

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“Board”) of Kossan Rubber Industries Bhd (“Kossan” or “the Company”) is committed and will continue to endeavor to comply with the principles and practices set out in the Malaysian Code on Corporate Governance 2017 (“MCCG”). The Board will regularly review and maintain all identifiable means to ensure the Company’s corporate governance standards meet the high standards including accountability and transparency of the MCCG. This practice will assure continuous and sustainable growth of the Group for the interest of shareholders and other stakeholders.

The Board is pleased to present the following statement, prepared in compliance with Bursa Malaysia Securities Main Market Listing Requirement (“MMLR”) which outlined how the Company and its subsidiaries (“Group”) had applied the principles and best practices of the MCCG, that were in place throughout the financial year ended 31 December 2018. The detailed application for each practice as set out in the MCCG is disclosed in the Corporate Governance Report (“CG Report”) which is available on Kossan’s website: [www.kossan.com.my](http://www.kossan.com.my).

## PRINCIPAL A: BOARD LEADERSHIP AND EFFECTIVENESS

### I – BOARD RESPONSIBILITIES

#### 1. Board Leadership

##### 1.1 Roles and Responsibilities of the Board

All Directors should objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Group. Every Director is required to keep abreast of his responsibilities as a Director and of the conduct, business activities and development of the Group.

The key responsibilities of the Board, includes among others:

- a) Promote good corporate governance culture within the Group which reinforces ethical, prudent and professional behavior;
- b) Review, challenge and decide on management’s proposals for the Group, and monitor its implementation by management;
- c) Review and approve strategic initiatives of the Group supporting long-term value creation including strategies on economic, environmental and social considerations underpinning sustainability;
- d) Supervise and assess management performance to determine whether the business is being properly managed;
- e) Understand the principal risks of the company’s business and recognise that business decisions involve the taking of appropriate risks;
- f) Set the risk appetite within which the Board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;
- g) Ensure that senior management has the necessary skills and experience, and there are measures in place to provide for the orderly succession and replacement of senior management;
- h) Ensure that the company has in place procedures to enable effective communication with stakeholders; and
- i) Review the adequacy and integrity of the Group’s financial and non-financial reporting.

## Corporate Governance Overview Statement (Cont'd)

### 1.2 Chairman

The Chairman, an independent non-executive director, is primarily responsible for matters pertaining to the Board and the overall conduct of the Group. The Chairman is committed to good corporate governance practice and has been leading the Board towards high performing culture.

### 1.3 Chairman and Chief Executive Officer

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

### 1.4 Qualified and competent Company Secretary

The Board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

The Company Secretary through the Chairman plays an important role in good governance by helping the Board and its Committees to function effectively and in accordance with their terms of reference and best practices.

The roles and responsibilities of a Company Secretary include, but are not limited to the following:

- a) Manage all Board and Committee meeting logistics, attend and record minutes of all Board and Committee meetings and facilitate Board communications;
- b) Advise the Board on its roles and responsibilities;
- c) Facilitate the orientation of new Directors and assist in Director training and development;
- d) Advise the Board on corporate disclosures and compliance with company and securities regulations and listing requirements;
- e) Manage processes pertaining to the annual shareholders' meeting;
- f) Monitor corporate governance developments and assist the Board in applying governance practices to meet the Board's needs and stakeholders' expectation; and
- g) Serve as a focal point for stakeholders' communication and engagement on corporate governance issues.

The qualified Company Secretary possesses the knowledge and experience to carry out his functions. These include knowledge in company and securities law, finance, governance, company secretaryship and other areas of compliance such as the listing requirements. The Company Secretary undertakes continuous professional development.

## Corporate Governance Overview Statement (Cont'd)

### 1.5 Supply of Information

All Directors have unrestricted and timely access to all information concerning the Company and the Group's business for the discharge of their responsibilities. The Board papers and reports are distributed to the Directors in sufficient time prior to meetings to enable them to seek clarification and/or explanation, where necessary, to expedite the decision making process.

All Directors have access to the advice and services of the Company Secretary and senior management staff in the Group.

## 2. Demarcation of Responsibilities

### 2.1 Board Charter

The Board Charter clearly established the functions, governance structure authority and terms of reference of the Board, Board Committees and management. It provides a reference to the Board and Management on the functions of the Board.

The Charter was adopted in 2014 and last reviewed in 2018 to ensure consistency with the Board's objectives and prevailing legislations and practices.

## 3. Business Conduct and Corporate Culture

### 3.1 Kossan Code of Ethics and Conduct ("KCEC")

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

The KCEC's key areas include: compliance with national laws and regulations, conflict of interest, anti-corruption policy, employment policy and guidelines (discrimination and harassment, compliance with employment laws and regulations, non-compete policy, work place violence, illegal drugs and alcohols policy, intellectual property, occupational health, safety and environment, dress code and public communications), business record accuracy and integrity, financial reporting, maintenance of records, relationships with auditors, use of company resources.

The KCEC is extensive but not exhaustive and the Group expects its employees to exercise good judgement in their decision making in order to adhere to the highest ethical standards. The KCEC will be reviewed periodically.

The Code of Ethics is published on Kossan's website: [www.kossan.com.my](http://www.kossan.com.my).

### 3.2 Whistleblowing

The Board has established a Whistleblowing Policy that provides an avenue for its employees and the general public to raise concern about malpractice or improper conduct and explains how the company respond to it.

The policy provides assurance that employees and third parties' identities will be kept confidential and that whistleblowers will not risk retaliation, harassment or victimization provided that they act in good faith in their reporting.

### II - BOARD COMPOSITION

#### 4. Board's objectivity

##### 4.1 Composition of the Board

The Board currently has nine (9) members, comprising six (6) executive directors and three (3) independent non-executive directors.

The Directors, with their different backgrounds, specialisations, qualifications and experiences, bring with them a wide range of knowledge and expertise, for the effective management of the Group's diversified businesses. Their qualifications and experiences are set out in the Directors' Profile on pages 16 to 23 of the 2018 Annual Report.

##### 4.2 Independent Directors

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

##### 4.3 Policy on Tenure of Independent Directors

The Board does not have a policy which limits the tenure of independent directors to nine (9) years. None of the IDs' tenure exceeded nine (9) years.

##### 4.4 Board and Senior Management

The appointment of the Board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender. For further information, please refer to Directors' Profile and Key Senior Management of this 2018 Annual Report.

##### 4.5 Gender Diversity

Currently the Board has a single woman representation. The Board acknowledges the importance of having more women representation on the Board and will, through the Nomination Committee strive to meet the objective of the practice of the MCCG.

##### 4.6 Appointment of New Directors

For the appointment of new directors, the candidates will be sourced from unrelated third parties. The shortlisted candidates, unknown to existing Board members, will be interviewed by the Nomination Committee prior to presentation to the Board for endorsement.

##### 4.7 Nomination Committee

The Nomination Committee ("NC") of the Company as at 31 December 2018 comprises exclusively of Independent Non-Executive Directors as follows:

Mohamed Shafeii Bin Abdul Gaffoor	- Chairman
Lee Choo Hock	- Member
Hoh Kim Hyan	- Member

## Corporate Governance Overview Statement (Cont'd)

The NC meets as and when required and at least once a year. The NC met once in the financial year ended 31 December 2018. The terms of reference of the NC is set out in Appendix III of the Board Charter.

The NC's responsibilities include, amongst others, reviewing the Board composition and making recommendations to the Board for appointment of new directors (including gender consideration) by evaluating and assessing the suitability of candidate for Board/ Committee membership. Factors taken into consideration will include age, the required mix of skills, knowledge, independence, expertise, experience, professionalism, capabilities, integrity and time commitments. Suitable candidates were not solely through the recommendations of the existing board members, management and major shareholders.

The Committee also assesses on an annual basis the effectiveness of the Board as a whole, the Board Committees and the individual contributions and independence of each Independent Director. All assessments and evaluations carried out are properly documented. Activities carried out in 2018 include:

- reviewed the performance of Board and individual director;
- discussed succession planning; and
- recommended re-election of retiring directors.

### 5. Overall Board Effectiveness

#### 5.1 Annual evaluation

For the financial year ended 31 December 2018, the Board was satisfied that the Board and the Board Committees had discharged their duties and responsibilities effectively. The Board was also satisfied that the Board composition, in term of size, mix of executive, non-executive and independent directors, and mix of skills and experience, were adequate.

The Board meets at least four (4) times a year at quarterly intervals with additional meetings convened as necessary. During the financial year ended 31 December 2018, five (5) Board Meetings were held and the attendance of the Directors at the Board Meetings were as follows:

Director	No. of meeting attended
Mohamed Shafeii Bin Abdul Gaffoor	5/5
Tan Sri Dato' Lim Kuang Sia	5/5
Lim Leng Bung	5/5
Tan Kong Chang	5/5
Lim Siau Tian	5/5
Lim Siau Hing	5/5
Lim Ooi Chow	5/5
Lee Choo Hock	5/5
Hoh Kim Hyan	5/5

All the meetings were held at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 ¾, Jalan Kapar, 42100 Klang, Selangor Darul Ehsan.

In the intervals between Board meetings, routine Board decisions were carried out through circular resolutions, supported with all relevant information and explanations for an informed decision.

## Corporate Governance Overview Statement (Cont'd)

To facilitate Directors' planning and the management, an annual meeting calendar is prepared and given to Directors before the beginning of each new financial year. The Board is satisfied with the commitments given by the Directors.

Each director is required to notify the Chairman of the Board prior to his acceptance of directorship outside the Group. The notification should include an approximate indication of time to be spent on the new directorship.

### III - REMUNERATION

#### 6. Level and Composition of Remuneration

##### 6.1 Remuneration Policy

The objective of the Group's remuneration policy is to attract and retain the Directors and Senior Management required to lead and control the Group effectively. For executive directors and senior management, their remuneration package is linked to corporate and individual performance. For non-executive directors, the level of remuneration is reflective of their experience and level of responsibilities.

##### 6.2 Remuneration Committee

The Remuneration Committee ("RC") of the Company comprises a majority of independent non-executive Directors. The RC has written terms of reference which deals with its authority and duties. The composition of the RC as at 31 December 2018 were as follows:

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

### PRINCIPAL B: EFFECTIVE AUDIT AND RISK MANAGEMENT

#### I. AUDIT COMMITTEE ("AC")

##### 7. Effective and Independent Audit Committee

##### 7.1 Composition of the AC

The AC comprises three (3) independent non-executive directors. The composition is reviewed annually by the Nomination Committee and submitted to the Board for action. The review looks into the level of expertise, experience and understanding of the Company's business.

##### 7.2 Chairman of the Audit Committee and Chairman of the Board

The Chairman of the AC is not the chairman of the Board.

Mr. Lee Choo Hock, the senior Independent Non-Executive Director is the Chairman of the Audit Committee while Mr. Mohamed Shafeii Bin Abdul Gaffoor, also an Independent Non-Executive Director is the Chairman of the Board.

## Corporate Governance Overview Statement (Cont'd)

### 7.3 Financial literacy of AC members

Two of the AC members are chartered accountants, while all members of the AC are well educated and are financially literate, they are encouraged to attend courses to improve their understanding on matters under the purview of the AC, including financial reporting process and to keep abreast of relevant developments in accounting and auditing standards, practices and rules.

### 7.4 Appointment of AC member being a former key audit partner

The Company's policy on recruiting any former key audit partner as a member of AC requires the said key audit partner to exercise a cooling period of at least two (2) years before his appointment to the AC.

### 7.5 Independence of External Auditor

The AC is responsible for the annual assessment of the competency and independence of the external auditors. Having assessed their performance, the AC will recommend their re-appointment to the Board, upon which the shareholders' approval will be sought at the AGM.

The external auditors are required to declare their independence annually to the AC as specified by the By-Laws issued by the Malaysian Institute of Accountants. The external auditors have provided the declaration in their annual audit plan presented to the AC of the Company.

The AC also reviewed the provision of non-audit services rendered to the Group by the external auditors and noted that the total amount of fees paid for non-audit services rendered by the Group external auditors for the financial year ended 31 December 2018 was RM8,800.

Further information on the Audit Committee can be found in the Audit Committee Report on pages 57 to 60 of the 2018 Annual Report.

## II. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

### 8. Risk Management and Internal Control

#### 8.1 Establishing an Effective Risk Management and Internal Control Framework

The Board is responsible for the Group's risk management framework and system of internal control and for reviewing their adequacy and integrity. Accordingly, the Directors had established a Risk Management Framework to ensure that an effective system of internal control, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations as well as with internal procedures and guidelines is in place within the Group.

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

#### 8.2 Features of Risk Management and Internal Control Framework

The Board oversees the risk management function through the Risk Management Committee ("RMC"). The RMC reviews and recommends for the Board's consideration and approval the risk management principle, framework and policies for managing risks within the Group. The RMC also monitors and assesses the risk appetite and tolerance of the Group to safe guard the Group's assets and shareholders' investment.

The Group has in place a structured process for identification, assessment, monitoring and communication of risks and effectiveness of risk mitigation strategies at all level of operations.

## Corporate Governance Overview Statement (Cont'd)

### 8.3 Risk Management Committee ("RMC")

The Board has established a RMC headed by Mr. Lee Choo Hock, an independent non-executive director and represented by four (4) executive directors and one (1) senior management.

## 9. Effective Governance, Risk Management and Internal Control Framework

### 9.1 Internal Audit Function

The AC, in its oversight of the internal audit function, was satisfied that the said function was effective and able to function independently.

The Board has established an internal audit ("IA") function which reports directly to the Audit Committee ("AC"). The IA function undertakes an independent assessment on the internal control system of the Group and provide assurance to the AC that no material issue or major deficiency has been noted which could pose a high risk to the overall system of internal control.

The IA assignments were carried out in accordance with the 2018 audit plan approved by the AC.

### 9.2 Internal Audit Objectivity and Independence

The AC, had obtained from the Board that the internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence and are satisfied that the internal audit department is adequately staffed and with relevant qualification and experience.

The IA function is carried out in accordance with the IA Charter and IA Framework with reference to IIA's International Professional Practices Framework.

The Statement on Risk Management and Internal Control of the Group which provides an overview of the state of risk management and internal control within the Group is set out on pages 52 to 56 of the 2018 Annual Report.

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

### I – COMMUNICATION WITH STAKEHOLDERS

#### 10. Communication between Company and Stakeholders

The Board will ensure that it adheres to and comply with the disclosure requirements of the MMLR as well as the Corporate Disclosure Guide issued by Bursa Securities.

The Company continues to recognise the importance of transparency and accountability to its shareholders and investors. The Board endeavors to keep its shareholders and investors informed of its performance through the annual report and financial statements, circulars to shareholders, quarterly financial reports and the various announcements made during the year. These will enable the shareholders, investors and members of the public to have an overview of the Group's performance and operations.

The Group also maintains a corporate website at [www.kossan.com.my](http://www.kossan.com.my) whereby shareholders as well as members of the public may access for the latest information on the Group. Alternatively, they may obtain the Company's latest announcements via the website of Bursa Malaysia Securities Berhad at [www.bursamalaysia.com](http://www.bursamalaysia.com).



## Corporate Governance Overview Statement (Cont'd)

### II – CONDUCT OF GENERAL MEETINGS

#### 11. Shareholders Participation at General Meetings

The Company's Annual General Meeting ("AGM") remains the principal forum for dialogue with private and institution shareholders and the Company aims to ensure that the AGM provides an important opportunity for effective communication with and constructive feedback from the shareholders. At each AGM, attended by all members of the Board, the Board presents the progress and performance of the Company's businesses and shareholders are encouraged to participate in the proceedings and question and answer session and thereafter to vote on all resolutions tabled.

The Chairman as well as the CEO will respond to shareholders' questions at the AGM. The Notice and agenda of AGM together with the Proxy Form are given to shareholders at least twenty-one days before the AGM, which gives them sufficient time to prepare themselves to attend the AGM or to appoint a proxy to attend and vote on their behalf. Each item of special business include in the Notice of AGM is accompanied by an explanatory statement for the proposed resolution to facilitate the full understanding and evaluation of issues involved.

The Company implemented poll voting (through e-voting) on all resolutions tabled at general meetings. With the new Constitution to be tabled at the 39th AGM, the Company hopes to leverage on technology to enhance the quality of engagement with shareholders.

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

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

### COMPLIANCE STATEMENT

The Board shall continue to strive for high standards of corporate governance throughout the Group. The Board is of the view that the Company has, in all material aspects, satisfactorily complied with the principles and practices set out in the MCCG except for the departures as set out in the CG Report.