

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2018

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 2017.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2017 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 2018.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period ended 31 March 2018 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 31 March 2018.

7. Dividend

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 ended 31 March 2018.

On 12 April 2018, the directors recommended a final tax exempt dividend of 6.0 sen per ordinary share for the financial year ended 31 December 2017. This was approved at the 2018 Annual General Meeting and the dividend of RM 38,368,074 will be paid on 3 July 2018.

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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
Quarter and financial period ended - 31/03/2018					
Revenue	43,576	419,311	20,372	4,644	487,903
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>43,576</u>	<u>419,311</u>	<u>20,372</u>	<u>919</u>	<u>484,178</u>
Profit before taxation	<u>5,042</u>	<u>47,468</u>	<u>416</u>	<u>106</u>	<u>56,032</u>
- 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>

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 April 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

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 period ended 31 March 2018.

12. Contingent Liabilities

As at 31 March 2018, the Company had unsecured outstanding contingent liabilities amounting to RM421.148 million (31 Dec 2017: RM473.386 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 31/03/2018 RM'000	As at 31/12/2017 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**

	Quarter and Financial Period		
	ended 31/03/18 RM '000	ended 31/03/17 RM '000	Changes %
Revenue	484,178	499,978	(3.16)
Operating profit	56,957	58,721	(3.00)
Profit Before			
Interest and Tax	56,957	58,721	(3.00)
Profit before tax	53,032	56,330	(5.85)
Profit after tax	45,289	47,252	(4.15)
Profit attributed			
To Ordinary Equity Shareholders	44,514	46,535	(4.34)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Quarter and financial period ended - 31/03/2018					
Revenue	43,576	419,311	20,372	4,644	487,903
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>43,576</u>	<u>419,311</u>	<u>20,372</u>	<u>919</u>	<u>484,178</u>
Profit before taxation	<u>5,042</u>	<u>47,468</u>	<u>416</u>	<u>106</u>	<u>53,032</u>
PBT/Revenue %	11.57	11.32	2.04	11.53	10.95
- 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>
PBT/Revenue %	11.19	11.55	4.68	10.00	11.27
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(9.44)	(3.25)	11.78	283.90	(3.16)
Profit before tax	(6.33)	(5.20)	(5.12)	341.67	(5.85)

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Explanatory Notes

14.1 Review of Results (continued)

Comparison of Current quarter and financial period to date ("QFY2018") with Preceding year quarter and financial period to date ("QFY2017")

The Group delivered revenue of RM 484.18 million for the quarter and financial period ended 31 March 2018 compared with RM 499.98 million for the corresponding period in 2017, a decrease of 3.16%. Profit before taxation was RM53.03 million as compared with RM56.33 million for the corresponding period last year.

The Gloves division's revenue for the period was RM419.31 million compared with RM433.39 million in 2017. Its PBT was RM47.47 million compared with RM50.07 million recorded in the previous year. The slight decrease in the divisions performance was mainly attributable to the time-lag in cost-pass-through arising from the increase in price of natural gas. The demand for glove products continues to be strong with higher volume sold (+2.7%) during the quarter as compared to the immediate preceding quarter, with all our production lines running at full capacity, except the latest Plant 16 which had started commissioning in December 2017, had been facing some issues with glove formers. As such there were no profit contributions yet from this plant in the first quarter of 2018.

The TRPs division recorded revenues of RM43.58 million for the current quarter and financial period ended 31 March 2018 as compared with RM48.12 million in 2017, a decreased of 9.44%. The PBT was RM5.04 million from RM5.38 million recorded in the previous year corresponding quarter. The PBT was lower mainly due to the market remaining challenging.

The Cleanroom division recorded revenues of RM20.37 million from RM18.23 million while PBT was RM0.42 million from RM0.85 million compared to the corresponding quarter and period in 2017.

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

	Immediate		Changes %
	Current Quarter 31/03/2018 RM '000	Preceding Quarter 31/12/2017 RM '000	
Revenue	484,178	477,773	1.34
Operating profit	56,957	62,253	(8.51)
Profit Before			
Interest and Tax	56,957	62,253	(8.51)
Profit before tax	53,032	58,997	(10.11)
Profit after tax	45,289	46,464	(2.53)
Profit attributed			
To Ordinary Equity Shareholders	44,514	45,907	(3.03)

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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. (continue)**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Current Quarter ended - 31/03/2018 (1Q18)					
Revenue	43,576	419,311	20,372	4,644	487,903
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>43,576</u>	<u>419,311</u>	<u>20,372</u>	<u>919</u>	<u>484,178</u>
Profit before taxation	<u>5,042</u>	<u>47,468</u>	<u>416</u>	<u>106</u>	<u>53,032</u>
PBT/Revenue %	11.57	11.32	2.04	11.53	10.95
Preceding 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
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	3.29	1.21	0.07	(14.19)	1.34
Profit before tax	14.05	(11.36)	(35.40)	(72.32)	(10.11)

Comparison of Current Quarter (“1Q18”) with immediate Preceding Quarter (“4Q17”)

On a quarter-on-quarter basis, revenue was up 1.34% to RM484.18 million as compared with RM 477.77 million in the immediate preceding quarter, while PBT was lower by 10.11% to RM 53.03 million from RM58.99 million.

On a sequential basis, the Gloves division recorded an increase in revenues of 1.21% to RM419.31 million from RM414.29 million in 4Q17. PBT however decreased by 11.36% to RM47.47 million compared with RM53.55 million in the immediate preceding quarter, mainly attributable to the time lag in cost-pass-through arising from the increased in natural gas price. The demand for glove products continues to be strong with higher volume sold (+3.4%) during the quarter as compared to the immediate preceding quarter, with all our production lines running at full capacity, except the latest Plant 16 which had started commissioning in December 2017, had been facing some issues with glove formers. As such there were no profit contributions yet from this plant in the first quarter of 2018.

The TRPs division recorded revenues of RM43.58 million in the current quarter, an increase of 3.29% compared with the RM42.19 million recorded in 4Q17, while PBT came in at RM5.04 million compared with RM4.42 million in the immediate preceding quarter, an increase of 14.05% quarter-on-quarter. The better performance was mainly attributable to higher sales deliveries.

The Cleanroom division recorded revenues of RM20.37 million from RM20.23 million in 4Q17, while PBT was RM0.42 million from RM0.64 million in the immediate preceding quarter.

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Explanatory Notes

14.3 Current Year Prospects

The demand for the Group's glove products continues to be strong. The Group's latest Plant 16, which is a model plant that will focus on the production of nitrile gloves, utilises high-speed dipping technology with a high degree of automation to reduce dependence on manual labour. The glove former issue that had affected Plant 16 has been resolved with all lines to be running by July 2018.

Construction works for Plant 17 and 18 are on-track and expected to be completed by the 3rd quarter of 2018 and 1st quarter of 2019 respectively. 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 Group's purchase of the piece land in Bidor, Perak (824 acres) for RM82.4 million in March 2018 is intended to accommodate our expansion in a centralised location (i.e. an integrated glove manufacturing facility) over the medium and longer term. The Group expects the expansion to take six to eight years to complete and the additional capacity which will come on-stream progressively, is projected to add a total additional output of 34 billion pieces of gloves per annum when completed. The land's strategic location with excellent connectivity and available sources of utilities (natural gas, electricity and water) and local manpower will facilitate the Group's expansion programme.

For the Group's Technical Rubber Products, the year 2018 will be challenging and subject to rubber price fluctuations, the Group views this division as stable and is optimistic of the performance.

With the Group's expansion plans and continued strong demand for gloves, coupled with our ongoing transformation program and improvements 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

	Current Quarter and financial period ended	
	31/03/2018	31/03/2017
	RM'000	RM'000
Tax expense	6,148	6,373
Deferred taxation	<u>1,595</u>	<u>2,705</u>
	<u>7,743</u>	<u>9,078</u>

The effective income tax rate for the current quarter and financial was lower than the statutory rate due to the availability of tax incentives.

14.6 Status of Corporate Proposal announced but not completed

On 22 February 2018, the Company announced the proposal to undertake a proposed subdivision of every 1 ordinary share in Kossan into 2 ordinary shares. This proposal was approved at the 2018 Extraordinary General Meeting held on 22 May 2018. The entitlement date of this proposal shall to be determined and announced later.

There were no other corporate proposals announced but not completed, for the current quarter and financial period ended 31 March 2018.

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Explanatory Notes**14.7 Group Borrowings**

a) The Group borrowings were as follows:

	Total Unsecured	
	As at	As at
	31/03/2018	31/12/2017
	RM'000	RM'000
Short Term		
Revolving credit	115,270	78,595
Bankers' acceptances	92,757	90,194
Term loans due within 12 months	<u>37,258</u>	<u>38,564</u>
	245,285	207,353
Long Term		
Term loans due after 12 months	<u>175,862</u>	<u>186,456</u>
	<u>421,147</u>	<u>393,809</u>

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

	As at	As at
	31/03/2018	31/12/2017
Unsecured Short term – revolving credit		
Foreign currency	<u>US\$20,000,000</u>	<u>US\$10,000,000</u>
RM equivalent	<u>RM 77,270,000</u>	<u>RM 40,595,000</u>
Average exchange rate RM to US\$ 1.00	<u>RM 3.8635</u>	<u>RM 4.0595</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 31 March 2018.

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	
	and financial period ended	
	31/03/2018	31/03/2017
	RM'000	RM'000
Profit after tax and minority interest	<u>44,514</u>	<u>46,535</u>
Basic earnings per share		
Basic number of ordinary shares in issue ('000)	639,468	639,468
Basic earnings per share (sen)	<u>6.96</u>	<u>7.28</u>

On behalf of the Board

Tan Sri Dato' Lim Kuang Sia
Managing Director
24 May 2018