

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 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 30 September 2016.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period ended 30 September 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 30 September 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 was paid on 5 July 2016.

There were no other dividends declared or paid in the current quarter and financial period ended 30 September 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	
Financial period ended					
- 30/09/2016					
Revenue	122,316	1,055,880	49,116	332,503	1,559,815
Intercompany elimination	0	0	0	(329,723)	(329,723)
	<u>122,316</u>	<u>1,055,880</u>	<u>49,116</u>	<u>2,780</u>	<u>1,230,092</u>
Results	21,748	135,543	1,352	359	159,002
- 30/09/2015					
Revenue	114,404	1,035,972	46,403	0	1,196,779
Results	9,490	176,533	4,003	0	190,026
Quarter ended					
- 30/09/2016					
Revenue	40,242	355,823	17,119	4,563	417,747
Intercompany elimination	0	0	0	(3,708)	(3,708)
	<u>40,242</u>	<u>355,823</u>	<u>17,119</u>	<u>855</u>	<u>414,039</u>
Results	7,042	35,016	555	(5)	42,608
- 30/09/2015					
Revenue	40,126	383,906	17,711	0	441,743
Results	5,757	63,096	1,993	0	70,846

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 October 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 30 September 2016.

12. Contingent Liabilities

As at 30 September 2016, the Company has unsecured outstanding contingent liabilities amounting to RM200.987 million (31 Dec 2015: RM225.438 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	
	30/09/2016 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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Explanatory Notes**14. Additional Information required by the Bursa Securities Listing Requirements****14.1 Review of Results**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial period ended					
- 30/09/2016					
Revenue	122,316	1,055,880	49,116	332,503	1,559,815
Intercompany elimination	0	0	0	(329,723)	(329,723)
	122,316	1,055,880	49,116	2,780	1,230,092
Results	21,748	135,543	1,352	359	159,002
Percentage %	17.79	12.84	2.75	12.91	12.93
- 30/09/2015					
Revenue	114,404	1,035,972	46,403	0	1,196,779
Results	9,490	176,533	4,003	0	190,026
Percentage %	8.30	17.04	8.63	na	15.88
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	6.92	1.92	5.85	na	2.78
Results	129.17	(23.22)	(66.23)	na	(16.33)

Quarter ended					
- 30/09/2016					
Revenue	40,242	355,823	17,119	4,563	417,747
Intercompany elimination	0	0	0	(3,708)	(3,708)
	40,242	355,823	17,119	855	414,039
Results	7,042	35,016	555	(5)	42,608
Percentage %	17.49	9.84	3.24	na	10.29
- 30/09/2015					
Revenue	40,126	383,906	17,711	0	441,743
Results	5,757	63,096	1,993	0	70,846
Percentage %	14.35	16.44	11.25	na	16.04
Comparison of Quarters ended					
Percentage change	%	%	%	%	%
Revenue	0.29	(7.32)	(3.34)	na	(6.27)
Results	22.32	(44.50)	(72.15)	na	(39.86)

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Explanatory Notes

14.1 Review of Results

Current Year To Date ("9M16") compared with Preceding Year To Date ("9M15")

For 9M16, overall revenue grew marginally from RM1.197 billion to RM1.230 billion, a increase of 2.78% in the same correspondence period of FY2015. Nevertheless, profit before taxation was RM159.002 million as compared with RM190.026 million of 9M15, lower by RM31.02 million or 16.33%. Escalated production cost stemming from hikes in minimum wage and natural gas price; and consistent industry wide pricing pressures particularly in glove segment were the major factors affecting earnings performance for the current period under review.

Performance of TRP division for the period under review was commendable with a revenue of RM122.316 million from RM114.404 an increase of 6.91%. The profit before taxation registered a RM21.748 million compare to RM9.490 million, an increase of 129.17%. This positive performance was largely attributed to higher volume of sales revenue in infrastructure products and better profitability post restructuring exercise. With more project kick-started, revenue and profitability of TRP have been consistently on upward trend since 1st quarter of current year as compared with previous financial year.

Sales of Glove division for 9M16 increased marginally from RM1.04 billion in 9M15 to RM1.06 billion increased by 1.92%, riding on approximately 2.1% higher in quantity of glove sold for the period under review. This reflects the healthy demand growth in our glove products amid ruffling competitive environment. Despite of the higher sales, its profit before taxation was lower with RM135.543 million compare to RM176.533 million, a 23.22% lower for the period under review. This is due mainly to pricing pressures, higher production cost stemming from escalated labour cost on minimum wage hikes and higher natural gas price. The weaker profitability was also attributed to higher average cost per unit output due to lower output rate on the back of scheduled revamp and upgrading works in 2 of its production plants which commenced since second quarter this year. The scheduled revamp and upgrading works involved replacing biomass system to natural gas and upgrading of 12 older production lines. This modification effort in combating increasing energy cost with higher output capacity. As of 30 September 2016, the product-mix of nitrile and natural rubber gloves remained consistent at approximately 70:30.

Cleanroom division delivered a 5.85% growth in revenue for 9M16 to RM49.116 million from RM46.403 million of 9M15.

Current Quarter ("3Q16") compared with Comparative Quarter of Preceding Year ("3Q15")

Compared with its corresponding quarter of FY2015, revenue decrease to RM414.039 million from RM441.743 million and profit before taxation decrease to RM42.608 million from RM70.846 million, dipped by 6.27% and 39.86% respectively. Among 3 business segments, Glove division attributed largely to current quarter's weak performance.

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The mixed performance above was mainly attributed to the following:

i. TRPs division

Revenue for TRP for 3Q16 was RM40.242 million compare to 3Q15 of RM40.126 million. The increase in profit before taxation for 3Q2016 from RM7.042 million compare to 3Q2015 of RM5.757 million was largely attributed to improved profit margin and more reflective profitability of this TRPs post restructuring exercise in 2016.

ii. Glove division

Glove division revenue for the current quarter was RM 355.823 million against RM383.906 million as compared with its corresponding period of preceding financial year, registering a decrease of 7.32%. The lower revenue was largely attributed to 3.8% lower in quantity of glove sold in 3Q16. Profit before taxation was RM35.016 million in 3Q16 compared with RM63.096 million reported in 3Q15.

Weak earnings performance of current quarter as compared with its corresponding quarter in FY2015 was largely attributed to:

- i. Industry wide selling prices pressure among glove manufacturers;
- ii. Escalated production cost stemming from hikes in minimum wage and natural gas prices;
- iii. Additional labour cost incurred arising from shortage of labour supply;

Besides the less favourable operating condition as mentioned above, the Group experienced lower output rate of glove in the current quarter as a consequence of scheduled revamp and upgrading works on 2 of its production plants including replacing biomass to natural gas and upgrading 12 production line. The revamp and upgrading program is important for increasing output.

iii. Cleanroom

Revenue of cleanroom division for the quarter under review was 3.34% lower, from RM17.711 million to RM17.119 million of its corresponding period of preceding financial year. Less favourable selling prices were the major contributory factors to a 72.5% lower in profit before taxation of RM555,000 as compared with RM1.993 million in 3Q15.

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Explanatory Notes**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				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Current Quarter ended - 30/09/2016					
Revenue	40,242	355,823	17,119	4,563	417,747
Intercompany elimination	0	0	0	(3,708)	(3,708)
	40,242	355,823	17,119	855	414,039
Results	7,042	35,016	555	(5)	42,608
Percentage %	17.52	9.84	3.24	na	10.29
Precedent Quarter ended - 30/06/2016					
Revenue	40,651	345,808	16,159	309,147	711,765
Intercompany elimination	0	0	0	(307,992)	(307,992)
	40,651	345,808	16,159	1,155	403,773
Results	7,863	42,397	283	198	50,741
Percentage %	19.34	12.26	1.75	1.71	12.57
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	(1.00)	2.90	5.94	(25.97)	2.54
Results	(10.44)	(17.41)	96.11	(102.53)	(16.03)

As compared with its immediate preceding quarter, overall revenue of current quarter was RM414.039 million and 2.54% higher than RM403.773 million. The marginally increase in revenue was largely attributed to approximately 3.0% higher in quantity of glove sold during the quarter under review. Despite with marginally higher sales, profit before taxation of current quarter was 16.03% lower, from RM50.741 million of 2Q16 to RM42.608 million in the current quarter.

The weaker earnings performance of current quarter under review was largely attributed to ruffling selling price, higher production cost stemming from hikes in minimum wage and natural gas cost.

During the quarter under review, 2 of its glove production plants were undergoing scheduled revamp and upgrading works and have not operated at its optimum output level.

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Explanatory Notes

14.3 Current Year Prospects

For the remaining quarter of the year, the glove industry will continue to face price competition. We are vigilant to this challenging operating condition and have since taken strategic moves to ensure sustainable competitiveness in order to ride through the turbulence smoothly.

While Management is focusing on the newly launched patented Low Derma (accelerator free nitrile glove) and other types of unique products to alleviate the impact led by keen price competition, various improvement programs aiming to improve productivity and efficiency to bring down overall production cost through optimizing its manufacturing process to reduce chemical and utilities and manpower usage. Continual upgrading and revamp works will be carrying out with focus on automation, computerization and lean process to reduce rising production cost.

The Group is currently operating with 22 billion pieces of gloves per annum and all its plants are operating in almost full capacity, save for those plants undergoing revamp and upgrading works. The Group is currently facing capacity constraints for its accelerator free nitrile and other type of gloves, the Group need to build new plants with high efficiency and productivity.

The construction works of one new plant at Jalan Meru (commenced in May 2016) has been progressing well. This new plant will be equipped with high speed dipping technology with high degree of automation including packing system and once completed in July 2017, is capable to produce up to 3.0 billion pieces of nitrile glove per annum. Another phase of expansion on our Bestari Jaya land (approximately 56 acres industrial land) is expected to kick start by end of the current year with construction of one plant which is capable to produce 4.5 billion pieces of glove per annum.

The Management remains optimistic on overall business profitability for the remaining quarter against the less favourable operating environment. Nevertheless, with all the strategic moves and its manufacturing capability, the Management is confident able to achieve an improved earnings performance in the final quarter of the current year barring any unforeseen circumstances.

With our programme to build new plants with high degree of automation and computerisation, launching of new products, the management is confident that we can continue to sustain our growth.

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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Explanatory Notes**14.5 Taxation**

	Quarter period ended 30/09/2016	Financial period ended 30/09/2016
	RM'000	RM'000
Tax expense - current	6,338	25,473
Deferred taxation	<u>1,555</u>	<u>4,665</u>
	<u>7,893</u>	<u>30,138</u>

The effective income tax rate for the current quarter and financial period ended 30 September 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 30 September 2016.

14.7 Group Borrowings

a) The Group borrowings as at 30 September 2016 were as follows:

	Total Unsecured RM'000
Short Term	
Revolving credit	65,717
Bankers' acceptance	46,226
Term loan due within 12 months	<u>26,375</u>
	138,318
Long Term	
Term loan due after 12 months	<u>62,668</u>
	<u>200,986</u>

Included in unsecured short-term revolving credit is an amount of USD 10.0 million (31 December 2015: nil) obtained by four subsidiaries of the Company. Other than the above, all the other borrowings were denominated in Ringgit Malaysia.

b) There were no debt securities for the financial period ended 30 September 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 ended		Financial period ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	34,023	55,166	126,298	148,056
Basic earnings per share				
Basic number of ordinary shares in issue ('000)	639,468	639,468	639,468	639,468
Basic earnings per share (sen)	5.32	8.63	19.75	23.15

14.10 Realised and Unrealised Retained Earnings

	Financial period ended	
	30/09/2016	31/12/2015
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	758,221	668,823
Unrealised	(33,530)	(28,865)
	724,691	639,958
Less Consolidation adjustment	(20,339)	(20,339)
	704,352	619,619

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
22 November 2016