

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2017

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 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 30 June 2017.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period ended 30 June 2017 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 or resale of treasury shares in the current quarter and financial period ended 30 June 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.

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 of RM 38,368,074 was paid on 5 July 2017.

There were no other dividends declared or paid in the current quarter and financial period ended 30 June 2017.

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Explanatory Notes**8. Segmental Reporting**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial period ended					
- 30/06/2017					
Revenue	81,840	876,226	31,340	9,336	998,742
Intercompany elimination	0	0	0	(8,250)	(8,250)
	<u>81,840</u>	<u>876,226</u>	<u>31,340</u>	<u>1,086</u>	<u>990,492</u>
Profit before tax	<u>8,175</u>	<u>102,687</u>	<u>1,510</u>	<u>41</u>	<u>112,413</u>
- 30/06/2016					
Revenue	82,074	700,057	31,997	327,940	1,142,068
Intercompany elimination	0	0	0	(326,015)	(326,015)
	<u>82,074</u>	<u>700,057</u>	<u>31,997</u>	<u>1,925</u>	<u>816,053</u>
Profit before tax	<u>14,705</u>	<u>100,527</u>	<u>797</u>	<u>365</u>	<u>116,394</u>
Quarter ended					
- 30/06/2017					
Revenue	33,721	442,832	13,115	4,338	494,006
Intercompany elimination	0	0	0	(3,492)	(3,492)
	<u>33,721</u>	<u>442,832</u>	<u>13,115</u>	<u>846</u>	<u>490,514</u>
Profit before tax	<u>2,792</u>	<u>52,617</u>	<u>658</u>	<u>17</u>	<u>56,084</u>
- 30/06/2016					
Revenue	40,651	345,808	16,159	309,147	711,765
Intercompany elimination	0	0	0	(307,992)	(307,992)
	<u>40,651</u>	<u>345,808</u>	<u>16,159</u>	<u>1,155</u>	<u>403,773</u>
Profit before tax	<u>7,863</u>	<u>42,397</u>	<u>283</u>	<u>198</u>	<u>50,741</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 had occurred between 01 July 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 30 June 2017.

12. Contingent Liabilities

As at 30 June 2017, the Company had unsecured outstanding contingent liabilities amounting to RM289.608 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	
	30/06/2017 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

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

	Individual Period (2nd Quarter)			Cumulative Period		
	Current Year Quarter 30/06/17 RM '000	Preceding Year Corresponding Quarter 30/06/16 RM '000	Changes %	Current Year to-date 30/06/17 RM '000	Preceding Year Corresponding Period 30/06/16 RM '000	Changes %
Revenue	490,514	403,773	21.48	990,492	816,053	21.38
Operating profit	58,659	53,346	9.96	117,378	121,512	(3.40)
Profit Before						
Interest and Tax	58,659	53,346	9.96	117,378	121,512	(3.40)
Profit before tax	56,084	50,741	10.53	112,413	116,394	(3.42)
Profit after tax	45,841	41,838	9.57	93,093	94,149	(1.12)
Profit attributed To Ordinary Equity Shareholders	45,510	40,968	11.09	92,045	92,274	(0.25)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial period ended - 30/06/2017					
Revenue	81,840	876,226	31,340	9,336	998,742
Intercompany elimination	0	0	0	(8,250)	(8,250)
	<u>81,840</u>	<u>876,226</u>	<u>31,340</u>	<u>1,086</u>	<u>990,492</u>
Profit before tax	<u>8,175</u>	<u>102,687</u>	<u>1,510</u>	<u>41</u>	<u>112,413</u>
PBT/Revenue %	9.99	11.72	4.82	3.78	11.35
Financial period ended - 30/06/2016					
Revenue	82,074	700,057	31,997	327,940	1,142,068
Intercompany elimination	0	0	0	(326,015)	(326,015)
	<u>82,074</u>	<u>700,057</u>	<u>31,997</u>	<u>1,925</u>	<u>816,053</u>
Profit before tax	<u>14,705</u>	<u>100,527</u>	<u>797</u>	<u>365</u>	<u>116,394</u>
PBT/Revenue %	17.92	14.36	2.49	18.96	14.26
Comparison of financial period Percentage change	%	%	%	%	%
Revenue	(0.29)	25.16	(2.05)	(43.58)	21.38
Profit before tax	(44.41)	2.15	89.46	(88.77)	(3.42)

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**14.1 Review of Results (continued)**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Quarter ended - 30/06/2017 (2Q17)					
Revenue	33,721	442,832	13,115	4,338	494,006
Intercompany elimination	0	0	0	(3,492)	(3,492)
	<u>33,721</u>	<u>442,832</u>	<u>13,115</u>	<u>846</u>	<u>490,514</u>
Profit before tax	<u>2,792</u>	<u>52,617</u>	<u>658</u>	<u>17</u>	<u>56,084</u>
PBT/Revenue %	8.28	11.88	5.02	2.01	11.43
Quarter ended - 30/06/2016 (2Q16)					
Revenue	40,651	345,808	16,159	309,147	711,765
Intercompany elimination	0	0	0	(307,992)	(307,992)
	<u>40,651</u>	<u>345,808</u>	<u>16,159</u>	<u>1,155</u>	<u>403,773</u>
Profit before tax	<u>7,863</u>	<u>42,397</u>	<u>283</u>	<u>198</u>	<u>50,741</u>
PBT/Revenue %	19.34	12.26	1.75	17.14	12.57
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(17.05)	28.06	(18.84)	(26.75)	21.48
Profit before tax	(64.49)	24.11	132.51	(91.41)	10.53

Additional Information required by the Bursa Securities Listing Requirements**Current Year To Date ("6M17") compared with corresponding Preceding Year To Date ("6M16")**

The Group recorded a 21.38% growth in its revenue for 6M17 to RM990.49 million from RM816.05 million in 6M16. Profit before tax ("PBT") however declined marginally by 3.42% to RM112.41 million from RM116.39 million. The marginally lower PBT was mainly attributed to lower profit contribution from the Technical Rubber Products ("TRPs") segment.

For 6M17, Glove division delivered a marginal 2.15% improvement in PBT albeit a 25.16% increase in its revenue as compared with 6M16. The increase in revenue was mainly attributed to higher glove selling prices in response to stiff increase in latex price (approximately 62.5% increase in natural latex and 52% for nitrile latex), weaker Ringgit against the US dollar and improved quantity of gloves sold.

Despite the stable revenue of TRPs for the two periods under review, its PBT was however 44.41% lower for the current period to date. The lower profit performance in TRPs division was mainly attributed to a longer time-lag effect in passing on the hefty 55.3% increase in natural rubber cost to customers.

As for the Cleanroom division, more favourable exchange rates for the period under review had boosted its profitability by 89.46% to RM1.51 million from RM0.80 million of 6M16.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**14.1 Review of Results (continued)****Current Quarter ("2Q17") compared with Previous Year Corresponding Quarter ("2Q16")**

For the quarter under review, both revenue and PBT registered positive growth of 21.48% and 10.53% respectively as compared with its corresponding quarter of FY2016. All three business segments delivered a mix performance as below:

TRPs division

Both revenue and PBT were 17.05% and 64.49% lower in current quarter as compared with its corresponding period of FY2016. Lower sales contribution of infrastructure products due to the completion of certain contracts and longer time-lag effect in passing on stiff increase in raw material prices to customers (i.e. average price per kg for SMR 20 of RM5.42 in 2Q16 vs. RM6.57 in 2Q17, an increase of 21.3%) were the two major factors contributing to the less favourable performance.

Glove division

Including the current quarter, the Glove division has reported positive growth in its revenue and profitability for two consecutive quarters since 1Q17. Compared with its corresponding quarter of FY2016, the Glove division registered 28.06% and 24.11% growth in revenue and PBT riding on higher volume of gloves sold by approximately 5.8% and higher selling prices.

Cleanroom

Softer market condition in China has affected the revenue performance for the current quarter by 18.84% as compared with its corresponding period of previous year. Despite the lower revenue, its PBT advanced by 132.51% owing to a more stable and favourable foreign exchange rate in the current quarter.

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

	Current Quarter 30/06/17 RM '000	Immediate Preceding Quarter 31/03/17 RM '000	Changes %
Revenue	490,514	499,978	(1.89)
Operating profit	58,659	58,721	(0.11)
Profit Before Interest and Tax	58,659	58,721	(1.11)
Profit before tax	56,084	56,330	(0.44)
Profit after tax	45,841	47,252	(2.99)
Profit attributed To Ordinary Equity Shareholders	45,510	46,535	(2.20)

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 (continued)**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Current Quarter ended - 30/06/2017 (2Q17)					
Revenue	33,721	442,832	13,115	4,338	494,006
Intercompany elimination	0	0	0	(3,492)	(3,492)
	<u>33,721</u>	<u>442,832</u>	<u>13,115</u>	<u>846</u>	<u>490,514</u>
Profit before tax	<u>2,792</u>	<u>52,617</u>	<u>658</u>	<u>17</u>	<u>56,084</u>
PBT/Revenue %	8.28	11.88	5.02	2.01	11.43
Preceding 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 tax	<u>5,383</u>	<u>50,070</u>	<u>853</u>	<u>24</u>	<u>56,330</u>
PBT/Revenue %	11.19	11.55	4.69	10.00	11.27
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	(29.92)	2.18	(28.04)	252.50	(1.89)
Profit before tax	(48.13)	5.09	(22.86)	(29.17)	(0.44)

**Changes in Results Against Preceding Quarter
(Comparison of current quarter 2Q17 with immediate preceding quarter 1Q17)**

Both revenue and PBT of current quarter remained stable as compared with its immediate preceding quarter. The less than 0.5% reduction in PBT was mainly attributed to 48.13% lower PBT contribution from TRPs segment. All three business segments performed differently for the quarter under review as compared with its immediate preceding quarter as below:

TRPs division

Lower sales contribution from infrastructure products and longer time-lag effect in passing on increased raw material cost to customers were the major factors contributing to the 29.92% and 48.13% decline in revenue and profitability respectively for the current quarter.

Gloves division

The Glove Division has reported positive growth trend in both its revenue and PBT since 1Q17 riding on improved production efficiency, effective cost measures and higher degree of automation. These positive outcomes have blended well and brought about stronger earnings momentum which saw its PBT grew by 5.09%, outpacing the growth rate of quantity of gloves sold for the current quarter. As compared with its immediate preceding quarter, the quantity of gloves sold for the current quarter was comparable as the overall utilization rate of its production plants remained consistently high at above 80% of its installed capacity for the two periods. As at 30 June 2017, the product mix of nitrile and natural rubber remain unchanged at 72:28 with the absence of new capacity.

Cleanroom division

For 2Q17, both revenue and PBT of the Cleanroom Division reduced by 28.04% and 22.86% respectively as compared with 1Q17. Temporary softening of demand for the cleanroom products and higher operational costs in the Dongguan factory due to higher labour costs arising from staff annual increment were the major factors contributing to slower performance.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes

14.3 Current Year Prospects

With the completion of the commissioning of Plant 16 in end-July, the existing annual glove production capacity of the Group has since enlarged to 25 billion pieces, an increase of 3.0 billion pieces of nitrile gloves with the patented Low Derma technology. This plant is expected to contribute to the Group's earnings gradually from the end of third quarter onward.

Keeping up with the expansion momentum and in need of new glove capacity to cater for increasing demand for the Low Derma technology nitrile gloves, the Group has since commenced the construction works for Plant 17 and 18. These 2 new plants which are equipped with high speed dipping technology and a high degree of automation are capable of producing up to 4.5 billion pieces (1.5 and 3.0 billion pieces respectively) of nitrile gloves per annum once completed in 2018.

The construction works of the integrated Research and Development cum Training Centre ("RDTC") are progressing well and are expected to complete by end of the year. The RDTC once completed, will propel the Group to another level of achievement and breakthrough of the Group's R&D efforts as the centre 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.

With new capacity from Plant 16, the Management is confident to deliver a stronger set of performance for the remaining period of 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.

14.5 Taxation

	<u>Quarter period ended</u>		<u>Financial period ended</u>	
	<u>30/06/2017</u>	<u>30/06/2016</u>	<u>30/06/2017</u>	<u>30/06/2016</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Tax expense - current	8,103	7,348	14,475	19,135
Deferred taxation	2,140	1,555	4,845	3,110
	<u>10,243</u>	<u>8,903</u>	<u>19,320</u>	<u>22,245</u>

The effective income tax rate for the current quarter and financial period ended 30 June 2017 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 June 2017.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**14.7 Group Borrowings**

a) The Group borrowings were as follows:

	Total Unsecured	
	As at 30/06/2017	As at 30/06/2016
	RM	RM
	RM'000	RM'000
Short Term		
Revolving credit	75,935	65,717
Bankers' acceptance	84,300	51,886
Term loan due within 12 months	26,375	26,375
	<u>186,610</u>	<u>143,978</u>
Long Term		
Term loan due after 12 months	102,998	69,171
	<u>289,608</u>	<u>213,149</u>

Included in the above Group borrowings in foreign denomination were as follows:

	As at 30/06/2017	As at 30/06/2016
Unsecured Short term – revolving credit		
Foreign currency	<u>US\$ 10,000,000</u>	<u>US\$ 10,000,000</u>
RM equivalent	<u>RM 42,935,000</u>	<u>RM 40,717,000</u>
Average exchange rate RM to US\$ 1.00	<u>RM 4.2935</u>	<u>RM 4.0717</u>

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 June 2017.

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	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	45,510	40,968	92,045	92,274
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>7.12</u>	<u>6.41</u>	<u>14.39</u>	<u>14.43</u>

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

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

	Financial period ended	
	30/06/2017	30/06/2016
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	872,395	722,642
Unrealised	(39,859)	(31,975)
	<hr/>	<hr/>
Share of retained earnings of joint venture – realised	832,536	690,667
	(19)	(0)
	<hr/>	<hr/>
Less Consolidation adjustment	832,517	690,667
	(27,328)	(20,339)
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	805,189	670,328
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On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
24 August 2017