

KOSSAN RUBBER INDUSTRIES BHD
Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2017

Explanatory Notes

1. Basis of Preparation

The unaudited interim financial statements have been prepared in accordance with Malaysian Financial Reporting Standards 134 and Chapter 9 Part K of the Bursa Securities Listing Requirements. The accounting policies and method of computation adopted for the interim financial statements were consistent with those adopted for the audited financial statements for the year ended 31 December 2016.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2016 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 2017.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period ended 31 March 2017 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 2017.

7. Dividend

On 22 November 2016, the directors approved an interim tax exempt dividend of 5.0 sen per ordinary share for the financial year ended 31 December 2016. The dividend of RM 31,973,395 was paid on 10 January 2017.

There were no other dividends declared or paid in the current quarter and financial period ended 31 March 2017.

On 13 April 2017, the directors recommended a final tax exempt dividend of 6.0 sen per ordinary share for the financial year ended 31 December 2016. This was approved at the 2017 Annual General Meeting and the dividend amounting to RM 38,368,074 will be paid on 5 July 2017.

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	
Quarter and financial period ended - 31/03/2017					
Revenue	48,119	433,394	18,225	4,998	504,736
Intercompany elimination	0	0	0	(4,758)	(4,758)
	<u>48,119</u>	<u>433,394</u>	<u>18,225</u>	<u>240</u>	<u>499,978</u>
Profit before taxation	<u>5,383</u>	<u>50,070</u>	<u>853</u>	<u>24</u>	<u>56,330</u>
- 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>
Profit before taxation	<u>6,843</u>	<u>58,130</u>	<u>512</u>	<u>167</u>	<u>65,652</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 events that have occurred between 01 April 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

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 period ended 31 March 2017.

12. Contingent Liabilities

As at 31 March 2017, the Company had unsecured outstanding contingent liabilities amounting to RM283.927 million (31 Dec 2016: RM162.154 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	
	31/03/2017 RM'000	31/12/2016 RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>4,234</u>	<u>4,234</u>

KOSSAN RUBBER INDUSTRIES BHD
Company No. 48166-W
(Incorporated in Malaysia)

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 - 31/03/2017					
Revenue	48,119	433,394	18,225	4,998	504,736
Intercompany elimination	0	0	0	(4,758)	(4,758)
	<u>48,119</u>	<u>433,394</u>	<u>18,225</u>	<u>240</u>	<u>499,978</u>
Profit before taxation	<u>5,383</u>	<u>50,070</u>	<u>853</u>	<u>24</u>	<u>56,330</u>
Percentage %	11.19	11.55	4.68	10.00	11.27
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>
Profit before taxation	<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
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	16.16	22.34	15.07	(68.83)	21.27
Profit before taxation	(21.34)	(13.87)	66.60	(85.63)	(14.20)

The Group delivered a 21.27% higher revenue of RM 499.98 million for the quarter and financial period ended 31 March 2017 compared with RM 412.28 million of its corresponding period in 2016. All three divisions of Cleanroom, Technical Rubber and Gloves continued to register growth in revenue riding on increased in sales volume and stronger USD. Profit before taxation was however, lower by 14.20% to RM56.33 million as compared with its corresponding period of FY2016 mainly attributed to stiff increase in raw material prices for the quarter under reviewed.

For the first three months of FY2017, the glove division registered an approximately 7.5% increase in quantity sold and all the production plants continued to operate above 80% of its installed capacity after the completion of revamp and upgrading work since fourth quarter of FY2016.

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				
	Technical Rubber	Gloves	Clean-Room	Investment Holding	Total
	RM '000	RM '000	RM '000	RM '000	RM '000
Current Quarter ended - 31/03/2017 (1Q17)					
Revenue	48,119	433,394	18,225	4,998	504,736
Intercompany elimination	0	0	0	(4,758)	(4,758)
	<u>48,119</u>	<u>433,394</u>	<u>18,225</u>	<u>240</u>	<u>499,978</u>
Profit before taxation	<u>5,383</u>	<u>50,070</u>	<u>853</u>	<u>24</u>	<u>56,330</u>
Percentage %	11.19	11.55	4.68	10.00	11.27
Preceding Quarter ended - 31/12/2016 (4Q16)					
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>
Profit before taxation	<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
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	25.82	13.79	16.34	(92.92)	14.10
Profit before taxation	(38.28)	16.35	(33.67)	(98.22)	3.56

As compared with its preceding quarter, total revenue and profit before taxation grew by 14.10% and 3.56% respectively. The increase in revenue and profit before taxation for the quarter under reviewed was mainly attributed to 13.79% and 16.35% growth in the Glove division.

Higher volume of glove sold by approximately 5.5% and reduction in operating overhead cost arising from increased efficiency and higher productivity as a result of effective revamp and upgrading works of the existing plants were the main factors of better performance in glove division.

Both Technical Rubber (“TRP”) and Cleanroom division recorded 38.28% and 33.67% declined in profit before taxation respectively for the quarter under reviewed as compared with its preceding quarter. The surge in raw material prices and reversal of translation gain in foreign currency receivables amounting to RM1.01 million for TRP and RM0.30 million for Cleanroom affected the profitability of both division.

Explanatory Notes

14.3 Current Year Prospects

Currently, the Group is operating with 22 billion pieces of glove with a production mix of nitrile and natural rubber glove at 72:28 and its expansion program to increase glove capacity to cater increased demand from buyers for its patented low derma nitrile glove is progressing well. The construction of one new plant at Jalan Meru which commenced in May 2016 is on schedule and is expected to commence production in July 2017. This plant is capable of producing up to 3.0 billion pieces of nitrile glove per annum once completed and will focus on the production of the patented low derma gloves.

Continuous business expansion programme is a key to long term sustainable growth. Currently the Group is at the final planning stage to build 2 new plants along Jalan Meru. The construction of this two new plants is expected to commence in first half of 2017 and is targeted to commence its commercial production in the second and fourth quarters of 2018. These 2 new plants which equipped with high speed dipping technology and high degree of automation are capable produce up to 4.5 billion pieces of nitrile glove per annum.

The construction of the Research and Development centre is on schedule 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 automation systems to new and existing facilities with the aim of lowering dependence on manpower.

For the remaining year of 2017, management will emphasize on 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 and financial period ended 31/03/2017
	RM'000
Tax expense - current	6,373
Deferred taxation	<u>2,705</u>
	<u>9,078</u>

The effective income tax rate for the current quarter and financial period ended 31 March 2017 was lower 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 period ended 31 March 2017.

14.7 Group Borrowings

a) The Group borrowings as at 31 March 2017 were as follows:

	Total
	Unsecured
	RM'000
Short Term	
Revolving credit	73,455
Bankers' acceptance	94,511
Term loan due within 12 months	<u>26,375</u>
	194,341
Long Term	
Term loan due after 12 months	<u>89,587</u>
	<u>283,928</u>

Included in unsecured short-term revolving credit is an amount of USD 10.0 million (31 December 2016: 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 31 March 2017.

14.8 Material Litigation

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

14.9 Earnings Per Share

	Current Quarter	
	and financial period ended	
	31/03/2017	31/03/2016
	RM'000	RM'000
Profit after tax and minority interest	<u>46,535</u>	<u>51,306</u>
Basic earnings per share		
Number of ordinary shares in issue ('000)	639,468	639,468
Basic earnings per share (sen)	<u>7.28</u>	<u>8.02</u>

KOSSAN RUBBER INDUSTRIES BHD
Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes

14.10 Realised and Unrealised Retained Earnings

	Financial period ended	
	31/03/2017	31/12/2016
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	829,721	780,481
Unrealised	(42,695)	(39,990)
	<hr/>	<hr/>
Share of retained earnings of joint venture – realised	787,026	740,491
	(19)	(19)
	<hr/>	<hr/>
Less Consolidation adjustment	787,007	740,472
	(27,328)	(27,328)
	<hr/>	<hr/>
	759,679	713,144
	<hr/>	<hr/>

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
25 May 2017