



Annual Report

**2015**

**KUALA LUMPUR KEPONG BERHAD**

(15043-V)

# CONTENTS

1	Corporate Profile
2	Mission & Values
3	Key Indicators
4	43 <sup>rd</sup> Annual General Meeting
4	Financial Calendar
5	Corporate Information
6	Profile of Directors
10	Simplified Group Assets & Liabilities
11	Group Highlights
12	Financial Highlights
13	5-Year Plantation Statistics
14	5-Year Financial Statistics
16	Planted Area & Crop Production
17	Area Statement
18	Chairman's Statement
21	<i>Kenyataan Pengerusi</i>
24	CEO's Review of Operations
31	Integrated Business Value Chain
32	Sustainability & Corporate Responsibility
50	Corporate & Key Milestones
52	Group Corporate Structure

## ACCOUNTABILITY

54-73

55	Corporate Governance Statement
66	Statement on Risk Management & Internal Control
68	Audit Committee Report
73	Additional Compliance Information

## FINANCIAL STATEMENTS

74-153

75	Report of the Directors
78	Statements of Profit or Loss
79	Statements of Other Comprehensive Income
80	Statements of Financial Position
81	Consolidated Statement of Changes in Equity
82	Statement of Changes in Equity of the Company
83	Consolidated Statement of Cash Flows
86	Statement of Cash Flows of the Company
88	Notes to the Financial Statements
151	Directors' Statement
151	Statutory Declaration
152	Report of the Auditors

## GROUP PROPERTIES & SHAREHOLDINGS

155-170

156	Location of Plantation Operations
160	Properties Held by the Group
167	Share Price & Volume Traded
167	Changes in Share Capital
168	Shareholding Statistics

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171	Notice of Meeting
174	<i>Notis Mesyuarat</i> Proxy Form Directory



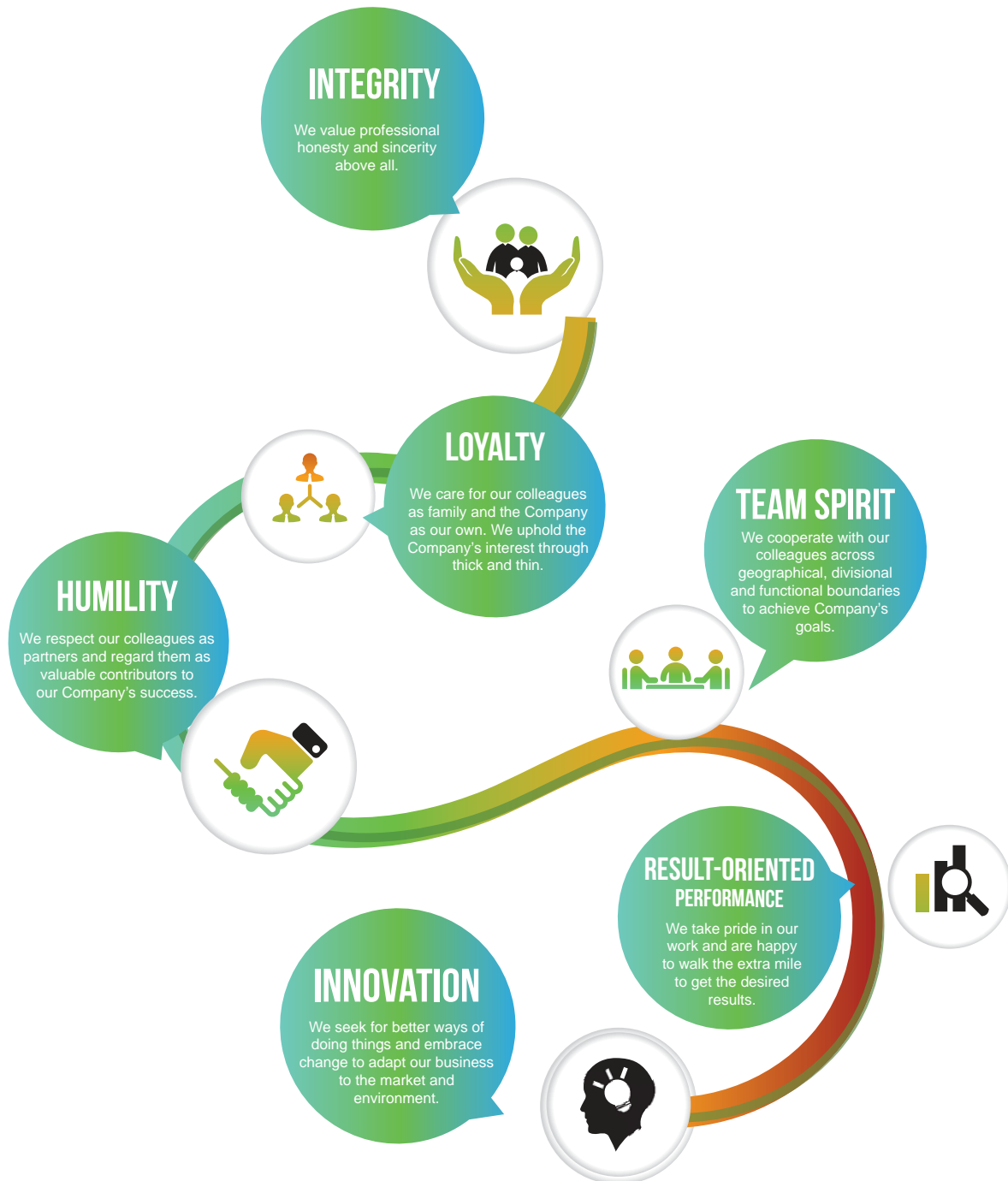
**KUALA LUMPUR KEPONG BERHAD (“KLK”), A COMPANY INCORPORATED IN MALAYSIA, IS LISTED ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD WITH A MARKET CAPITALISATION OF APPROXIMATELY RM23.1 BILLION AT THE END OF SEPTEMBER 2015.**

Started as a plantation company more than 100 years ago, plantations (oil palm and rubber) still lead as KLK’s core business activity. Through various strategic acquisitions and sound management, the Group’s plantation land bank now stands close to 270,000 hectares spread across Malaysia (Peninsular and Sabah), Indonesia (Belitung Island, Sumatra, Central and East Kalimantan) and Liberia.

Since the 1990s, the Group has diversified into resource-based manufacturing (oleochemicals, derivatives and specialty chemicals) and vertically integrated its upstream and downstream businesses. The KLK Group expanded its manufacturing operations through organic growth, joint-ventures and acquisitions in Malaysia, the People’s Republic of China, Switzerland, Germany, The Netherlands and Belgium resulting in internationally-scaled oleochemicals operations.

The 1990’s also saw the Group capitalising on the strategic location of its land bank in Peninsular Malaysia by branching into property development.

## OUR VALUES



## OUR MISSION STRIVE FOR EXCELLENCE

- Offering quality products and services at competitive prices.
- Being a good and responsible corporate citizen.
- Earning a fair return on investments.
- Maintaining steady dividend payments and adequate dividend cover.
- Sustaining growth through re-investment of retained profits.
- Maintaining a high standard of business ethics and practices.
- Fulfilling our social responsibilities in the community in which we operate.

REVENUE **RM 13.6** billion

PROFIT BEFORE TAXATION  
**RM 1.1** billion

**81.7** sen  
EARNINGS PER SHARE

DIVIDEND PER SHARE  
**45** sen

**RM 21.70** SHARE PRICE\*

MARKET CAPITALISATION\*\*  
**RM 23.1** billion

\* Closing price as at 30 September 2015

\*\* Based on closing price as at 30 September 2015

# 43<sup>RD</sup> ANNUAL GENERAL MEETING

## VENUE

Wisma Taiko  
1 Jalan S.P. Seenivasagam  
30000 Ipoh, Perak  
Malaysia

## DATE

17 February 2016

## TIME

12.00 noon



## FINANCIAL CALENDAR

### Financial Year End

30 SEPTEMBER 2015

### Announcement of Results

First Quarter	Second Quarter	Third Quarter	Fourth Quarter
16 February 2015	20 May 2015	19 August 2015	18 November 2015

### Published Annual Report and Financial Statements

Notice of Annual General Meeting	43 <sup>rd</sup> Annual General Meeting
30 December 2015	17 February 2016

### Interim Dividend

Announcement	Entitlement Date	Payment Date
20 May 2015	20 July 2015	11 August 2015

### Final Dividend

Announcement	Entitlement Date	Payment Date
18 November 2015	24 February 2016	15 March 2016

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**R. M. Alias**  
Chairman

**Roy Lim Kiam Chye**  
Executive Director

**Dato' Yeoh Eng Khoon**  
Senior Independent Non-Executive Director

**Tan Sri Azlan Bin Mohd Zainol**  
Independent Non-Executive Director

**Tan Sri Dato' Seri Lee Oi Hian**  
Chief Executive Officer

**Dato' Lee Hau Hian**  
Non-Independent Non-Executive Director

**Kwok Kian Hai**  
Independent Non-Executive Director

## COMPANY SECRETARIES

Yap Miow Kien  
Fan Chee Kum

## AUDITORS

KPMG

## PLACE OF INCORPORATION AND DOMICILE

In Malaysia as a public limited liability  
company

## REGISTERED OFFICE / PRINCIPAL PLACE OF BUSINESS

Wisma Taiko  
1 Jalan S.P. Seenivasagam  
30000 Ipoh  
Perak, Malaysia  
Tel : +605-241 7844  
Fax : +605-253 5018  
Email : cosec@klk.com.my  
Website : www.klk.com.my

## SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd  
Level 6, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor, Malaysia  
Tel : +603-7849 0777  
Fax : +603-7841 8151  
Email : ask\_us@symphony.com.my

## PRINCIPAL BANKERS

Malayan Banking Berhad  
HSBC Bank Malaysia Berhad  
CIMB Bank Berhad  
OCBC Bank (Malaysia) Berhad

## STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad  
Main Market (Listed since 1974)



# PROFILE OF DIRECTORS



**R. M. ALIAS**  
Chairman

Independent Non-Executive Director  
Chairman of Remuneration Committee  
Member of Nomination Committee  
Aged 83, Malaysian

Joined the Board on 1 July 1978 and has been the Chairman of KLK since 2008.

He holds a Bachelor of Arts (Honours) degree from the University of Malaya, Singapore, a Certificate in Public Administration from the Royal Institute of Public Administration, London and has attended the Advanced Management Program at Harvard Business School.

He is also a Director of Batu Kawan Berhad as well as a member on the Board of Trustees of the Tan Sri Lee Loy Seng Foundation and Yayasan KLK.



**TAN SRI DATO' SERI LEE OI HIAN**  
Chief Executive Officer

Executive Director  
Chairman of the Group Risk Management Committee  
Aged 64, Malaysian

Joined the Board on 1 February 1985 and is the CEO of KLK. He is also the Chairman of Batu Kawan Berhad and a Director of Royal Perak Golf Club Berhad and Equatorial Palm Oil Plc. He also serves as a member on the Board of Trustees of the Perdana Leadership Foundation, Yayasan Tuanku Bainun, Yayasan KLK, UTAR Education Foundation and Yayasan Wesley. He was formerly the Chairman of the Malaysian Palm Oil Council.

He graduated with a Bachelor of Agricultural Science (Honours) degree from the University of Malaya and obtained his Master in Business Administration from Harvard Business School.

He joined the Company in 1974 as an executive and was subsequently appointed to the Board in 1985. In 1993, he was appointed as the Group's Chairman/CEO and held the position until 2008, when he relinquished his role as Chairman, but remains as Executive Director and CEO of the Group.

Dato' Lee Hau Hian who is also a Director of KLK is his brother. Tan Sri Dato' Seri Lee is deemed connected with Batu Kawan Berhad, one of the major shareholders of KLK. He is deemed interested in various related party transactions with the KLK Group.





**ROY LIM KIAM CHYE**  
Executive Director

Aged 65, Malaysian

Joined the Board on 1 June 2007.

Mr. Lim holds a Bachelor of Economics (Honours) degree and a Diploma in Education (Distinction) from the University of Malaya. He has also attended the Senior Management Development Program from Harvard Business School and Advanced Management Program from INSEAD.

Mr. Lim is the KLK Group Plantations Director. He has been with the KLK Group since 1975. Prior to his current position, he was the Marketing Director overseeing commodities trading for the Plantations Division. He is currently the Chairman of the Malaysian Palm Oil Association and is a member on the Board of Trustees of the Malaysian Palm Oil Council.



**DATO' LEE HUI HIAN**  
Non-Independent Non-Executive Director

Member of Remuneration Committee  
Member of Nomination Committee  
Aged 62, Malaysian

Joined the Board on 20 December 1993.

Dato' Lee is the Managing Director of Batu Kawan Berhad and a Director of Synthomer plc. He is the President of the Perak Chinese Maternity Association. Besides serving as a Director of Yayasan De La Salle and See Sen Chemical Berhad, he is also a member on the Board of Trustees of the Tan Sri Lee Loy Seng Foundation and Yayasan KLK.

He graduated with a Bachelor of Science (Economics) degree from the London School of Economics and has a Master in Business Administration from Stanford University.

He is the brother of Tan Sri Dato' Seri Lee Oi Hian who is the CEO of KLK and is deemed connected with Batu Kawan Berhad, a major shareholder of KLK. He is deemed interested in various related party transactions with the KLK Group.



**DATO' YEOH ENG KHOON**  
Senior Independent Non-Executive Director

Chairman of Audit Committee  
Chairman of Nomination Committee  
Aged 68, Malaysian

Joined the Board on 24 February 2005.

He is also a Director of Batu Kawan Berhad and See Sen Chemical Berhad, as well as a member on the Board of Trustees of Yayasan KLK. His past working experience included banking, manufacturing and retail business.

He obtained his Bachelor of Arts (Honours) degree in Economics (Business Administration) from the University of Malaya in 1968 and was called to the Bar of England and Wales at Lincoln's Inn in 1979.



**KWOK KIAN HAI**  
Independent Non-Executive Director

Member of Audit Committee  
Aged 71, Singaporean

Joined the Board on 27 May 2009.

He graduated from the University of Singapore with a degree in Chemistry and Mathematics.

He was the Managing Director of a Sime Darby unit before joining Kuok Group as General Manager of Pasir Gudang Edible Oil. He served as the Managing Director of Kuok Oils and Grains until 2008 and thereafter was appointed Joint Chief Operation Officer of Wilmar International Ltd before retiring in 2009. In addition, he was a Council Member of the Malaysian Palm Oil Council and a Board member of the Palm Oil Refiners Association of Malaysia ("PORAM") for 15 years. He also previously served as the Chairman of PORAM.



**TAN SRI AZLAN BIN MOHD ZAINOL**  
Independent Non-Executive Director

Member of Audit Committee  
Member of Remuneration Committee  
Aged 65, Malaysian

Joined the Board on 13 May 2013.

Tan Sri Azlan is a Fellow of the Institute of Chartered Accountants in England and Wales, Fellow of the Asian Institute of Chartered Bankers, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants. He served as the Chief Executive Officer of the Employees Provident Fund of Malaysia from 2001 to April 2013. He has more than 29 years of experience in the financial sector, having been appointed as the Managing Director of AmBank Berhad (1994 to 2001), AmFinance Berhad (1982 to 1994), and Director for several subsidiaries of AmBank Group from 1996 to 2001. Prior to that, he was a partner with Messrs. BDO Binder.

His directorships in other public companies include Eco World International Berhad, Jardine Cycle & Carriage Limited, RHB Bank Berhad, RHB Capital Berhad, RHB Holdings Hong Kong Limited, Malaysian Resources Corporation Berhad. He also serves as a member on the Board of Trustees of Yayasan Astro Kasih and OSK Foundation; and a Council Member of the Asian Institute of Chartered Bankers.

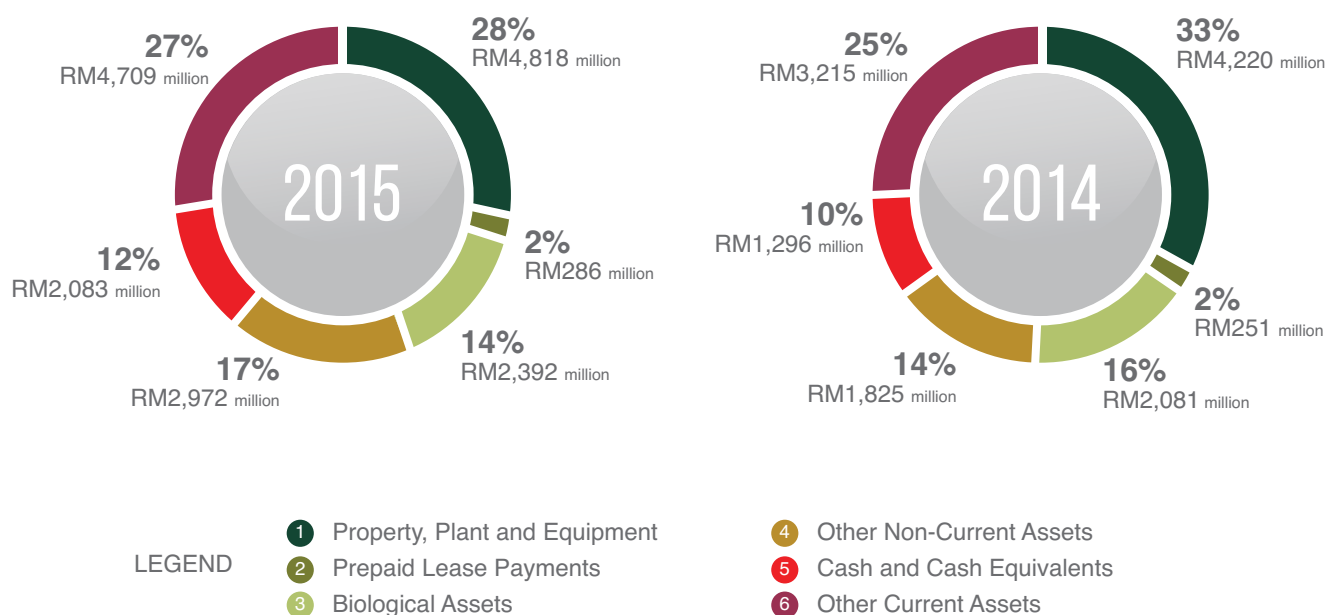
**Additional Information:**

- (1) Family Relationship with Director and/or Major Shareholder**  
Save for Tan Sri Dato' Seri Lee Oi Hian and Dato' Lee Hau Hian, none of the other Directors has any family relationship with any Director and/or major shareholder of KLK.
- (2) Conflict of Interest**  
Save for Tan Sri Dato' Seri Lee Oi Hian and Dato' Lee Hau Hian, none of the other Directors has any conflict of interest with the KLK Group.
- (3) Conviction for Offences**  
None of the Directors of KLK has been convicted of any offence within the past 10 years.
- (4) Attendance of Board Meetings**  
Details of the Directors' attendance at Board meetings are set out in the Corporate Governance Statement on page 61.

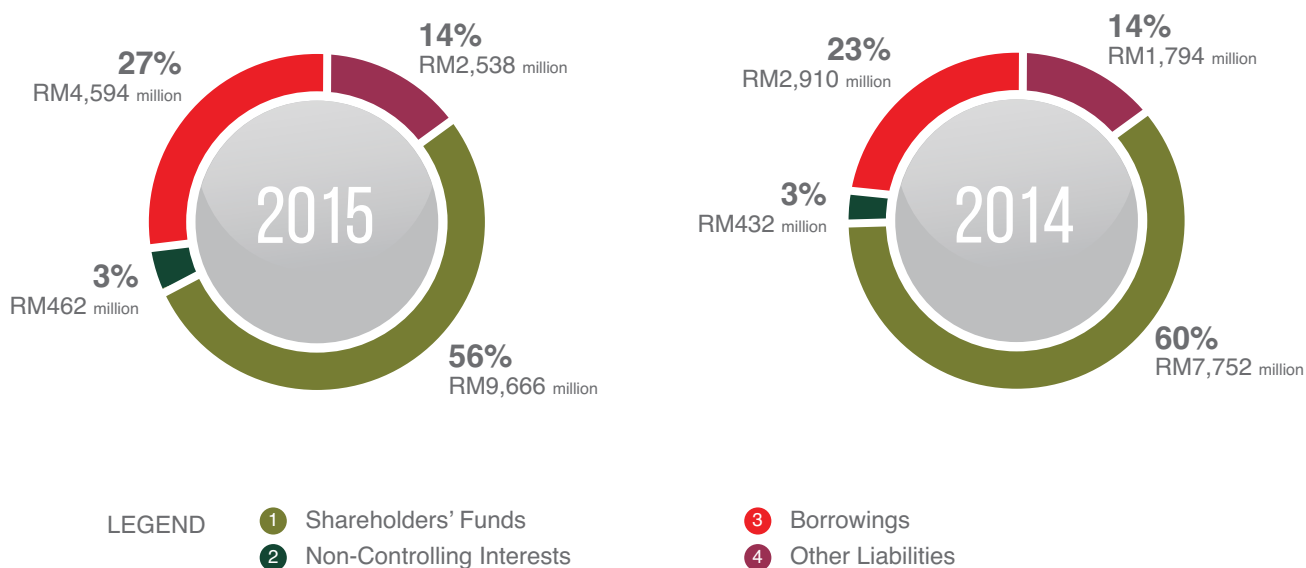
# SIMPLIFIED GROUP ASSETS & LIABILITIES

As at 30 September 2015

## TOTAL ASSETS



## TOTAL EQUITY & LIABILITIES



# GROUP HIGHLIGHTS

		2015	2014	2013	2012	2011
<b>FINANCIAL</b>						
Revenue	(RM'000)	13,649,991	11,129,973	9,147,325	10,570,188	10,743,252
Profit:						
- before taxation	(RM'000)	1,134,598	1,317,697	1,199,767	1,560,436	2,066,205
- attributable to equity holders of the Company	(RM'000)	869,912	991,705	917,743	1,211,244	1,571,413
Earnings per share	(sen)	81.7	93.1	86.2	113.7	147.6
Dividend per share (single tier)	(sen)	45.0	55.0	50.0	65.0	85.0
Net tangible assets	(RM'000)	9,320,973	7,449,500	7,217,191	6,803,553	6,735,910
Net tangible assets per share	(RM)	8.75	7.00	6.78	6.39	6.33

<b>KEY CORPORATE RATIOS</b>						
Dividend yield <sup>(1)</sup>	(%)	2.1	2.6	2.2	2.9	4.0
Dividend payout ratio <sup>(2)</sup>	(%)	55.1	59.1	58.0	57.2	57.6
Return on equity <sup>(3)</sup>	(%)	9.0	12.8	12.2	17.0	22.2
Return on total assets <sup>(4)</sup>	(%)	5.0	7.7	7.8	10.6	14.3
Net debt to equity <sup>(5)</sup>	(%)	26.0	20.8	7.7	1.7	5.9

(1) Based on Dividend expressed as a percentage of KLK Share Price as at 30 September

(2) Based on Dividend expressed as a percentage of Basic Earnings Per Share

(3) Based on Net Profit attributable to Equity Holders expressed as a percentage of Total Equity attributable to Equity Holders

(4) Based on Net Profit attributable to Equity Holders expressed as a percentage of Total Assets

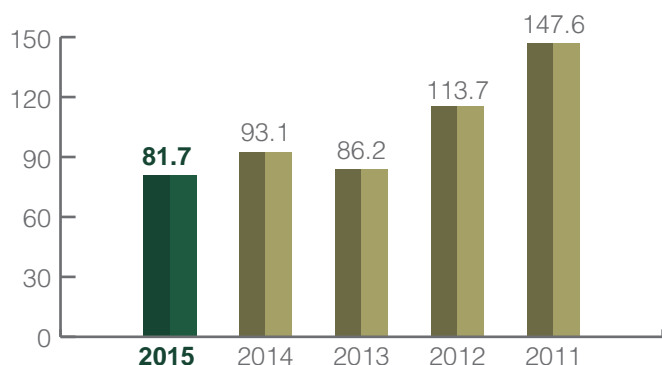
(5) Based on Net Debt (being Total Borrowings less Cash and Cash Equivalents) expressed as a percentage of Total Equity attributable to Equity Holders

<b>PRODUCTION</b>						
Fresh fruit bunches	(mt)	3,806,043	3,733,867	3,608,636	3,259,342	3,288,974
Rubber	('000 kg)	15,224	16,547	17,531	18,997	20,847

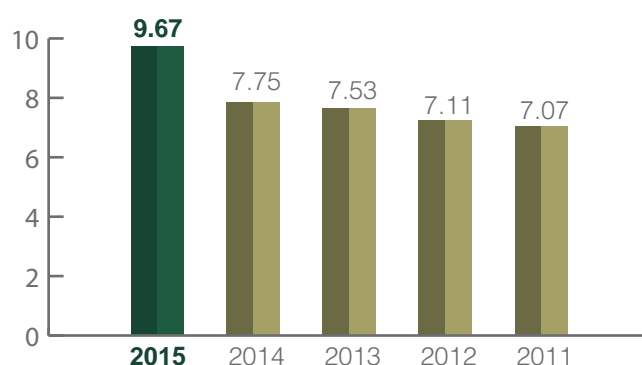
<b>QUARTERLY FINANCIAL</b>		2015	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
Revenue	(RM'000)	13,649,991	3,932,083	3,538,322	3,065,093	3,114,493
Operating profit	(RM'000)	1,241,473	268,860	331,209	325,054	316,350
Profit before taxation	(RM'000)	1,134,598	232,510	311,239	296,510	294,339
Profit attributable to equity holders of the Company	(RM'000)	869,912	186,288	246,884	222,539	214,201
Earnings per share - basic	(sen)	81.7	17.5	23.2	20.9	20.1
Dividend per share	(sen)	45	30	-	15	-

# FINANCIAL HIGHLIGHTS

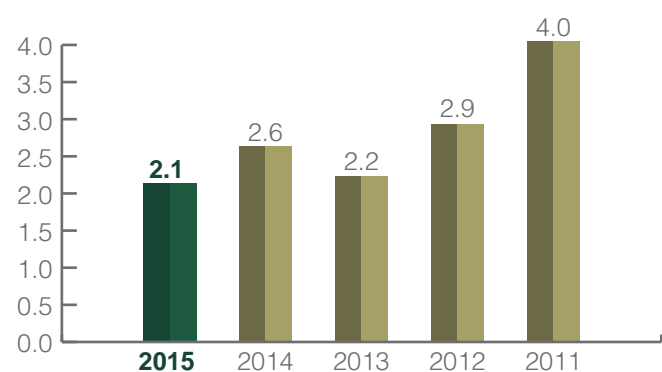
**EARNINGS PER SHARE (SEN)**



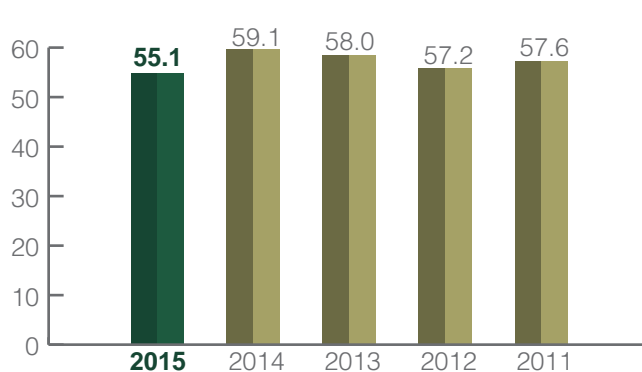
**SHAREHOLDERS' FUNDS (RM BILLION)**



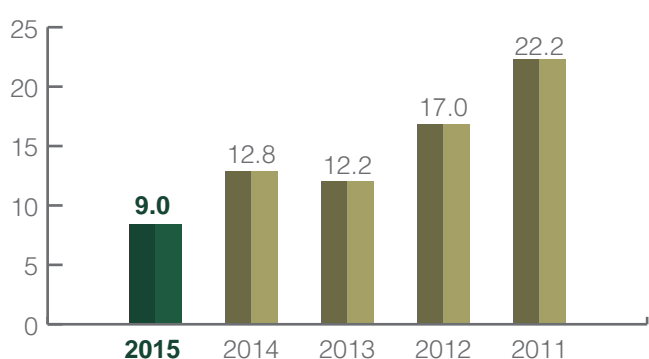
**DIVIDEND YIELD (%)**



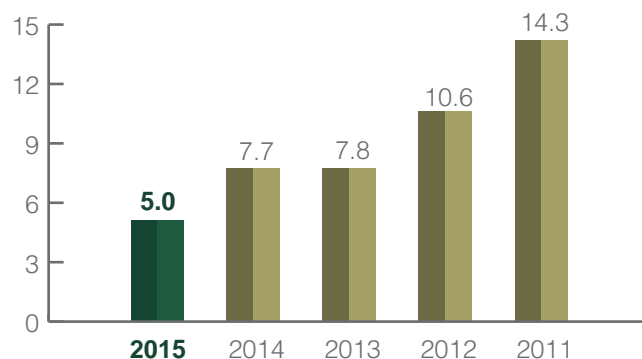
**DIVIDEND PAYOUT RATIO (%)**



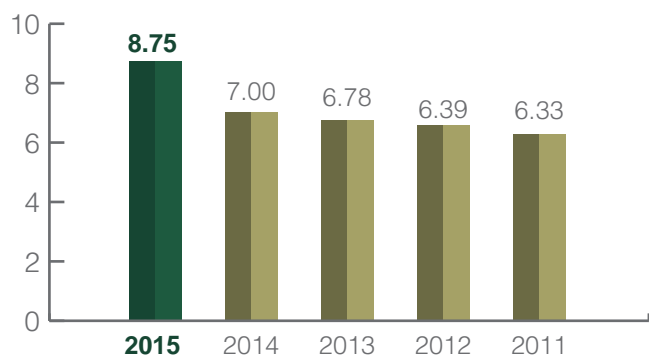
**RETURN ON EQUITY (%)**



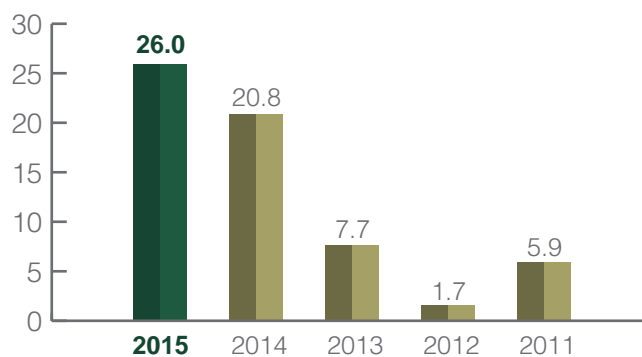
**RETURN ON TOTAL ASSETS (%)**



**NET TANGIBLE ASSETS PER SHARE (RM)**



**NET DEBT TO EQUITY (%)**



# 5-YEAR PLANTATION STATISTICS

		2015	2014	2013	2012	2011
<b>OIL PALM</b>						
FFB production						
- own estates	(mt)	<b>3,806,043</b>	3,733,867	3,608,636	3,259,342	3,288,974
- sold	(mt)	<b>36,373</b>	40,630	142,189	122,673	84,602
- purchased	(mt)	<b>886,918</b>	1,052,395	940,925	819,796	653,200
- total processed	(mt)	<b>4,656,588</b>	4,745,632	4,407,372	3,956,465	3,857,572
Yield per mature hectare	(mt FFB)	<b>21.96</b>	22.39	22.51	21.33	22.17
Profit per mature hectare (before replanting expenditure)	(RM)	<b>4,668</b>	6,307	4,599	7,218	9,783
Average selling prices:						
Refined palm products	(RM/mt ex-refinery)	<b>2,227</b>	2,519	2,460	3,220	3,317
Crude palm oil	(RM/mt ex-mill)	<b>2,106</b>	2,396	2,275	2,829	2,958
Palm kernel oil	(RM/mt ex-mill)	<b>3,205</b>	3,294	2,225	3,295	4,611
Palm kernel cake	(RM/mt ex-mill)	<b>262</b>	430	401	286	406
Palm kernels	(RM/mt ex-mill)	<b>1,424</b>	1,576	1,105	1,580	2,141
FFB	(RM/mt)	<b>462</b>	520	317	506	626
<b>RUBBER</b>						
Production						
- own estates	('000 kg)	<b>15,224</b>	16,547	17,531	18,997	20,847
- sold	('000 kg)	-	70	189	-	165
- purchased	('000 kg)	<b>1,314</b>	1,726	2,104	2,524	2,634
- total processed	('000 kg)	<b>16,538</b>	18,203	19,446	21,521	23,316
Yield per mature hectare	(kg)	<b>1,413</b>	1,328	1,166	1,191	1,214
Profit per mature hectare (before replanting expenditure)	(RM)	<b>1,551</b>	2,421	3,577	7,210	10,466
Average selling price (net of cess)	(sen/kg)	<b>681</b>	800	942	1,220	1,409
<b>PLANTED AREA (Weighted average hectares):</b>						
<b>OIL PALM</b>						
Mature		<b>173,313</b>	166,781	160,328	152,829	148,358
Immature		<b>35,936</b>	38,000	35,904	39,595	38,726
<b>RUBBER</b>						
Mature		<b>10,777</b>	12,456	15,029	15,957	17,175
Immature		<b>3,500</b>	3,678	3,670	3,623	4,057
<b>TOTAL PLANTED AREA</b>		<b>223,526</b>	220,915	214,931	212,004	208,316



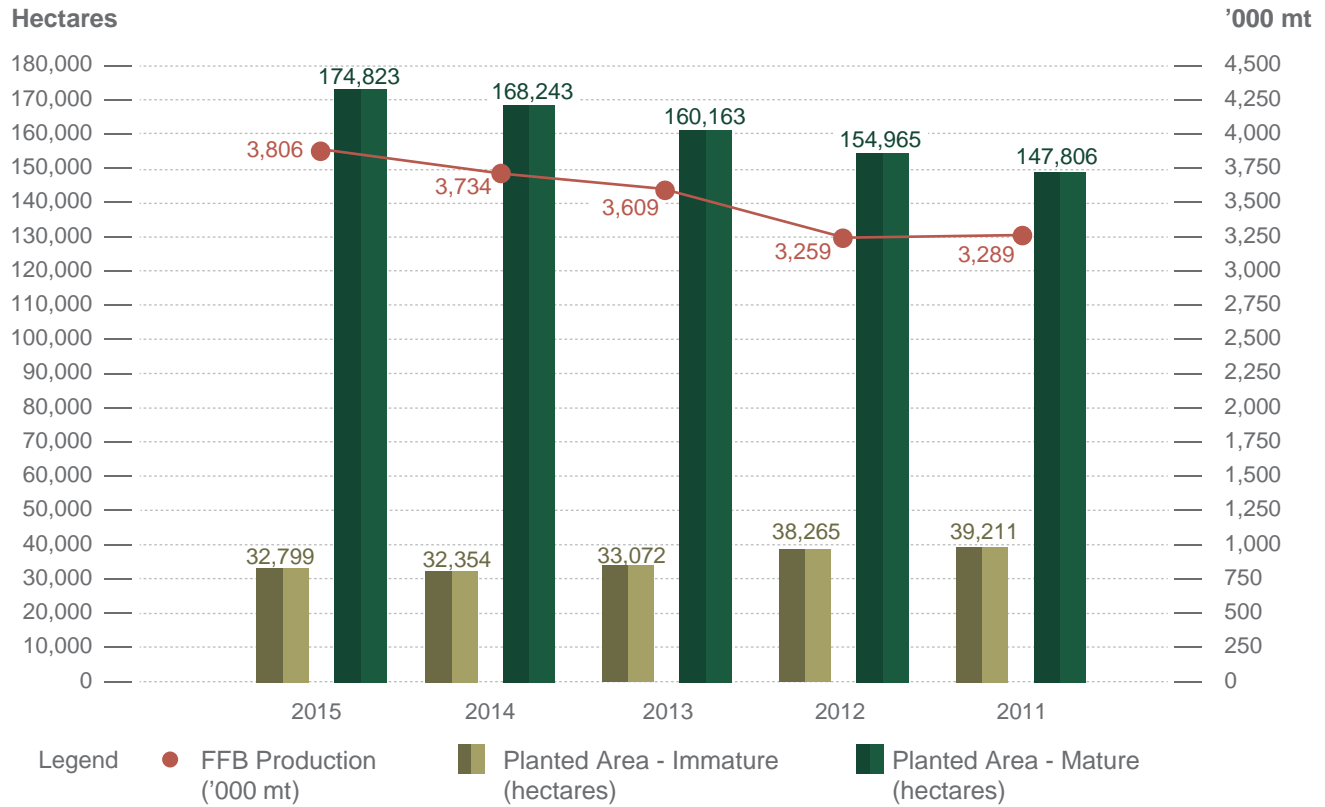
# 5-YEAR FINANCIAL STATISTICS

	2015	2014	2013	2012	2011
<b>REVENUE</b>					
Palm products	6,976,697	5,089,772	3,952,232	4,487,975	4,551,491
Rubber	109,550	145,158	178,542	258,484	328,920
Manufacturing	6,241,324	5,634,338	4,696,734	5,057,812	5,135,476
Retailing	-	-	-	502,777	651,054
Property development	123,275	117,063	208,589	172,516	4,588
Investment income	125,846	78,799	79,750	62,922	51,326
Others	73,299	64,843	31,478	27,702	20,397
	<b>13,649,991</b>	<b>11,129,973</b>	<b>9,147,325</b>	<b>10,570,188</b>	<b>10,743,252</b>
<b>GROUP PROFIT</b>					
Palm products	775,606	985,875	734,689	1,069,504	1,416,049
Rubber	4,721	20,589	45,804	109,340	169,794
Manufacturing	218,912	288,077	329,275	187,736	226,345
Retailing	-	-	-	27,744	22,860
Property development	49,448	45,672	80,807	36,879	1,351
Investment holding	70,714	33,662	59,117	35,127	45,552
Interest income	43,302	36,109	29,363	27,442	21,088
Finance costs	(104,507)	(87,375)	(80,902)	(66,225)	(74,244)
Others	14,987	21,279	(9,065)	4,404	1,334
Share of profits of equity accounted associates, net of tax	11,882	5,878	13,432	10,567	27,779
Share of loss of an equity accounted joint venture, net of tax	(14,250)	-	-	-	-
Corporate	63,783	(32,069)	(2,753)	117,918	208,297
Profit before taxation	1,134,598	1,317,697	1,199,767	1,560,436	2,066,205
Tax expense	(250,560)	(285,003)	(232,797)	(300,347)	(420,674)
Profit for the year	<b>884,038</b>	<b>1,032,694</b>	<b>966,970</b>	<b>1,260,089</b>	<b>1,645,531</b>
Attributable to:					
Equity holders of the Company	869,912	991,705	917,743	1,211,244	1,571,413
Non-controlling interests	14,126	40,989	49,227	48,845	74,118
	<b>884,038</b>	<b>1,032,694</b>	<b>966,970</b>	<b>1,260,089</b>	<b>1,645,531</b>
<b>ASSETS</b>					
Property, plant and equipment	4,817,725	4,220,214	3,728,605	3,146,674	2,886,437
Prepaid lease payments	285,555	251,268	193,229	164,427	164,139
Biological assets	2,392,287	2,081,061	1,908,218	1,893,993	1,836,811
Land held for property development	226,353	217,926	216,932	239,095	223,693
Goodwill on consolidation	330,137	286,969	297,016	285,675	304,266
Intangible assets	15,297	15,238	19,573	20,609	33,473
Investment in associates	154,493	172,652	112,477	94,009	92,521
Investment in a joint venture	144,658	-	-	-	-
Available-for-sale investments	1,781,642	884,014	889,422	586,340	559,704
Other receivable	171,690	119,940	106,208	83,279	61,940
Deferred tax assets	147,513	128,025	103,305	54,249	29,399
Current assets	6,792,265	4,510,294	4,172,921	4,814,792	4,777,475
<b>Total assets</b>	<b>17,259,615</b>	<b>12,887,601</b>	<b>11,747,906</b>	<b>11,383,142</b>	<b>10,969,858</b>

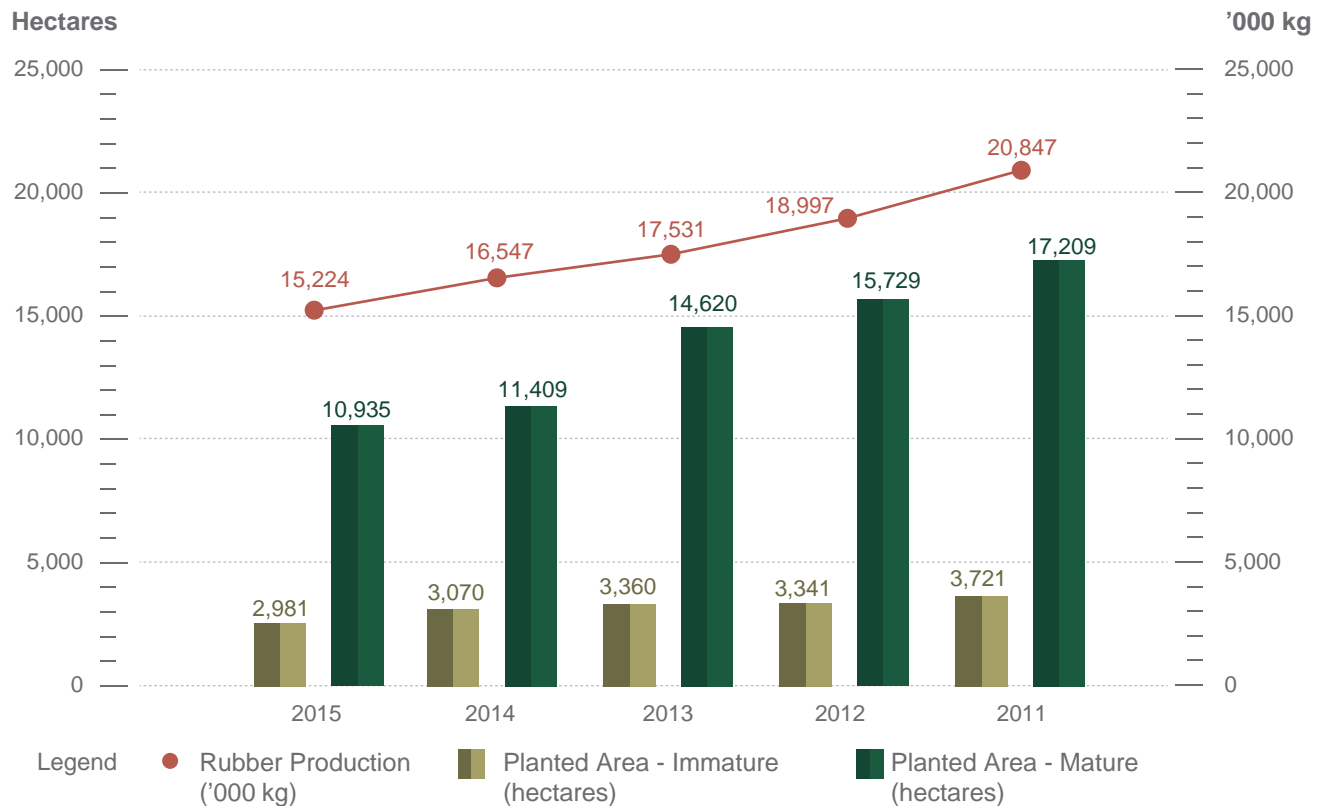
	2015	2014	2013	2012	2011
<b>EQUITY</b>					
Share capital	1,067,505	1,067,505	1,067,505	1,067,505	1,067,505
Reserves	8,612,349	6,697,649	6,479,722	6,055,779	6,019,591
Cost of treasury shares	(13,447)	(13,447)	(13,447)	(13,447)	(13,447)
Total equity attributable to equity holders of the Company	9,666,407	7,751,707	7,533,780	7,109,837	7,073,649
Non-controlling interests	461,703	431,492	419,460	397,751	392,422
Total equity	10,128,110	8,183,199	7,953,240	7,507,588	7,466,071
<b>LIABILITIES</b>					
Deferred tax liabilities	257,954	256,207	250,064	241,823	245,732
Deferred income	113,154	101,495	72,010	22,765	-
Provision for retirement benefits	356,563	281,663	259,222	248,478	224,747
Borrowings	2,681,221	1,816,243	1,558,227	1,782,714	525,766
Current liabilities	3,722,613	2,248,794	1,655,143	1,579,774	2,507,542
Total liabilities	7,131,505	4,704,402	3,794,666	3,875,554	3,503,787
Total equity and liabilities	17,259,615	12,887,601	11,747,906	11,383,142	10,969,858
<b>SHAREHOLDERS' EARNINGS AND DIVIDENDS</b>					
Earnings per share (sen)	81.7	93.1	86.2	113.7	147.6
Share price at 30 September (RM)	21.70	21.08	22.60	22.06	21.10
Dividend rate (sen)	45.0	55.0	50.0	65.0	85.0
Dividend yield at 30 September (%)	2.1	2.6	2.2	2.9	4.0
P/E ratio at 30 September	26.6	22.6	26.2	19.4	14.3

# PLANTED AREA & CROP PRODUCTION

## OIL PALM PLANTED AREA / FFB PRODUCTION



## RUBBER PLANTED AREA / RUBBER PRODUCTION



# AREA STATEMENT

2015				2014		
Age In Years	Hectares	% Under Crop	% of Total Planted Area	Hectares	% Under Crop	% of Total Planted Area
<b>OIL PALM</b>						
4 to 9	60,556	29		55,576	28	
10 to 18	71,974	35		77,592	39	
19 and above	42,293	20		35,075	17	
<b>Mature</b>	<b>174,823</b>	<b>84</b>	<b>79</b>	<b>168,243</b>	<b>84</b>	<b>78</b>
<b>Immature</b>	<b>32,779</b>	<b>16</b>	<b>15</b>	<b>32,354</b>	<b>16</b>	<b>15</b>
<b>Total</b>	<b>207,622</b>	<b>100</b>	<b>94</b>	<b>200,597</b>	<b>100</b>	<b>93</b>
<b>RUBBER</b>						
6 to 10	1,569	12		1,017	7	
11 to 15	2,247	16		2,555	18	
16 to 20	2,516	18		2,262	16	
21 and above	4,603	33		5,575	38	
<b>Mature</b>	<b>10,935</b>	<b>79</b>	<b>5</b>	<b>11,409</b>	<b>79</b>	<b>5</b>
<b>Immature</b>	<b>2,981</b>	<b>21</b>	<b>1</b>	<b>3,070</b>	<b>21</b>	<b>2</b>
<b>Total</b>	<b>13,916</b>	<b>100</b>	<b>6</b>	<b>14,479</b>	<b>100</b>	<b>7</b>
<b>TOTAL PLANTED</b>	<b>221,538</b>		<b>100</b>	<b>215,076</b>		<b>100</b>
Plantable Reserves	24,981			34,775		
Conservation Areas	12,813			12,253		
Building Sites, etc.	10,110			7,936		
<b>GRAND TOTAL</b>	<b>269,442</b>			<b>270,040</b>		

Note: The area statement above did not include 6,628 hectares of leased land in Papua New Guinea.

**“ The KLK Group, in a very difficult and challenging market environment could only deliver a net profit of RM869.9 million, a 12% reduction from the previous year. This amounted to 81.7 sen in earnings per share. In line with keeping with our dividend practice, your Board is recommending a final single tier dividend of 30 sen, making a total of 45 sen per share. The total payout amounts to RM479.2 million, a payout ratio of 55%. ”**

**R. M. ALIAS**  
Chairman







## PERFORMANCE

Our key Plantations upstream business suffered a severe decline in profitability during the financial year ("FY"), caused predominantly by the ample supply of soft oils and the sustained collapse of petroleum prices. Hence, palm products prices were affected by the prevailing negative sentiments on commodities, compounded by the non-mandatory requirement on the usage of biodiesel. Our Plantations Division registered only RM766.8 million in pre-tax profit, a drop of 24% from the previous year, despite the weakening Ringgit. Production costs although increased, was controlled reasonably well.

Our Oleochemicals business had a lacklustre year with a pre-tax contribution of RM171.3 million, affected partly by certain accounting treatments in a weak Ringgit environment. The huge new capacities in basic oleochemicals in recent years by the upstream palm oil producers, coupled with shale gas being the feedstock of synthetic alcohol are principal factors resulting in this very competitive landscape. This environment will be there for the foreseeable coming years, and our Management is focused on driving efficiencies and productivity in all aspects. Challenges still exist for us in our investment in new technologies like sulphonated methyl esters. A bright spark is the encouraging turnaround of our European fatty acids, after years of consistent investments to rebuild efficiencies.

Profits from our Property Division increased to RM61.2 million as it benefitted from the sale of a piece of commercial land during the FY.

## RESPONSIBLE STEWARDSHIP

Creating sustainable stakeholder value by integrating environmental and societal concerns into business strategies and performance is an integral part of KLK. KLK remains steadfast in "doing the right thing" to achieve its commitments as defined in its Sustainability Policy issued in December 2014.

One of the key governance initiatives which KLK embarked on this year was to strengthen its Sustainability Framework with the formation of a Sustainability Committee chaired by the CEO. This committee will be responsible to oversee material management policies, processes and strategies designed to manage social, environmental and reputational risks, and achieve compliance with sustainable development responsibilities and commitments. Gaps that have been identified in the course of enhancing our sustainability practices will be mitigated by taking appropriate steps to bridge them.

## STRATEGIC ACQUISITION & DISPOSALS

The Company made strategic decisions in both midstream and downstream businesses of the Group. The acquisition of assets in Dusseldorf, Germany will complement the existing products range of our Germany entities with the transfer of know-how and strengthen our market position and worldwide presence. These new assets would also enable the KLK Group to diversify into the tallow-based market.

Additionally, we expect to leverage on the strengths of our business partners with the disposal of minority stakes in our Indonesia and China subsidiaries to Astra-Agro Lestari Tbk ("AAL") and Mitsui & Co., Ltd. ("Mitsui") respectively. AAL would serve as a supplier of good quality raw materials whilst contributing its local market insight on supply sourcing. We would also be able to leverage on Mitsui's business/marketing relationships in China.

## CHALLENGES AHEAD

The world economies, with the exception of the United States, are in an uncertain phase with a weak Europe, now faced with the Non-European Union migrant crisis, and China's growth possibly affected by the slowdown in the export sector. Palm products prices upside is also limited by ample global stocks of oilseeds and the Indonesian growth in planted areas, although the domestic denominated price has been boosted by the weakening of both the Ringgit and Rupiah. The current additional Indonesian levy on palm products prices, whilst having a huge negative impact on our ex-mill prices in our Indonesian plantations, hopefully will result in a very significant mandatory usage in biodiesel consumption leading to a strong uplift for palm prices.

Sustainable development continues to be high on our agenda as we strive to balance the developmental/economic need of the communities and countries that we operate in, with the need to protect the environment and address issues such as climate change and deforestation. We will continue to improve our communication channels with stakeholders to enhance transparency in the sharing of our sustainability efforts. We will also continue to reach out to affected stakeholders to work together as partners in finding genuine solutions.

In terms of operations, with rising cost and inflationary pressures, we will continue to put emphasis on increasing productivity, yields and further improve on the oil extraction rates.

For the Oleochemicals Division, while much has been invested in expanding capacities, we will push for further improvement in efficiencies and productivity.

## APPRECIATION

On behalf of the Board, I would like to express my heartfelt appreciation to the Management team and all employees of the KLK family for continuing to be the driving force behind our performance and achievements.

Lastly, I would like to thank all our shareholders, partners and all stakeholders for their confidence, trust and on-going support.



# KENYATAAN PENGERUSI

“**Dalam persekitaran pasaran yang amat rumit dan mencabar, Kumpulan KLK hanya dapat mencatat keuntungan bersih sebanyak RM869.9 juta, pengurangan sebanyak 12% berbanding tahun lepas. Ini bermakna perolehan sebanyak 81.7 sen setiap saham. Seajar dengan amalan dividen kita pada masa-masa lepas, Lembaga tuan mengesyorkan dividen satu peringkat akhir sebanyak 30 sen, menjadikan jumlah pembayaran dividen sebanyak 45 sen setiap saham.**”

## PRESTASI

Perniagaan huluan Perladangan Kumpulan mengalami kemerosotan yang teruk dari segi keuntungan dalam tahun kewangan (“FY”), terutamanya disebabkan oleh bekalan berlebihan minyak lembut dan kejatuhan harga petroleum berpanjangan. Oleh itu, harga produk sawit telah terjejas oleh sentimen negatif semasa mengenai komoditi, diburukkan lagi oleh keperluan bukan mandatori ke atas penggunaan biodiesel. Bahagian Perladangan kami mencatat hanya RM766.8 juta dalam keuntungan pra cukai, kejatuhan sebanyak 24% daripada tahun lepas, walaupun nilai Ringgit semakin lemah. Kos pengeluaran, walaupun meningkat, telah dikawal dengan agak baik.

Perniagaan Oleokimia kami tidak begitu cergas dalam tahun kewangan dengan menyumbang keuntungan pra cukai sebanyak RM171.3 juta, terjejas sebahagiannya oleh olahan perakaunan tertentu dalam persekitaran Ringgit yang lemah. Tambahan kapasiti yang begitu besar dalam oleokimia asas dalam beberapa tahun kebelakangan oleh pengeluar-pengeluar minyak sawit huluan, disertai dengan gas syal menjadi stok suapan alkohol sintetik adalah faktor-faktor utama yang mengakibatkan suasana amat berdaya saing ini. Persekitaran ini akan berterusan untuk beberapa tahun akan datang dan Pengurusan kami akan memberi tumpuan ke arah memacukan kecekapan dan produktiviti dalam semua aspek. Kami masih menghadapi cabaran dalam pelaburan kami dalam teknologi baru seperti ester metil pensulfanat. Satu sinar menanti adalah pemulihan yang menggalakkan untuk operasi asid lemak Eropah kami, selepas bertahun-tahun pelaburan untuk membina semula kecekapan.

Keuntungan daripada Bahagian Hartanah kami meningkat kepada RM61.2 juta apabila ia mendapat keuntungan daripada jualan sebidang tanah komersial dalam FY.

## PENGEMUDIAN BERTANGGUNGJAWAB

Membentuk nilai pemegang pelbagai kepentingan yang mapan dengan menyepadu keprihatinan alam sekitar dan masyarakat ke dalam strategi dan prestasi perniagaan adalah bahagian penting bagi KLK. KLK kekal tegas dalam “membuat perkara yang betul” untuk mencapai komitmennya sebagaimana ditakrifkan dalam Polisi Kemapanan yang dikeluarkan pada Disember 2014.

Salah satu daripada inisiatif tadbir urus penting yang KLK mulakan pada tahun ini adalah mengukuhkan Rangka Kerja Kemapanannya dengan pembentukan Jawatankuasa Kemapanan yang dipengerusikan oleh Ketua Pegawai Eksekutif. Jawatankuasa ini akan bertanggungjawab untuk menyelia dasar-dasar, proses dan strategi pengurusan penting yang direka untuk mengurus risiko-risiko sosial alam sekitar dan reputasi, dan mencapai pematuhan dengan tanggungjawab dan komitmen pembangunan mapan. Jurang-jurang yang telah dikenal pasti sepanjang meningkatkan amalan kemapanan kami akan dikurangkan dengan mengambil langkah-langkah yang sesuai untuk merapatkannya.

### PENGAMBILALIHAN DAN PELUPUSAN STRATEGIK

Syarikat membuat keputusan-keputusan strategik dalam kedua-dua perniagaan pertengahan dan hiliran Kumpulan. Pembelian aset di Dusseldorf, Jerman akan melengkapi rangkaian produk sedia ada entiti Jerman kami dengan pemindahan kepandaian dan mengukuhkan kedudukan pasaran dan kehadiran kami di seluruh dunia. Aset-aset baru ini akan juga membolehkan Kumpulan KLK untuk mempelbagaikan ke dalam pasaran berasaskan lemak haiwan.

Selain itu, kami menjangka untuk menuil ke atas kekuatan rakan perniagaan kami dengan pelupusan pemegang minoriti dalam anak-anak syarikat Indonesia dan China kami masing-masing kepada Astra-Agro Lestari Tbk ("ALL") dan Mitsui & Co. Ltd. ("Mitsui"). AAL akan bertindak sebagai pembekal bahan mentah berkualiti baik dan menyumbang wawasan pasaran tempatannya ke atas mencari bekalan. Kami juga akan dapat menuil ke atas perhubungan perniagaan/pemasaran Mitsui di China.

### CABARAN-CABARAN DI HADAPAN

Ekonomi-ekonomi dunia, kecuali Amerika Syarikat, berada dalam fasa tidak menentu dengan negara-negara Eropah yang lemah, kini berhadapan dengan krisis pendatang Kesatuan Bukan Eropah, dan kemungkinan pertumbuhan China terjejas oleh kemelesetan dalam sektor eksport. Kenaikan harga produk sawit juga terbatas oleh timbunan stok global biji minyak dan pertumbuhan Indonesia dari segi kawasan ditanam, walaupun harga denominasi domestik telah dilonjakkan oleh kelemahan nilai kedua-dua Ringgit dan Rupiah. Levi Indonesia tambahan pada masa ini ke atas harga produk sawit, manakala mempunyai kesan negatif yang besar ke atas harga di kilang kami di dalam perladangan Indonesia kami, mudah-mudahan akan mengakibatkan penggunaan mandatori yang amat ketara dalam penggunaan biodiesel yang membawa kepada kenaikan kukuh dalam harga sawit.

Pembangunan yang mapan terus menjadi perkara penting dalam agenda kami apabila kami berusaha untuk mengimbangi keperluan pembangunan/ekonomi komuniti-komuniti dan negara-negara di mana kami beroperasi, dengan keperluan untuk melindungi alam sekitar dan menangani isu-isu seperti perubahan cuaca dan pembasmian hutan. Kami akan terus memperbaiki saluran-saluran komunikasi kami dengan pemegang-pemegang pelbagai kepentingan untuk meningkatkan lagi ketelusan dalam perkongsian usaha-usaha kemapanan kami. Kami juga akan terus berhubung dengan pemegang-pemegang pelbagai kepentingan yang terjejas untuk bekerja bersama sebagai rakan kongsi dalam mencari penyelesaian yang sejati.

Dari segi operasi, dengan kos yang semakin meningkat dan tekanan-tekanan inflasi, kami akan terus memberi penekanan untuk menambah produktiviti, kadar hasil dan selanjutnya meningkatkan kadar pengekstrakan minyak.

Bagi Bahagian Oleokimia, manakala banyak telah dilaburkan dalam mengembangkan kapasiti, kami akan terus melakukan penambahbaikan selanjutnya dari segi kecekapan dan produktiviti.

### PENGHARGAAN

Bagi pihak Lembaga, saya ingin menyampaikan penghargaan tulus ikhlas saya kepada pasukan Pengurusan dan semua kakitangan keluarga KLK kerana terus menjadi kekuatan utama di belakang prestasi dan pencapaian kami.

Akhir sekali saya ingin mengucapkan terima kasih kepada semua pemegang saham kami, rakan-rakan niaga dan semua pemegang pelbagai kepentingan di atas keyakinan, kepercayaan dan sokongan berterusan mereka.





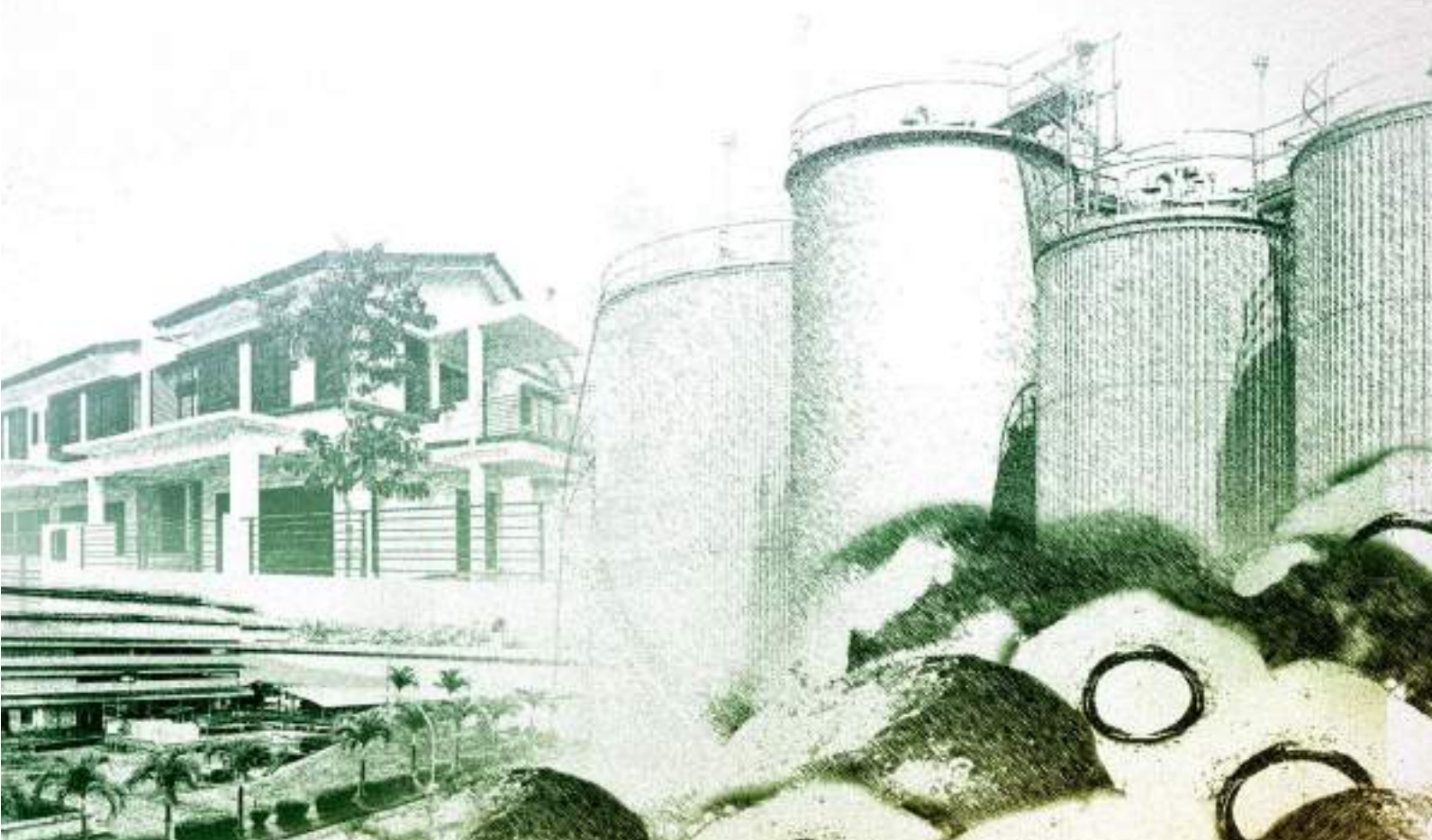


“

Throughout the financial year (“FY”), we operated under a challenging environment, notably the general decline in all commodity prices and the relatively weak macroeconomic indicators. The significant decline in petroleum prices together with the ample supply of oilseeds caused palm oil prices to dip before recovering, aided by the depreciation of the Ringgit. Compounding this complex environment was the El Nino which induced unusually long drought, and the Indonesian Government introducing an additional levy for palm products. ”



TAN SRI DATO' SERI LEE OI HIAN  
Chief Executive Officer



Our Plantation Group yields per hectare were thus marginally lower at 4.91 mt oil per hectare, even though we had a 2% overall fresh fruit bunches (“FFB”) growth. Our target of 6 mt oil per hectare seems distant at the moment but our continuous improvement in oil extraction rate (“OER”) was achieved. With more favourable weather, it would assist many of our regions to attain our target. We also continued to emphasise on operational efficiencies and labour productivity to offset the impending wage increases and inflationary pressures, to contain our costs of production at RM1,268/mt.

Sustainable development is an integral part of KLK business and values, as made explicit in its Sustainability Policy. Hence, our self-imposed moratorium on development in high carbon stock (“HCS”) areas pending the completion of the Manifesto group-funded HCS study. To benefit the approximately 40,000 workers in the KLK Group, we continue to enhance health clinics, schools, housing quarters and other amenities to meet the aspirations of a better living.

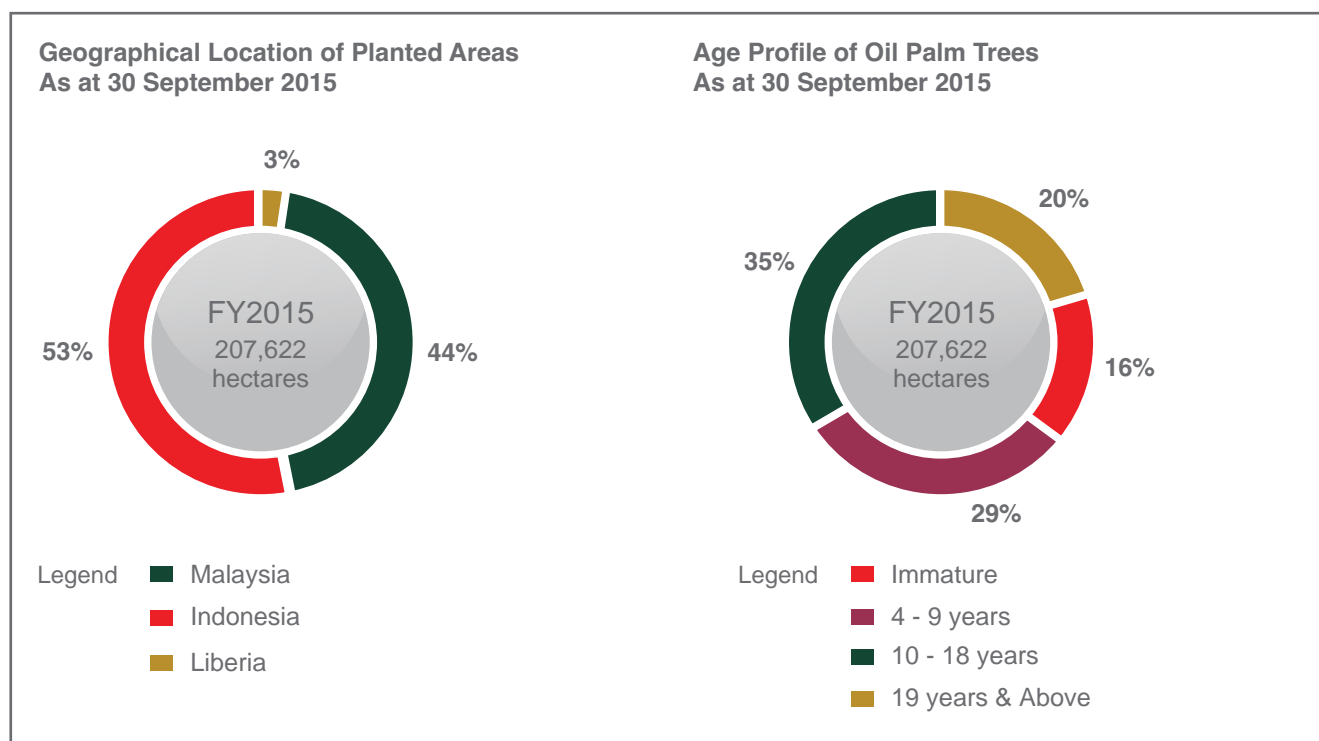
Our Oleochemicals Division, whilst competing in this difficult global overcapacities scenario; can only attempt to improve operational efficiencies, with incremental productivity improvements. To enhance our competitiveness, we acquired a fatty acid plant in Dusseldorf, Germany, to diversify into tallow-based feedstock, and also doubled the capacity in our China operations.



## PLANTATIONS

Our Plantations sector had a very challenging and difficult year, compounded by inclement weather phenomena and lower commodity prices. In the early part of the FY, our estates in Kelantan encountered unprecedented flooding leading to extensive damage to crops and properties. We extended emergency aid to our workers and carried out massive rehabilitation works. As the FY moved on into the 3<sup>rd</sup> and 4<sup>th</sup> Quarters, El Nino played out in full force causing severe drought in our estates in Central Kalimantan, whilst our operations in Sabah and East Kalimantan encountered drier than usual weather with consequential impact on FFB yields and costs.

In the international vegetable oils market, crude palm oil (“CPO”) faced ample availability of soft oils, and its price was further depressed by Indonesia’s imposition of a levy of USD50/mt at the export point. Low petroleum prices have virtually wiped out discretionary demand for biodiesel and its usage was either mandated or subsidised by government. A slower global economy meant softer demand which generally lagged behind production, leading to high inventory. Refineries had to compete fiercely to secure market share by under-pricing due to overcapacities. Such fundamentals had caused CPO prices to dip to a low of around RM1,800/mt only to recover



Palm Age	Malaysia		Indonesia		Liberia		Total	
(years)	(hectares)	%	(hectares)	%	(hectares)	%	(hectares)	%
Immature	7,610	4	17,715	9	7,474	3	32,799	16
4 - 9	16,136	8	44,420	21	-	-	60,556	29
10 - 18	40,071	19	31,903	16	-	-	71,974	35
19 & above	27,080	13	15,213	7	-	-	42,293	20
TOTAL	90,897	44	109,251	53	7,474	3	207,622	100
Group Weighted Average Age: 11.5 years								

to above RM2,000/mt by the fast depreciation of the Ringgit. Throughout the FY, CPO traded mostly within the range of RM2,150/mt to RM2,250/mt.

Under such a scenario, Plantations' contribution to profit declined by 24% to RM766.8 million on a turnover of RM7.1 billion, the performance being impacted by lower commodity prices as well as lower yields and higher costs attributed to weather related factors.

The Group's selling prices of palm products continued to be heavily diluted by the lower prices secured for its increasing Indonesian production due to the levy and geographical discount for off ports, mainly in Kalimantan, thereby dragging down its average selling prices of CPO and palm kernels to RM2,106/mt ex-mill and RM1,424/mt ex-mill respectively. The average selling price of rubber dropped to 681 sen/kg from 800 sen/kg in the previous year due to a lethargic, oversupplied and depressed market.

The refining and kernel crushing businesses of the Group managed to reduce its loss to RM2.4 million from a loss of RM15.0 million last year, wholly attributed to commendable results from kernel crushing activities which offset the losses incurred by the Group's refineries.

**Oil Palm**

The oil palm sector contributed RM765.2 million to profit accounting for 99% of the total profit from estate operations and yielding an average profit per matured hectare of RM4,381 after replanting expenditure. The Group's yield per hectare of FFB declined marginally to 21.96 mt being diluted mainly by low yields from young fields and chronic theft in Medan as well as drought affected yields in Sabah, Central Kalimantan and East Kalimantan.

In tandem with lower yields, the group's FFB cost increased by 7% to RM222/mt ex-estate whilst CPO cost rose by 6% to RM1,268/mt ex-mill. There is further room





▲ Nursery at PT Karya Makmur Abadi, Central Kalimantan

to reduce cost in Indonesia which comparatively is still higher than those in Malaysia, as some areas have yet to reach their full potential. Management continued to focus on increasing labour productivity, yield improvement projects and control of rampant theft which has necessitated high security costs.

#### **FFB Production and OER**

The Group's overall FFB output grew by 2% to 3.81 million mt, almost all of which was attributed to newly matured palms in Indonesia. However, CPO per hectare was only a touch lower at 4.91 mt/ha despite lower FFB yield/ha due to improvement of OER.

Our OER improved by 2% to 22.34% which was the highest ever recorded by the Group. OER has been on the uptrend the last two years as a result of stringent systems to monitor harvesting standards and aided by ramets coming into play particularly in two mills in Sabah, one of which, consistently recorded the highest OER in the country. Newer mills in Kalimantan that are processing younger and smaller bunches thereby allowing better sterilisation are managing OER of above 24%. The Group will continue to focus on OER going forward as there is still potential for further improvement.

#### **Rubber**

The contribution to profit from rubber plunged to a mere RM6.1 million from RM25.0 million last year. Profit per hectare after replanting expenditure was only RM404/ha. The setback was mostly on account of lower price, and yield/ha of 1,413 kg not meeting expectations. Although ex-factory cost has declined marginally to 493 sen/kg, they

are still considered high and at SMR 20 price of 500 sen/kg to 530 sen/kg Free On Board ("FOB"), there was hardly any profit for cup lump grades leaving latex and latex grades to carry the margin. The substitution of old and unproductive trees in Indonesia with oil palms is expected to be completed by December 2015. With hardly any catalysts to motivate the rubber market, prices have been weakened by ample supply and uncertainties in the global economy. The Group's average price for rubber declined by about 15% to 681 sen/kg net of cess.

#### **Other Developments**

Last year, the work-in-progress on two palm oils mills in East and Central Kalimantan had been successfully completed and they were commissioned in February 2015 and June 2015 respectively. We have also completed the revamp of our Jeram Padang Palm Oil Mill in Negri Sembilan to vertical sterilisers in June 2015. Our Kekayaan Palm Oil Mill completed its biogas capture project and is ready to hook on to Tenaga Nasional Berhad to supply 2 MW of electricity.

Projects started during the year which are targeted for completion early next FY include three biogas projects in Jeram Padang Palm Oil Mill, SWP Palm Oil Mill in Belitung Island, and Berau Palm Oil Mill.

Our refinery in Belitung Island will be equipped with a new fractionation plant to open up more options for trading various grades of refined oils. The aged fractionation plant in our refinery in Pasir Gudang will be upgraded in technology and capacity to service the pack products market.



### Research and Development (“R&D”)

KLK's associate company, Applied Agricultural Resources Sdn. Bhd. (“AAR”), continues to provide technical support in terms of agronomy and advisory, as well as testing new frontiers in research and development work. Improving fertiliser use efficiency continues to be a major thrust in KLK's plantations practices of providing good growing environment for optimal nutrient uptake and reducing surface run-off losses.

In newer frontiers with different agro-climatic conditions, AAR focuses on best agro-management practices to achieve the site yield potential in the shortest possible period particularly for AAR new planting materials, Hybrid II and Hybrid IS. The AA Hybrid IS has attained 22% more oil yield than the previous AA DxP, while its AA Hybrid II candidates (commercially available by December 2015) are achieving 34% more and are expected to achieve up to 57% more oil yield, after the creaming process of *duras* and *pisiferas*.

Novel ways to capture and study insects within the plantation ecosystem were also developed. To-date, more than 500 species of insects has been preserved to further enhance its knowledge on the range of biological diversity within an oil palm ecosystem. Similarly, work on *Ganoderma* antagonistic microbes had shown promise and would be further evaluated in the field. One of the candidates, *Scytalidium parasiticum*, which is a novel species discovered by AAR has been patented. In the meantime, AAR continues to study the aetiology and epidemiology of the disease in order to develop a robust method to contain this disease that affects the growth of the palm trees.

▼ KLK Oleomas in Rawang



## MANUFACTURING

### Oleochemicals

The KLK OLEO Group achieved a pre-tax profit of RM171.3 million compared with RM263.2 million for the previous year. Included in the results was an adverse impact of RM96.5 million, due to the sharp decline of Ringgit at the end of the FY arising from the changes in fair value on outstanding derivative contracts.

FY2015 was a difficult year underscored by weak market economics in particular, due to the over capacity situation. The overall supply and demand dynamics for our products were derailed by volatile oil prices and a difficult business environment. Low crude oil price posed a major disadvantage to our natural oleochemicals, in particular where they are easily substituted by petrochemical alternatives. The market environment was made more challenging by the volatility in the lauric oil prices as customers adopted a wait-and-see approach.

The volatile crude oil prices carrying over from 2014 continued to affect our fatty alcohol business which competes with the petroleum-based synthetic alcohols. Similarly, our sulphonated methyl ester (“SME”) business was affected by cheap linear alkyl benzene sulphonic acid (“LABSA”) prices. Operationally, the KLK Oleomas business was also affected by prolonged commissioning and intermittent technical issues at the Westport site. KLK Oleomas is expected to turn around in FY2016 with the key expansion projects having been completed and most problems rectified.

Performance at our other Malaysian operations, viz. the Palm-Oleo Group, was favourable compared to last year, supported by relatively stable fatty acids and glycerine sales, and strong performance of the esters and Ethylene Bis-Stearamides (“EBS”) businesses.



China is a significant market for our Oleochemicals business, representing more than 20% of our total group sales. Our operations there were depressed by the slowdown in the Chinese economy, especially in the second half of the FY, which saw aggressive pricing from competition from South East Asia, resulting in weak margins and poor sales.

For our Europe operations, KLK Emmerich turned in a sterling performance with strong sales, further strengthened by added capacities coming on stream and successful de-bottlenecking activities. However, the ethoxylates business did not perform as well.

Fatty acid continues to be a mainstay of the business, contributing a steady performance amidst a highly competitive market. New capacities in Europe and China will also be commissioned and are expected to come on-stream in the new FY, the challenge being to find new outlets for these products. In Europe, our newly acquired site at Dusseldorf will allow us to venture into the tallow fatty acids market, to complement our Emmerich site which will continue to focus on vegetable-based oleochemicals.

In our soap business, we continue to work with major multinationals and regional soap brand owners to provide a stable outlet for our products. We have successfully upgraded our capacity in Malaysia, and this will allow us to serve the market better. Asia remains our key market for soap noodles, while emerging economies in Africa are increasing in significance buoyed by improving living standards, hygiene consciousness and buying power.

We have embarked on a new expansion project in our EBS business which is expected to be completed by the second quarter of FY2016. This will allow us to develop new market segments and application areas.

Our fatty acid ester business has been performing quite well over the years. The Group will embark on the construction of another ester plant in Malaysia to cope with growing demand for various specialty-grade esters. In Europe, the construction of an ester plant for sorbitan esters is progressing well. The major portion of the output is targeted to be converted to ethoxylated sorbitan esters by Kolb.

Our SME is a green surfactant and highly biodegradable. However, with low crude oil prices, the synthetic-base detergent raw materials are now very cheap, hence the replacement process by natural SME has been slow. Nonetheless, we believe that in the longer term, detergents and toiletries producers will revert back to incorporating SME into their formulations. The commissioning of our second SME plant will allow us to have dedicated production lines for paste and solid products.

With the tocotrienol plant technology now stabilised, our nutraceutical business is now very much focused on sales. We launched Naturale<sup>3</sup> Bio-Enhanced 20 during the FY, using the self-emulsifying delivery systems ("SEDDS") formula that significantly improves bioavailability. The company has also invested heavily in the latest advanced technologies to ensure that our Naturale<sup>3</sup> Tocotrienol complies with all major international regulatory standards on Persistent Organic Pollutants ("POPs") and other contaminants in food and health supplements. POPs are chemical substances that persist in the environment, bio-accumulate through the food web, and pose a risk of causing adverse effects to human health and the environment.

The KOLB business is undergoing restructuring and streamlining its product portfolio at the two production sites in Moerdijk and Hedingen to run the operations more efficiently and for improved cost efficiencies. KOLB will also focus on developing its specialty business, the GMP Swiss Medic certification at the Hedingen site will support this business initiative over the next few years. The integration of newly acquired Tensachem was carried out successfully in FY2015. Various projects will be carried out in the coming year to bring further value to the bottom line and increase efficiency as well as help KOLB to balance the business.

Despite FY2015's weak financial performance, the KLK OLEO Group continues to uphold its vision of building a sustainable oleochemical business. The emphasis for the KLK OLEO Group remains unchanged, that is to continuously drive further cost efficiency and value extraction in the integrated value chain of its worldwide oleochemicals business.

#### **Non-Oleochemicals**

Our rubber gloves business continued to show good progress with a higher operational profits at RM6.2 million on the back of the strengthened USD relative to Ringgit, and lower raw material prices. We believe there is still potential for growth and will further strengthen our presence in major markets and intensify R&D efforts to develop new products and lowering processing and material costs. We will also continue to develop a broader customer base in the newer markets such as Latin America, Europe, Africa and Middle East to reduce reliance on a few main customers.

For our parquet flooring business, we continued to implement effective cost controls whilst maintaining the quality of our products, resulting in lower losses.





▲ The entrance to our project, Bandar Seri Coalfields



## PROPERTY

During the FY, we experienced weak sentiments on the property market as the impact of the cooling measures introduced by the Government in 2014 continued to be felt by property players. This coupled with the introduction of the Goods and Services Tax ("GST") in April 2015 had resulted in an increase in development costs and overall inflationary pressures. Potential house buyers also adopted a 'wait and see' attitude.

Despite the weak market demand for properties, our Property sector's profit increased from RM46.3 million to RM61.2 million, mainly due to the sale of a parcel of land in Desa Coalfields for the construction of a hypermarket to enhance the surrounding development. The unbilled sales at the end of the FY stood at RM89.0 million.

The year saw the property division launch the final phase of Senna 20'x70' terrace homes in Bandar Seri Coalfields ("BSC") at RM550,000 with a near full take-up rate. The encouraging sales in the first parcel release of Ixora 22'x75' terrace homes at RM630,000 led to an escalation of price to RM648,000 in the second parcel, and the release of BSC Central 1 24'x75' shop offices at RM978,000 at the commercial precinct of BSC.

There are several other projects in BSC and adjacent estates currently in various stages of planning to target the current underlying need for affordable homes in the market which we plan to launch next year. Planning for new townships is also being carried out for the strategic landbank at Sungai Buloh West with direct access from highways.

Completion of the sale of part of Fraser Estate in Kulai to Aura Muhibah Sdn Bhd (a joint-venture company with UEM Sunrise) and the purchase of the Gerbang Nusajaya land from UEM Sunrise are expected to take place by 2<sup>nd</sup> Quarter of FY2016. However, planning for Gerbang land is already underway for landed residential and commercial projects.



# SUSTAINABILITY & CORPORATE RESPONSIBILITY



▲ Children at our kindergarden in Sabah

Sustainability and Corporate Responsibility (“CR”) are integral parts of KLK’s business and reflect the values held firmly by our founding fathers. Over the years, KLK has been further integrating environmental, social and governance (“ESG”) considerations into its decision-making process and business.

A key initiative last year in terms of governance was the formation of the **Sustainability Committee** and the **Corporate Responsibility Committee**. Both Committees are chaired by the CEO, and its members comprise of the Heads of each Business Division.

The objective of these Committees is to synergise the efforts between the Business Divisions as previously, each Division managed its own CR and Sustainability agendas. Additionally, both Committees are part of the KLK Group’s overall Governance Model together with the Executive, Treasury and Risk Management Committees all of which report directly to the CEO, who in turn, updates the Board of Directors on the Group’s CR and Sustainability Agenda.

The Group’s framework for the management of CR, in-line with Bursa Malaysia’s recommended framework is as follows:-





**MARKETPLACE**

**GOVERNANCE**

**SUSTAINABILITY POLICY**

In December 2014, KLK launched its Sustainability Policy. The Policy brings together and expands on KLK’s current sustainability commitments and practices. The policy focuses on the following main areas which are:

- No deforestation;
- Protection of peat areas;
- Driving of positive socio-economic impact for people and communities;
- Traceability; and
- Continuous stakeholder engagement

KLK has also committed to reporting its progress with regards to the Policy on a half-yearly basis. The 1<sup>st</sup> progress report together with the full policy is available at [www.klk.com.my](http://www.klk.com.my)



**CERTIFICATION BODIES**

**ROUNDTABLE ON SUSTAINABLE PALM OIL (“RSPO”)**



Roundtable on Sustainable Palm Oil

The RSPO is a multi-stakeholder initiative that aims to transform the market to make sustainable palm oil the norm. Members consist of supply chain members namely producers and processors, consumer goods manufacturers, retailers, banks & investors as well as environmental and social non-governmental organisations. KLK was one of its early members.

**RSPO Principles & Criteria (“P&C”)**

The RSPO stakeholder groups, in consensus, developed the RSPO P&C – a certification standard for certified sustainable palm oil. Plantation companies who are members, through a time-bound plan determined by each individual company, certify its own plantations according to this standard.

**8 principles for growers to be RSPO certified**

<div style="background-color: #ccc; border-radius: 15px; padding: 10px; margin-bottom: 10px;"> <div style="display: flex; align-items: center;"> <div> <p><b>01</b> Commitment to transparency</p> </div> </div> </div>	<div style="background-color: #ccc; border-radius: 15px; padding: 10px; margin-bottom: 10px;"> <div style="display: flex; align-items: center;"> <div> <p><b>05</b> Environmental responsibility and conservation of natural resources and biodiversity</p> </div> </div> </div>
<div style="background-color: #ccc; border-radius: 15px; padding: 10px; margin-bottom: 10px;"> <div style="display: flex; align-items: center;"> <div> <p><b>02</b> Compliance with applicable laws and regulations</p> </div> </div> </div>	<div style="background-color: #ccc; border-radius: 15px; padding: 10px; margin-bottom: 10px;"> <div style="display: flex; align-items: center;"> <div> <p><b>06</b> Responsible consideration of employees, and of individuals and communities affected by growers and millers</p> </div> </div> </div>
<div style="background-color: #ccc; border-radius: 15px; padding: 10px; margin-bottom: 10px;"> <div style="display: flex; align-items: center;"> <div> <p><b>03</b> Commitment to long-term economic and financial viability</p> </div> </div> </div>	<div style="background-color: #ccc; border-radius: 15px; padding: 10px; margin-bottom: 10px;"> <div style="display: flex; align-items: center;"> <div> <p><b>07</b> Responsible development of new plantings</p> </div> </div> </div>
<div style="background-color: #ccc; border-radius: 15px; padding: 10px;"> <div style="display: flex; align-items: center;"> <div> <p><b>04</b> Use of appropriate best practice by growers and millers</p> </div> </div> </div>	<div style="background-color: #ccc; border-radius: 15px; padding: 10px;"> <div style="display: flex; align-items: center;"> <div> <p><b>08</b> Commitment to continuous improvement in key areas of activity</p> </div> </div> </div>



### RSPO Certified Sustainable Palm Oil (“CSPO”)

KLK has been working actively towards achieving RSPO certification of its oil palm operations since 2008. In Malaysia, 100% of KLK’s plantations have been certified sustainable by the RSPO. Similarly for Indonesia, KLK intends to certify its plantation by 2016.

KLK currently has an estimated annual production of 748,000 mt RSPO CSPO, which represents approximately 6.4% of total CSPO produced globally.

In April 2015, Rimmer and Lungmanis palm oil mills (“POMs”) in Lahad Datu, and Bornion POM in Kinabatangan, Sabah have successfully passed the RSPO Re-Certification Audit.

As of September 2015, 17 POMs out of a total of 25 KLK POMs in Malaysia and Indonesia have been certified under RSPO.

### RSPO Supply Chain Certification

Supply chain certification is an assurance to customers that the palm oil and palm kernel oil used in the production of our finished goods actually comes from the claimed RSPO source. Five (5) refineries and three (3) kernel crushing plants in Malaysia and Indonesia together with our Oleochemicals Division in Malaysia and Europe are RSPO SCCS Certified. With the SCCS, we hope to be able to provide and meet the product and sustainable development needs of our customers.

### INDONESIA SUSTAINABLE PALM OIL (“ISPO”)

## ISPO

The Government of Indonesia established the mandatory ISPO certification scheme which aims to improve the sustainability and competitiveness of the Indonesian palm oil industry. It also supports the Indonesian government’s objectives to reduce GHG emissions and draw attention to environmental issues. Similar to the RSPO, the ISPO standards includes legal, economic, environmental and social requirements, which are largely based on existing national regulations. Currently five (5) of KLK’s POMs are ISPO certified.

The ISPO audits for our Indonesian POMs are expected to be completed by end 2016.

### INTERNATIONAL SUSTAINABILITY AND CARBON CERTIFICATION (“ISCC”)



ISCC is a system for certifying the biomass and bioenergy industries, with a focus on reducing GHG emissions, sustainable use of land, protection of natural biospheres, and social sustainability. It has received official state recognition through the German government’s biomass sustainability ordinance (BioNachV) and is recognised by the European Commission as a certification scheme that demonstrates compliance with the EU Renewable Energy Directive’s (“RED”) requirements. Fifteen (15) POMs and all four (4) of KLK’s refineries in Malaysia and Indonesia have been certified under ISCC.

### COMMITMENT

#### SUSTAINABLE PALM OIL MANIFESTO (“MANIFESTO”), HIGH CARBON STOCK STUDY (HCS+)

Together with other grower companies and agribusinesses, KLK has committed to the Manifesto. This Manifesto demonstrates our seriousness towards sustainability as it goes beyond our compliance requirements under the RSPO P&C. The commitments made are:

- (i) To build traceable and transparent supply chains;
- (ii) To accelerate the journey to no deforestation through the conservation of high carbon stock (“HCS”) forests and the protection of peat areas regardless of depth; and
- (iii) To increase the focus on driving beneficial economic change and to ensure a positive social impact on people and communities.

Due to the complexity in defining what is considered as “HCS” (it being a relative term with no definition that is universally accepted), KLK together with other signatories of the Manifesto have commissioned a HCS study to determine the threshold values for GHG emissions from HCS areas, taking into account the socio-economic context in South-East Asia and African countries where new oil palm development has been planned. The study was conducted by 50 scientific experts in the fields of biomass, soil carbon, remote sensing, and socio-economics.

The draft synthesis report of the study has been made available for public consultation. The methodology derived from the HCS Study has been termed as HCS+ with the “HCS” focus on GHG emissions and where the “+” indicates that there will be opportunities for improved



livelihoods by permitting some level of responsible conversion (with associated net GHG emissions) of land to oil palm plantations. The final report is expected to be launched in December 2015.

During the course and until the results of the study are adopted, KLK has halted all development on potential HCS areas, effective from September 2014. KLK will employ the current industry standard of the HCS Approach to identify potential HCS areas before any new development.

#### STAKEHOLDER ENGAGEMENT & FREE, PRIOR AND INFORMED CONSENT (“FPIC”)

KLK regularly engages with the investor community to keep them updated on the latest happenings within the Group. Our website, [www.klk.com.my](http://www.klk.com.my) is the main channel of communication with our stakeholders. Information updated includes announcements, news releases, responses to stakeholders, and reports. All such communications are guided by KLK’s Corporate Disclosure Policy.

When it comes to development, one of the challenges with stakeholder engagement is that the voice of the majority can sometimes be drowned out by the voices of the minority or external parties who do not have a stake or *locus standi* in the matter. However, this is something that KLK will need to assess and manage. KLK acknowledges that there are multiple communities and stakeholders that it needs to engage with as part of the FPIC process before starting any new developments. The FPIC process will be guided by what is prescribed by the RSPO P&C.

#### GOOD PRACTICES IN PROCUREMENT

At KLK, our procurement practices are guided by the KLK Sustainability Policy which applies to KLK and all its subsidiaries. We conduct our business in an honest, ethical and transparent manner which includes, but are not limited to having open tenders where necessary, respecting the rights of our workers and offering fair contractual terms.

#### TRACEABILITY

KLK remains committed to trace the sources of its palm products. Traceability is an important agenda but is a challenging goal.

The palm products that KLK produces are traceable right up to its respective POMs, refineries and kernel crushing plants. Nevertheless, the supply of palm products by its 3<sup>rd</sup> party suppliers can be very onerous to trace due to the inherent complexities within the supply chain. These suppliers include smallholders, small growers, POMs, refineries or other palm products production plants.

KLK has taken steps to understand the practices of its 3<sup>rd</sup> party suppliers using a systematic and structured methodology. It will take time and continuous engagement to build up the trust levels and for its suppliers to see the mutual benefit in doing so. KLK will continue to engage with them to enhance its traceability mechanism.

To further improve transparency towards traceable palm products, KLK has also made available the GPS coordinates of its following management units on KLK’s website:

- (i) POMs and their KLK supply bases (estates); and
- (ii) Refineries and Kernel Crushing Plants and their KLK supply bases (i.e. POMs).

#### SMALLHOLDERS & SMALL GROWERS PROJECT

Inclusion of smallholders into the supply chain is an important facet of KLK’s Sustainability Policy. Smallholders produce an estimated 40% of the world’s palm oil and helping them to improve productivity and yield by way of best practices can have a positive impact on Land Use Change.

KLK has been collaborating with Wild Asia for its Smallholders’ Project in Bornion POM in Sabah. We acknowledge that there are many challenges faced by smallholders and small growers when it comes to complying with the requirements of major players in the production of palm oil. As such, we will continue our engagement with them. Collectively, we expect them to be ready for RSPO Certification by 2016.

Apart from the partnership with Wild Asia, KLK has also signed a similar Memorandum of Understanding with Fuji Oil Holdings Inc. on 25th September 2015. KLK believes that such collaborations are important in achieving its commitment towards traceable production in its supply chain, particularly with smallholders and small growers.



**ENVIRONMENT**

**CARBON MANAGEMENT & GHG**

KLK is committed to reducing its GHG emissions. KLK has achieved at least 40% GHG emissions savings, which is above the requirements of the European Union Renewable Energy Directive (“EU RED”) of 35% GHG savings against the fossil fuel GHG emissions. We target to achieve 50% savings by 2017.

These GHG emission savings were attained through KLK’s methane capture facilities in Sabah, Belitung Island and Riau; and its belt filter press system.

**METHANE CAPTURE FACILITIES & RENEWABLE ENERGY**

KLK Group has five (5) methane capture facilities in Malaysia, Belitung Island and Riau. The methane gas trapped is used for power generations. The methane capture facility in Sabah is registered as a Clean

Development Mechanism project which is advocated as part of the Kyoto Protocol under the United Nations Framework on Climate Change.

**BELT FILTER PRESS**

Ten (10) of KLK’s POMs are installed with a belt filter press. Key benefits of this system include:

- a) The reduction of methane formation;
- b) The palm oil mill effluent can be treated into organic fertiliser which is then used as manure for our palms; and
- c) Water produced as a by-product is used for cleaning purpose.

KLK is currently collaborating with Neste Oil to explore further the potential of this system for further GHG emission reductions and removal of organic matter.



▲ Belt Filter Press

## ZERO BURNING POLICY

KLK practices a strict zero-burning policy in relation to all new planting, re-planting and other related development.

During the haze crisis in Indonesia, KLK's subsidiary company in Central Kalimantan supported the *Kotabesi* Sub-District in their Prevention of Forest Fire Campaign. This was done through raising awareness by placing banners on fire-prevention. In addition we have undertaken the following preventive and mitigating measures namely:

- a) Deployment of fire patrolling teams in the estate with special focus along the boundaries with smallholders and main roads utilised by general public;
- b) Emergency response teams which have been trained to handle firefighting are constantly on standby to put out the fire;
- c) Ensuring firefighting equipment namely water pumps, high pressure hoses with nozzles, fire suits, safety boots, spraying pumps and water tanks filled with water are on standby;
- d) Extending assistance to the neighbouring villages to put off fire when occurred; and
- e) Distribution of water pumps to nearby villages for them to use in times of need to put out fires

## NO DEFORESTATION & CONSERVATION OF BIODIVERSITY

### HIGH CONSERVATION VALUE (“HCV”) AREAS

As a member of the RSPO, KLK is committed to the conservation of primary forests and HCV areas within the KLK context of sustainably managed landscape. HCV areas include areas that contain significant concentration of biological values, areas with rare, threatened and endangered species and areas that provide nature services.

Examples are watersheds, natural forest and riparian boundaries. HCV in the context of RSPO also include:

- Areas fundamental to meeting basic needs of local communities (e.g., subsistence and health)
- Areas critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in co-operation with local communities)



▲ Riparian Reserve in one of the estates in Tawau region, Sabah



### PROTECTION OF PEAT AREAS

Peatlands are important stores of carbon and play a critical role in the ecosystem. KLK has made a commitment not to develop on peat regardless of depth. For our existing peat areas, we apply Best Management Practices. We also work with experts to explore options including environmentally friendly alternative land uses or peat restoration for peat areas that are found to be unsuitable for replanting.

### BIODIVERSITY

KLK has pledged to conserve biodiversity by identifying, protecting and maintaining high conservation value areas. At KLK, we have zero tolerance for the killing of animals or plants that are protected and endangered.

### INTEGRATED PEST MANAGEMENT (“IPM”)

KLK uses barn owls and beneficial plants such as *Antigonon leptopus* as part of an IPM solution which reduces the need for chemicals pesticides.



▲ *Antigonon leptopus* plant is grown at our plantation as part of our IPM

### NEW PLANTING PROCEDURE

We are guided by RSPO's Principle 7 on new plantings which includes our commitment to seek consent from relevant stakeholders through the FPIC process. As part of the RSPO guidance, new developments are subject to review by an independent third-party and posted on the RSPO's website for public consultation.



COMMUNITY

EDUCATION

**MALAYSIA: EDUCATION CENTRES – HUMANA AND KINDERGARTENS**

The United Nations Sustainable Development Goals launched in 2015 calls for inclusive and equitable quality education as well as the promotion of life-long learning. This includes early childhood development and primary education.

In Sabah, KLK provides education for the children of its migrant workers who have little or no access to main-

stream education. This is done through our collaboration with Humana Child Aid Society (“Humana”). Humana’s vision is to reach out to children as prescribed by the UN’s Child Right Convention. The Convention states that all children have a right to a primary education, regardless of background, nationality and legal status. Children attend classes at Humana centres based on their level of education rather than their age. Students learn English, Malay, Mathematics and Science. There are also sports and art activities like music and dance, helping to create well rounded students.



▲ Children at our Humana school in our plantation in Sabah



### INDONESIA: LEARNING CENTRES

For our operating centres in Indonesia, KLK collaborates with Indonesia Heritage Fund (“IHF”) to provide education for young children. Unlike mainstream education, IHF curriculum focuses on instilling good character and values.

Currently, there are 30 learning centres owned by KLK on our plantations to ensure that the young children received proper education. In addition, we have another 12 learning centres that are done in partnership.



▲ Classroom at a learning centre on our plantation in Indonesia

### KLK SCHOLARSHIPS

KLK, through its KLK Foundation has been providing scholarships for students in local institutions of higher learning since 1977. We hope that these scholarships contribute to nation building through the development of a highly skilled workforce. As part of their development, scholars are invited to intern with the Company. Successful scholars are offered a position where they will be mentored. Over the years, we have seen our scholars successfully progress to hold leadership positions within the Company.

This year, KLK has provided an additional eight (8) scholarships with a total commitment of over RM300,000 for the students until their graduation.

Similarly in Indonesia, educational aid is provided to support the learning of local students consisting of our employee’s children and also those from the nearby villages.



▲ 2015 KLK Scholars

### PACE MENTORSHIP PROGRAMME

The Programme after Class Enrichment (“PACE”) is a programme conducted in partnership with The Edge Education Foundation. The pilot project was launched in 2013 and funded by KLK. The focus of the programme is to raise the aspirations of the low performing students and motivate them to do better in school. Overall KLK hopes that it can, together with its partners, help create a future for these students who mostly come from disadvantaged background.

In addition to the programmes organised by the Edge Education Foundation, KLK employees actively participated as mentors for these students over the last two years. Students were taught life skills like entrepreneurship and financial literacy. One of the projects allowed the students to learn how to set up and run a small business, and with the money earned from sales of the products, these students utilised it to open their own savings account.

We are confident that PACE has helped imbue the students with confidence as well and new skills all of which will put them in good stead in their future undertakings.



▲ *Volunteers mentor students as well as participate in activities designed to motivate them*



### **LIBERIA – EDUCATION FOR CHILDREN, ADULT LITERACY PROGRAMME & GENDER EMPOWERMENT**

Due to the civil war that had taken place in Liberia, education was disrupted and with little available infrastructure for education.

We have two (2) schools, one in Butaw and the other in Palm Bay that cater to 905 students. We are pleased to note that there is a balance between male and female students with 487 males and 418 females.

There is also a “lost generation” of adults who, due to the civil war, had none or minimal formal education. We currently support an adult literacy programme that takes place after working hours at schools that we have built. The programme is open to our workforce as well as the local community. Overall we have 41 educators and support staff for our schools and adult literacy programmes.

It is heartening to note that the high uptake of the adult literacy programme by women in the community. Similarly in our workforce in Liberia, 40% of the total workforce is female. The women work on oil palm nurseries, the plantation, clinics and in outreach roles. Additionally, we have contributed funds for the building of a covered women’s market in Buchanan which has provided over 100 stalls for the trading of local goods and produce.



▲ *Students after school in Liberia*



▲ *Adult Literacy Programme in Liberia*



▲ *40% of our total workforce in Liberia is female*

**BUILDING COMMUNITIES**

**MEETING BASIC NEEDS – INFRASTRUCTURE**

KLK continues to build and upgrade facilities to help meet the basic needs of our employees and communities. Among them are the provision of clean drinking water, building and upgrading of workers' housing and providing, maintaining and running health clinics and services as well as providing places of worship. The focus is on areas surrounding KLK's plantations given their locations near rural areas.



▲ Example of our employee housing in Indonesia



▲ Water pump in Liberia

**Places of Worship**

As part of our efforts to build communities, we have also constructed places of worship for our employees and communities on our plantations.



▲ Places of worship at our operating centres in East Kalimantan



### Medical Facilities

There are also medical facilities including an ambulance service available for employees on our plantations. This is part of our effort to ensure that employees have access to proper healthcare.

In Liberia, our clinics are open to both our employees and the local community. Between September 2014 to May 2015, there were an average of 932 patients a month at both our clinics in Palm Bay and Butaw Estate. Out of that, 36% were non-employees or from the villages. This is a way of supporting a country that is suffering the after-effects of years of war and suffers a lack of infrastructure.



▲ One of our clinics in Indonesia



▲ We have an in-house doctor for our employees in East Kalimantan



▲ Ambulance facilities are available

## FOSTERING UNITY AND TOGETHERNESS

### “Muhibah (Harmony)” Cup

KLK recognises that sports provides a platform that promotes inclusion and unity within communities. Through sports one learns the true meaning of sportsmanship and helps towards positive physical and mental growth and good relationship with others. KLK organised its inaugural “Muhibah” Football Tournament (Boys Under 12 & Under 16 categories) in Ipoh to further strengthen the unity amongst our multi-racial populace where one of the criteria of participation was for every team to be represented by the different races in Malaysia.

### Indonesia Independence Day

In Indonesia, KLK celebrates the Indonesia Independence Day annually with its employees. The day was marked by a flag raising ceremony and various games all in the spirit of encouraging unity and togetherness.



▲ Winner for the Under 16 category of KLK Muhibah Cup 2015



### Malaysia Day Celebration

This year, KLK Land continued with its 2<sup>nd</sup> Malaysia Day Celebration which was organised at its Bandar Seri Coalfields township. The celebration featured Malaysian cultural dances, bringing together a crowd of about 2,000 people from the local community. It is hoped that such celebrations promote a sense of belonging within the community regardless of race and religion.



▲ KLK Land Malaysia Day celebration

### DONATIONS



▲ KLK CEO handing basic necessities to employees and local communities at Kuala Krai and Tanah Merah who were affected by the flood

The end of December 2014 saw Kelantan being hit by major floods which had caused much devastation and rendered thousands of families helpless. They were left without basic items like food, clothing and shelter. KLK donated RM1 million to help our affected employees as well as the local community living in the vicinity of our estates. The Company also contributed an additional RM200,000 to the TSM Charity Golf Foundation to assist flood victims at other locations in Malaysia.

Apart from the above, other organisations that were supported by KLK include the Alzheimer's Disease Foundation, All Women's Action Society, Perdana Leadership Foundation, Perak Association for the Intellectually Disabled, Perak Disabled Children's Welfare Home, Drug Prevention Malaysia, Olympic Council of Malaysia, Institute of Strategic and International Studies (Malaysia), Perak Society for The Promotion of Mental Health, Universiti Tunku Abdul Rahman Education Foundation, Sports Council of Malaysia, WWF Malaysia, Bursa Malaysia Foundation and PEMANDU.



**WORKPLACE**

**EMPLOYEES CODE OF CONDUCT**

As a company we are committed to creating a corporate culture within the Group to operate our businesses in an ethical manner while upholding high standards of professionalism and exemplary corporate conduct. The KLK Code of Conduct for Employees was launched in October 2014 and sets out the principles and standards of business ethics and conduct expected of the Group’s employees.

**HUMAN CAPITAL DEVELOPMENT**

KLK believes that its employees are one of its greatest assets and it is important that people are developed to reach their full potential. Development primarily takes place on the job as well as through various programmes organised by the company.

**Managers & Assistant Managers Conferences**

The Managers’ conference was started 42 years ago by KLK’s founding Chairman Tan Sri Lee Loy Seng with the purpose of nurturing the KLK culture and reinforcing KLK values particularly teamwork. The Assistant Managers’ conference serves the same purpose in addition to the sharing of technical knowledge and experience.

Similarly structured programmes for employees were organised throughout the FY 2015 to continuously develop our management team. This included collaboration with prominent Strategic Management professors from Nanyang Technological University and leadership professors from Duke University for the Senior Management Development Program. Other programmes include the Supervisor Center of Excellence (SCOE) programme, which uses the Diploma in Manufacturing as a model. In-house experts were also involved in training our engineers, chemists and R&D scientists on technical, technology and process.

**TOWNHALL SESSION**

KLK Oleo also had a Townhall Session with the CEO and its top Management with two objectives namely a) to allow top Management to share their targets and plans for the year and speak on the newly launched Sustainability Policy; and b) provide a platform for employees to ask questions and share thoughts and observations with top Management.



▲ KLK Oleo 2015 Townhall session with the CEO and top Management



▲ FFB Quality Training at our POM in East Kalimantan



▲ Supervisor Center of Excellence (SCOE) programme



### **OCCUPATIONAL SAFETY & HEALTH (“OSH”)**

KLK seeks to conduct its business in accordance with the highest standard of safety & health protection.

Accidents, injuries and occupational illness are prevented through:

- (i) Compliance with regulations and codes of practices;
- (ii) Through Hazard and Chemical Risk Assessment and implementation of appropriate control measures; and
- (iii) Ensuring that our employees are aware of their OSH responsibilities and are held accountable for the same at the workplace.

As part of the continuous improvement process, the Group OSH policy was revised during the FY by Senior Management and it now covers external stakeholders.

### **ACTIVE & HEALTHY LIFESTYLE**

KLK also encourages its employees to have a healthy and balanced lifestyle. We believe that sports not only encourages integration, it also fosters good values like unity and healthy sportsmanship. In Ipoh where our head office is located, there is a yearly Sports Festival where various competitive indoor and outdoor games are organised for employees. KLK also has a clubhouse where employees have free access to the swimming pool and tennis court. In addition, there are yoga and aerobic classes conducted weekly.

Similarly we also provide sporting facilities at our plantations to encourage our employees to adopt a healthy lifestyle.



▲ *Employees taking part in Skytrex adventure*



▲ *Football field for our employees at the plantation*



### ENCOURAGING VOLUNTEERISM AT KLK

At KLK, employees are encouraged to volunteer in various capacities, be it on a committee or as a volunteer for our CR activities. Overall employees are encouraged to play a leadership role in bringing forward the CR agenda.



▲ Sports day with special needs children



▲ Wistree-granting the wishes of underprivileged children



▲ Sprucing up a neighborhood park



▲ Dengue prevention campaign



▲ Motivation camp for special needs children

# CORPORATE & KEY MILESTONES

A Glimpse of our Key Corporate Milestones and Events for the financial year ended 30 September 2015.

## Corporate Milestones

2015



Astra Agro Lestari Tbk (“AAL”) became a 50% joint venture partner in PT Kreasijaya Adhikarya (“KA”), a company involved in the business of refinery and trading of palm products. With the addition of AAL, KA is now a joint venture company of KLK.



KLK completed the disposal of 20% equity interest in KLK Premier Capital Limited (“KLKPCL”) to Mitsui & Co., Ltd.. KLKPCL owns 100% equity interest in Taiko Palm-Oleo (Zhangjiagang) Co., Ltd. (“TPOZ”). The principal activities of TPOZ are manufacturing and trading of acids, glycerine, soap noodles and triacetin.

## Sustainability Achievements – Certifications, Policy & Report

2014



Kuala Pertang POM in Peninsular Malaysia certified by the Roundtable on Sustainable Palm Oil (“RSPO”).



KLK Sustainability Policy launched.

2015



SWP POM in Belitung Island, Indonesia certified by RSPO.



Dedicated ‘Sustainability’ section including GPS coordinates of KLK’s suppliers to its POMs, refineries and kernal crushing plants made available in its website at [www.klk.com.my](http://www.klk.com.my).



PT Hutan Hijau Mas in East Kalimantan, Indonesia certified by the Indonesia Sustainable Palm Oil (“ISPO”).



PT Sekarbumi Alamlestari in Riau, Sumatra, Indonesia certified by ISPO.



PT Parit Sembada in Belitung Island, Indonesia certified by ISPO.



Rimmer POM, Lungmanis POM and Bornion POM in Sabah, Malaysia passed the 5-year RSPO Re-Certification Audit.



KLK’s first Sustainability Policy Progress Report published and made available in its corporate website at [www.klk.com.my](http://www.klk.com.my).

## New Mills & Biogas Plants

2015



Jabontara POM with a capacity of 60mt/day commissioned at East Kalimantan.



KMA POM with a capacity of 60mt/day was commissioned at Central Kalimantan.



**Exhibitions**

**2014**



KLK OLEO and KOLB at the SEPAWA Congress, held in Fulda, Germany.



KLK participated in the Palm Oil Trade Fair and Seminar ("POTS") held in Kuala Lumpur, Malaysia as a Gold Sponsor.



KLK participated in the Oil & Fats International ("OFI") seminar held in Kuala Lumpur, Malaysia as a Silver Sponsor.

**2015**



KLK OLEO participated in the Palm & Lauric Oil Conference ("POC") held in Kuala Lumpur, Malaysia as Gold Sponsor.



KLK OLEO and KOLB at the In-Cosmetics conference held in Barcelona, Spain.



KLK OLEO at the ChemSpec India conference held in Mumbai, India.



KLK OLEO at the Vitafoods Europe conference held in Geneva, Switzerland.



KOLB at the Zellcheming Expo (pulp and paper industry) in Frankfurt, Germany.



KLK OLEO held an exhibition and scientists from Davos Life Science were speakers in the Palm International Nutra-Cosmeceutical Conference ("PINC") held in Kuala Lumpur, Malaysia.

# GROUP CORPORATE STRUCTURE

As at 30 September 2015

## PLANTATIONS



- 100% Betatechnic Sdn Bhd
- 63% Bornion Estate Sdn Bhd
- 51% Collingwood Plantations Pte Ltd
  - 51% Ang Agro Forest Management Ltd
  - 51% Kubahi Marine Services Ltd
- 63% Equatorial Palm Oil Plc
  - 63% Equatorial Biofuels (Guernsey) Limited
- 100% Fajar Palmkel Sdn Berhad
- 100% Golden Complex Sdn Bhd
  - 92% P.T. Malindomas Perkebunan
- 100% KL-Kepong Edible Oils Sdn Bhd
- 100% KL-Kepong Plantation Holdings Sdn Bhd
  - 51% Astra-KLK Pte Ltd
  - 100% Gunong Pertanian Sdn Bhd
  - 100% Jasachem Sdn Bhd
    - 90% P.T. Karya Makmur Abadi
  - 95% P.T. ADEI Plantation & Industry
  - 95% P.T. Anugrah Surya Mandiri
  - 92% P.T. Hutan Hijau Mas
  - 95% P.T. Jabontara Eka Karsa
  - 100% P.T. KLK Agriservindo
  - 60% P.T. Langkat Nusantara Kepong
  - 80% P.T. Menteng Jaya Sawit Perdana
  - 90% P.T. Mulia Agro Permai
  - 65% P.T. Sekarbumi Alamlestari
    - 62% P.T. Alam Karya Sejahtera AKS
  - 95% P.T. Steelindo Wahana Perkasa
    - 90% P.T. Parit Sembada
- 100% KL-Kepong (Sabah) Sdn Bhd
- 100% KLK Agro Plantations Pte Ltd
  - 50%\* Liberian Palm Developments Limited
    - 50%\* EBF (Mauritius) Limited
      - 50%\* Liberia Forest Products Inc
      - 50%\* LIBINC Oil Palm Inc
    - 50%\* EPO (Mauritius) Limited
      - 50%\* Equatorial Palm Oil (Liberia) Incorporated
      - 50%\* Liberian Agriculture Developments Corporation

- 85% KLK Premier Oils Sdn Bhd
  - 85% Golden Yield Sdn Bhd
- 100% Kulumpang Development Corporation Sdn Bhd  
*[In Members' Voluntary Liquidation]*
- 100% Rubber Fibreboards Sdn Bhd
- 100% Sabah Cocoa Sdn Bhd
- 70% Sabah Holdings Corporation Sdn Bhd
- 100% Taiko Cambodia Rubber Pte Ltd
- 100% Taiko Plantations Sendirian Berhad
  - 100% Taiko Plantations Pte Ltd
- 51% Uni-Agro Multi Plantations Sdn Bhd

## PROPERTIES



- 100% KL-K Holiday Bungalows Sendirian Berhad
- 100% KLK Land Sdn Bhd
  - 100% Austerfield Corporation Sdn Bhd  
*[In Members' Voluntary Liquidation]*
  - 100% Brecon Holdings Sdn Bhd  
*[In Members' Voluntary Liquidation]*
  - 100% Colville Holdings Sdn Bhd
  - 100% KL-Kepong Complex Sdn Bhd
  - 100% KL-Kepong Country Homes Sdn Bhd
  - 100% KL-Kepong Property Development Sdn Bhd
  - 100% KL-Kepong Property Management Sdn Bhd
  - 80% Kompleks Tanjong Malim Sdn Bhd
  - 100% Palermo Corporation Sdn Bhd
  - 60% Scope Energy Sdn Bhd
  - 100% Selasih Ikhtisas Sdn Bhd

## MANUFACTURING



100%	Davos Life Science Sdn Bhd
100%	Davos Life Science Pte Ltd
100%	Biogene Life Science Pte Ltd
100%	Centros Life Science Pte Ltd
100%	Kolb Distribution Ltd
100%	Dr. W. Kolb AG
100%	Dr. W. Kolb Deutschland GmbH
100%	Dr. W. Kolb Netherlands BV
100%	Kolb Distribution BV
100%	Kolb France SARL
100%	KL-Kepong Industrial Holdings Sdn Bhd
100%	B.K.B. Hevea Products Sdn Bhd
100%	B.K.B. Flooring Sdn Bhd
100%	Capital Glogalaxy Sdn Bhd
100%	KL-Kepong Rubber Products Sdn Bhd
100%	Masif Latex Products Sdn Bhd
100%	P.T. KLK Dumai
80%	Palm-Oleo Sdn Bhd
80%	KSP Manufacturing Sdn Bhd
80%	Palmamide Sdn Bhd
80%	Palm-Oleo (Klang) Sdn Bhd
96%	KL-Kepong Oleomas Sdn Bhd
96%	KLK Bioenergy Sdn Bhd
100%	KLK Emmerich GmbH
100%	KLK Overseas Investments Limited
100%	Standard Soap Company Limited <i>[In Members' Voluntary Liquidation]</i>
80%	KLK Premier Capital Limited
80%	Taiko Palm-Oleo (Zhangjiagang) Co Ltd
100%	KLK Tensachem SA
100%	Shanghai Jinshan Jingwei Chemical Co Ltd
100%	KLK Oleo (Shanghai) Co Ltd
51%	Stolthaven (Westport) Sdn Bhd

## INVESTMENT HOLDING & OTHERS



100%	Draw Fields Sdn Bhd
100%	Kersten Holdings Ltd
100%	KL-Kepong Equity Holdings Sdn Bhd
100%	Ablington Holdings Sdn Bhd
100%	KL-Kepong International Ltd
100%	Quarry Lane Sdn Bhd
100%	KLK Assurance (Labuan) Limited
100%	KLK Capital Resources (L) Ltd
100%	KLK Farms Pty Ltd
100%	KLK Global Resourcing Sdn Bhd
100%	KLKI Holdings Limited
100%	Kuala Lumpur-Kepong Investments Limited
100%	Somerset Cuisine Limited
100%	Ladang Perbadanan-Fima Berhad
100%	Ortona Enterprise Sdn Bhd
100%	Richinstock Sawmill Sdn Bhd

## ASSOCIATES



50%	Applied Agricultural Resources Sdn Bhd
40%	Aura Muhibah Sdn Bhd
30%	FKW Global Commodities (Pvt) Limited
50%	Kumpulan Sierramas (M) Sdn Bhd
38%	Malaysia Pakistan Venture Sdn Bhd
30%	MAPAK Edible Oils (Private) Limited
30%	MEO Trading Sdn Bhd
23%	Phytopharma Co Ltd
25%	Rainbow State Limited

## JOINT VENTURE



50%	P.T. Kreasijaya Adhikarya
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Note: Shareholdings are shown as Group's percentage interest  
\* Group's percentage interest is 81.5%



# ACCOUNTABILITY

- 55 Corporate Governance Statement
- 66 Statement on Risk Management & Internal Control
- 68 Audit Committee Report
- 73 Additional Compliance Information

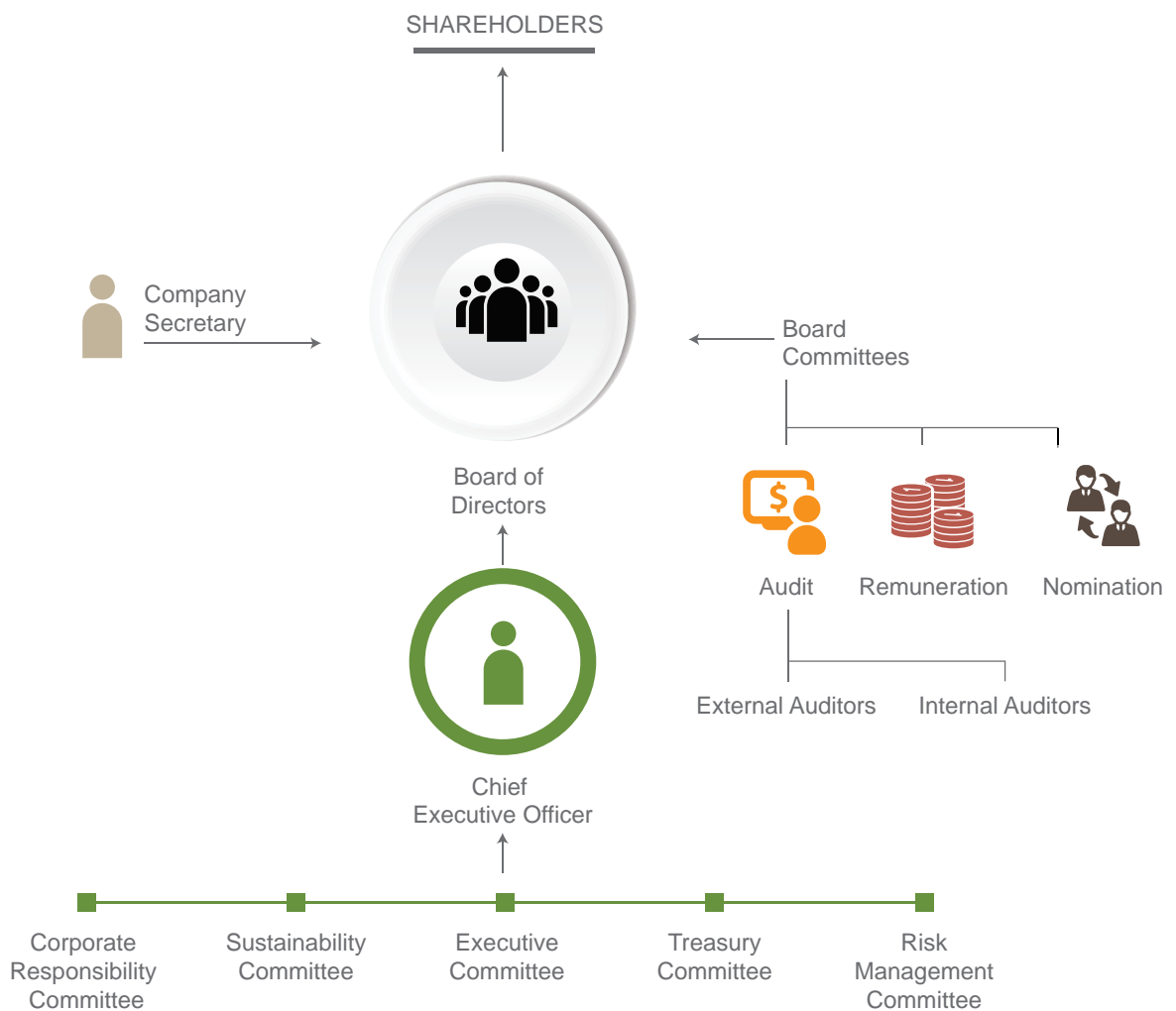
# CORPORATE GOVERNANCE STATEMENT

The Board of Directors of KLK recognises the importance of good corporate governance and is committed to practise high standards in corporate governance throughout the Group. Such commitment is based on the belief that a strong culture of good corporate governance practices is fundamental towards enhancing long term shareholders' value, increasing investors' confidence and protecting stakeholders' interests.

The Board supports the Group's adoption of best practices as propounded by the Malaysian Code on Corporate Governance 2012 ("the Code") which sets out broad principles and specific recommendations to promote and cultivate a strong culture of good corporate governance at all levels of the Group's businesses. The Board will continue to review and enhance the Group's corporate governance framework to ensure its relevance and ability in meeting future challenges and to establish long term sustainable shareholders' value.

This statement demonstrates the Board's commitment in sustaining high standards of corporate governance and outlines how the KLK Group has complied with the principles set out in the Code with regards to the recommendations stated under each principle for the year under review.

## THE GROUP'S GOVERNANCE MODEL



**PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT****CLEAR FUNCTIONS OF THE BOARD AND MANAGEMENT**

KLK continues to be led by an experienced, competent and diversified Board that is made up of Directors with appropriate competencies, knowledge, skills and experience from diverse sectors and backgrounds and also in the Group's core businesses. The Directors collectively, have wide and varied technical, financial and commercial experience which facilitates effective, thorough and considered discharge of the Board's statutory and fiduciary duties and responsibilities.

There is a clear division of functions between the Board and the Management to ensure that no one individual or group is dominating the decision-making process. The Board is focused on the Group's overall governance by ensuring the implementation of strategic plans and that accountability to the Group and stakeholders is monitored effectively; whereas the Management is responsible for the implementation of management goals in accordance with the direction of and delegation by the Board.

In a nutshell, the Board leads the Group and plays a strategic role in overseeing the overall activities of the Management. The Management then carries out the delegated duties to achieve the Group's corporate objectives with long term strategic plans of the business.

**CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD**

The Board has established clear roles and responsibilities in discharging its fiduciary and leadership functions. In accordance with the Board Charter, the principal functions and responsibilities of the Board include the following:

- (a) Providing leadership to the Company by:
  - Guiding the development of appropriate standards and values for the Company.
  - Acting in a manner consistent with the Directors' Code of Conduct.
- (b) Overseeing the development and implementation of corporate strategies by:
  - Working with the Senior Management team to ensure that an appropriate strategic direction and set of goals are in place.
  - Regularly reviewing and amending or updating the Company's strategic direction and goals.
  - Overseeing planning activities including the development and approval of strategic plans, annual corporate budgets and long-term budgets including operating budgets, capital expenditure budgets and cash flow budgets.
  - Reviewing the progress and performance of the Company in meeting these plans and corporate objectives, including reporting the outcome of such reviews.
- (c) Ensuring corporate accountability to the shareholders primarily through adopting an effective shareholder communications strategy, encouraging effective participation at general meetings and, through its Chairman, being the key interface between the Company and its shareholders.
- (d) Overseeing the control and accountability systems that seek to ensure the Company is progressing towards the goals set by the Board and which are in line with the Company's purpose, the agreed corporate strategy, legislative requirements and community expectations.
- (e) Ensuring effective risk management, compliance and control systems (including legal compliance) are in place.
- (f) Delegating appropriate powers to the Chief Executive Officer ("CEO"), Management and Committees to ensure the effective day-to-day management of the business, and monitoring the exercise of these powers.

**CODE OF CONDUCT FOR DIRECTORS**

The Board continues to adhere to the Code of Conduct for Directors which sets out the standard of conduct expected of Directors, with the aim to cultivate good ethical conduct that in turn promotes the values of transparency, integrity, accountability and social responsibility. The Code of Conduct for Directors is available on our corporate website, [www.klk.com.my](http://www.klk.com.my).

## SUSTAINABILITY OF BUSINESS

KLK believes that doing business in a sustainable manner goes hand-in-hand with corporate responsibility and both are integral to generate and sustain short and long term value for its stakeholders. As such, the Board is committed to promote business sustainability strategies via continuous balanced assessment and development of its operations, whilst simultaneously conserving and improving the natural environment, and uplifting the socio-economic conditions of its employees and local communities.

The Sustainability Policy is available on our corporate website, [www.klk.com.my](http://www.klk.com.my) and the sustainable development and corporate responsibility programmes of the Group are disclosed on pages 32 to 49.

## SUPPLY OF INFORMATION TO BOARD MEMBERS

The Board meets on a quarterly basis and additionally as and when required. Prior to Board meetings, all Directors are furnished with the Agenda which sets out the matters to be discussed not less than 7 days prior to the meetings. Detailed board papers that contain relevant qualitative and/or quantitative information for the Agenda are also circulated to the Directors simultaneously to give Directors time to review the reports, obtain further clarification if necessary and enable focused and constructive deliberation at Board meetings.

Monthly reports on the financial performance of the Company and the Group are also circulated to the Directors for their views and comments. All proceedings of Board meetings are minuted and signed by the Chairman of the meeting in accordance with the provisions of the Companies Act, 1965. Minutes of meetings of each Committee are also tabled to the Board for perusal.

## ACCESS TO INFORMATION AND PROFESSIONAL ADVICE

All Directors have unrestricted direct access to the Company's Senior Management and the services of the Company Secretaries to enable them to discharge their duties and responsibilities effectively. The Board is regularly updated and advised on statutory and regulatory requirements by the Company Secretaries who are suitably qualified, experienced and competent. Apart from playing an active role in advising the Board on governance and regulatory matters, the Company Secretaries also organise and attend all Board meetings and ensure that all Directors receive timely, clear and concise information in advance prior to the scheduled meetings.

In the furtherance of its duties, the Board is also authorised to obtain independent professional advice on specific matters, if necessary, at the Company's expense from time to time.

## BOARD CHARTER

The Board has adopted a Board Charter which clearly sets out the Board's strategic intent and outlines the Board's roles and functions since 2013. The Board Charter is a source reference and primary induction literature, providing insights to prospective Board members and Senior Management.

The Board Charter is reviewed periodically and updated in accordance with the needs of the Company to ensure its effectiveness and consistency with the Board's objectives and corporate vision. The current Board Charter is accessible for reference on our corporate website, [www.klk.com.my](http://www.klk.com.my).

## PRINCIPLE 2 – STRENGTHEN COMPOSITION

The Board is satisfied with its current composition which comprises of a balanced mix of skills, knowledge and experience in the business and management fields which are relevant to enable the Board to carry out its responsibilities in an effective and efficient manner.

In discharging its duties, the Board is assisted by Board Committees, namely the Audit Committee, Nomination Committee and Remuneration Committee. Each Committee operates within its respective defined Terms of Reference ("TOR") which have been approved by the Board.

The Board Committees periodically review and assess their respective TORs to ensure the TORs remain relevant, adequate and concise in governing the functions and responsibilities of the Committees and reflect the latest developments in the Main Market Listing Requirements ("Main Market LR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and the Code.



**NOMINATION COMMITTEE (“NC”)**

The NC has been established since 2001. The Committee’s responsibility, among others, is to identify and recommend the right candidate with the necessary skills, experience and competencies to be filled in the Board and Board Committees. Recruitment matters are discussed in depth by the Committee before the entire Board makes the final decision on new appointments.

The NC comprises 3 Non-Executive Directors, the majority of whom are Independent. The members are:

Dato’ Yeoh Eng Khoon (Chairman)  
- Senior Independent Non-Executive Director

R. M. Alias  
- Independent Non-Executive Director

Dato’ Lee Hau Hian  
- Non-Independent Non-Executive Director

The NC convened 2 meetings for the financial year under review and the attendance of the members for the meetings held are as follows:

Members	Number of Meetings	
	Held	Attended
Dato’ Yeoh Eng Khoon	2	2
R. M. Alias	2	2
Dato’ Lee Hau Hian	2	2

The Committee oversees the selection and assessment of Directors to ensure the Board’s composition remains relevant and optimal. The Committee is responsible to review annually the size and composition of the Board in order to ensure the Board has the requisite competencies and capacity to effectively oversee the overall businesses and handle all matters pertaining to the Group.

The Committee is also responsible for assessing the effectiveness of the Board as a whole, the other Committees of the Board and the contributions of each individual Director. Having conducted a detailed review of each Director’s personal/professional profile, attendance record, training activities, character and attitude, and participation in Board meetings as well as Group functions for the year, the Committee concluded that each Director has the requisite competence to serve on the Board and had sufficiently demonstrated their commitment to the Group in terms of time, participation and dialogue during the year under review.

In accordance with the Company’s Articles of Association, one-third of the Directors are required to retire by rotation at each Annual General Meeting (“AGM”) subject to the retirement of all Directors at least once in every 3 years. The Directors due to retire at the forthcoming AGM are shown in the Notice of Meeting (Ordinary Resolutions 2 and 3).

Directors over 70 years old are required to seek re-appointment annually in accordance with the Companies Act, 1965. Directors seeking re-appointment at the forthcoming AGM are shown in the Notice of Meeting (Ordinary Resolutions 4 and 5).

A summary of key activities undertaken by the NC in the discharge of its duties for the financial year ended 30 September 2015 is set out herebelow:

- (1) Reviewed and recommended to the Board for its approval, the re-appointment and re-election of Directors at the forthcoming AGM;
- (2) Reviewed the composition of the Board on the required mix of skills, experience and other qualities of the Board;
- (3) Reviewed the composition of the Board Committees on their compliances with the provisions of the regulations;
- (4) Evaluated the size of the Board to ensure that the Board had the requisite competencies and capacity to effectively handle all matters pertaining to the Group;
- (5) Assessed the overall Board and its Committees’ performance and effectiveness as a whole;
- (6) Reviewed the independence of Independent Directors and their tenure of service;
- (7) Considered the adoption of a Boardroom Diversity Policy;

- (8) Reviewed the re-appointment of the Group Financial Controller (“GFC”) and the Managing Director of Oleochemicals Division;
- (9) Reviewed the succession plans of the Board and Senior Management; and
- (10) Assessed Directors’ training needs to ensure all Directors receive appropriate continuous training programmes.

## BOARDROOM DIVERSITY

The Board acknowledges the importance of boardroom diversity and the recommendation of the Code pertaining to the establishment of a gender diversity policy. Hence, the Board had always been in support of a policy of non-discrimination on the basis of race, religion and gender. The Board encourages a dynamic and diverse composition by nurturing suitable and potential candidates equipped with the competency, skills, experience, character, time commitment, integrity and other qualities in meeting the future needs of the Company. Nevertheless, the Board will only set specific targets in relation to gender diversity if the situation so requires and if it is in the best interest of the Company to do so.

## REMUNERATION COMMITTEE (“RC”)

The RC has been established since 1994. This Committee’s primary responsibility is to structure and review the remuneration policy for executives of the Group, with a view to ensure that compensation and other benefits encourage performance that enhances the Group’s long-term profitability and value. The Committee’s remuneration package for Senior Management and that for the CEO are subject to the approval of the Board, and in the case of Non-Executive Directors’ fees including Board Committees’ fees, the approval of the shareholders. The members of the RC, the majority of whom are Independent Non-Executive Directors, are as follows:

R. M. Alias (Chairman)

- Independent Non-Executive Director

Dato’ Lee Hau Hian

- Non-Independent Non-Executive Director

Tan Sri Azlan Bin Mohd Zainol

- Independent Non-Executive Director

The RC convened 2 meetings for the financial year under review and the attendance of the members for the meetings held are as detailed below:

Members	Number of Meetings	
	Held	Attended
R. M. Alias	2	2
Dato’ Lee Hau Hian	2	2
Tan Sri Azlan Bin Mohd Zainol	2	2

## DIRECTORS’ REMUNERATION

The Company pays its Non-Executive Directors annual fees which are approved annually by the shareholders. The annual fee for the Chairman and other Non-Executive Directors was last revised in 2012 and it had been agreed by the RC and endorsed by the Board that the annual fee for the Chairman and other Non-Executive Directors would be held constant for 3 years. As the 3 years have expired, the annual fees were therefore reviewed during the financial year ended 30 September 2015 and would be subject to shareholders’ approval at the Company’s AGM. The Non-Executive Directors are paid a meeting allowance for each Board meeting they attend. Similarly, members of Board Committees are also paid a meeting allowance for each Committee meeting they attend. The Directors are also reimbursed reasonable expenses incurred by them in the course of carrying out their duties on behalf of the Company.

The Company’s framework on Directors’ remuneration has the underlying objectives of attracting and retaining Directors of high calibre needed to run the Group successfully. In the case of the Executive Directors, the various components of the remuneration are structured so as to link rewards to corporate and individual performance. In the case of Non-Executive Directors, the level of remuneration reflects the expertise, experience and level of responsibilities undertaken by a particular Non-Executive Director concerned. Where applicable, the Board also takes into consideration any relevant information provided by independent consultants or from survey data.

The appropriate Directors' remuneration paid or payable or otherwise made available from the Company and its subsidiary companies for the financial year ended 30 September 2015 are presented in the table below:

(a) Aggregate remuneration of Directors categorised into appropriate components:

	Fees RM'000	Salaries RM'000	Bonus RM'000	Benefits- In-Kind RM'000	Other Emoluments RM'000	Total RM'000
Executive Directors	-	4,410	4,557	148	1,604	10,719
Non-Executive Directors	1,450	-	-	25	105	1,580

(b) The number of Directors of the Company whose total remuneration band falls within the following bands of RM50,000 is as follows:

Range of Remuneration	Number of Executive Directors	Number of Non-Executive Directors
RM200,001 to RM250,000	-	1
RM250,001 to RM300,000	-	2
RM300,001 to RM350,000	-	1
RM450,001 to RM500,000	-	1
RM2,750,001 to RM2,800,000	1	-
RM7,900,001 to RM8,000,000	1	-

Currently there are no contracts of service between any Director and the Company or its subsidiaries, except for the CEO, Tan Sri Dato' Seri Lee Oi Hian and the Executive Director, Roy Lim Kiam Chye.

### PRINCIPLE 3 – REINFORCE INDEPENDENCE

#### ASSESSMENT OF INDEPENDENCE OF INDEPENDENT DIRECTORS

The Board recognises the importance of independence and objectivity in the decision-making process. The Board and its NC have upon their annual assessment, concluded that each of the 4 Independent Non-Executive Directors continues to demonstrate conduct and behaviour that are essential indicators of independence, and that each of them continues to fulfil the definition and criteria of independence as set out in the Main Market LR.

#### TENURE OF INDEPENDENT DIRECTORS

The Board notes the Code's recommendations in relation to the tenure of an Independent Director which shall not exceed a cumulative term of 9 years. The NC and the Board have deliberated on the said recommendation and hold the view that a Director's independence cannot be determined solely with reference to tenure of service. Instead, a Director's health, attitude, integrity, ability for dispassionate discourse, business knowledge or judgement, and the discharge of his duties and responsibilities in the best interest of the KLK Group, are also valid criteria to determine his independence and effectiveness. Furthermore, board composition should reflect a balance between effectiveness on the one hand, and the need for renewal and fresh perspectives on the other.

The NC and the Board have determined that R. M. Alias and Dato' Yeoh Eng Khoon, who have served on the Board as Independent Directors, each exceeding a cumulating term of 9 years, remain unbiased, objective and independent in expressing their opinions and in participating in the decision-making of the Board. Each of them has also devoted sufficient time and attention to his responsibilities as an Independent Director besides exercising due care during his tenure as an Independent Director of the Company and carrying out his duty in the best interest of the Company and shareholders.

As the NC and the Board hold the view that independence in thought and action should be evaluated qualitatively and on a case-by-case basis, the Board, upon the recommendation of the NC, has approved the continuation of R. M. Alias and Dato' Yeoh Eng Khoon as Independent Directors of the Company. The Board concluded that the length of their service on the Board has not in any way interfered with their objective and independent judgement in carrying out their roles as members of the Board and Committees. Furthermore, their pertinent expertise, skills and detailed knowledge of the Group's businesses and operations enable them to make significant contributions actively and effectively to the Company's decision making during deliberations or discussions.

In addition, the Board believes that it is in the best position to identify, evaluate and determine whether any Independent Director can continue acting in the best interests of the Company and bringing independent and professional judgement to Board's deliberations.

### SEPARATION OF POSITIONS OF THE CHAIRMAN AND CEO

The Board believes that the separation of the roles and responsibilities of the Chairman and the CEO ensures an appropriate balance of power and authority. There is a clear division of responsibilities and accountabilities between the Chairman and the CEO under the present hierarchical structure to facilitate efficiency and expedite decision-making.

Given the current structure of the Board, the Chairman is responsible to lead the Board in the oversight of management, whilst the CEO focuses on the business, organisational effectiveness and day-to-day management of the Group.

### COMPOSITION OF THE BOARD

There are 7 members on the Board of Directors, comprising 2 Executive Directors and 5 Non-Executive Directors, 4 of whom are Independent. One of the Executive Directors is the CEO and the Chairman is an Independent Non-Executive Director.

The majority of the Board comprises Independent Directors who are essential in providing unbiased and independent opinion, advice and judgement and thus play a key role in corporate accountability. All Independent Directors act independently of Management and are not involved in any other relationship with the Group that may impair their independent judgement and decision-making.

### PRINCIPLE 4 – FOSTER COMMITMENT OF DIRECTORS

The Board is mindful of the importance of devoting sufficient time and effort to carry out their responsibilities and enhance their professional skills. Thus, each Director is expected to commit sufficient time as and when required to carry out their responsibilities, besides attending meetings of the Board and Board Committees.

### BOARD MEETINGS

The Board meets at least 4 times a year on a scheduled basis and has a formal schedule of matters reserved for its meetings. The meeting calendar is tabled and confirmed at least 5 months prior to the first scheduled meeting and allows Directors to plan ahead. Additional meetings may be convened as and when necessary should major issues arise that need to be resolved between scheduled meetings. Relevant management personnel are invited to Board meetings to report and apprise the Board on operations and other developments within their respective purview. Where the Board is considering a matter in which a Director has an interest, such Director abstains from all deliberations and decision-making on the subject matter. In the event Directors are unable to attend Board meetings physically, the Company's Articles of Association allow for such meetings to be conducted via telephone, video conference or any other form of electronic or instantaneous communication.

During the financial year ended 30 September 2015, 4 Board meetings were held. The following are the details of attendance of each Director:

Directors	Number of Meetings Held	Number of Meetings Attended	Attendance Percentage
R. M. Alias	4	4	100%
Tan Sri Dato' Seri Lee Oi Hian	4	4	100%
Roy Lim Kiam Chye	4	4	100%
Dato' Lee Hau Hian	4	4	100%
Dato' Yeoh Eng Khoon	4	4	100%
Kwok Kian Hai	4	4	100%
Tan Sri Azlan Bin Mohd Zainol	4	4	100%

**DIRECTORS' CONTINUING DEVELOPMENT**

The Board oversees the training needs of its Directors. Directors are regularly updated on the Group's businesses and the competitive and regulatory environment in which they operate. Directors are encouraged to visit the Group's operating centres to have an insight into the Group's various operations which would assist the Board to make effective decisions relating to the Group.

Directors are encouraged to attend various external professional programmes relevant and useful in contributing to the effective discharge of their duties as Directors. In this respect, in-house briefings by external auditors, solicitors and/or Management are organised from time to time to update Directors on relevant statutory and regulatory requirements and the Group's business and operational practices.

For the financial year under review, all Directors have attended various programmes to keep abreast with general economic, industry and technical developments as well as changes in legislation and regulations affecting the Group's operations. Directors also visited the Group's marketing and operating centres in Malaysia, Singapore, Indonesia, Europe, China, Australia and Papua New Guinea.

Particulars of various training programmes attended by the Directors during the financial year ended 30 September 2015 are as follows:

Conference / Seminar / Workshop	Presenter / Organiser	Date
Oils and Fats International Congress 2014	Malaysian Oils and Scientists' & Technologists' Association	06.11.2014
Briefing on GST Implication to the Directors	RHB Banking Group	05.02.2015
Palm and Lauric Oils Price Outlook Conference & Exhibition 2015	Bursa Malaysia Berhad	02-04.03.2015
Briefing on Bank Negara Malaysia's Annual Report 2014/Financial Stability & Payment Systems Report 2014	Bank Negara Malaysia	11.03.2015
The Boardroom Program – Retail Management Institute	Santa Clara University, USA	16-19.03.2015
Bank Negara Malaysia Composite Risk Rating 2014 Review (for Board)	Bank Negara Malaysia	03.04.2015
Invest Malaysia 2015	CIMB Investment Bank in collaboration with Bursa Malaysia Berhad	23-24.04.2015
12 <sup>th</sup> ASEAN Leadership Forum	Asian Strategy & Leadership Institute	26.04.2015
Focus Group Session for Board of Directors on Strengthening Corporate Governance Disclosure amongst the Listed Issuers	Bursa Malaysia Berhad	06.05.2015
Global Trader Summit & Dialogue 2015	International Enterprise (IE) Singapore	12.05.2015
Asean Business Club Forum 2015	CIMB ASEAN Research Institute	14.05.2015
Board Chairman Series Part 2: Leadership Excellence from the Chair	Bursa Malaysia Berhad/ICLIF	27.07.2015
Plantation Operations in the Current Sustainability Landscape	Kuala Lumpur Kepong Berhad	18.08.2015
Palm Oil Industry Leadership Forum	Malaysian Palm Oil Council	07.09.2015



**PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING BY THE COMPANY****FINANCIAL REPORTING**

The Board takes due care and responsibility for presenting a fair, balanced and comprehensible assessment of the Group's operations, performance and prospects each time it releases its quarterly and annual financial statements to shareholders and the general public. The Audit Committee ("AC") plays a crucial role in reviewing information to be disclosed to ensure its accuracy, adequacy, transparency and compliance with the appropriate accounting standards and the financial statements give a true and fair view of the state of affairs of the Company and the Group.

In respect of the financial statements for the financial year ended 30 September 2015, the Directors have:

- adopted appropriate accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- ensured that all applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for ensuring that proper accounting records are kept and which disclose with reasonable accuracy the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the Companies Act, 1965. They have an overall responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company, to prevent and detect fraud and other irregularities.

In assisting the Board to discharge its duties on financial reporting, the Board has established an AC, comprising wholly Independent Non-Executive Directors since 1993.

**SUITABILITY AND INDEPENDENCE OF EXTERNAL AUDITORS**

Through the AC, the Company has established a transparent and professional relationship with the external auditors. The AC met the external auditors twice during the year under review without the presence of the Executive Directors and Management to allow the AC and the external auditors to exchange independent views on matters which require the Committee's attention.

The suitability and independence of external auditors are consistently reviewed by the AC. A summary of the activities of the AC during the year under review is set out in the AC Report.

**PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS****SOUND RISK MANAGEMENT FRAMEWORK**

Within the powers conferred upon the Board by the Company's Articles of Association and in addition to its statutory and fiduciary duties and responsibilities, the Board assumes responsibility for effective stewardship and management of the Company with the strategic objective to build and deliver long term shareholder value whilst meeting the interests of shareholders and other stakeholders. The Board provides strategic direction and formulates corporate policies to ensure the Group's resources and profitability are optimised. The Board is also responsible for assessing the integrity of the Group's financial information and the adequacy and effectiveness of the Group's system of internal control and risk management processes.

The Board is supported by the Group Risk Management Committee which is responsible to oversee the risk management efforts within the Group. The risk management process includes identifying principal business risks in critical areas, assessing the likelihood and impact of material exposures and determining its corresponding risk mitigation and treatment measures.

**INTERNAL AUDIT FUNCTION**

The Board recognises the importance of risk management and internal controls in the overall management processes. An adequately resourced Internal Audit Division is in place to assist the Board in maintaining a system of internal control to safeguard shareholders' investment and the Group's assets. An overview of the Group's risk management and state of internal controls is set out in the Group's Statement on Risk Management and Internal Control.

**PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE**

The Company and the Group are committed to a policy which provides accurate, balanced, clear, timely and complete disclosure of corporate information to enable informed and orderly market decisions by investors. Importance is also placed on timely and equal dissemination of material information to the stakeholders, media and regulators. In this respect, the Company has in place a Corporate Disclosure Policy to ensure that comprehensive, accurate and timely disclosures are provided to shareholders and stakeholders.

The objectives of the Corporate Disclosure Policy are to:

- (a) confirm in writing KLK's existing disclosure policies, guidelines and procedures and ensure consistent approach to the Company's disclosure practices throughout the Company;
- (b) ensure that all persons to whom this Disclosure Policy applies understand their obligations to preserve the confidentiality of material information;
- (c) effectively increase understanding of the Company's business and enhance its corporate image by encouraging practices that reflect openness, accessibility and co-operation; and
- (d) reinforce KLK's commitment to compliance with the continuous disclosure obligations imposed by the Malaysian securities law and regulations and the Main Market LR.

Material information will in all cases be disseminated broadly and publicly via Bursa Malaysia, and other means. Summaries of the interim and the full year's results are advertised in the local newspaper. Interested parties may also obtain the full financial results and the Company's announcements from the Company's website at [www.klk.com.my](http://www.klk.com.my) which are also posted on the Bursa Malaysia's website.

**PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN THE COMPANY AND ITS SHAREHOLDERS**

KLK upholds a strong culture of continuous, timely and equal dissemination of material information with shareholders, stakeholders, media and regulators through practicable and legitimate channels. Its commitment, both in principle and practice, is to maximise transparency consistent with good corporate governance, except where commercial confidentiality dictates otherwise.

**ANNUAL GENERAL MEETINGS**

The AGM is the principal forum for dialogue and interaction with the shareholders of the Company, where they may present their views or to seek clarification on the progress, performance and major developments of the Company. The Board encourages shareholders' active participation at the Company's AGM and endeavours to ensure all Board members, the Company's Senior Management and the Group's external auditors are in attendance to respond to shareholders' queries.

Where it is not possible to provide immediate answers to shareholders' queries, the Board will undertake to provide the answers after the AGM. In addition, shareholders have the right, as provided for in the Articles of Association of the Company, to call for poll voting during general meetings. The results of all resolutions tabled and passed at the AGM are released to Bursa Malaysia immediately after the meeting to enable the public to know the outcome thereof.

At the Forty-Second AGM of the Company, all 7 Directors were present in person to engage directly with the shareholders of the Company. During the AGM, shareholders had actively taken the opportunity to raise questions on the agenda items of the AGM as well as current development of the Group. The Directors and Senior Management responded to all the questions raised and provided clarification as required by the shareholders. To ensure transparency, the Board also shared with the shareholders the Board's responses to questions submitted in advance by the Minority Shareholder Watchdog Group and Employees Provident Fund Board by distributing the replies before the commencement of the meeting.

## ANNUAL REPORT

The Company and the Group have consistently been able to publish its Annual Reports in a timely manner. The Notice of AGM is circulated more than 21 days before the date of the meeting to enable shareholders to thoroughly review the Annual Report which contains comprehensive reports on the Group's financial performance, directions and insights.

An abridged version of the Annual Report is published and posted to shareholders together with a CD-ROM. The full version of the Annual Report is available on our corporate website, [www.klk.com.my](http://www.klk.com.my) and a printed full version will be provided to shareholders upon request within 4 days.

## INVESTOR RELATIONS

The Board recognises the importance of keeping shareholders, investors, research analysts, bankers and the press informed of the Group's business performance, operations and corporate developments. The Board's primary contact with major shareholders is via the CEO and the GFC, who have regular dialogues with institutional investors and deliver presentations to analysts periodically.

For the financial year ended 30 September 2015, Management has attended more than 100 meetings including teleconferences and video-conferences with both local and foreign investors and analysts. These meetings are scheduled to keep the investment community abreast of the Group's strategic developments and financial performance.

The Company's website, [www.klk.com.my](http://www.klk.com.my) serves as a channel of communication for shareholders, investors and the general public. Information such as disclosures made to Bursa Malaysia (including interim and full year financial results, Annual Report and other announcements on relevant transactions undertaken by the Group) and the Group's business activities can be obtained from the website. Requests for information on the Company can be forwarded to its dedicated Investor Relations & Corporate Communications Department through the same website.

Pursuant to the best practices in corporate governance, Dato' Yeoh Eng Khoon continues to serve as the Senior Independent Non-Executive Director to whom concerns of investors and shareholders may be directed. Dato' Yeoh Eng Khoon is also the Chairman of the AC and NC.

## COMPLIANCE STATEMENT

The Board is of the view that the Group has, in all material aspects applied the principles and complied with the recommendations of the Code, save for the recommendations in relation to the tenure of an Independent Director which shall not exceed a cumulative term of 9 years where the non-observance has been explained and the reasons therefor have been included in this Statement.

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

66

KUALA LUMPUR KEPONG BERHAD  
ANNUAL REPORT 2015

## INTRODUCTION

Pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements (“Main Market LR”) of Bursa Malaysia Securities Berhad, the Board of Directors of KLK is committed to maintaining a sound risk management framework and internal control system in the Group and is pleased to present herewith the Statement on Risk Management and Internal Control which outlines the nature and state of risk management and internal control of the Group during the year.

## BOARD RESPONSIBILITY

The Board affirms its overall responsibility in maintaining a sound risk management and internal control system at KLK to safeguard the interest of shareholders, customers, employees and the Group’s assets. In view of the limitations inherent in any system of risk management and internal control, the system is designed to manage, rather than to eliminate, the risk of failure to achieve the policies, goals and objectives of the Group. It can therefore only provide reasonable, rather than absolute assurance against material misstatement of management and financial information, financial losses, fraud and breaches of laws or regulations.

## CONTROL ENVIRONMENT AND ACTIVITIES

### RISK MANAGEMENT FRAMEWORK

A formal risk management framework has been established with the aim of setting clear guidelines in relation to the level of risks acceptable to the Group. The framework is also designed to ensure proper management of the risks that may impede the achievement of the Group’s goals and objectives.

The Group has in place an on-going process for identifying, evaluating and managing the principal risks that affect the attainment of the Group’s business objectives and goals for the year under review and up to the date of approval of this statement for inclusion in the Annual Report.

The Board is supported by the Group Risk Management Committee (“GRMC”), headed by the Chief Executive Officer (“CEO”) in overseeing the risk management efforts within the Group. The risk management process includes identifying principal business risks in critical areas, assessing the likelihood and impact of material exposures and determining its corresponding risk mitigation and treatment measures.

These on-going processes are co-ordinated by the Internal Audit Division in conjunction with all the business heads within the Group and periodic reporting to the GRMC.

### BOARD MEETINGS

The Board meets at least quarterly and has a formal agenda on matters for discussion. The CEO leads the presentation of board papers and provides explanation on pertinent issues. In arriving at any decision, on recommendation by the Management, a thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Group’s activities and operations on a timely and regular basis.

### ORGANISATIONAL STRUCTURE WITH FORMALLY DEFINED RESPONSIBILITY LINES AND DELEGATION OF AUTHORITY

There is in place an organisational structure with formally defined responsibility lines and authorities to facilitate quick response to changes in the evolving business environment, effective supervision of day-to-day business conduct and accountability for operation performance. Capital and non-capital expenditures and acquisition and disposal of investment interest are subject to appropriate approval processes.



## PERFORMANCE MANAGEMENT FRAMEWORK

Management reports are generated on a regular and consistent basis to facilitate the Board and the Group's Management in performing financial and operating reviews on the various operating units. The reviews encompass areas such as financial and non-financial key performance indicators, variances between budget and operation results and compliance with laws and regulations.

The Group has in place a well-controlled budgeting process that provides a responsible accounting framework.

## OPERATIONAL POLICIES AND PROCEDURES

The documented policies and procedures form an integral part of the internal control systems to safeguard shareholders' investment and the Group's assets against material losses and ensure complete and accurate financial information. The documents consist of approved memoranda, circulars, manuals and handbooks that are continuously being revised and updated to meet operational needs.

## GROUP INTERNAL AUDIT

The Internal Audit Division, which reports directly to the Audit Committee, conducts reviews on the system of internal controls and the effectiveness of the processes that are in place to identify, evaluate, manage and report risks. Routine reviews are conducted on units under the Group's major core activities.

## REVIEW OF STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in the Recommended Practice Guide ("RPG") 5 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants for inclusion in the Annual Report of the Group for the year ended 30 September 2015, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the Annual Report of the Group, in all material respects:

- (a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers; or
- (b) is factually inaccurate.

RPG 5 (Revised) does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board and Management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

## STRENGTH IN INTERNAL CONTROL

The Board has reviewed the adequacy and effectiveness of the Group's risk management and internal control system for the year under review and up to the date of approval of this statement for inclusion in the Annual Report, and is of the view that the risk management and internal control system is satisfactory and there were no material losses incurred during the year under review as a result of internal control weakness or adverse compliance events.

For the period under review, the CEO and the Group Financial Controller have provided assurance to the Board that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects.

This Statement on Risk Management and Internal Control was approved by the Board of Directors on 10 December 2015.

# AUDIT COMMITTEE REPORT

The Audit Committee (“AC”) of KLK is pleased to present the AC Report for the financial year ended 30 September 2015 in compliance with Paragraph 15.15 of the Main Market Listing Requirements (“Main Market LR”) of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

## MEMBERSHIP AND ATTENDANCE

During the financial year ended 30 September 2015, the AC held 5 meetings. Details of the membership and record of the attendance at these meetings are as follows:

Members	Number of Meetings Attended
<b>Dato’ Yeoh Eng Khoon (Chairman)</b> Senior Independent Non-Executive Director	5/5
<b>Kwok Kian Hai</b> Independent Non-Executive Director	5/5
<b>Tan Sri Azlan Bin Mohd Zainol</b> Independent Non-Executive Director and MIA member	5/5

## TERMS OF REFERENCE

The AC was established in 1993 to serve as a committee of the Board of KLK. In performing their duties and discharging their responsibilities, the AC is guided by the terms of reference set out below:

### COMPOSITION OF THE AC

The AC must be composed of not fewer than 3 members, the majority of whom shall be independent. All members shall be non-executive directors. No alternate director shall be appointed as a member of the AC.

At least one member of the AC:

- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if not a member of the Malaysian Institute of Accountants, the member must have at least 3 years’ working experience and:
  - (a) must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
  - (b) must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
- (iii) must have at least 3 years’ post-qualification experience in accounting or finance with either one of the following qualifications:
  - (a) a degree/masters/doctorate in accounting or finance; or
  - (b) a member of any professional accountancy organisation which has been admitted as a full member of the International Federation of Accountants; or
- (iv) must have at least 7 years’ experience as a chief financial officer of a corporation or be primarily responsible for the management of the financial affairs of a corporation; or
- (v) fulfils such other requirements as prescribed or approved by Bursa Malaysia.

### **CHAIRMAN OF THE AC**

The Chairman, who shall be elected by the members of the AC, must be an independent non-executive director. In the absence of the Chairman, the members present shall elect a Chairman from amongst them to chair the meeting.

### **REVIEW OF THE AC**

The term of office and performance of each member of the AC shall be reviewed by the Board at least once every 3 years.

### **FREQUENCY OF MEETINGS**

The AC shall meet at least 4 times annually and additional meetings may be called at any time at the Chairman's discretion.

However, the AC shall meet with the external auditors without executive board members present at least twice a year.

### **QUORUM**

The quorum for each meeting shall be 2 members of the AC and the majority of members present must be independent directors.

### **ATTENDANCE OF MEETING**

The external and internal auditors and other members of Senior Management will be invited to attend these meetings upon invitation by the Chairman of the AC.

### **AUTHORITY**

- The AC is authorised by the Board to investigate any matter within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the AC.
- The AC shall have full and unrestricted access to all information and documents which are required to perform its duties as well as direct communication to the internal and external auditors and Senior Management of KLK ("the Company") and all its subsidiaries ("the Group").
- The AC is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- The AC is authorised to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees, whenever deemed necessary.

## **DUTIES AND RESPONSIBILITIES**

The role of the AC is to assist the Board in its discharge of its statutory responsibilities. In fulfilling this role, the AC undertakes the following duties:

### **Financial Procedures and Financial Reporting**

- Provide assistance to the Board in relation to corporate accounting and reporting practices for the Company and the Group.
- Review the quarterly results and year-end financial statements of the Company and the Group to ensure compliance with appropriate accounting policies, accounting standards and disclosure requirements before submitting them for the Board's approval.

In connection therewith, the Group Financial Controller attends all the AC meetings.

### **Related Party Transactions**

- Review on a quarterly basis the related party transactions entered into by the Company and the Group.

### **External Audit**

- Review the audit plan of the external auditors.
- Review the external auditors' report and to evaluate their findings and recommendations for actions to be taken.
- Consider the nomination, appointment and the re-appointment of external auditors, their fees and any questions on resignation and dismissal.

### **Internal Audit**

- Review and approve the annual internal audit plan.
- Review 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.
- Review the internal audit program, processes, the results of the internal audit program, processes or investigation undertaken and where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function.
- Review any appraisal or assessment of the performance of the Internal Audit Division ("IAD") to ensure that they have the standing to exercise independence and professionalism in discharging their duties.
- Approve any appointment or termination of senior staff members of the internal audit function.
- Take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

### **Risk Management**

- Review and assess the adequacy of risk management and internal control systems instituted in the Company and the Group.



**Other Duties**

- Maintain a direct line of communication between the Board and the external auditors and internal auditors through regularly scheduled meetings.
- Act upon the Board's request to investigate and report on any issues or concerns with regard to the management of the Group.
- To report promptly to Bursa Malaysia on any matter reported by it to the Board which has not been satisfactorily resolved resulting in a breach of the Main Market LR.

**SUMMARY OF ACTIVITIES FOR THE FINANCIAL YEAR**

In line with the terms of reference of the AC, the following activities were carried out by the AC during the financial year ended 30 September 2015 in the discharge of its functions and duties:

- Reviewed the quarterly financial statements and Annual Report of the Group before presentation for the Board's approval, focusing particularly on:
  - changes in or implementation of major accounting policy;
  - significant and unusual events;
  - the going concern assumption; and
  - compliance with accounting standards and other legal requirements.
- Reviewed the related party transactions that had arisen within the Company or the Group and the disclosure of such transactions in the Annual Report.
- Reviewed with the external auditors their audit plan and scope of work prior to commencement of audit.
- 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.
- Reviewed and discussed with the external auditors their evaluation of the system on internal control of the Group including meeting the external auditors without the presence of Management.
- Considered the appointment of external auditors and their request for increase in audit fees.
- Reviewed and deliberated on reports of audits conducted by the IAD.
- Appraised the adequacy of actions and remedial measures taken by the Management in resolving the audit issues reported and recommended further improvement measures.
- Reviewed and assessed the risk management activities of the Company and the Group.
- Reviewed the AC Report, Statement on Risk Management and Internal Control and Corporate Governance Statement before submitting for the Board's approval and inclusion in the Company's Annual Report.

**INTERNAL AUDIT FUNCTION**

The AC is assisted by the IAD in discharging its duties and responsibilities.

The Group has an adequately resourced and independent in-house IAD, which provides assurance to the AC on the adequacy and effectiveness of risk management, internal control and governance systems. There is also in place an Internal Audit Charter that defines the organisation status, functions and responsibilities of the IAD.

The IAD conducts regular and systematic reviews on the effectiveness of the key controls and processes in the operating units and assesses compliance with the established policies and procedures. This provides reasonable assurance that such systems would continue to operate satisfactorily and effectively in the Company and the Group. In addition, the IAD also prepares the annual risk-based audit plan for the approval of the AC and follows up on management corrective action on audit issues raised in previous internal audit reports.

On a quarterly basis, the IAD submits the audit reports on their activities to the AC for its review and deliberation. The Head of the IAD attends the AC meetings to present the internal audit findings and makes appropriate recommendations on any areas of concern within the Company and the Group for the AC's deliberation.

In 2014/2015, a total of 157 audits and reviews were carried out spanning the Group's operations. The total cost incurred for the internal audit function for the financial year ended 30 September 2015 was RM4.55 million.

# ADDITIONAL COMPLIANCE INFORMATION

The following information is provided in accordance with Paragraph 9.25 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad as set out in Appendix 9C thereto.

## UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSALS

There were no proceeds raised from any corporate proposals during the financial year under review.

## SHARE BUY-BACK

There were no share buy-back transactions or resale of treasury shares during the financial year under review.

## OPTIONS OR CONVERTIBLE SECURITIES

The Company did not issue any options or convertible securities during the financial year under review.

## SANCTIONS AND/OR PENALTIES

There were no material sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year under review.

## NON-AUDIT FEES

The amount of non-audit fees paid to KPMG Malaysia and its affiliates during the financial year under review was RM959,000.

## VARIATION IN RESULTS

There were no material variances between the financial results for the financial year ended 30 September 2015 and the unaudited results previously announced by the Company.

## PROFIT GUARANTEE

There were no profit guarantees given by the Company during the financial year under review.

## MATERIAL CONTRACTS

There were no material contracts other than in the ordinary course of business entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests during the financial year under review.

## RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("RRPTs")

The details of the RRPTs entered into by the Company and its subsidiaries during the financial year under review are disclosed in Note 37 to the financial statements on pages 125 to 126.