

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS

KIB is an investment holding company, which was first listed on the MESDAQ Market (now known as the ACE Market of Bursa Malaysia Securities Berhad) on 15 September 2004 and was officially transferred to the Main Market of Bursa Malaysia Securities Berhad ("Main Market") on 6 May 2014. The two major wholly-owned subsidiaries of KIB are Hsing Lung Sdn Bhd and Allbright Industries (M) Sdn Bhd ("Group" or "KIB Group").

Hsing Lung Sdn Bhd

Established in 1989, Hsing Lung Sdn Bhd ("Hsing Lung") is one of the biggest manufacturers of polyvinyl chloride ("PVC") compound in Malaysia with a production capacity of 30,000 metric tonne per annum. PVC is a type of plastic material used in various applications including wire and cable coverings, footwear, linings, gaskets and many more.

Allbright Industries (M) Sdn Bhd

Allbright Industries (M) Sdn Bhd ("Allbright"), founded in 2000, is mainly involved in the manufacturing and trading of metallic stearates, including calcium stearate, zinc stearate and magnesium stearate, as well as PVC stabilisers. Metallic stearates are primarily used as an additive for the lubrication and dispersion of plastics processing. These form part of the raw materials for the PVC compound produced by Hsing Lung.

Both Hsing Lung and Allbright are involved in the manufacturing of polymeric products. Their manufacturing plants are located in Plentong, Johor with the factory land sizes of 144,210 sq. ft. and 57,151 sq. ft. respectively.

OUR MISSION

To be the preferred supplier of polymeric products by providing the highest-quality products, with sales and delivery services that continuously exceed customers' expectations; with the objective of enhancing shareholders' value and providing opportunities for employees to excel and be rewarded.

REVIEW OF FINANCIAL PERFORMANCE AND OPERATING ACTIVITIES

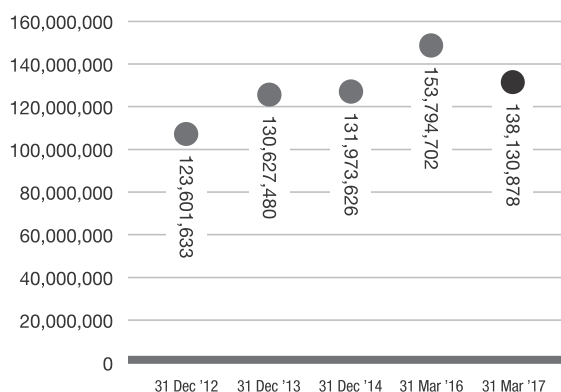
KIB's financial performance and operating activities for five financial years are appended below. The financial period ended 31 March 2016 ("FPE 2016") includes 15 months and is not directly comparable with the FYE 2017.

Financial Summary	31 Dec 2012 RM	31 Dec 2013 RM	31 Dec 2014 RM	31 Mar 2016 (15 months ended) RM	31 Mar 2017 RM
Revenue	123,601,633	130,627,480	131,973,626	153,794,702	138,130,878
Cost of Sales	105,686,560	110,911,401	115,469,343	131,279,563	119,268,162
Gross Profit	17,915,073	19,716,079	16,504,283	22,515,139	18,862,716
Profit Before Tax	9,939,513	11,979,567	5,564,393	8,096,291	7,536,462
Profit After Tax	8,109,986	8,900,582	3,568,557	4,634,585	8,600,314
Shareholders' Fund	71,735,582	77,696,070	77,221,986	80,342,321	87,899,671
Return on Shareholders' Funds (%)	11.31%	11.46%	4.62%	5.77%	9.78%

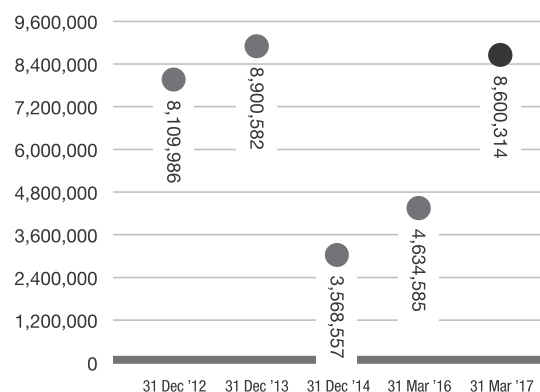
Management Discussion & Analysis

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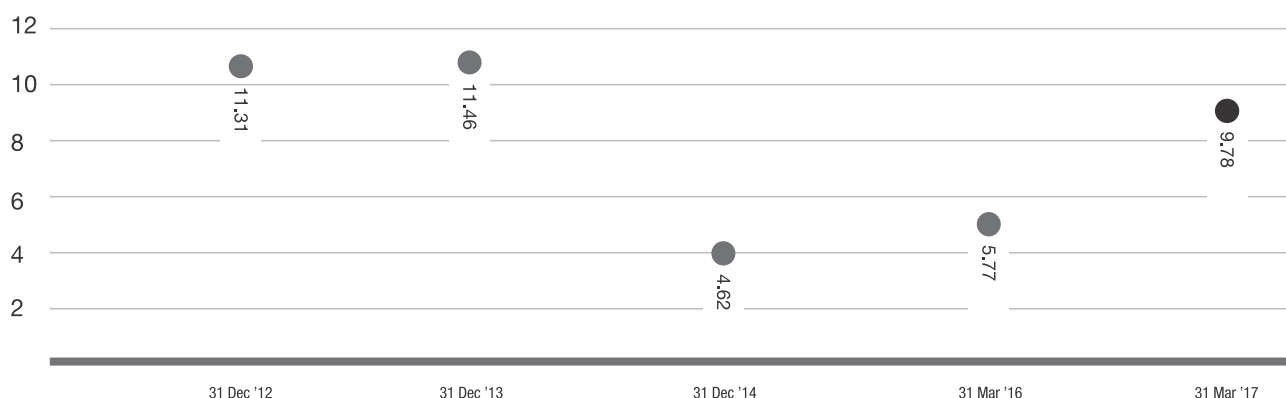
REVENUE (RM)



PROFIT AFTER TAX (RM)



RETURN ON SHAREHOLDERS' FUNDS (%)



It has been another year of growth and achievement for KIB. Despite the economic uncertainties, market sluggishness and continued depreciation of the Malaysian Ringgit in the financial year ended 31 March 2017 ("FYE 2017"), we managed to achieve our 13th consecutive profitable financial year since listed on Bursa Malaysia Securities Berhad in 2004.

The Group reported RM138.13 million in revenue, and posted a higher profit after tax ("PAT") of RM8.60 million, compared to RM4.63 million PAT reported in the previous financial period.

KIB achieved total revenue of RM138.13 million in FYE 2017 due mainly to the following:

- increased in the selling price of polymeric products i.e. PVC;
- increased in customers' orders; and
- the installation of a new PVC compound production line at Hsing Lung to meet growing customers' demand. The new production line commenced operations in June 2016.

The local market accounted for 72.90% of the Group's revenue, while exports to Asia and Africa accounted for 27.05% and the remaining 0.05% consists of trades with other countries. KIB's diversification to various export markets will mitigate the Group to a certain level from the macroeconomic fluctuations that could beset any one country.

KIB Group registered a gross profit of RM18.86 million in FYE 2017, which was resulted from the increase in the Group's production capacity and higher revenue generated from the sale of PVC compound. Higher production volume of the Group led to the achievement of the cost of sales of RM119.27 million in FYE 2017. During the year under review, cost of sales was also unfavourably impacted by the inflationary increase on the price of raw materials.

Management Discussion & Analysis

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PBT and Profit after Tax ("PAT") for FYE 2017 of RM7.54 million and RM8.60 million were recorded respectively. These were primarily contributed by a one-off gain of RM3.85 million from the disposal of non-current assets held for sale ie. a piece of leasehold land together with a corner detached factory in Shah Alam and foreign exchange gain of RM737,001.

KIB's financial position remains solid with net assets per share of 0.18 sen and a net gearing of 0.14 times. The Company achieved a return on shareholders' equity of 9.78%, an increase from 5.77% in the previous financial period. In view of the challenging market, the Company remains prudent in our capital spending, with preference to invest in opportunities which will lead to future growth.

During the financial year under review, trade and other receivables had increased from RM23.96 million to RM30.56 million, representing an increase of 27.55% as compared to the previous financial period. This increase was mainly contributed by higher credit sales towards the year end. KIB reported an inventory of RM22.46 million in FYE 2017. This was due primarily to the increase in raw materials in order to cater to the increase in production capacity.

KIB's trade and other payables for FYE 2017 had increased from RM11.45 million to RM15.12 million. This was mainly driven by an increase in inventory purchases as the Group commenced the operation of the new PVC compound production line to cater to growing customer demand. Meanwhile, the Group's borrowings had also increased from RM7.11 million to RM11.94 million as compared to the previous financial period. This increase was due to the additional drawdown of banker's acceptances and term loan for working capital purpose. Notwithstanding the increase in borrowings, the Group was able to maintain a low gearing ratio of 0.14 times.

During the FYE 2017, KIB achieved a net increase in cash and cash equivalents of RM5.07 million, which was largely contributed by the proceeds from the disposal of the land and factory building in Shah Alam and drawdown of the banker's acceptances and term loan. The cash inflow was partially offset by the cash outflow under operating activities such as increase in inventories, trade and other receivables.

OTHER CORPORATE HIGHLIGHTS

Disposal Of Non-current Assets Held For Sale

On 18 April 2016, the Company announced that Karyon (Malaysia) Sdn Bhd ("KMSB"), a wholly-owned subsidiary of KIB had on 18 April 2016 entered into a Sale and Purchase Agreement with Scanwolf Plastic Industries Sdn Bhd for the disposal of non-current assets held for sale ie. a piece of leasehold land measuring approximately 22,023 square meter, together with a corner detached factory built on No. 16, Jalan U5/16, Bandar Pinggiran Subang, Seksyen U5, 40150 Shah Alam ("Property") for a total sale consideration of RM5,620,000. Based on KMSB's audited financial statements as at 31 March 2016, the net book value of the Property was approximately RM1.77 million at the time of disposal. The disposal was completed in October 2016 and the gain on disposal of the Property resulted in a significant increase in our profit for FYE 2017.

Sales Tax Penalty Refund

In the previous financial period, Allbright Industries (M) Sdn Bhd ("AISB"), a wholly-owned subsidiary of the Company, accrued for an additional sales tax liability and the penalty thereon payable to Jabatan Kastam Diraja Malaysia ("JKDM") amounting to RM1,063,465 and RM531,732 respectively. During the current financial year, AISB settled the additional sales tax and penalty amounts in full and appealed to JKDM on both the additional sales tax and penalty amounts of RM1,063,465 and RM531,732 respectively. On 7 July 2017, AISB obtained a full refund on the penalty amount of RM531,732.

Insurance Payout Due To Fire Incident

On 30 November 2016, the Company announced that a fire incident occurred at a third party premise located adjacent to one of the manufacturing facilities of Hsing Lung. The fire incident had affected small area of the HLSB Factory, causing some damages to the raw materials and finished products and disruption to two (2) PVC production lines. The fire incident has resulted in a week-long halt in operations for clean-up and repair works. The Company had received interim compensation of RM1.0 million. The final compensation sum is still pending from the insurance company.

Management Discussion & Analysis
(Cont'd)**RISK**

The Group has established an Enterprise Risk Management (“ERM”) Framework, to proactively identify, evaluate and manage key risks to an acceptable level. The ERM framework is deeply embedded within KIB’s business strategy and operations, thereby, creating greater value for its stakeholders.

The Group has established a risk register detailing the key risks and controls information to manage the risks. The key risks of major business units are identified, assessed and categorised to highlight the source of risk, their impact and the likelihood of occurrence in the form of risk profiles, which are monitored by the senior management of the respective business units. To ensure that all significant risks have been adequately addressed, the Risk Management Committee (“RMC”) assists the Board to deliberate upon the adoption of these risk profiles, as well as oversee the risk control processes and risk analysis for the major business units. Control activities are established to ensure that risk responses are well implemented throughout KIB.

The Group is exposed to the following material key risks:

- **Market competition** – This risk is caused by increased competition which may have adverse impact on KIB’s customer growth, revenue and profitability. To mitigate this risk, KIB is continuously exploring and implementing effective ways in customer engagement, as well as expanding its customer base, product offerings and export market in order to entrench its position as one of the largest market players in the industry.
- **Material supply** – This risk arises from the lack of materials caused by unforeseen circumstances, which disrupts KIB’s production and delivery schedule, leading to loss in revenue and market share. KIB’s preventive measures include establishing strong relationships with its current and new suppliers, as well as monitoring its inventory stringently.

Details on the risk assessment reviews are set out in the Statement of Risk Management and Internal Control in pages 35 to 37 of this Annual Report.

PROSPECTS

World economy growth is expected to increase modestly by 3.5% and 3.6% in 2017 and 2018 respectively, while the Malaysian real GDP is projected to grow by 4.7% to 5.3% in 2018. As such, domestic demand will continue to fuel the growth for the coming year.

The manufacturing industry will be one of the key contributors to the overall Malaysian economy in 2017. Although the outlook for the plastics industry in year 2017 is volatile, the Group believes that PVC demand will continue to be strong, in line with the economic growth in Malaysia.

To maintain KIB’s position as one of the largest manufacturers of polymeric products in Malaysia, the Company has been constantly striving to improve on productivity, quality, services, stable cash flows and strengthening the relationships with our customers and suppliers. Over the years, value creation through improvement and innovation have continued to underpin everything we do from our manufacturing processes to formulating polymeric materials in accordance to customers’ specifications and requirements. We will continue to harness our strengths in those areas to stay ahead of the competition and increase the barriers to entry.

Further, KIB’s ISO 9001-certified manufacturing operations plays an important role in enhancing its competitiveness and helps increase its market share. With the assurance in product quality coupled with continuous enhancements to the Group’s facilities, the Board is of the view that the Group would be able to achieve a satisfactory performance in the FYE 2018.