

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 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 year ended 31 December 2016.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period year ended 31 December 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 year ended 31 December 2016.

7. Dividend

On 19 November 2015, the directors approved an 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.

On 22 November 2016, the directors approved an interim tax exempt dividend of 5.0 sen per ordinary share of RM 0.50 each for the financial year ended 31 December 2016. The dividend of RM 31,973,414 was paid on 10 January 2017.

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

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

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 year ended					
- 31/12/2016					
Revenue	160,561	1,436,767	64,781	340,102	2,002,211
Intercompany elimination	0	0	0	(333,932)	(333,932)
	<u>160,561</u>	<u>1,436,767</u>	<u>64,781</u>	<u>6,170</u>	<u>1,668,279</u>
Results	<u>30,469</u>	<u>178,578</u>	<u>2,637</u>	<u>1,711</u>	<u>213,395</u>
- 31/12/2015					
Revenue	160,221	1,411,055	68,233	0	1,639,509
Results	<u>14,389</u>	<u>249,026</u>	<u>5,152</u>	<u>0</u>	<u>268,567</u>
Quarter ended					
- 31/12/2016					
Revenue	38,245	380,887	15,665	7,599	442,396
Intercompany elimination	0	0	0	(4,209)	(4,209)
	<u>38,245</u>	<u>380,887</u>	<u>15,665</u>	<u>3,390</u>	<u>438,187</u>
Results	<u>8,721</u>	<u>43,034</u>	<u>1,286</u>	<u>1,352</u>	<u>54,393</u>
- 31/12/2015					
Revenue	<u>45,820</u>	<u>376,034</u>	<u>17,309</u>	<u>0</u>	<u>439,163</u>
Results	<u>6,079</u>	<u>71,410</u>	<u>1,025</u>	<u>0</u>	<u>78,514</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 January 2017 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

During the financial year ended 31 December 2016, the Company acquired the following investments;

- 11 July 2016
KISB HK Limited (incorporated in China Shanghai Free Trade Zone) 100% subsidiary
- 29 January 2016
Aseptapak (M) Sdn. Bhd Incorporated in Malaysia 50% Associate

Other than the above, there were no 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 year ended 31 December 2016.

12. Contingent Liabilities

As at 31 December 2016, the Company has unsecured outstanding contingent liabilities amounting to RM162.154 million (31 Dec 2015: RM225.438 million) being corporate guarantees given to financial institutions for banking facilities granted to certain subsidiaries.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

Explanatory Notes**13. Capital and other Commitments**

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

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 year ended					
- 31/12/2016					
Revenue	160,561	1,436,767	64,781	340,102	2,002,211
Intercompany elimination	0	0	0	(333,932)	(333,932)
	<u>160,561</u>	<u>1,436,767</u>	<u>64,781</u>	<u>6,170</u>	<u>1,668,279</u>
Results	<u>30,469</u>	<u>178,578</u>	<u>2,637</u>	<u>1,711</u>	<u>213,395</u>
Percentage %	18.98	12.43	4.07	27.74	12.79
- 31/12/2015					
Revenue	160,221	1,411,055	68,233	0	1,639,509
Results	<u>14,389</u>	<u>249,026</u>	<u>5,152</u>	<u>0</u>	<u>268,567</u>
Percentage %	8.98	17.65	7.55	na	16.39
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	0.21	1.82	(5.06)	na	1.75
Results	111.75	(28.29)	(48.82)	na	(20.54)

Quarter ended					
- 31/12/2016					
Revenue	38,245	380,887	15,665	7,599	442,396
Intercompany elimination	0	0	0	(4,209)	(4,209)
	<u>38,245</u>	<u>380,887</u>	<u>15,665</u>	<u>3,390</u>	<u>438,187</u>
Results	<u>8,721</u>	<u>43,034</u>	<u>1,286</u>	<u>1,352</u>	<u>54,393</u>
Percentage %	22.80	11.30	8.21	39.88	12.41
- 31/12/2015					
Revenue	<u>45,820</u>	<u>376,034</u>	<u>17,309</u>	<u>0</u>	<u>439,163</u>
Results	<u>6,079</u>	<u>71,410</u>	<u>1,025</u>	<u>0</u>	<u>78,514</u>
Percentage %	13.27	18.99	5.92	na	17.88
Comparison of Quarters ended					
Percentage change	%	%	%	%	%
Revenue	(16.53)	1.30	(9.50)	na	(0.23)
Results	43.46	(39.74)	25.46	na	(30.72)

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes

14.1 Review of Results

Summary Quarterly Results

	1Q16 RM'000	2Q16 RM'000	3Q16 RM'000	4Q16 RM'000	YTD RM'000
REVENUE					
Period ended 2016	412,280	403,773	414,039	438,187	1,668,279
Period ended 2015	369,257	385,779	441,743	439,163	1,635,942
Audit adjustment	0	0	0	3,567	3,567
	<u>369,257</u>	<u>385,779</u>	<u>441,743</u>	<u>442,730</u>	<u>1,639,509</u>
RESULTS					
Period ended 2016	65,652	50,742	42,608	54,393	213,395
Period ended 2015	59,006	60,174	70,846	78,514	268,540
Audit adjustment	0	0	0	27	27
	<u>59,006</u>	<u>60,174</u>	<u>70,846</u>	<u>78,541</u>	<u>268,567</u>
Results over Revenue %					
2016	15.92	12.57	10.29	12.41	12.79
2015	15.97	15.60	16.04	17.74	16.38

Current Year To Date ("YTD16") compared with Preceding Year To Date ("YTD15")

For YTD16, revenue grew to RM1.668 billion from RM1.639 billion, an increase of 1.75% in the same correspondence period of FY2015. Profit before taxation decrease to RM213.395 million from RM268.567 million for the same corresponding period, lower by RM55.172 million or 20.54%.

The decline in results from 2Q16 onwards were due to increase in minimum wage and natural gas price, and consistent industry wide pricing pressures particularly in glove segment were the major factors. The production interruption for upgrading and conversion of fuel from biomass to natural gas resulted in higher unit cost for gloves and this was reflected in the lower margin in 3Q16.

In 3Q16 the gloves division fully commissioned its Combined Heat and Power Cogeneration Natural Gas Generator Set (COGEN) at two factory location. These COGEN installations provide clean and more efficient energy with much cost savings. With the completion of lines upgrading and fuel conversion, full production has resumed by end 3Q16. The results were improved turnover and profit before taxation for 4Q16.

Performance of TRP division for the period under review was comparable with a revenue of RM160.561 million from RM160.221 million a nominal increase of 0.21%. The profit before taxation increased to RM30.469 million from RM14.389 million, an increase of 111.75%. This positive performance was largely attributed to improved profit margin and post restructuring exercise in 2016.

Turnover in the Glove division increased marginally to RM1.437 billion from RM1.411 billion, an increased by 1.82%. Despite of the higher turnover, its profit before taxation was lower at RM178.578 million from RM249.026 million, a 28.29% lower for the period under review. As of 31 December 2016, the product-mix of nitrile and natural rubber gloves remained consistent at approximately 70:30.

Cleanroom division delivered a lower turnover of RM64.781 million from RM 68.233 million, while profit before tax recorded was lower at RM 2.637 million from RM 5.152 million, for the same corresponding period under review.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes

14.1 Review of Results (continue)

Current Quarter ("4Q16") compared with Comparative Quarter of Preceding Year ("4Q15")

Compared with its corresponding quarter of FY2015, revenue was lower at RM438.187 million from RM439.163 million and profit before taxation decrease to RM54.393 million from RM78.514 million, dipped by 0.23% and 30.72% respectively.

i. TRPs division

Revenue for TRP for 4Q16 was RM38.245 million compare to 4Q15 of RM45.820 million, while profit before taxation was RM 8.721 million compare to RM 6.079 million for the same corresponding period. The higher profitability 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 4Q16 was RM 380.887 million against RM376.034 million as compared with its corresponding period of preceding financial year, registering an increase of 1.30%. Profit before taxation was RM43.034 million in 4Q16 compared with RM71.410 million reported in 4Q15.

The weak earnings performance of current year quarter as compared with its corresponding quarter in FY2015 was mainly due to industry wide pricing pressures and higher cost of production.

iii. Cleanroom

Revenue of cleanroom division for the quarter under review was 9.50% lower, from RM17.309 million to RM15.665 million of its corresponding period of preceding financial year. Better favourable selling prices and recognition of unrealised gain in foreign exchange translation of receivables of RM0.30 million were the major contributory factors to an increase of 25.46% in profit before taxation of RM1.286 million as compared with RM1.025 million in 4Q15

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

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				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Current Quarter ended - 31/12/2016					
Revenue	38,245	380,887	15,665	7,599	442,396
Intercompany elimination	0	0	0	(4,209)	(4,209)
	<u>38,245</u>	<u>380,887</u>	<u>15,665</u>	<u>3,390</u>	<u>438,187</u>
Results	8,721	43,034	1,286	1,352	54,393
Percentage %	22.80	11.30	8.21	39.88	12.41
Preceding 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
Percentage %	17.52	9.84	3.24	na	10.29
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	(4.96)	7.04	(8.49)	296.49	5.83
Results	23.84	22.90	131.71	na	27.66

As compared with its immediate preceding quarter, overall revenue of current quarter of RM438.187 million was 5.83% higher than RM417.747 million. Profit before taxation of current quarter was 27.66% higher, at RM54.393 million of 4Q16 compared to RM42.608 million in the preceding quarter. The higher profit was partly due to the recognition of unrealised year end translation gain in foreign exchange receivables and fair value loss of foreign exchange contracts. The amount recorded was a net gain of RM 4.510 million contributed by the Gloves division RM3.20 million, TRP RM1.01 mil and Cleanroom RM 0.30 million respectively.

Nevertheless, the higher earnings performance in the gloves division for current quarter under review was attributed to completion of all upgrading works, conversions of biomass to natural gas and full commission of our COGEN power facilities, resulting in higher production output and lower cost of production.

During the quarter under review, all three divisions recorded positive results compared to preceding results under review.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes

14.3 Current Year Prospects

The Group is currently producing 22 billion pieces of gloves per annum with all its plants operating in almost full capacity. The construction works of one new plant at Jalan Meru commenced in May 2016, equipped with high speed dipping technology with high degree of automation including packing area is expected to be completed in July 2017. This plant is capable of producing up to 3.0 billion pieces of nitrile glove per annum and will focus in production of our low derma gloves.

Another phase of expansion is our Bestari Jaya land (approximately 56 acres industrial land) which was scheduled to commence construction in end of 2016. The management wish to report that this project has been delayed until the end of 2017 due to building plans and water supply constraints.

The Group is always looking for longer term business growth and transformation. New plants are built with high efficiency, productivity and with higher degree of automation, capable of tackling the labour shortage problem besides creating a more conducive working environment.

The Group has commenced construction of a Research and Development centre. This centre is expected to be completed in September 2017 and will focus on all areas of new innovations and quality improvements of our products. It will also involve research into engineering and robotic implementations to provide higher automations systems to new and existing facilities with the aim of lowering dependence on manpower.

For the year 2017, management will emphasize in improvement of operation efficiencies, quality of products and costs controls. Together with our expansion and transformation program, we are confident that the Group will be able to register healthy growth and earnings.

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.

14.5 Taxation

	Quarter period ended 31/12/2016	Financial period ended 31/12/2016
	RM'000	RM'000
Tax expense - current	3,564	29,037
Deferred taxation	<u>5,459</u>	<u>10,124</u>
	<u>9,023</u>	<u>39,161</u>

The effective income tax rate for the current quarter and financial year ended 31 December 2016 was lower (4Q16: 16.59%, YTD16: 18.35%) than the statutory rate due to the availability of tax incentives.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

Explanatory Notes**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 year ended 31 December 2016.

14.7 Group Borrowings

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

	Total Unsecured RM'000
Short Term	
Revolving credit	28,000
Bankers' acceptance	51,637
Term loan due within 12 months	<u>26,375</u>
	106,012
Long Term	
Term loan due after 12 months	<u>56,142</u>
	<u>162,154</u>

All the above borrowings were denominated in Ringgit Malaysia.

b) There were no debt securities for the financial year ended 31 December 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.

14.9 Earnings Per Share

	Current Quarter ended		Financial period ended	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	45,020	55,206	171,318	202,530
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)	<u>6.98</u>	<u>8.63</u>	<u>26.73</u>	<u>31.67</u>

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

Explanatory Notes**14.10 Realised and Unrealised Retained Earnings**

	Financial period ended	
	31/12/2016	31/12/2015
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	803,803	668,823
Unrealised	(34,479)	(28,865)
	<hr/>	<hr/>
	769,324	639,958
Less Consolidation adjustment	(20,339)	(20,339)
	<hr/>	<hr/>
	748,985	619,619

On behalf of the Board

Dato' Lim Kuang Sia**Managing Director****23 February 2017**