,337 | - | - |
| Net tax liabilities | - | - | (4,172,114) | (4,459,476) | (4,172,114) | (4,459,476) |

Deferred tax assets and liabilities are offset where there is legally enforceable right to set off current tax assets against current tax liabilities and where the defined taxes relate to the same tax authority.

### Unrecognised deferred tax assets

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

| | Group | |
|---|---|---|
| | 2011 RM | 2010 RM |
| Tax loss carry-forwards | 71,779 | 23,815 |
| | 71,779 | 23,815 |
| Tax at 25% | 17,945 | 5,954 |

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

## 6. Deferred tax assets and liabilities (continued)

### Movement in temporary differences during the year

| | Property, plant and equipment RM | Revaluation on properties RM | Unabsorbed capital allowance RM | Unutilised reinvestment allowance RM | Tax loss carry-forwards RM | Derivatives RM | Other item RM | Total RM |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| At 1 January 2010 | (28,544,626) | (703,577) | 171,901 | 8,504,592 | - | 3,576,480 | (277,422) | (17,272,652) |
| Recognised in profit or loss (Note 18) | (5,408,374) | 20,340 | (58,262) | (5,117,033) | 181,968 | (4,473,078) | (38,681) | (14,893,120) |
| At 31 December 2010/ 1 January 2011 | (33,953,000) | (683,237) | 113,639 | 3,387,559 | 181,968 | (896,598) | (316,103) | (32,165,772) |
| Acquired in business combinations | (46,105) | - | - | - | - | - | - | (46,105) |
| Recognised in profit or loss (Note 18) | (4,762,487) | 20,339 | (113,639) | 1,782,643 | (179,081) | 1,060,486 | 254,940 | (1,936,799) |
| At 31 December 2011 | (38,761,592) | (662,898) | - | 5,170,202 | 2,887 | 163,888 | (61,163) | (34,148,676) |

| | Property, plant and equipment RM | Revaluation on properties RM | Others RM | Total RM |
|---|---|---|---|---|
| Company | | | | |
| At 1 January 2010 | (3,897,583) | (670,492) | - | (4,568,075) |
| Recognised in profit or loss (Note 18) | 45,922 | 20,340 | 42,337 | 108,599 |
| At 31 December 2010 / 1 January 2011 | (3,851,661) | (650,152) | 42,337 | (4,459,476) |
| Recognised in profit or loss (Note 18) | 309,360 | 20,339 | (42,337) | 287,362 |
| At 31 December 2011 | (3,542,301) | (629,813) | - | (4,172,114) |

## 7. Goodwill

| Group | Note | Goodwill RM |
|---|---|---|
| **Cost** | | |
| At 1 January 2010/31 December 2010/1 January 2011 | | 864,456 |
| Acquisitions through business combinations | 24 | 4,061,924 |
| At 31 December 2011 | | 4,926,380 |

### 7.1 Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The amount of goodwill represents the unamortised balance of goodwill arising from consolidation with Kossan Rubber Industries Bhd. The recoverable amount of the investment in this subsidiary was based on its value in use which was higher than its carrying amount. No impairment loss was recognised for this subsidiary in the previous year.

Value in use was determined by discounting the future cash flows generated from the investment in the subsidiary at 10.3% for 5 years and was based on the following key assumptions:

- Cash flows projected based on actual operating results.
- The subsidiary will continue its operation indefinitely.
- The size of operation will remain with at least or not lower than the current results.

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

## 8. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| Raw material | 43,145,038 | 37,028,507 | 9,393,540 | 9,723,168 |
| Work-in-progress | 3,723,800 | 3,950,804 | 3,060,286 | 2,963,829 |
| Finished goods | 116,910,308 | 82,677,255 | 4,299,485 | 2,117,569 |
| | 163,779,146 | 123,656,566 | 16,753,311 | 14,804,566 |

## 9. Trade and other receivables, including derivatives

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| **Trade** | | | | | |
| Trade receivables | | 146,684,246 | 139,533,589 | 14,858,763 | 13,672,264 |
| Amount due from subsidiaries | 9.1 | - | - | 10,143,810 | 15,384,679 |
| Amount due from related parties | 9.1 | 206,938 | 270,154 | 201,227 | 158,528 |
| | | 146,891,184 | 139,803,743 | 25,203,800 | 29,215,471 |
| **Non-trade** | | | | | |
| Amount due from subsidiaries | 9.1 | - | - | 97,394,537 | 59,058,214 |
| Amount due from related parties | 9.1 | 897,178 | 860,477 | - | - |
| Other receivables | | 4,995,361 | 2,441,975 | 71,973 | 10,271 |
| Refundable deposits | | 3,182,089 | 1,686,552 | 1,179,344 | 793,123 |
| Financial asset at fair value through profit or loss - Forward foreign currency contracts | | 95,600 | 3,586,392 | - | - |
| | | 9,170,228 | 8,575,396 | 98,645,854 | 59,861,608 |
| | | 156,061,412 | 148,379,139 | 123,849,654 | 89,077,079 |

### *9.1 Amount due from subsidiaries and related parties*

The trade receivables due from subsidiaries and related parties are subject to normal trade terms.

The non-trade receivable due from subsidiaries and related parties are unsecured, interest free and repayable on demand.

## 10. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | RM | RM | RM | RM |
| Cash and bank balances | 32,307,671 | 5,817,793 | 24,084,370 | 1,124,029 |
| Short term deposits with licensed banks | 19,316,000 | 85,691,301 | 9,000,000 | 72,000,000 |
| | 51,623,671 | 91,509,094 | 33,084,370 | 73,124,029 |

Included in deposits with licensed banks of the Group are amounts of RM956,000 (2010: RM691,301) pledged to the banks for banking facilities granted to the Group.

## 11. Share capital and reserves

### *11.1 Share capital*

| | Group and Company | | | |
|---|---|---|---|---|
| | Amount 2011 RM | Number of shares 2011 | Amount 2010 RM | Number of shares 2010 |
| Authorised: | | | | |
| Ordinary shares of RM0.50 each | | | | |
| At 1 January | 1,000,000,000 | 2,000,000,000 | 150,000,000 | 300,000,000 |
| Created during the year | - | - | 850,000,000 | 1,700,000,000 |
| At 31 December | 1,000,000,000 | 2,000,000,000 | 1,000,000,000 | 2,000,000,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of RM0.50 each | | | | |
| At 1 January | 159,866,976 | 319,733,952 | 79,933,488 | 159,866,976 |
| Issue of bonus shares | - | - | 79,933,488 | 159,866,976 |
| At 31 December | 159,866,976 | 319,733,952 | 159,866,976 | 319,733,952 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company’s residual assets. In respect of the Company’s treasury shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

The movements in each category of reserves are disclosed in the statement of changes in equity.

## 11. Share capital and reserves (continued)

### *11.2 Share premium*

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

### *11.3 Translation reserve*

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

### *11.4 Treasury shares*

The shareholders of the Company, by an ordinary resolution passed in a general meeting held on 21 June 2011(2010: 22 June 2010), approved the Company's plan to repurchase its own shares. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders. During the year, the Company repurchased 145,000 (2010: 969,400) of its issued share capital from the open market as summarised below:

| | Average repurchase price RM | Highest repurchase price RM | Lowest repurchase price RM | Number of treasury shares repurchase | Total consideration paid RM |
|---|---|---|---|---|---|
| Opening | | | | 969,400 | 3,030,984 |
| March 2011 | 2.96 | 2.96 | 2.92 | 145,000 | 428,803 |
| | | | | 1,114,400 | 3,459,787 |

The repurchase transactions were financed by internally generated funds. The shares repurchased were retained as treasury shares.

As at 31 December 2011, the Group held 1,114,400 (2010: 969,400) of the Company's shares.

### *11.5 Revaluation reserve*

Revaluation reserve relates to the revaluation of the Group's property, plant and equipment in 1995.

### *11.6 Retained earning*

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained earnings at 31 December 2011 if paid out as dividends.

The Finance Act 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the remaining Section 108 tax credit as at 31 December 2011 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

## 12. Loans and borrowings

| | Group 2011 RM | Group 2010 RM | Company 2011 RM | Company 2010 RM |
|---|---|---|---|---|
| **Non-current** | | | | |
| Term loans (secured) | 18,194,778 | 24,534,007 | - | - |
| Finance lease liabilities | 7,802,120 | 3,124,711 | 307,968 | 539,789 |
| | 25,996,898 | 27,658,718 | 307,968 | 539,789 |
| **Current** | | | | |
| Term loans (secured) | 6,135,354 | 7,595,914 | - | - |
| Revolving credit (unsecured) | 25,100,991 | 25,563,680 | - | - |
| Bank overdraft (unsecured) | 2,931,689 | 10,158,713 | 1,702,583 | 1,854,245 |
| Trade finance (unsecured) | 90,772,721 | 94,356,409 | 911,000 | 1,619,000 |
| Finance lease liabilities | 9,023,871 | 12,420,940 | 236,389 | 252,102 |
| | 133,964,626 | 150,095,656 | 2,849,972 | 3,725,347 |
| | 159,961,524 | 177,754,374 | 3,157,940 | 4,265,136 |

### *12.1 Security*

Secured borrowings are secured over certain property, plant and equipment of the Group (see Note 3) and corporate guarantee by the Company.

### *12.2 Terms and debt repayment schedule*

| Group | Year of maturity | Carrying amount RM | Under 1 year RM | 1 - 2 years RM | 2 - 5 years RM | Over 5 years RM |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| Term loans | | | | | | |
| - secured | 2012 - 2018 | 24,330,132 | 6,135,354 | 4,714,251 | 9,620,180 | 3,860,347 |
| Bank overdraft | | | | | | |
| - unsecured | 2012 | 2,931,689 | 2,931,689 | - | - | - |
| Revolving credit | | | | | | |
| - unsecured | 2012 | 25,100,991 | 25,100,991 | - | - | - |
| Trade finance | | | | | | |
| - unsecured | 2012 | 90,772,721 | 90,772,721 | - | - | - |
| | | 143,135,533 | 124,940,755 | 4,714,251 | 9,620,180 | 3,860,347 |

## 12. Loans and borrowings (continued)

### *12.2 Terms and debt repayment schedule (continued)*

| Group | Year of maturity | Carrying amount RM | Under 1 year RM | 1 - 2 years RM | 2 - 5 years RM | Over 5 years RM |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Term loans | | | | | | |
| - secured | 2011 - 2018 | 32,129,921 | 7,595,914 | 6,135,314 | 11,159,765 | 7,238,928 |
| Bank overdraft | | | | | | |
| - unsecured | 2011 | 10,158,713 | 10,158,713 | - | - | - |
| Revolving credit | | | | | | |
| - unsecured | 2011 | 25,563,680 | 25,563,680 | - | - | - |
| Trade finance | | | | | | |
| - unsecured | 2011 | 94,356,409 | 94,356,409 | - | - | - |
| | | 162,208,723 | 137,674,716 | 6,135,314 | 11,159,765 | 7,238,928 |
| **Company** | | | | | | |
| **2011** | | | | | | |
| Bank overdraft | | | | | | |
| - unsecured | 2012 | 1,702,583 | 1,702,583 | - | - | - |
| Trade finance | | | | | | |
| - unsecured | 2012 | 911,000 | 911,000 | - | - | - |
| | | 2,613,583 | 2,613,583 | - | - | - |
| **2010** | | | | | | |
| Bank overdraft | | | | | | |
| - unsecured | 2011 | 1,854,245 | 1,854,245 | - | - | - |
| Trade finance | | | | | | |
| - unsecured | 2011 | 1,619,000 | 1,619,000 | - | - | - |
| | | 3,473,245 | 3,473,245 | - | - | - |

### *12.3 Significant loans and borrowings covenants*

The main covenants of certain term loan facilities of the Group and of the Company are as follows:

i) the Group shall submit its financial statements and/or audited financial statements within 6 months of the financial year end.

ii) the Group immediately notify the bank of any changes in its paid-up capital, in its substantial shareholdings and the nature and scope of the Group’s business.

## 12. Loans and borrowings (continued)

### *12.3 Significant loans and borrowings covenants (continued)*

iii) the Group shall not without the written consent of the Bank (which consent shall not be unreasonably withheld) sell, transfer, assign or otherwise dispose of all or substantial portion of its assets, property, undertaking or its shareholding in any of its subsidiaries.

The main covenant of certain trade facilities of a subsidiary is the subsidiary's leverage position as measured by total liabilities/tangible net worth must not exceed 3.0 times at all times.

### *12.4 Finance lease liabilities*

Finance lease liabilities are payable as follows:

| | **Minimum lease payments 2011 RM** | **Interest 2011 RM** | **Principal 2011 RM** | **Minimum lease payments 2010 RM** | **Interest 2010 RM** | **Principal 2010 RM** |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Less than one year | 9,698,404 | (674,533) | 9,023,871 | 12,878,387 | (457,447) | 12,420,940 |
| Between one and five years | 8,042,269 | (240,149) | 7,802,120 | 3,241,867 | (117,156) | 3,124,711 |
| | 17,740,673 | (914,682) | 16,825,991 | 16,120,254 | (574,603) | 15,545,651 |
| **Company** | | | | | | |
| Less than one year | 258,868 | (22,479) | 236,389 | 287,638 | (35,536) | 252,102 |
| Between one and five years | 324,103 | (16,135) | 307,968 | 578,109 | (38,320) | 539,789 |
| | 582,971 | (38,614) | 544,357 | 865,747 | (73,856) | 791,891 |

## 13. Trade and other payables, including derivatives

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2011** | **2010** | **2011** | **2010** |
| | | **RM** | **RM** | **RM** | **RM** |
| **Trade** | | | | | |
| Trade payable | | 69,383,972 | 66,218,250 | 5,000,205 | 4,031,797 |
| Amount due to related parties | 13.1 | 132,146 | 6,318 | 130,456 | 6,318 |
| | | 69,516,118 | 66,224,568 | 5,130,661 | 4,038,115 |
| **Non-trade** | | | | | |
| Amount due to ultimate holding company | 13.2 | 13,588 | 8,543 | - | - |
| Amount due to a subsidiary | 13.3 | - | - | 419,920 | 419,960 |
| Amount due to related parties | 13.1 | 3,261,723 | 7,851,933 | - | - |
| Other payables | | 16,510,561 | 16,097,853 | 662,775 | 1,205,367 |
| Accrued expenses | | 13,407,101 | 22,946,844 | 4,139,877 | 3,758,467 |
| Financial liabilities at fair value through profit or loss: | | | | | |
| - Forward foreign currency contracts | | 751,151 | - | - | - |
| | | 33,944,124 | 46,905,173 | 5,222,572 | 5,383,794 |
| | | 103,460,242 | 113,129,741 | 10,353,233 | 9,421,909 |

### *13.1 Amounts due to related parties*

The trade amount due to related parties is subject to normal trade terms.

The non-trade amount due to related parties is unsecured, interest free and repayable on demand.

### *13.2 Amount due to ultimate holding company*

The non-trade amount due to ultimate holding company is unsecured, interest free and repayable on demand.

### *13.3 Amount due to a subsidiary*

The non-trade amount due to a subsidiary is unsecured, interest free and repayable on demand.

## 14. Revenue

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| Sales of goods | 1,089,969,244 | 1,046,886,637 | 99,414,084 | 88,899,101 |
| Dividend income | - | - | 40,000,120 | 40,270,118 |
| | 1,089,969,244 | 1,046,886,637 | 139,414,204 | 129,169,219 |

## 15. Finance costs

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| Interest expense on: | | | | |
| - Bank overdraft | 75,625 | 62,982 | 17,293 | 17,352 |
| - Finance lease | 1,360,857 | 1,397,032 | 35,242 | 51,909 |
| - Term loans | 2,313,955 | 2,760,973 | - | - |
| - Trade finance | 3,248,740 | 3,024,013 | 30,173 | 238,560 |
| - Revolving credit | 446,982 | 740,883 | - | - |
| - Others | 18,579 | - | - | - |
| | 7,464,738 | 7,985,883 | 82,708 | 307,821 |

## 16. Profit before tax

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| **Profit before tax is arrived at after charging:** | | | | |
| Impairment loss on trade receivables | 1,376,137 | 5,260,886 | 8,219 | - |
| Auditors' remuneration | | | | |
| - statutory audit | 233,500 | 216,300 | 78,800 | 76,700 |
| - other services | 10,000 | 10,500 | 10,000 | 11,000 |
| Hire of equipment | - | 22,863 | - | - |
| Loss on disposal of property, plant and equipment | - | 189,078 | - | - |
| Personnel expenses (including key management personnel): | | | | |
| - Contributions to Employees' Provident Fund | 4,590,799 | 3,787,425 | 1,492,657 | 1,298,264 |
| - Wages, salaries and others | 104,764,630 | 99,022,987 | 22,773,486 | 21,061,734 |

## 16. Profit before tax (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| **Profit before tax is arrived at after charging: (continued)** | | | | |
| Property, plant and equipment written off | 634,719 | 1,529,989 | - | - |
| Property, plant and equipment written off due to fire | - | 2,487,824 | - | - |
| Realised loss on foreign exchange | - | 2,702,709 | - | 169,347 |
| Unrealised loss on derivatives | 751,151 | - | - | - |
| Negative goodwill | 52,365 | - | - | - |
| Rental of premises | 1,313,300 | 1,983,826 | 818,940 | 899,501 |
| **and after crediting:** | | | | |
| Realised gain on foreign exchange | 10,104,470 | - | 670,814 | - |
| Unrealised gain on:- | | | | |
| - derivatives | 95,600 | 3,586,392 | - | - |
| - trade receivables and loans and borrowings | 1,268,081 | 1,433,756 | - | - |
| Gain on disposal of property, plant and equipment | 70,835 | - | 10,874 | 22,720 |
| Interest on short term deposits received | 1,587,671 | 1,120,036 | 1,034,217 | 424,683 |
| Rental income | 126,000 | 120,000 | 210,000 | 204,000 |

## 17. Key management personnel compensation

The key management personnel compensations are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| Directors | | | | |
| - Fees | 180,000 | 120,000 | 180,000 | 120,000 |
| - Remuneration | 8,329,864 | 7,355,191 | 3,254,325 | 2,850,915 |
| | 8,509,864 | 7,475,191 | 3,434,325 | 2,970,915 |
| Other key management personnel: | | | | |
| - Remuneration | 2,807,013 | 2,543,517 | 1,657,885 | 1,484,901 |

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

## 18. Income tax expense

*Recognised in the profit or loss*

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| **Current tax expense** | | | | |
| Current year | 18,993,062 | 14,426,057 | 1,457,787 | 3,560,318 |
| Under/(Over) provision in prior year | 875,945 | (2,432,199) | (190,028) | (79,974) |
| Overseas – current provision | 33,331 | - | - | - |
| | 19,902,338 | 11,993,858 | 1,267,759 | 3,480,344 |
| **Deferred tax expense** | | | | |
| Origination and reversal of temporary differences | 3,026,033 | 17,678,013 | (261,838) | (231,815) |
| Over provision in prior year | (1,088,423) | (2,784,893) | (25,524) | 123,216 |
| Effect of change in tax rate | (811) | - | - | - |
| | 1,936,799 | 14,893,120 | (287,362) | (108,599) |
| Total tax expense | 21,839,137 | 26,886,978 | 980,397 | 3,371,745 |

**Reconciliation of effective tax expense**

| | Group 2011 RM | Group 2010 RM | Company 2011 RM | Company 2010 RM |
|---|---|---|---|---|
| Profit before tax | 112,920,400 | 140,650,698 | 44,026,277 | 42,265,564 |
| Tax at Malaysian tax rate of 25% | 28,230,100 | 35,162,675 | 11,006,569 | 10,566,391 |
| Non-deductible expenses | 2,184,248 | 1,603,394 | 224,899 | 290,370 |
| Effect of tax rates in foreign jurisdiction | (11,295) | - | - | - |
| Tax incentives | (8,462,464) | (4,224,859) | (35,489) | - |
| Income not subject to tax | - | - | (10,000,030) | (7,500,023) |
| Deferred tax not recognized | 11,991 | 38,248 | - | - |
| Utilisation of previously unrecognised temporary difference | - | (447,000) | - | - |
| Others | 99,035 | (28,388) | - | (28,235) |
| | 22,051,615 | 32,104,070 | 1,195,949 | 3,328,503 |
| **Under/(Over) provided in prior years** | | | | |
| - income tax expense | 875,945 | (2,432,199) | (190,028) | (79,974) |
| - deferred tax expense | (1,088,423) | (2,784,893) | (25,524) | 123,216 |
| | **21,839,137** | **26,886,978** | **980,397** | **3,371,745** |

## 19. Earnings per ordinary share

### Basic earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Profit for the year attributable to owners of the Company | 89,685 | 113,376 |

***Weighted average number of ordinary shares***

| | Group 2011 '000 | Group 2010 '000 |
|---|---|---|
| Issued ordinary shares at 1 January | 319,734 | 159,867 |
| Effect of bonus issue | - | 159,867 |
| Effect of treasury shares | (1,090) | (13) |
| Weighted average number of ordinary shares at 31 December | 318,644 | 319,721 |

| | Group 2011 Sen | Group 2010 Sen |
|---|---|---|
| Basic earnings per share | 28.15 | 35.46 |

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

## 20. Dividends

Dividends recognised in the current year by the Company are:

| | Sen per share (tax exempt) | Total amount RM | Date of payment |
|---|---|---|---|
| **2011** | | | |
| Final 2010 ordinary | 8.00 | 25,489,564 | 19.07.2011 |
| Interim 2011ordinary | 3.00 | 9,558,587 | 20.12.2011 |
| | | 35,048,151 | |
| **2010** | | | |
| Final 2009 ordinary | 9.00 | 14,388,028 | 17.7.2010 |

## 21. Operating segments

The Group has three (3) reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group Managing Director (Group MD) reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Technical rubber products
- Gloves
- Others

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

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

### Segment assets

The total segment asset is measured based on all assets of a segment, as included in the internal management reports that are reviewed by the Group MD. Segment total asset is used to measure the return of assets of each segment.

## 21. Operating segments (continued)

### Segment liabilities

The total of segment liability is measured based on all liabilities of a segment, as included in the internal management reports that are reviewed by the Group MD.

### Segment capital expenditure

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

### Geographical segments

The glove segment is managed on a worldwide basis, but operates manufacturing facilities and sales offices in Malaysia and Outside of Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of the sales office. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments and deferred tax assets.

**Group**

| Geographical information | Revenue RM | Non-current assets RM |
|---|---|---|
| **2011** | | |
| Malaysia | 1,075,512,034 | 428,464,236 |
| Outside of Malaysia | 14,457,210 | 4,493,737 |
| | 1,089,969,244 | 432,957,973 |
| **2010** | | |
| Malaysia | 1,046,886,637 | 409,514,776 |
| Outside of Malaysia | - | - |
| | 1,046,886,637 | 409,514,776 |

### Major customers

There were no major customers with revenue equal or more than 10% of the Group's total revenue for the year ended 31 December 2011.

## 21. Operating segments (continued)

| | Technical rubber products | | Gloves | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| ***Business segments*** | **RM** | **RM** | **RM** | **RM** | **RM** | **RM** | **RM** | **RM** |
| Total external revenue | 130,739,436 | 110,108,836 | 946,183,576 | 936,524,562 | 13,046,232 | 253,239 | 1,089,969,244 | 1,046,886,637 |
| Segment results | 10,560,623 | 6,557,798 | 109,857,236 | 143,173,228 | (32,721) | (1,094,445) | 120,385,138 | 148,636,581 |
| Finance costs | | | | | | | (7,464,738) | (7,985,883) |
| Tax expense | | | | | | | (21,839,137) | (26,886,978) |
| **Profit for the year** | | | | | | | 91,081,263 | 113,763,720 |
| Segment assets | 43,202,380 | 47,529,451 | 385,261,856 | 361,985,325 | 4,493,737 | - | 432,957,973 | 409,514,776 |
| ***Total assets*** | | | | | | | 432,957,973 | 409,514,776 |
| Segment liabilities | 18,704,062 | 17,425,882 | 208,556,905 | 270,960,559 | 36,160,799 | 2,497,674 | 263,421,766 | 290,884,115 |
| ***Total liabilities*** | | | | | | | 263,421,766 | 290,884,115 |
| Capital expenditure | 2,546,799 | 4,101,631 | 56,720,131 | 82,328,873 | 326,295 | - | 59,593,225 | 86,430,504 |
| Depreciation | 6,502,392 | 6,543,049 | 33,164,064 | 27,678,983 | 613,759 | - | 40,280,215 | 34,222,032 |
| Non-cash expenses other than depreciation | (37,627) | 86,392 | 1,291,084 | 5,363,572 | - | - | 1,253,457 | 5,449,964 |

## 22. Financial instruments

### 22.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

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

## 22. Financial instruments (continued)

### 22.1 Categories of financial instruments (continued)

| | Carrying amount RM | L&R/ (OL) RM | FVTPL -HFT RM | AFS RM |
|---|---|---|---|---|
| **Group** | | | | |
| **2011** | | | | |
| **Financial assets** | | | | |
| Other investments | 116,000 | - | - | 116,000 |
| Trade and other receivables, including derivatives | 156,061,412 | 155,965,812 | 95,600 | - |
| Cash and cash equivalents | 51,623,671 | 51,623,671 | - | - |
| | 207,801,083 | 207,589,483 | 95,600 | 116,000 |
| **Financial liabilities** | | | | |
| Loans and borrowings | (143,135,533) | (143,135,533) | - | - |
| Trade and other payables, including derivatives | (103,460,242) | (102,709,091) | (751,151) | - |
| | (246,595,775) | (245,844,624) | (751,151) | - |
| **2010** | | | | |
| **Financial assets** | | | | |
| Other investments | 116,000 | - | - | 116,000 |
| Trade and other receivables, including derivatives | 148,379,139 | 144,792,747 | 3,586,392 | - |
| Cash and cash equivalents | 91,509,094 | 91,509,094 | - | - |
| | 240,004,233 | 236,301,841 | 3,586,392 | 116,000 |
| **Financial liabilities** | | | | |
| Loans and borrowings | (162,208,723) | (162,208,723) | - | - |
| Trade and other payables, including derivatives | (113,129,741) | (113,129,741) | - | - |
| | (275,338,464) | (275,338,464) | - | |

## 22. Financial instruments (continued)

### 22.1 Categories of financial instruments (continued)

| | Carrying amount RM | L&R/ (OL) RM | FVTPL -HFT RM | AFS RM |
|---|---|---|---|---|
| **Company** | | | | |
| **2011** | | | | |
| **Financial assets** | | | | |
| Other investments | 116,000 | - | - | 116,000 |
| Trade and other receivables, including derivatives | 123,849,654 | 123,849,654 | - | - |
| Cash and cash equivalents | 33,084,370 | 33,084,370 | - | - |
| | 157,050,024 | 156,934,024 | - | 116,000 |
| **Financial liabilities** | | | | |
| Loans and borrowings | (2,613,583) | (2,613,583) | - | - |
| Trade and other payables, including derivatives | (10,353,233) | (10,353,233) | - | - |
| | (12,966,816) | (12,966,816) | - | - |
| **2010** | | | | |
| **Financial assets** | | | | |
| Other investments | 116,000 | - | - | 116,000 |
| Trade and other receivables, including derivatives | 89,077,079 | 89,077,079 | - | - |
| Cash and cash equivalents | 73,124,029 | 73,124,029 | - | - |
| | 162,317,108 | 162,201,108 | - | 116,000 |
| **Financial liabilities** | | | | |
| Loans and borrowings | (3,473,245) | (3,473,245) | - | - |
| Trade and other payables, including derivatives | (9,421,909) | (9,421,909) | - | - |
| | (12,895,154) | (12,895,154) | - | - |

## 22. Financial instruments (continued)

### 22.2 Net gains and losses arising from financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| Net gains/(losses) on: | | | | |
| Financial assets and liabilities of fair value through profit or loss: | | | | |
| - Forward foreign currency contracts | (655,551) | 3,586,393 | - | - |
| Loans and receivables | 12,960,222 | (148,917) | 1,705,031 | 255,336 |
| Financial liabilities measured at amortised cost | (7,464,738) | (7,985,883) | (82,708) | (307,821) |
| | 4,839,933 | (4,548,407) | 1,622,323 | (52,485) |

### 22.3 Financial risk management

The Group and the Company have exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

## 22. Financial instruments (continued)

### 22.4 Credit risk

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

#### Receivables

***Risk management objectives, policies and processes for managing the risk***

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

***Exposure to credit risk, credit quality and collateral***

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables, especially for established subsidiaries, are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the collectability of the receivables.

***Impairment losses***

The ageing of trade receivables as at the end of the reporting period was:

| Group | Gross RM | Individual impairment RM | Net RM |
|---|---|---|---|
| **2011** | | | |
| Not past due | 127,500,990 | - | 127,500,990 |
| Past due 0 – 30 days | 8,938,476 | - | 8,938,476 |
| Past due 31 – 120 days | 6,540,294 | - | 6,540,294 |
| Past due more than 120 days | 5,091,928 | (1,387,442) * | 3,704,486 # |
| | 148,071,688 | (1,387,442) | 146,684,246 |
| **2010** | | | |
| Not past due | 136,880,708 | (1,098,757) | 135,781,951 |
| Past due 0 – 30 days | 1,657,290 | (500,651) | 1,156,639 |
| Past due 31 – 120 days | 5,015,303 | (3,599,590) | 1,415,713 |
| Past due more than 120 days | 2,304,470 | (1,125,184) | 1,179,286 # |
| | 145,857,771 | (6,324,182) | 139,533,589 |

## 22. Financial instruments (continued)

### 22.4 Credit risk (continued)

| Company | Gross RM | Individual impairment RM | Net RM |
|---|---|---|---|
| **2011** | | | |
| Not past due | 6,223,302 | - | 6,223,302 |
| Past due 0 – 30 days | 4,151,161 | - | 4,151,161 |
| Past due 31 - 120 days | 3,755,499 | - | 3,755,499 |
| Past due more than 120 days | 737,020 | (8,219) | 728,801 |
| | 14,866,982 | (8,219) | 14,858,763 |
| **2010** | | | |
| Not past due | 11,961,344 | - | 11,961,344 |
| Past due 0 – 30 days | 899,652 | - | 899,652 |
| Past due 31 - 120 days | 698,916 | - | 698,916 |
| Past due more than 120 days | 138,242 | (25,890) | 112,352 |
| | 13,698,154 | (25,890) | 13,672,264 |

* Allowance for impairment loss, totaling RM1.3million, is made in respect of corporate customer whose debts are doubtful due to its financial difficulties and defaults in payments.

# No allowance for impairment loss has been made for debts past due more than 120 days as the debts are recoverable and there are receipts subsequent to the year-end.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM | 2010 RM | 2011 RM | 2010 RM |
| At 1 January 2011 | 6,324,182 | 1,227,900 | 25,890 | 190,494 |
| Impairment loss recognised | 1,376,137 | 5,260,886 | 8,219 | - |
| Impairment loss written off | (6,312,877) | (164,604) | (25,890) | (164,604) |
| At 31 December 2011 | 1,387,442 | 6,324,182 | 8,219 | 25,890 |

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

## 22. Financial instruments (continued)

### 22.4 Credit risk (continued)

**Financial guarantees**

*Risk management objectives, policies and processes for managing the risk*

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

*Exposure to credit risk, credit quality and collateral*

The maximum exposure to credit risk amounts to RM159,961,524 (2010: RM157,943,587) representing the outstanding banking facilities of the subsidiaries as at the end of the reporting period. The Company provides financial guarantees to banks for credit facilities extended to certain subsidiaries. The fair value of such financial guarantees is not expected to be material as the probability of the subsidiaries defaulting on the credit lines is remote.

At the financial year end, there were no indications that any subsidiary would default on repayment.

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

**Intercompany balances**

*Risk management objectives, policies and processes for managing the risk*

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

*Exposure to credit risk, credit quality and collateral*

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

*Impairment losses*

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

### 22.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

## 22. Financial instruments (continued)

### 22.5 Liquidity risk (continued)

*Maturity analysis*

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

| Group | Carrying amount RM | Contractual interest rate/ coupon | Contractual cash flows RM | Under 1 year RM | 1 - 2 years RM | 2 – 5 years RM | More than 5 years RM |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | |
| Secured term loan | 24,330,132 | 7.30 – 9.02 | 29,165,263 | 7,708,727 | 5,899,903 | 11,555,269 | 4,001,364 |
| Bank overdraft (unsecured) | 2,931,689 | 7.30 – 7.38 | 2,931,689 | 2,931,689 | - | - | - |
| Revolving credit (unsecured) | 25,100,991 | 1.02 – 2.58 | 25,100,991 | 25,100,991 | - | - | - |
| Trade finance (unsecured) | 90,772,721 | 3.14 – 3.58 | 90,772,721 | 90,772,721 | - | - | - |
| Finance lease liabilities | 16,825,991 | 2.25 – 3.50 | 17,740,673 | 9,698,404 | 7,689,403 | 352,866 | - |
| Trade and other payables | 102,709,091 | - | 102,709,091 | 102,709,091 | - | - | - |
| | 262,670,615 | | 268,420,428 | 238,921,623 | 13,589,306 | 11,908,135 | 4,001,364 |
| *Derivative financial liabilities* | | | | | | | |
| Foreign currency contracts (gross settled): | | | | | | | |
| Inflow | - | - | (214,479,837) | (214,479,837) | - | - | - |
| Outflow | 655,551 | - | 215,135,388 | 215,135,388 | - | - | - |
| | 263,326,166 | | 269,075,979 | 239,577,174 | 13,589,306 | 11,908,135 | 4,001,364 |

## 22. Financial instruments (continued)

### 22.5 Liquidity risk (continued)

*Maturity analysis (continued)*

| Group | Carrying amount RM | Contractual interest rate/ coupon | Contractual cash flows RM | Under 1 year RM | 1 - 2 years RM | 2 – 5 years RM | More than 5 years RM |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | |
| Secured term loan | 32,129,921 | 7.29 – 7.44 | 38,842,038 | 9,650,145 | 7,665,844 | 13,820,285 | 7,705,764 |
| Bank overdraft (unsecured) | 10,158,713 | 7.30 – 7.38 | 10,158,713 | 10,158,713 | - | - | - |
| Revolving credit (unsecured) | 25,563,680 | 4.80 - 5.10 | 25,563,680 | 25,563,680 | - | - | - |
| Trade finance (unsecured) | 94,356,409 | 3.14 – 3.27 | 94,356,409 | 94,356,409 | - | - | - |
| Finance lease liabilities | 15,545,651 | 2.50 – 3.50 | 16,120,254 | 12,878,387 | 2,697,953 | 543,914 | - |
| Trade and other payables | 113,129,741 | - | 113,129,741 | 113,129,741 | - | - | - |
| | 290,884,115 | | 298,170,835 | 265,737,075 | 10,363,797 | 14,364,199 | 7,705,764 |
| *Derivative financial liabilities* | | | | | | | |
| Foreign currency contracts (gross settled): | | | | | | | |
| Inflow | (3,586,392) | - | (269,314,776) | (269,314,776) | - | - | - |
| Outflow | - | - | 265,728,384 | 265,728,384 | - | - | - |
| | 287,297,723 | | 294,584,443 | 262,150,683 | 10,363,797 | 14,364,199 | 7,705,764 |

## 22. Financial instruments (continued)

### 22.5 Liquidity risk (continued)

| Company | Carrying amount RM | Contractual interest rate/ coupon | Contractual cash flows RM | Under 1 year RM | 1 - 2 years RM | 2 – 5 years RM | More than 5 years RM |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | |
| Bank overdraft (unsecured) | 1,702,583 | 7.30 – 7.38 | 1,702,583 | 1,702,583 | - | - | - |
| Trade finance (unsecured) | 911,000 | 3.47 – 3.50 | 911,000 | 911,000 | - | - | - |
| Finance lease liabilities | 544,357 | 3.30 – 3.50 | 582,971 | 258,868 | 166,911 | 157,192 | - |
| Trade and other payables | 10,353,233 | - | 10,353,233 | 10,353,233 | - | - | - |
| | 13,511,173 | | 13,549,787 | 13,225,684 | 166,911 | 157,192 | - |
| **2010** | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | |
| Bank overdraft (unsecured) | 1,854,245 | 7.30 – 7.38 | 1,854,245 | 1,854,245 | - | - | - |
| Trade finance (unsecured) | 1,619,000 | 3.14 – 3.27 | 1,619,000 | 1,619,000 | - | - | - |
| Finance lease liabilities | 791,891 | 3.30 – 3.50 | 865,747 | 287,638 | 263,705 | 314,404 | - |
| Trade and other payables | 9,421,909 | - | 9,421,909 | 9,421,909 | - | - | - |
| | 13,687,045 | | 13,760,901 | 13,182,792 | 263,705 | 314,404 | - |

### 22.6 Market risk

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

## 22. Financial instruments (continued)

### 22.6.1 Currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD).

*Risk management objectives, policies and processes for managing the risk*

The Group uses forward foreign currency contracts to hedge its foreign currency risk. Most of the forward foreign currency contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward foreign currency contracts are rolled over at maturity.

In respect of other monetary assets and liabilities held in currencies other than RM, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

As at the end of reporting date, forward foreign currency contracts entered into with the following amounts:

***Forward foreign currency contracts used to hedge receivables***

| **Hedged item** | **Currency** | **Amount to be received** | **Average contract rate** | **Equivalent RM** |
|---|---|---|---|---|
| **2011** | | | | |
| Trade receivables | USD | 68,383,785 | 3.1364 | 214,479,837 |
| **2010** | | | | |
| Trade receivables | USD | 86,220,413 | 3.1236 | 269,314,776 |

## 22. Financial instruments (continued)

### 22.6.1 Currency risk (continued)

***Foreign currency option contracts***

**2010**

There are no foreign currency option contracts outstanding at end of the reporting period.

*Exposure to foreign currency risk*

The Group's significant exposure to foreign currency (a currency which is other than the currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

| | Group | | Company | |
|---|---|---|---|---|
| | Denominated in USD | | Denominated in USD | |
| | 2011 | 2010 | 2011 | 2010 |
| | RM | RM | RM | RM |
| Trade and other receivables, including derivatives | 123,589,587 | 127,030,896 | 5,267,312 | 5,542,454 |
| Trade and other payables, including derivatives | (17,868,507) | (12,609,892) | (173,080) | - |
| Loans and borrowings | (24,725,971) | (24,563,480) | - | - |
| **Exposure in the statements of financial position** | 80,995,109 | 89,857,524 | 5,094,232 | 5,542,454 |

*Currency risk sensitivity analysis*

A 5% strengthening of Ringgit Malaysia against USD at the end of the reporting period would have increased/ (decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant.

| | Equity | | Profit or loss | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Group** | | | | |
| USD | - | - | 11,273 | 13,145 |
| **Company** | | | | |
| USD | - | - | 198 | 208 |

## 22. Financial instruments (continued)

### 22.6.1 Currency risk (continued)

A 5% weakening of Ringgit Malaysia against USD at the end of the reporting period would have equal but opposite effect on equity and post-tax profit or loss respectively.

The exposure to currency risk of Group entities which do not have a Euro functional currency is not material and hence, sensitivity analysis is not presented.

### 22.6.2 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. It is not the Group's policy to hedge cash flow and interest rate risk.

*Risk management objectives, policies and processes for managing the risk*

The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

*Exposure to interest rate risk*

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | Note | RM | RM | RM | RM |
| **Fixed rate instruments** | | | | | |
| Deposits with licensed banks | | 19,316,000 | 85,691,301 | 9,000,000 | 72,000,000 |
| Finance lease liabilities | 12 | (16,825,991) | (15,545,651) | (544,357) | (791,891) |
| Revolving credits | | | | | |
| - unsecured | 12 | (25,100,991) | (25,563,680) | - | - |
| Trade finance | | (90,772,721) | (94,356,409) | (911,000) | (1,619,000) |
| Fixed rate instruments | | (113,383,703) | (49,774,439) | 7,544,643 | 69,589,109 |

## 22. Financial instruments (continued)

### 22.6.2 Interest rate risk (continued)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | Note | RM | RM | RM | RM |
| **Floating rate instruments** | | | | | |
| Term loans | | | | | |
| - secured | 12 | (24,330,132) | (32,129,921) | - | - |
| Bank overdraft | | | | | |
| - unsecured | 12 | (2,931,689) | (10,158,713) | (1,702,583) | (1,854,245) |
| Floating rate instruments | | (27,261,821) | (42,288,634) | (1,702,583) | (1,854,245) |

*Interest rate risk sensitivity analysis*

(a) *Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedge instruments under a fair value hedged accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) *Cash flow sensitivity analysis for variable rate instruments*

A change of 50 (2010: 50) basis points (bp) in interest rates at the end of the reporting period would have increased/ (decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

| | Profit or Loss | |
|---|---|---|
| | 50 bp increase | 50 bp decrease |
| **Group** | RM | RM |
| **2011** | | |
| Floating rate instruments | (102,232) | 102,232 |
| **2010** | | |
| Floating rate instruments | (158,582) | 158,582 |
| **Company** | | |
| **2011** | | |
| Floating rate instruments | (6,385) | 6,385 |
| **2010** | | |
| Floating rate instruments | (6,953) | 6,953 |

## 22. Financial instruments (continued)

### 22.7 Fair value of financial instruments

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

It was not practicable to estimate the fair value of the Group's investment in club membership due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

The fair values of other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Group** | RM | RM | RM | RM |
| **Financial assets** | | | | |
| Forward foreign currency contracts | 95,600 | 95,600 | 3,586,392 | 3,586,392 |
| **Financial liability** | | | | |
| Finance lease liabilities | 16,825,991 | 16,995,911 | 15,545,651 | 15,544,126 |
| Forward foreign currency contracts | 751,151 | 751,151 | - | - |

*Derivatives*

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

### 22.8 Fair value hierarchy

Comparative figures have not been presented for 31 December 2010 by virtue of the exemption provided in paragraph 44G of FRS 7.

The following financial instruments carried at fair value using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), (Level 2).

| | Total |
|---|---|
| **Group** | RM |
| Foreign currency forward contracts | (655,551) |
| **Company** | |
| Foreign currency forward contracts | - |

## 23. Capital and other commitments

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | RM | RM | RM | RM |
| **Property, plant and equipment** | | | | |
| Within one year: | | | | |
| Contracted but not provided for | - | 9,000,000 | - | - |

## 24. Acquisitions of subsidiaries

During the year, the Group had completed the following acquisitions:

### 24.1 Acquisition of subsidiary – Cleanera HK Limited

The Group acquired 1,530,000 shares in Cleanera HK Limited ("CHKL") for USD3,060,000 satisfied in cash. CHKL is involved in the manufacturing and sales of clean-room gloves. The acquisition of Cleanera HK Limited has expanded the Group's operation into CHKL principal market in Japan, China and South East Asian countries. In the six months to 31 December 2011 the subsidiary contributed revenue of RM14,933,478 and profit of RM80,775.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

| | RM |
|---|---|
| **Fair value of consideration transferred** | |
| Cash and cash equivalents | 9,176,002 |
| Identifiable assets acquired and liabilities assumed | |
| Property, plant and equipment | 4,652,821 |
| Inventories | 3,414,019 |
| Trade and other receivables | 4,145,314 |
| Cash and cash equivalents | 360,380 |
| Deferred tax liabilities | (46,105) |
| Trade and other payables | (2,094,649) |
| Borrowings | (404,156) |
| | 10,027,624 |

| **Net cash arising from acquisition of subsidiary** | **RM** |
|---|---|
| Purchase consideration settled in cash and cash equivalents | 9,176,002 |
| Cash and cash equivalents acquired | (360,380) |
| | 8,815,622 |

## 24. Acquisitions of subsidiaries (continued)

### 24.1 Acquisition of subsidiary – Cleanera HK Limited (continued)

**Goodwill**

Goodwill was recognised as a result of the acquisition as follows:

| | RM |
|---|---|
| Total consideration transferred | 9,176,002 |
| Fair value of identifiable net assets | 10,027,624 |
| Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilitiesof the acquiree | (4,913,546) |
| | 5,114,078 |
| Goodwill | 4,061,924 |

The goodwill is attributable mainly to the existing technicality of Cleanera HK Limited access to clean-room gloves processes, and the synergies expected to be achieved from integrating the company into the Group's existing glove manufacturing business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Subsequent to the acquisition of Cleanera HK Limited, the Group increased its shareholding during the year from 51% to 55% via a rights issue subscription amounting to RM2,133,633.

### 24.2 Acquisition of subsidiary – Premium Medical Products Sdn Bhd

The Group acquired 2 shares in Premium Medical Products Sdn Bhd ("PMP") for RM2 satisfied in cash. The company was wholly-owned by Dato' Lim Kuang Sia and Mr. Lim Kuang Yong, both directors of the Group but their declared interests in the transaction are not material in terms of value. The Group intends to expand their production lines once the licenses are granted.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

| | RM |
|---|---|
| **Fair value of consideration transferred** | |
| Cash and cash equivalents | 2 |
| **Identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 2 |
| Other payables and accruals | (32,514) |
| Negative goodwill | (32,512) |

## 24. Acquisitions of subsidiaries (continued)

### 24.3 Acquisition of subsidiary – Cleanera Malaysia Sdn Bhd

The Group acquired 2 shares in Cleanera Malaysia Sdn Bhd ("CM") for RM2 satisfied in cash. The Group intends to expand their production lines once the licenses are granted.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

| | RM |
|---|---|
| **Fair value of consideration transferred** | |
| Cash and cash equivalents | 2 |
| **Identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 2 |
| Other payables and accruals | (19,855) |
| Negative goodwill | (19,853) |

### 24.4 Acquisition-related costs

The Group did not incur any acquisition-related costs of related to external legal fees and due diligence costs. The legal fees and due diligence costs are borne by the vendor, Inout Enterprise Pte Ltd and Soode Optik Pte Ltd as per the sales & purchase agreement.

If the acquisition had occurred on 1 January 2011, management estimates that consolidated revenue would have been RM1,097,197,849 and consolidated profit for the financial year would have been RM91,148,950. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

## 25. Liquidation of a subsidiary

On 7 January 2011, the Company liquidated 51% of its equity interest in Normadin Pacific Holdings Corp ("NPHC"), a latex examination gloves trading company. Normadin Pacific Holdings Corp ceased to be a subsidiary of the Group at the date of reporting.

The liquidation of the abovementioned subsidiary had the following effect on the financial position of the Group:

| | 2011 RM |
|---|---|
| Other receivables | 1 |
| Cash and cash equivalents | 1 |
| | 2 |
| Loss on disposal | (2) |
| Net cash impact | - |

## 26. Related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel includes all the Directors of the Group, and certain members of senior management of the Group.

The significant related party transactions of the Group and the Company, other than key management personnel compensation (see Note 17), are as follows:

| | Transactions amount for the year ended 31 December | |
|---|---|---|
| **Group** | **2011 RM** | **2010 RM** |
| **Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries** | | |
| ***Kossan Chemical Industries (M) Sdn. Bhd.*** | | |
| Rental expense | (1,231,860) | (1,077,600) |
| ***Pleasure Latex Products Sdn. Bhd.*** | | |
| Sales* | 2,992 | 220 |
| Rental income* | 102,000 | 96,000 |
| ***Kossan Paint (M) Sdn. Bhd.*** | | |
| Sales* | 429,776 | 373,770 |
| Purchase of consumables, raw materials and property, plant and equipment | (2,052,322) | (2,655,348) |
| ***Pan Asian Corporation Sdn. Bhd.*** | | |
| Rental expense | (576,240) | (535,080) |
| **Transactions with corporation in which Directors have financial interest** | | |
| ***HT Ceramics (M) Sdn. Bhd.*** | | |
| Purchase of property, plant and equipment | (1,350,728) | (9,319,086) |
| ***Kossan F.R.P. Industries (M) Sdn. Bhd.*** | | |
| Purchase of consumables | (175,515) | (761,551) |
| Purchase of property, plant and equipment | - | (1,236,971) |
| **Company** | | |
| **Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries** | | |
| ***Kossan Chemical Industries (M)Sdn. Bhd.*** | | |
| Rental expense | (650,220) | (574,560) |

## 26. Related parties (continued)

| | Transactions amount for the year ended 31 December 2011 RM | 2010 RM |
|---|---|---|
| **Company** | | |
| **Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries (continued)** | | |
| ***Pleasure Latex Products Sdn. Bhd.*** | | |
| Sales* | 2,992 | 220 |
| Rental income* | 102,000 | 96,000 |
| ***Kossan Paint (M) Sdn. Bhd.*** | | |
| Sales* | 429,776 | 373,770 |
| Purchase of consumables | (30,910) | (604,509) |
| ***Pan Asian Corporation Sdn. Bhd.*** | | |
| Rental expense | (320,880) | (297,960) |
| **Transaction with corporation in which Directors have financial interest** | | |
| ***HT Ceramics (M) Sdn. Bhd.*** | | |
| Sales* | 1,837 | 4,813 |
| ***Kossan F.R.P. Industries (M) Sdn. Bhd.*** | | |
| Sales* | 5,100 | 1,300 |

* There are no allowances for impairment loss being provided in respect of the related balances outstanding at year end and no impairment loss made during the year.

Balances with ultimate holding company and related parties at the end of reporting period are disclosed in Note 9 and Note 13 to the financial statements.

The terms and conditions for the above transactions are based on normal trade terms. All the amounts outstanding are interest-free, unsecured and expected to be settled with cash.

## 27. Capital management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Directors monitor and determine to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The debt-to-equity ratios at 31 December 2011 and at 31 December 2010 were as follows:

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | **RM** | **RM** |
| Total borrowings (Note 12) | 159,961,524 | 177,754,374 |
| Less: Cash and cash equivalents (Note 10) | (51,623,671) | (91,509,094) |
| Net debt | 108,337,853 | 86,245,280 |
| Total equity | 506,333,098 | 444,614,980 |
| Debt-to-equity ratios | 0.21 | 0.19 |

There were no changes in the Group's approach to capital management during the financial year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM 40 million. The Company has complied with this requirement.

## 28. Supplementary information on the breakdown of realised and unrealised profits and losses

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued another directive on the disclosure and the prescribed format of presentation.

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2011, into realised and unrealised profits, pursuant to the directive, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 RM** | **2010 RM** | **2011 RM** | **2010 RM** |
| Total retained earnings of the Company and its subsidiaries: | | | | |
| - realised | 380,086,286 | 315,498,091 | 55,790,397 | 48,019,012 |
| - unrealised | (33,536,146) | (27,145,624) | (4,172,114) | (4,459,476) |
| | 346,550,140 | 288,352,467 | 51,618,283 | 43,559,536 |
| Less: Consolidation adjustments | (7,239,800) | (3,739,594) | - | - |
| Total group retained profits as per consolidated accounts | 339,310,340 | 284,612,873 | 51,618,283 | 43,559,536 |

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

# Statement by Directors
## pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 30 to 93 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2011 and of their financial performances and cash flows for the year then ended.

In the opinion of the Directors, the information set out in Note 28 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

**Dato' Lim Kuang Sia**

**Lim Kuang Yong**

Klang, Selangor Darul Ehsan

Date: 19 April 2012

# Statutory Declaration
## pursuant to Section 169(16) of the Companies Act, 1965

I, **Lee Hon Chee,** the officer primarily responsible for the financial management of Kossan Rubber Industries Bhd., do solemnly and sincerely declare that the financial statements set out on pages 30 to 94 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Klang, Selangor Darul Ehsan on 19 April 2012.

**Lee Hon Chee**

Before me:

# Independent auditors' report
to the members of Kossan Rubber Industries Bhd.



## Report on the Financial Statements

We have audited the financial statements of Kossan Rubber Industries Bhd, which comprise the statements of financial positions as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flow of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 30 to 93.

### *Directors' Responsibility for the Financial Statements*

The Directors of the Company are responsible for the preparation of these financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as of 31 December 2011 and of their financial performances and cash flows for the year then ended.

## Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) The subsidiary in respect of those consolidated using management accounts is identified in Note 4 to the financial statements and we have considered their management financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

# Independent auditors' report

## to the members of Kossan Rubber Industries Bhd.

### Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 28 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

### Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**KPMG**
Firm Number: AF 0758
Chartered Accountants

**Lee Yee Keng**
Approval Number: 2880/04/13(J)
Chartered Accountants

Petaling Jaya,

Date: 19 April 2012

# List of Properties
## As at 31 December 2011

| Location | Description | Date of Acquisition/ Valuation | Age of Building | Land Area | Tenure | Existing Use | Net Book Value 2011 RM |
|---|---|---|---|---|---|---|---|
| No 14 Lrg Sg Puloh Tmn Klang Utama 42100 Klang | 1 unit double storey link house | 3/24/95* | 18yrs | 990 sq.ft | Freehold | Staff quarters | 71,644 |
| No 16 Lrg Sg Puloh Tmn Klang Utama 42100 Klang | 1 unit double storey link house | 3/24/95* | 18yrs | 990 sq.ft | Freehold | Staff quarters | 71,644 |
| Lot 754 Jalan Hj Sirat 42100 Klang | Factory | 3/24/95* | 17yrs | 246,550 sq.ft | Freehold | Factory | 9,426,703 |
| Lot 782 Jalan Hj Sirat 42100 Klang | Factory and office<br>5 storey office | 3/24/95* | Factory-24 yrs<br>Office- 17yrs<br>4yrs | 47,480 sq.ft | Freehold | Factory and office<br>For office use | 2,403,975<br>3,312,346 |
| Lot 16632 Batu 5 1/4 Jalan Meru 41050 Klang | Single storey detached factory | 3/24/95* | 22yrs | 65,175 sq.ft | Freehold | Factory and office | 2,415,038 |
| Lot 2401 Batu 17 Jln Sungai Sembilang 45800 Jeram | Factory | 1/31/95 | 13yrs | 106,177 sq.ft | Freehold | Factory | 2,766,382 |
| GM 554 Lot 2796 Mukim of Jeram District of Kuala Selangor | Factory | 1/31/95 | 9yrs | 213,916 sq.ft | Freehold | Factory | 4,301,778 |
| Lot 1365 Batu 17 Jln Sungai Sembilang 45800 Jeram | Factory | 1/3/95 | 13yrs<br>4yrs | 217,800 sq.ft | Freehold | Factory and office<br>For factory | 5,677,664<br>3,539,380 |
| HS (M) 15410 & 15405 PT 21715 & 15708 24 Jln Pengasah 4 Off Jln Kapar 42100 Klang | 1 unit 1 1/2 storey light industrial building | 4/3/03 | 18yrs | 174 sq.ft | Freehold | Store | 216,233 |
| HS (M) 1168 PT 476 Batu 15 1/4 Jalan Kapar Mukim Jeram | Staff quarters | 2/27/03 | 8yrs | 5,527 s.mtr | Freehold | Staff quarters | 865,492 |
| Lot 6134 and 6135 Batu 16 Jalan Klang Formerly as Lot 1366 Batu 17 Jln Kapar Mukim Jeram | Factory | 8/28/03 | 1yr | 152,460 sq.ft | Freehold | Vacant | 10,037,811 |

# List of Properties

## As at 31 December 2011

| Location | Description | Date of Acquisition/ Valuation | Age of Building | Land Area | Tenure | Existing Use | Net Book Value 2011 RM |
|---|---|---|---|---|---|---|---|
| Jeram Geran 40417,<br>Lot 4761 Mukim Jeram<br>Kuala Selangor | Factory | 5/19/04 | 7yrs | 1 acres 1 rood<br>14.67 poles | Freehold | Factory | 4,259,761 |
| Lot 6129, 5 1/4 Miles<br>Jln Hj Abdul Manan,<br>Jln Meru 41050 Klang | Factory | 1/28/05 | 5yrs | 434,145 sq.ft | Freehold | Factory and office | 26,588,217 |
| HS (D) 116842 PT 54925<br>Mukim Kapar<br>Daerah Klang | Vacant land | 5/30/05 | nil | 10.77 acres | Freehold | Vacant | 5,024,033 |
| HS (D) 116841 PT 54924<br>Mukim Kapar<br>Daerah Klang | Factory | 5/30/05 | Land<br>Plant A-1yr<br>Plant B-under construction | 11.25 acres | Freehold | Factory and office<br>Factory | 4,926,510<br>16,563,740<br>4,366,836 |
| Lot PT 13726<br>Jln Hj Abdul Manan<br>Jln Meru 41050 Klang | Factory | 9/26/05 | 4yrs | 5.392 acres | Freehold | Factory and office | 14,770,973 |
| GM 1724 & 1725<br>Lot 5068 & 5069<br>Batu 5 1/4<br>Jalan Meru 41050 Klang | Vacant land | 11/9/10 | under construction | 6 acres | Freehold | Factory and office | 14,001,016 |
| Lot 6130, 5 1/4 Miles<br>Jln Hj Abdul Manan,<br>Jln Meru 41050 Klang | Factory | 3/21/08 | 3yrs | 10 acres | Freehold | Factory | 37,522,581 |
| Lot 1367 Batu 17<br>Jalan Kapar<br>Mukim Jeram | Vacant land | 7/21/09 | nil | 1.9875 acres | Freehold | Vancant | 846,008 |
| Block 2 Zone C,<br>Guang Hui Industrial Park<br>Dongguan City<br>Guangdong China | Cost of Factory Contructed on rented property | 6/30/11 | 7 yrs | na | Rental | Factory | 323,766 |
| | | | | | | | 174,299,532 |

# Statistics on Shareholdings

as at 30 April 2012



| | | |
|---|---|---|
| Authorised Share Capital | : | RM 1,000,000,000 |
| Issued and Fully paid Up | : | RM 159,866,976 |
| Class of Shares | : | Ordinary shares of RM0.50 each |
| Voting Rights | : | One vote per ordinary share |

### Analysis of Shareholdings

| Size of Shareholdings | No. of Shareholders | % of Shareholders | No. of Shares | % of Shareholdings |
|---|---|---|---|---|
| Less than 100 | 109 | 2.52 | 7,221 | 0.01 |
| 100 - 1,000 | 845 | 19.56 | 682,165 | 0.21 |
| 1,001 - 10,000 | 2,432 | 56.28 | 10,647,144 | 3.34 |
| 10,001 - 100,000 | 800 | 18.51 | 22,933,362 | 7.20 |
| 100,001 to less than 5% of issued shares | 132 | 3.06 | 78,289,720 | 24.57 |
| -5% and above of issued shares | 3 | 0.07 | 206,059,940 | 64.67 |
| **Total** | **4,321** | **100.00** | **318,619,552** | **100.00** |

Note : Based on adjusted issued shares capital of 318,619,552 ordinary shares of RM0.50 each after deducting 1,114,400 treasury shares retained by the Company as per Record of Depositors.

### Directors' Shareholdings

| No. | Name of Directors | No of Shares Direct Interest | % | Indirect Interest | % |
|---|---|---|---|---|---|
| 1 | Dato' Haji Mokhtar Bin Hj. Samad | - | - | - | - |
| 2 | Lim Kuang Sia<br>- Cimsec Nominees (Tempatan) Sdn Bhd<br>- CIMB for Lim Kuang Sia (PB) | 381,888 | 0.12 | 165,978,488 | 52.09 |
| 3 | Lim Kuang Yong | - | - | 165,456,240 | 51.93 |
| 4 | Lim Kuang Wang | 718,848 | 0.23 | 165,456,240 | 51.93 |
| 5 | Lim Kwan Hwa | - | - | 165,466,240 | 51.93 |
| 6 | Heng Bak Tan | - | - | 28,896 | 0.01 |
| 7 | Dato' Tai Chang Eng @ Teh Chang Ying | 229,520 | 0.07 | - | - |
| 8 | Tong Siew Choo | 29,952 | 0.01 | - | - |
| 9 | Lim Leng Bung | - | - | 165,456,240 | 51.93 |

# Statistics on Shareholdings
as at 30 April 2012

## Substantial Shareholders

| No. | Name of Substantial Shareholders | | No. of Shares | % |
|---|---|---|---|---|
| 1 | Kossan Holdings (M) Sdn Bhd | | 165,456,240 | 51.93 |
| | - Kossan Holdings (M) Sdn Bhd | 113,993,568 | | |
| | - Kossan Holdings (M) Sdn Bhd | 17,077,472 | | |
| | - Kossan Holdings (M) Sdn Bhd | 4,433,200 | | |
| | - Malaysia Nomineses (Tempatan) Sdn Bhd | 15,552,000 | | |
| | Pledged Securities Account for Kossan Holdings (M) Sdn Bhd (05-00042-000) | | | |
| | - EB Nominees (Tempatan) Sdn Bhd | 14,400,000 | | |
| | Pledged Securities Account for Kossan Holdings (M) Sdn Bhd (PKG) | | | |
| 2 | Kumpulan Wang Persaraan (Diperbadankan) | | 24,127,300 | 7.57 |
| 3 | Employees Provident Fund Board | | 16,476,400 | 5.17 |
| | - Citigroup Nominees (Tempatan) Sdn Bhd | 13,135,800 | | |
| | - Citigroup Nominees (Tempatan) Sdn Bhd (Pheim) | 3,340,600 | | |

## 30 Largest Shareholders

| No. | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1 | KOSSAN HOLDINGS (M) SDN BHD | 113,993,568 | 35.78 |
| 2 | KUMPULAN WANG PERSARAAN (DIPERBADANKAN) | 24,127,300 | 7.57 |
| 3 | KOSSAN HOLDINGS (M) SDN BHD | 17,077,472 | 5.36 |
| 4 | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD PLEDGED SECURITIES ACCOUNT FOR KOSSAN HOLDINGS (M) SDN BHD (05-00042-000) | 15,552,000 | 4.88 |
| 5 | CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND KG33 FOR INVESCO ASIA PACIFIC GROWTH FUND | 15,057,500 | 4.73 |
| 6 | EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD PLEDGED SECURITIES ACCOUNT FOR KOSSAN HOLDINGS (M) SDN BHD (PKG) | 14,400,000 | 4.52 |
| 7 | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD | 13,135,800 | 4.12 |
| 8 | KOSSAN HOLDINGS (M) SDN BHD | 4,433,200 | 1.39 |
| 9 | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (PHEIM) | 3,340,600 | 1.05 |
| 10 | AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC OPPORTUNITIES FUND | 3,161,200 | 0.99 |
| 11 | YEO WHA | 3,072,000 | 0.96 |
| 12 | RUBY TECHNIQUE SDN BHD | 3,013,800 | 0.95 |

### 30 Largest Shareholders

| No. | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 13 | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>ING INSURANCE BERHAD (INV-IL PAR) | 3,009,100 | 0.94 |
| 14 | LIM HUI GUAN | 2,283,000 | 0.72 |
| 15 | AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED<br>SECURITIES ACCOUNT - AMBANK (M) BERHAD FOR<br>RUBY TECHNIQUE SDN BHD | 2,175,000 | 0.68 |
| 16 | UNIVERSAL TRUSTEE (MALAYSIA) BERHAD<br>CIMB ISLAMIC SMALL CAP FUND | 1,782,000 | 0.56 |
| 17 | RUBY TECHNIQUE SDN BHD | 1,736,900 | 0.55 |
| 18 | AMANAHRAYA TRUSTEES BERHAD PB GROWTH FUND | 1,613,000 | 0.51 |
| 19 | AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC<br>SELECT TREASURES FUND | 1,400,000 | 0.44 |
| 20 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR SUSY DING (CEB) | 1,228,600 | 0.39 |
| 21 | YEE CHEK MUN | 1,090,000 | 0.34 |
| 22 | CHIA BAK LANG | 1,030,000 | 0.32 |
| 23 | MAYBANK NOMINEES (TEMPATAN) SDN BHD<br>MAYBANK TRUSTEES BERHAD FOR CIMB-PRINCIPAL SMALL CAP FUND (240218) | 1,025,100 | 0.32 |
| 24 | RUBY TECHNIQUE SDN BHD | 986,200 | 0.31 |
| 25 | HLB NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR ASHFAK AHMAD BIN ALARAKHA | 962,000 | 0.30 |
| 26 | HLG NOMINEE (TEMPATAN) SDN BHD<br>PB TRUSTEE SERVICES BERHAD FOR HONG LEONG GROWTH FUND | 950,000 | 0.30 |
| 27 | PERTUBUHAN KESELAMATAN SOSIAL | 934,100 | 0.29 |
| 28 | CH'NG CHAN SENG | 916,400 | 0.29 |
| 29 | HSBC NOMINEES (ASING) SDN BHD<br>EXEMPT AN FOR MORGAN STANLEY & CO. LLC (CLIENT) | 864,200 | 0.27 |
| 30 | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>EXEMPT AN FOR AMERICAN INTERNATIONAL ASSURANCE BERHAD | 853,300 | 0.27 |
| **Total** | | **255,203,340** | **80.10** |

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Thirty Second (32nd) Annual General Meeting of the Company will be held at Concorde II, Level 2, Concorde Hotel Shah Alam, 3, Jalan Tengku Ampuan Zabedah C 9/C, 40100 Shah Alam on Thursday, 21 June 2012 at 10.30 a.m. for the following purposes:

## AGENDA

1. To receive the audited financial statements for the year ended 31 December 2011 and the Reports of the Directors' and the Auditors thereon.

2. To approve payment of a final tax exempt dividend of 4 sen per ordinary share of RM0.50 each for the financial year ended 31 December 2011. **(Ordinary Resolution 1)**

3. To approve the payment of directors' fees of RM 180,000 for the financial year ended 31 December 2011. (2010 : RM120,000) **(Ordinary Resolution 2)**

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

   (i) Dato' Haji Mokhtar Bin Haji Samad **(Ordinary Resolution 3)**

   (ii) Mr. Lim Kuang Wang **(Ordinary Resolution 4)**

   (iii) Mr. Heng Bak Tan **(Ordinary Resolution 5)**

5. To re-appoint KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 6)**

6. SPECIAL BUSINESS

   To consider and, if thought fit, to pass the following Ordinary and Special Resolutions:

   (A) Authority for Directors to allot and issue shares in general pursuant to Section 132D of the Companies Act. 1965-General allotment. **(Ordinary Resolution 7)**

   "That, subject always to the Companies Act, 1965 ("Act"), the Articles of Association of the Company and the approvals of the relevant governmental/ regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Act, to allot and issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit and expedient in the interest of the Company provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued and paid up share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued."

6. SPECIAL BUSINESS (Cont'd)

(B) Proposed renewal of and further RRPT Mandate for recurrent related party transactions of a revenue or trading nature ("Proposed RRPT Mandate").

"That, subject always to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company and its subsidiaries shall be mandated to enter into the categories of recurrent related party transactions of a revenue or trading nature specified in Section 2.5 of the Circular to Shareholders dated 28 May 2012 with the following related parties:-

(1) Kossan Holdings (M) Sdn. Bhd. and its subsidiaries **(Ordinary Resolution 8)**

(2) Kossan FRP Industries (M) Sdn. Bhd. **(Ordinary Resolution 9)**

(3) HT Ceramics (M) Sdn. Bhd. **(Ordinary Resolution 10)**

Subject further to the following:

i) the transactions are in the ordinary course of business and are on terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company;

ii) the Proposed RRPT Mandate will take effect from the date of the passing of the Ordinary Resolutions proposed at the Annual General Meeting ("AGM") and shall apply in respect of the recurrent related party transactions to be entered into from the date of the forthcoming AGM until the conclusion of the next AGM of the Company. The proposed RRPT Mandate is subject to annual renewal. Any authority conferred by the Mandate shall only continue to be in force until:-

(a) the conclusion of the next AGM of the Company, following the AGM of the Company at which such resolution was passed, at which time the said authority would lapse unless renewed by ordinary resolution passed at that meeting, the authority is renewed either unconditionally or subject to conditions; or

(b) the expiration of the period within which the next AGM is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is earlier;

6. SPECIAL BUSINESS (Cont'd)

iii) disclosure is made in the annual report of the breakdown of aggregate value of transactions conducted pursuant to the RRPT Mandate during the financial year and in the annual report for the subsequent financial year during which the RRPT Mandate is in force based on the type of recurrent transactions made and the names of the related parties involved in each type of the recurrent transactions made and their relationship with the Company, provided that such transactions are made on normal commercial terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company and are on arm's length basis;

iv) And that the Directors and/or any of them be and are hereby authorised to complete and do such acts and things (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by these Ordinary Resolutions."

(C) Proposed Renewal of Authority For Share Buy-back **(Ordinary Resolution 11)**

(a) "That, subject to the provisions under the Act, the Memorandum and Articles of Association of the Company, the Listing Requirements of Bursa Securities and any other relevant authorities, and other relevant approvals (if any), the Directors of the Company be and are hereby authorised to purchase such number of ordinary shares of RM0.50 each of the Company ("Shares") from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of Shares purchased pursuant to this resolution shall not exceed ten per cent (10%) of the total issued and paid up share capital of the Company;

(b) That the maximum amount of funds to be utilised for the purpose of the Proposed Share Buy-back shall not exceed the aggregate retained profits and/or share premium account of the Company;

(c) That authority be and is hereby given to the Directors of the Company to decide at their discretion, as may be permitted and prescribed by the Act and/or any prevailing laws, rules, regulations, orders, guidelines and requirements issued by the relevant authorities for the time being in force to deal with any Shares so purchased by the Company in the following manner:

(i) the Shares so purchased could be cancelled; or

(ii) the Shares so purchased could be retained as treasury shares for distribution as share dividends to the shareholders of the Company and/or be resold through Bursa Securities in accordance with the relevant rules of Bursa Securities and/or be cancelled subsequently; or

(iii) combination of (i) and (ii) above

6. SPECIAL BUSINESS (Cont'd)

(C) Proposed Renewal of Authority For Share Buy-back (Cont'd)

(d) That the authority conferred by this resolution shall only continue to be effective until:

(i) the conclusion of the next AGM of the Company, following the AGM of the Company at which such resolution was passed, at which time the said authority would lapse unless renewed by ordinary resolution passed at that meeting, the authority is renewed either unconditionally or subject to conditions; or

(ii) the expiration of the period within which the next AGM is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(iii) revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is earlier;

(e) And that the Directors of the Company be and are hereby authorised to take such steps as to give full effect to the Proposed Share Buy-back with full power to assent to any conditions, modifications, variations and/or amendments as may be imposed by the relevant authorities and/or to do all such acts and things as the Directors may deem fit and expedient in the best interest of the Company."

(D) Adoption of New Articles of Association **(Special Resolution 1)**

That the Articles of Association of the Company in the form contained in Appendix I be and are hereby approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all existing Articles of Association.

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

## NOTICE OF DIVIDEND PAYMENT

NOTICE IS ALSO HEREBY GIVEN that the final tax exempt dividend of 4 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2011, if approved by members at the Annual General Meeting to be held on Thursday, 21 June 2012, will be paid on 18 July 2012. The entitlement date for the dividend will be 28 June 2012. .

A depositor shall qualify for entitlement only in respect of:

(a) Shares transferred to the depositor's securities account before 4.00 p.m. on 28 June 2012 in respect of ordinary transfer; and

(b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD
**KOSSAN RUBBER INDUSTRIES BHD.**

**CHIA ONG LEONG**
**CHIA YEW NGO**
Company Secretaries
Klang, 28 May 2012

### NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company, a qualified legal practitioner, an approved company auditor or a person approved by the Registrar of Companies in a particular case. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 ¾, Jalan Kapar, 42100 Klang, Selangor not less than forty-eight hours (48) before the time for holding the meeting.

3. If the appointer is a corporation, the proxy form must be executed under its Common Seal or under the hand of its attorney.

4. Explanatory notes on special business

   (a) Ordinary Resolution 7

   This is a renewal of the mandate obtained from members at the last Annual General Meeting ("the previous mandate"). The previous mandate was not utilised and accordingly no proceeds were raised. The Ordinary Resolution 7 proposed, if passed, will give the directors the authority to issue shares up to an aggregate amount of not exceeding ten per cent (10%) of the issued and paid up share capital of the Company for the time being for such purposes as the directors would consider in the best interest of the Company. This authority, unless revoked or varied by the Company in general meeting, will expire at the conclusion of next Annual General Meeting of the Company.

   The renewal of this mandate will provide flexibility to the Company for any possible fund-raising activities including but not limited to any placing of shares for purpose of funding future investment projects, working capital and/or acquisitions.

**NOTES** (Cont'd)

4. Explanatory notes on special business (Cont'd)

    (b) Ordinary Resolutions 8, 9 and 10 (Proposed Shareholders' Mandate for RRPT)

    These proposed resolutions, if passed, will allow the Group to enter into Recurrent Transactions pursuant to Paragraph 10.09 of the Listing Requirements of Bursa Securities. Further information on this Mandate is set out in the Circular to Shareholders dated 28 May 2012, which is despatched together with the Company's 2011 Annual Report.

    (c) Ordinary Resolution 11 (Proposed Renewal of Authority for Share Buy-back)

    The proposed resolution, if passed, will empower the Directors to purchase the Company's Shares of up to a maximum of ten per cent (10%) of the issued and paid up share capital of the Company by utilising funds allocated out of retained profits and share premium accounts of the Company. Further information on the Proposed Renewal of Authority for Share Buy-back is set out in the Statement to Shareholders dated 28 May 2012, which is despatched together with the Company's 2011 Annual Report.

    (d) Special Resolution 1 (Proposed Adoption of New Articles of Association). The proposed special resolution is to bring the Articles of Association in line with the recent amendments to the Main Market Listing Requirements and incorporate all the amendments made over the years into an orderly presentation.

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

# Proxy Form

I/We ______________________________________________________________

of ______________________________________________________________

being a member of KOSSAN RUBBER INDUSTRIES BHD, hereby appoint

______________________________________________________________

of ______________________________________________________________ or

failing him, ______________________________________________________________

of ______________________________________________________________

as my/our proxy to vote for me/us and on my/our behalf at the Thirty Second (32nd) Annual General Meeting of the Company to be held at Concorde II, Level 2, Concorde Hotel Shah Alam, 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam on Thursday, 21 June 2012 at 10.30 a.m. and at any adjournment thereof.

| ORDINARY BUSINESS | | FOR | AGAINST |
|---|---|---|---|
| Receive Audited Financial Statements and Reports | | | |
| Approve Final Dividend | - Ordinary Resolution 1 | | |
| Approve Directors' Fees | - Ordinary Resolution 2 | | |
| Re-elect Directors under Article 108<br>(i) Dato' Haji Mokhtar Bin Haji Samad<br>(ii) Lim Kuang Wang<br>(iii) Heng Bak Tan | <br>- Ordinary Resolution 3<br>- Ordinary Resolution 4<br>- Ordinary Resolution 5 | | |
| Re-appoint Messrs KPMG as the Company's Auditors for the ensuing year. | - Ordinary Resolution 6 | | |
| **SPECIAL BUSINESS** | | | |
| Authorise Directors to allot and issue shares pursuant to Section 132D of the Companies Act. 1965-General allotment | - Ordinary Resolution 7 | | |
| Approve renewal of Mandate for RRPT with:-<br>(i) Kossan Holdings (M) Sdn. Bhd. and its subsidiaries<br>(ii) Kossan FRP Industries (M) Sdn. Bhd.<br>(iii) HT Ceramics (M) Sdn. Bhd. | <br>- Ordinary Resolution 8<br>- Ordinary Resolution 9<br>- Ordinary Resolution 10 | | |
| Approve Renewal of Mandate for Share Buy-back | - Ordinary Resolution 11 | | |
| Adoption of new Articles of Association | - Special Resolution 1 | | |

As witness my hand this__________________day of__________________2012

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. If you do not do so, the proxy will vote or abstain from voting at his discretion.

| NAME OF PROXY | NO. OF SHARES ALLOCATED |
|---|---|
| | |
| | |
| | |
| TOTAL | |

______________________________
Signature(s) of Shareholders(s)

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company, a qualified legal practitioner, an approved company auditor or a person approved by the Registrar of Companies in a particular case. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 ¾, Jalan Kapar, 42100 Klang not less than forty-eight hours before the time for holding the meeting.
3. If the appointer is a corporation, this form must be executed under its Common Seal or under the hand of its attorney.

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STAMP

The Secretary
**KOSSAN RUBBER INDUSTRIES BHD** (48166-W)

Wisma Kossan
Lot 782, Jalan Sg. Putus
Off batu 3¾, Jalan Kapar
42100 Klang, Selangor Darul Ehsan
Malaysia

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**KOSSAN RUBBER INDUSTRIES BHD.**
Wisma Kossan, Lot 782
Jalan Sungai Putus, Off Batu 3 3/4
Jalan Kapar, 42100 Klang
Peti Surat 188, 41720 Klang
Selangor Darul Ehsan, Malaysia

Tel Number : +603 3291 2657
Fax Number : +603 3291 2903
Email : kossan@kossan.com.my

www.kossan.com.my