

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2016

Explanatory Notes

1. Basis of Preparation

The unaudited interim financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards and Chapter 9 Part K of the Bursa Securities Listing Requirements. The accounting policies and method of computation adopted for the interim financial reports were consistent with those adopted for the audited financial statements for the year ended 31 December 2015.

Unless otherwise described below, the adoption of the above pronouncements are expected to have no significant impact to the financial statements of the Group upon their initial application.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2015 was not subject to any qualification.

3. Seasonal or Cyclical Operations

The operations of the Group were not affected by any seasonal or cyclical factors.

4. Extraordinary and Exceptional Items

There were no extraordinary and exceptional items of an unusual nature affecting assets, liabilities, equity, net income, or cash flows for the current quarter and unaudited financial period ended 31 March 2016.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period ended 31 March 2016 or in prior interim periods of the current financial year or prior financial year.

6. Movement of Company's Securities

There were no issuance and repayment of debt and equity securities, share cancellations and resale of treasury shares in the current quarter and financial period ended 31 March 2016.

7. Dividend

On 19 November 2015, the directors approved a interim tax exempt dividend of 5.5 sen per ordinary share of RM 0.50 each for the financial year ended 31 December 2015. The dividend of RM 35,170,735 was paid on 12 January 2016.

On 23 March 2016, the directors recommended a final tax exempt dividend of 6.5 sen per ordinary share of RM 0.50 each for the financial year ended 31 December 2015. This was approved at the 2016 Annual General Meeting and the dividend of RM 41,565,420 will be paid on 5 July 2016.

There were no other dividends declared or paid in the current quarter and financial period ended 31 March 2016.

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Explanatory Notes**8. Segmental Reporting**

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Quarter and financial period ended - 31/03/2016					
Revenue	41,423	354,249	15,838	4,478	415,988
Intercompany elimination	0	0	0	(3,708)	(3,708)
	<u>41,423</u>	<u>354,249</u>	<u>15,838</u>	<u>770</u>	<u>412,280</u>
Results	<u>6,843</u>	<u>58,130</u>	<u>512</u>	<u>167</u>	<u>65,652</u>
Quarter and financial period ended - 31/03/2015					
Revenue	35,225	322,089	11,942	0	369,256
Results	<u>1,349</u>	<u>56,781</u>	<u>876</u>	<u>0</u>	<u>59,006</u>

9. Valuation of Property, Plant and Equipment

There were no changes or amendments to the valuation of property plant and equipment from the previous year audited financial statements.

10. Material Events Subsequent to the End of the Interim Report

There were no significant event that has occurred between 01 April 2016 and the date of this announcement which will materially affect the earnings or income of the Group.

11. Changes in the Composition of the Group

There were no significant changes in the composition of the Group including disposal of subsidiaries and long-term investment, restructuring and discontinuing operations of the Group in the current quarter and financial period ended 31 March 2016.

12. Contingent Liabilities

As at 31 March 2016, the Company has unsecured outstanding contingent liabilities amounting to RM182.725 million (31 Dec 2015: RM 225.438 million) being corporate guarantees given to financial institutions for banking facilities granted to certain subsidiaries.

13. Capital and other Commitments

	As at financial period ended	
	31/03/2016 RM'000	31/12/2015 RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>4,234</u>	<u>4,234</u>

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Company No. 48166-W

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Explanatory Notes**14. Additional Information required by the Bursa Securities Listing Requirements****14.1 Review of Results**

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Quarter and financial period ended - 31/03/2016					
Revenue	41,423	354,249	15,838	4,478	415,988
Intercompany elimination	0	0	0	(3,708)	(3,708)
	<u>41,423</u>	<u>354,249</u>	<u>15,838</u>	<u>770</u>	<u>412,280</u>
Results	<u>6,843</u>	<u>58,130</u>	<u>512</u>	<u>167</u>	<u>65,652</u>
Percentage %	16.52	16.41	3.23	21.69	15.92
Quarter and financial period ended - 31/03/2015					
Revenue	35,225	322,089	11,942	0	369,256
Results	1,349	56,781	876	0	59,006
Percentage %	3.83	17.63	7.33	na	15.98
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	17.50	10.00	32.62	na	11.65
Results	407.26	2.38	(41.55)	na	11.26

The Group delivered a 11.26% higher profit before taxation of RM65.65 million for the quarter under review as compared with RM59.01 million of its corresponding year quarter on the back of 11.65% increase in revenue. All three divisions i.e. Glove, Technical Rubber and Cleanroom continued to register good growth in revenues ranging from 10.0% to 32.62% respectively during the current quarter. Despite of higher production cost due mainly from increased raw material prices, natural gas cost and stiffer competition in pricing, the earnings before interest, taxation, depreciation and amortisation (“EBITDA”) of the Group remained stable at 20.68% (vs. 20.93% of the corresponding year quarter).

Technical Rubber Products Division (“TRPs”)

TRPs reported a significant higher profit before taxation of 407.3% as compared with its corresponding quarter of previous year. Higher revenue by 17.5% and lower management expenses after the internal restructuring exercise were the major attributors to higher profitability. The higher revenue was mainly attributed to more projects in supplying infrastructure products kicked start during the quarter.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

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Explanatory Notes**14.1 Review of Results continue****Glove Division**

Profit before taxation of current quarter increased by 2.38% on the back of 10.0% increase in revenue as compared with its corresponding year quarter. During the quarter under review, demand for our glove was strong with approximately 7.8% higher in quantity of glove sold. Nevertheless, the slower than expected profitability growth was mainly attributed to escalated production cost (increases in raw material prices and natural gas cost) and slightly higher volume of glove sold that tagged with lower profit margin during the quarter under reviewed. Riffing pricing competition in certain product segment/market was another factor attributed to weaker profitability. On the positive note, the Group has less exposure in the market and product segment where the pricing pressures is intensifying; and the Management has taken strategic moves to tackle the situation.

Cleanroom

Profit before taxation of RM512,000 was reported for the current quarter, a 41.6% lower as compared with its corresponding year quarter of RM876,000. Adjustment of product selling prices, higher development cost and unfavourable exchange rate were the major contributory factors. Nevertheless, demand for our cleanroom products was robust and evidenced with 32.6% growth in revenue.

14.2 Explanatory comments on any material change in the profit before taxation for the quarter reported on as compared with the preceding quarter.

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Current Quarter ended - 31/03/2016					
Revenue	41,423	354,249	15,838	4,478	415,988
Intercompany elimination	0	0	0	(3,708)	(3,708)
	<u>41,423</u>	<u>354,249</u>	<u>15,838</u>	<u>770</u>	<u>412,280</u>
Results	<u>6,843</u>	<u>58,130</u>	<u>512</u>	<u>167</u>	<u>65,652</u>
Percentage %	16.52	16.41	3.23	22.69	15.92
Preceding Quarter ended - 31/12/2015					
Revenue	45,820	376,034	17,309	0	439,163
Results	6,079	71,410	1,025	0	78,514
Percentage %	13.27	18.99	5.92	na	17.88
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	(9.60)	(5.80)	(8.50)	na	(6.12)
Results	12.57	(18.60)	(50.01)	na	(16.38)

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

Explanatory Notes

14.2 continue

For the current quarter, the Group's reported 6.12% and 16.38% lower in both revenue and profit before taxation respectively as compared with its preceding quarter. Escalated production cost due to higher raw material prices, increased natural gas cost, higher volume of glove sold with lower profit margin during the quarter, strengthening Ringgit Malaysia ("RM") against the US dollars and stiffer pricing competition contributed to lower profitability. Nevertheless, the profitability of the Group remained stable with EBITDA and profit before taxation margins stood steadily at 20.68% (vs. 4Q2015's 22.22%) and profit before taxation at 15.92% (vs. 4Q2015's 17.88%) respectively.

Technical Rubber Products Division ("TRPs")

Compared with its preceding quarter, stronger RM was the major factor to lower revenue after conversion. Demand for our TRPs remained robust as evidenced by 12.57% higher in profit before taxation. The internal restructuring which completed in the current quarter led to normalizing in management fees which translated into better and more reflective profit performance. Profit before taxation margin improved to 16.52% in the current quarter as compared with 13.27% of its preceding quarter.

Glove Division

Both revenue and profit before taxation for the current quarter reduced by 5.80% and 18.60% respectively as compared with its preceding quarter. Due to all our plants are operating with almost full capacity, the quantity of glove sold during the quarter grew little by 1.6% as compared with its preceding quarter. Softer performance for the current quarter was mainly due to strengthening of RM against the US dollar, increased production cost (higher raw material prices and natural gas cost), higher quantity of glove sold with lower profit margin and stiffer pricing competition. Despite of this negative backdrop, impact on the Group's profit before taxation margin was mild with 2.6% contraction, from 19.0% of preceding quarter to 16.4% of the current quarter.

Product mix of nitrile and natural latex glove for the current quarter stood at 70:30 and as usual, the Glove division is operating with almost full capacity i.e. above 80% of its available capacity.

Cleanroom Division

Compared with its preceding quarter, both its revenue and profit before taxation contracted by 8.5% and 50.0% respectively due to higher development cost, unfavourable exchange rate and adjustment of selling prices to be more comparable with the market price in the cleanroom products industry.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

Explanatory Notes

14.3 Current Year Prospects

Going forward, the glove industry will continue to be under pricing competition pressure due mainly to expanded production capacity within a short period of time. The Group is vigilant to this challenging operating condition and has since taken strategic moves to tackle the situation.

To minimize the impact from the pricing competition pressures, the Group is currently emphasizing on its patented accelerator free nitrile glove and other unique types of glove to counter the intensifying pricing pressures. Notably, demand for both its patented accelerator free nitrile glove and other unique types of glove are growing strongly but the production capacity available is insufficient to cater for the rising orders from our customers.

With our strategic moves, we believed that the impact on us will be minimal. For the remaining quarters of the current year, our earnings will be underpinned by the balance of capacity of some 2.0 billion pieces of glove spilled over from our 2 plants which were completed in July 2015. Coupled with implementation of improvement programs and continuous cost cutting, the Group is resilient to ride through these challenges smoothly.

To sustain business growth and transformation, the Group need to build new plants with high efficiency and productivity. The commissioning of new plants is vital in view of capacity constraints for our accelerator free nitrile glove and some other types of unique gloves. With modern and higher efficiency plants, the Group will be able to continuously strengthening its manufacturing capability.

The Group is currently constructing one new plant at Jalan Meru ("Site 1") which is capable to produce 3.0 billion pieces of glove per annum. The construction work has since commenced in May 2016 and is expected to complete in third quarter of 2017. For our Bestari Jaya land ("Site 2"), we plan to construct another new plant with output capacity of 4.5 billion pieces of glove per annum by end of the year and this plant is expected to complete within first quarter of 2018.

Currently, the Group is operating with 22 billion pieces of gloves per annum and with all the plants operating in almost full capacity. Product mix for nitrile and natural latex glove stood at 70:30 respectively as of May 2016.

With all these strategic moves, the Management is cautiously optimistic to achieve a better earnings performance for the current year.

14.4 Explanatory notes for variance of actual from forecast profit and shortfall in the profit guarantee (only applicable to the final quarter).

Not applicable.

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(Incorporated in Malaysia)

Explanatory Notes**14.5 Taxation**

	Quarter and Financial period ended 31/03/2016 RM'000
Tax expense - current	11,786
Deferred taxation	1,555
	<u>13,341</u>

The effective income tax rate for the current quarter and financial period ended 31 March 2016 was lower than the statutory rate due to the availability of tax incentives.

14.6 Status of Corporate Proposal announced but not completed

There were no corporate proposals announced but not completed, for the current quarter and financial period ended 31 March 2016.

14.7 Group Borrowings

a) The Group borrowings as at 31 March 2016 were as follows:

	Total Unsecured RM'000
Short Term	
Revolving credit	41,000
Bankers' acceptance	46,589
Term loan due within 12 months	<u>16,375</u>
	103,964
Long Term	
Term loan due after 12 months	<u>81,896</u>
	<u>185,860</u>

All the above borrowings are denominated in Ringgit Malaysia.

b) There were no debt securities for the financial period ended 31 March 2016.

14.8 Material Litigation

There were no pending material litigation since the last audited annual financial statements date to the date of issue of the quarterly report.

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Explanatory Notes**14.9 Earnings Per Share**

	Current Quarter and financial period ended	
	31/03/2016	31/03/2015
	RM'000	RM'000
Profit after tax and minority interest	51,306	45,450
Basic earnings per share		
Basic number of ordinary shares in issue ('000)	639,468	639,468
Basic earnings per share (sen)	<u>8.02</u>	<u>7.11</u>

14.10 Realised and Unrealised Retained Earnings

	Financial period ended	
	31/03/2016	31/12/2015
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	721,684	668,823
Unrealised	(30,420)	(28,865)
	<u>691,264</u>	<u>639,958</u>
Less Consolidation adjustment	(20,339)	(20,339)
	<u>670,925</u>	<u>619,619</u>

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
24 May 2016