

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 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 year ended 31 December 2017.

5. Changes in Material Estimates

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

On 23 November 2017, the directors approved an interim tax exempt dividend of 5.0 sen per ordinary shares for the financial year ended 31 December 2017. The dividend of RM 31,973,395 was paid on 10 January 2018.

There were no other dividends declared or paid in the current quarter and financial year ended 31 December 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 year ended					
- 31/12/2017					
Revenue	161,957	1,716,438	76,361	19,094	1,973,850
Intercompany elimination	0	0	0	(16,405)	(16,405)
	<u>161,957</u>	<u>1,716,438</u>	<u>76,361</u>	<u>2,689</u>	<u>1,957,445</u>
Profit before tax	<u>16,229</u>	<u>209,854</u>	<u>2,948</u>	<u>575</u>	<u>229,606</u>
- 31/12/2016					
Revenue	160,561	1,439,642	64,781	318,543	1,983,527
Intercompany elimination	0	0	0	(315,531)	(315,531)
	<u>160,561</u>	<u>1,439,642</u>	<u>64,781</u>	<u>3,012</u>	<u>1,667,996</u>
Profit before tax	<u>30,638</u>	<u>178,578</u>	<u>2,658</u>	<u>(1,866)</u>	<u>210,008</u>
Quarter ended					
- 31/12/2017 (4Q17)					
Revenue	42,186	414,291	20,225	5,302	482,004
Intercompany elimination	0	0	0	(4,231)	(4,231)
	<u>42,186</u>	<u>414,291</u>	<u>20,225</u>	<u>1,071</u>	<u>477,773</u>
Profit before tax	<u>4,421</u>	<u>53,549</u>	<u>644</u>	<u>383</u>	<u>58,997</u>
- 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 tax	<u>8,721</u>	<u>43,034</u>	<u>1,286</u>	<u>1,352</u>	<u>54,393</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 January 2018 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

On 04 December 2017, the Group acquire an additional 26.97% equity of Cleanera HK Limited (Incorporated in Hong Kong) for a cash consideration of RM 6,509,524. This acquisition has increased its shareholdings from 55% to 82% in the subsidiary Company of Cleanera HK Limited.

There were no other 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 2017.

12. Contingent Liabilities

As at 31 December 2017, the Company had unsecured outstanding contingent liabilities amounting to RM393.808 million (31 Dec 2016: RM162.154 million) being corporate guarantees given to financial institutions for banking facilities granted to certain subsidiaries.

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

	As at 31/12/2017 RM'000	As at 31/12/2016 RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	4,234	4,234

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

	Individual Period (4th Quarter)			Cumulative Period		
	Current Year	Preceding Year Corresponding Quarter	Changes %	Current Year	Preceding Year	Changes %
	Quarter	Quarter		Year	Year	
	31/12/17 RM '000	31/12/16 RM '000		31/12/17 RM '000	31/12/16 RM '000	
Revenue	477,773	438,187	9.03	1,957,445	1,667,996	17.35
Operating profit	62,253	57,000	9.22	240,944	220,043	9.50
Profit Before Interest and Tax	62,253	57,000	9.22	240,944	220,043	9.50
Profit before tax	58,997	54,393	8.46	229,606	210,008	9.33
Profit after tax	46,464	45,370	2.41	185,583	171,048	8.50
Profit attributed To Ordinary Equity Shareholders	45,907	44,633	2.85	183,944	167,063	10.10

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial year ended - 31/12/2017					
Revenue	161,957	1,716,438	76,361	19,094	1,973,850
Intercompany elimination	0	0	0	(16,405)	(16,405)
	161,957	1,716,438	76,361	2,689	1,957,445
Profit before tax	16,229	209,854	2,948	575	229,606
PBT/Revenue %	10.02	12.23	3.86	21.38	11.73
Financial year ended - 31/12/2016					
Revenue	160,561	1,439,642	64,781	318,543	1,983,527
Intercompany elimination	0	0	0	(315,531)	(315,531)
	160,561	1,439,642	64,781	3,012	1,667,996
Profit before tax	30,638	178,578	2,658	(1,866)	210,008
PBT/Revenue %	19.08	12.40	4.10	na	12.58
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	0.87	19.23	17.88	(10.72)	17.35
Profit before tax	(47.03)	17.51	10.91	na	9.33

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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					
- 31/12/2017 (4Q17)					
Revenue	42,186	414,291	20,225	5,302	482,004
Intercompany elimination	0	0	0	(4,231)	(4,231)
	<u>42,186</u>	<u>414,291</u>	<u>20,225</u>	<u>1,071</u>	<u>477,773</u>
Profit before tax	<u>4,421</u>	<u>53,549</u>	<u>644</u>	<u>383</u>	<u>58,997</u>
PBT/Revenue %	10.48	12.93	3.19	35.75	12.35
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 tax	<u>8,721</u>	<u>43,034</u>	<u>1,286</u>	<u>1,352</u>	<u>54,393</u>
PBT/Revenue %	22.80	11.30	8.21	39.88	12.41
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	10.30	8.77	29.11	(68.41)	9.03
Profit before tax	(49.30)	24.43	(49.92)	(71.67)	8.46

Comparison of Current Year To Date ("FY2017") with Preceding Year To Date ("FY2016")

For the 12 months financial year ended FY2017, the Group recorded revenues of RM1.957 billion, a 17.35% increase as compared with RM1.668 billion in the preceding FY2016. Profit before tax (PBT) also registered higher at RM229.6 million, representing an increase of 9.33% compared with RM210.0 million in the previous year corresponding 12-month period. The improved performance in FY2017 was mainly attributable to the improved performance of the Gloves division as compared with the previous financial year ended FY2016.

The Gloves division's revenue for the FY2017 period was up 19.23% to RM1.716 billion from RM1.440 billion in FY2016. Its PBT also grew to RM209.9 million, up 17.51% from RM178.6 million recorded in the previous year corresponding YTD. The division's improvement in revenues were a result of higher average selling prices (ASP +7%) arising from the increase in raw material prices, and higher volume sold (Vol. +6%) compared to FY2016. The improvement in PBT for the Gloves division were driven by continued strong demand growth for its glove products on the back of the increase in volume sold with the production plants continuing to operate at full capacity, improvement in manufacturing efficiency, increased automation and effective cost controls, despite the higher raw material prices (NR + 30.0%, NBR +14.1%).

The TRPs division recorded revenues of RM162.0 million for the FY2017 period as compared with RM160.6 million in FY2016, an increase of 0.87%. The division's revenues remained relatively unchanged. The PBT was RM16.2 million, a decrease of 47.03% as compared to RM30.6 million in FY2016. PBT was lower mainly due to the market remained challenging and a surge in raw material prices (SMR10 + 24.4%). There was also a provision for doubtful debts amounting to RM2.066 million expensed in the current quarter.

For FY2017, the Cleanroom division recorded higher revenues of RM76.4 million from RM64.8 million, while PBT also increased to RM2.9 million from RM2.7 million compared to FY2016.

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Explanatory Notes**14.1 Review of Results (continued)****Comparison of Current Quarter ("4Q17") with Previous Year Corresponding Quarter ("4Q16")**

On a year-on-year basis, the Group recorded higher revenues of RM482.0 million in the current 4Q17 quarter as compared with RM442.4 million in 4Q16, an increase of 9.03%, while PBT was RM59.0 million compared with RM54.4 million in 4Q16, an increase of 8.46%. The improved year-on-year performance was mainly attributable to the improved performance in the Gloves division.

The Gloves division's revenue increased by 8.77% to RM414.3 million, compared with RM380.9 million in 4Q16, while PBT also registered higher by 24.43% to RM53.6 million in the current quarter as compared with RM35.0 million in the same quarter of the previous year. The improvement in revenues and PBT was achieved on the back of the increase in average selling prices (ASP +3%), increase in volume sold (Vol. + 5%), efficiency gains in the manufacturing process and increased automation as well as effective cost controls as compared with 4Q16.

The TRPs division's revenue of RM42.2 million was 10.30% higher as compared with the RM38.3 million in 4Q16. PBT was RM4.4 million in the current quarter compared to RM8.7 million in the previous year corresponding quarter, a decrease of 49.30%. The higher revenues were due to higher sales deliveries. PBT was lower due to stronger RM against the USD. There was also a provision for doubtful debts amounting to RM2.066 million expensed in the current quarter.

The Cleanroom division recorded higher revenues of RM20.2 million from RM15.7 million in 4Q16, while PBT was RM0.64 million from RM1.29 million in the same quarter of the previous year.

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 31/12/17 RM '000	Immediate Preceding Quarter 30/09/17 RM '000	Changes %
Revenue	477,773	489,180	(2.33)
Operating profit	62,253	61,312	1.53
Profit Before			
Interest and Tax	62,253	61,312	1.53
Profit before tax	58,997	58,195	1.38
Profit after tax	46,464	46,025	0.95
Profit attributed			
To Ordinary Equity Shareholders	45,907	45,680	0.50

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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 - 31/12/2017 (4Q17)					
Revenue	42,186	414,291	20,225	5,302	482,004
Intercompany elimination	0	0	0	(4,231)	(4,231)
	<u>42,186</u>	<u>414,291</u>	<u>20,225</u>	<u>1,071</u>	<u>477,773</u>
Profit before tax	<u>4,421</u>	<u>53,549</u>	<u>644</u>	<u>383</u>	<u>58,997</u>
PBT/Revenue %	10.48	12.93	3.19	35.75	12.35
Preceding Quarter ended - 30/09/2017 (3Q17)					
Revenue	37,931	425,921	24,796	4,456	493,104
Intercompany elimination	0	0	0	(3,924)	(3,924)
	<u>37,931</u>	<u>425,921</u>	<u>24,796</u>	<u>532</u>	<u>489,180</u>
Profit before tax	<u>3,632</u>	<u>53,618</u>	<u>794</u>	<u>151</u>	<u>58,195</u>
PBT/Revenue %	9.58	12.59	3.20	28.38	11.90
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	11.22	(2.73)	(18.43)	101.32	(2.33)
Profit before tax	21.72	(0.13)	(18.89)	153.64	1.38

**Changes in Results Against Preceding Quarter
Comparison of Current Quarter (“4Q17”) with immediate Preceding Quarter (“3Q17”)**

On a quarter-on-quarter basis, revenue remained relatively unchanged recording a marginal decrease of 2.33%, with PBT increasing by 1.38% mainly attributable to the improvement in the TRPs division.

On a sequential basis, despite the Gloves division’s marginal decrease in revenues of 2.73% to RM414.3 million from RM425.9 million in 3Q17, PBT remained stable at RM53.5 million compared with RM53.6 million in the immediate preceding quarter driven by the improvement in manufacturing efficiency, increased automation, and effective cost controls. Average selling prices (ASP) and sales volumes remained stable on the back of continued strong demand for gloves, with the production plants continuing to operate at full capacity.

The TRPs division recorded revenues of RM42.2 million in the current quarter, an increase of 11.22% compared with the RM37.9 million recorded in 3Q17, while PBT came in at RM4.4 million compared with RM3.6 million in 3Q17, an increase of 21.72% quarter-on-quarter. The better performance was mainly attributable to higher sales deliveries.

The Cleanroom division recorded revenues of RM20.2 million from RM24.8 million in 3Q17, while PBT was RM0.79 million from RM0.64 million in the immediate preceding quarter.

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14.3 Current Year Prospects

The glove industry's prospects remain robust with continued strong demand for the Group's glove products. With the existing production plants running at full capacity, the latest Plant 16 located along Jalan Meru which has been completed and will be contributing to group earnings in 2018, will underpin the Group's growth going forward.

Additionally, construction works for Plant 17 and 18, also along Jalan Meru have commenced and expected to be completed by 2018. These 2 new plants would be capable of producing up to 4.5 billion pieces of nitrile gloves per annum once completed.

Moving further forward, the earmarked Bestari Jaya land which measures approximately 56 acres and the latest industrial land acquisition in Kuala Langat of approximately 98 acres is testament to the Group's objective of long-term sustainable growth.

For the Group's Technical Rubber Products, although challenging and subject to rubber price fluctuations, the Group views this division as stable and is optimistic of the performance for the division.

The year 2017 was characterised by the sharp rise in raw material prices as well as the increased competitive environment. Against this challenging backdrop, the Group has nevertheless continued to pursue its growth strategies. With the Group's expansion plans and continued strong demand for gloves, coupled with the on-going transformation program and improvement in operating efficiency, Management is optimistic of the performance for FY2018.

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 year ended</u>	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RM'000	RM'000	RM'000	RM'000
Tax expense	15,060	3,564	39,355	29,046
Deferred taxation	(2,527)	5,459	4,668	9,914
	<u>12,533</u>	<u>9,023</u>	<u>44,023</u>	<u>38,960</u>

The effective income tax rate for the current quarter and financial year ended 31 December 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 year ended 31 December 2017.

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Explanatory Notes**14.7 Group Borrowings**

a) The Group borrowings were as follows:

	Total Unsecured	
	As at 31/12/2017	As at 31/12/2016
	RM	RM
	RM'000	RM'000
Short Term		
Revolving credit	78,595	28,000
Bankers' acceptances	90,193	51,637
Term loans due within 12 months	<u>37,982</u>	<u>26,566</u>
	<u>206,770</u>	<u>106,203</u>
Long Term		
Term loans due after 12 months	<u>187,039</u>	<u>55,951</u>
	<u><u>393,809</u></u>	<u><u>162,154</u></u>

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

	As at 31/12/2017	As at 31/12/2016
Unsecured Short term – revolving credit		
Foreign currency	<u>US\$10,000,000</u>	<u>US\$ nil</u>
RM equivalent	<u>RM 40,595,000</u>	<u>RM nil</u>
Average exchange rate RM to US\$ 1.00	<u>RM 4.0595</u>	<u>RM nil</u>

Other than the above, all the other borrowings were denominated in Ringgit Malaysia.

b) There were no debt securities for the financial year ended 31 December 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 year ended	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	<u>45,907</u>	<u>44,633</u>	<u>183,944</u>	<u>167,063</u>
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>7.18</u>	<u>6.98</u>	<u>28.77</u>	<u>26.13</u>

On behalf of the Board

Tan Sri Dato' Lim Kuang Sia
Managing Director
22 February 2018