

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2018

Explanatory Notes

1. Basis of Preparation

The unaudited interim financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards and paragraph 9.22 of the Main Marketing Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad. The accounting policies and method of computation adopted for the interim financial reports were consistent with new standards effective from 1/1/2018 inclusive of 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 30 June 2018.

5. Changes in Material Estimates

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

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 was paid on 3 July 2018.

There were no other dividends declared or paid in the current quarter and financial period ended 30 June 2018.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

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					
- 30/06/2018					
Revenue	88,112	851,673	39,671	9,658	989,114
Intercompany elimination	0	0	0	(8,149)	(8,149)
	<u>88,112</u>	<u>851,673</u>	<u>39,671</u>	<u>1,509</u>	<u>980,965</u>
Profit before tax	<u>13,151</u>	<u>93,805</u>	<u>1,542</u>	<u>(560)</u>	<u>107,938</u>
- 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>
Quarter ended					
- 30/06/2018					
Revenue	44,536	432,362	19,300	5,014	501,212
Intercompany elimination	0	0	0	(4,425)	(4,425)
	<u>44,536</u>	<u>432,362</u>	<u>19,300</u>	<u>589</u>	<u>496,787</u>
Profit before tax	<u>8,109</u>	<u>46,336</u>	<u>1,125</u>	<u>(666)</u>	<u>54,904</u>
- 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>657</u>	<u>17</u>	<u>56,084</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 July 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 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 2018.

12. Contingent Liabilities

As at 30 June 2018, the Company has unsecured outstanding contingent liabilities amounting to RM520.099 million (31 Dec 2017: RM473.386 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	
	30/06/2018 RM'000	31/12/2017 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
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Explanatory Notes**14. Additional Information required pursuant to MMLR.****14.1 Review of Results**

	Individual Period (2 nd Quarter)			Cumulative Period		
	Current Year Quarter 30/06/18 RM '000	Preceding Year Corresponding Quarter 30/06/17 RM '000	Changes %	Current Year to-date 30/06/18 RM '000	Preceding Year Corresponding Period 30/06/17 RM '000	Changes %
Revenue	496,787	490,514	1.28	980,965	990,492	(0.96)
Operating profit	58,969	58,659	0.53	115,929	117,378	(1.23)
Profit Before						
Interest and Tax	58,969	58,659	0.53	115,929	117,378	(1.23)
Profit before tax	54,904	56,084	(2.10)	107,938	112,413	(3.98)
Profit after tax	44,703	45,841	(2.48)	89,993	93,093	(3.33)
Profit attributed To Ordinary Equity Shareholders	43,443	45,510	(4.54)	87,958	92,045	(4.44)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial period ended					
- 30/06/2018					
Revenue	88,112	851,673	39,671	9,658	989,114
Intercompany elimination	0	0	0	(8,149)	(8,149)
	88,112	851,673	39,671	1,509	980,965
Profit before tax	13,151	93,805	1,542	(560)	107,938
Percentage %	14.93	11.01	3.89	3.71	11.00
- 30/06/2017					
Revenue	81,840	876,226	31,340	9,336	998,742
Intercompany elimination	0	0	0	(8,250)	(8,250)
	81,840	876,226	31,340	1,086	990,492
Profit before tax	8,175	102,687	1,510	41	112,413
Percentage %	9.99	11.72	4.82	3.78	11.35
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	7.66	(2.80)	26.58	38.95	(0.96)
Results	60.87	(8.65)	2.12	na	(3.98)

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**14.1 Review of Results (continue)****Quarter ended
- 30/06/2018 (2Q18)**

Revenue	44,536	432,362	19,300	5,014	501,212
Intercompany elimination	0	0	0	(4,425)	(4,425)
	<u>44,536</u>	<u>432,362</u>	<u>19,300</u>	<u>589</u>	<u>496,787</u>
Profit before tax	<u>8,109</u>	<u>46,336</u>	<u>1,125</u>	<u>(666)</u>	<u>54,904</u>

Percentage %	18.21	10.72	5.82	na	11.05
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**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>657</u>	<u>17</u>	<u>56,084</u>

Percentage %	8.28	11.88	5.01	2.01	11.43
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Comparison of financial period

Percentage change	%	%	%	%	%
Revenue	32.07	(2.36)	47.16	(30.38)	1.28
Profit before tax	190.44	(11.94)	71.23	na	(2.10)

Additional Information required by MMLR.**Comparison of Current Year To Date ("1H18") with Preceding Year To Date ("1H17")**

For the first 6 months of FY2018, the Group recorded revenue of RM980.97 million, a decrease of 0.96% as compared with RM990.49 million for the corresponding period in 2017. Profit before taxation(PBT) was RM107.94 million, easing by 3.98% as compared with RM112.41 million for the corresponding period last year. The lower year-to-date performance was mainly attributable to the lower contributions from the Gloves division which were largely offset by the improved performance in the TRPs division as compared with 1H17.

The Gloves division's revenue for the 1H18 was RM851.67 million, a decrease of 2.80% compared with RM876.23 million in 1H17. The PBT was RM93.81 million, 8.65% lower compared with RM102.69 million recorded in the corresponding period of the previous financial year. The decrease in the divisions performance was mainly attributable to the time-lag in cost-pass-through arising from the increase in natural gas prices (+21.91%) as well as the less favourable USD/MYR exchange rate (-10.32%). The demand for glove products for the 1st half of 2018 continues to be strong with stable average selling prices and higher volume sold (+5.8%) as compared with the preceding year period. In the period under review, raw material prices declined (NR -32.07%; NBR -3.28%).

The TRPs division's revenue rose 7.66% to RM88.11 million for the 1H18 as compared with RM81.84 million in 1H17, while PBT soared 60.87% to RM13.15 million from RM8.175 million recorded in the previous year corresponding period. The improved performance was mainly attributable to increased sales deliveries and sales of higher margin products.

The Clean-room division recorded revenue and PBT of RM39.67 million and RM1.54 million respectively in 1H18, as compared with RM31.34 million and RM1.51 million in 1H17.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**14.1 Review of Results (continue)****Comparison of Current Quarter ("2Q18") with Previous Year Corresponding Quarter ("2Q17")**

For the 2Q18, the Group recorded higher revenue of 1.28% to RM496.79 million as compared with RM490.51 million in 2Q17, while PBT eased 2.10% to RM54.90 million compared with RM56.08 million in the previous year.

The Gloves division's revenue eased 2.36% to RM432.36 million in 2Q18 from RM442.83 million in 2Q17, with PBT easing by 11.94% to RM46.34 million in the current quarter as compared with RM52.62 million from a year ago. The lower performance was mainly attributable to the time-lag in cost-pass-through arising from the increase in raw material costs (NBR +13.16%), natural gas prices (+21.91%) as well as the less favourable USD/MYR exchange rate (-8.82%) compared to the same quarter of the previous year. The demand for glove products in the current quarter continues to be strong with stable average selling prices and higher volume sold (Vol. +8.9%) compared to 2Q17.

The TRPs division's revenue of RM44.54 million was 32.07% higher as compared with RM33.72 million in 2Q17, while PBT soared 190.44% to RM8.11 million in the current quarter compared to RM2.79 million in the previous year corresponding quarter. The improved performance was mainly attributable to increased sales deliveries and sales of higher margin products.

The Cleanroom division recorded revenue and PBT of RM19.3 million and RM1.13 million respectively in 2Q18, as compared with from RM13.12 million and RM0.66 million in 2Q17.

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 Current Quarter 30/06/2018 RM '000	Preceding Quarter 31/03/2018 RM '000	Changes %
Revenue	496,787	484,178	2.60
Operating profit	58,969	56,957	3.53
Profit Before			
Interest and Tax	58,969	56,957	3.53
Profit before tax	54,904	53,032	3.53
Profit after tax	44,703	45,289	(1.29)
Profit attributed			
To Ordinary Equity			
Shareholders	43,443	44,514	(2.41)

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. (continue)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Current Quarter ended - 30/06/2018 (2Q18)					
Revenue	44,536	432,362	19,300	5,014	501,212
Intercompany elimination	0	0	0	(4,425)	(4,425)
	<u>44,536</u>	<u>432,362</u>	<u>19,300</u>	<u>589</u>	<u>496,787</u>
Profit before tax	<u>8,109</u>	<u>46,336</u>	<u>1,125</u>	<u>(666)</u>	<u>54,904</u>
PBT/Revenue %	18.21	10.72	5.82	na	11.05
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 tax	<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
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	2.20	3.11	(5.26)	(35.91)	2.60
Profit before tax	60.83	(2.38)	170.43	na	3.53

Comparison of Current Quarter (“2Q18”) with immediate Preceding Quarter (“1Q18”)

On a quarter-on-quarter basis, revenue grew 2.60% to RM496.79 million as compared with RM 484.18 million in the immediate preceding quarter, while PBT rose 3.53% to RM 54.90 million from RM53.03 million in 1Q18. The improved performance was mainly attributable to the improved performance in the TRPs division.

The Gloves division recorded an increase in revenue of 3.11% to RM432.36 million in 2Q18 from RM419.31 million in 1Q18. Meanwhile, PBT eased by 2.38% to RM46.34 million compared with RM47.47 million in the immediate preceding quarter, mainly attributable to the time lag in cost-pass-through arising from the increase in raw material costs (NBR +10.14%). The demand for glove products continues to be strong with higher average selling prices (ASP +3.4%) and higher volume sold (+2.8%) during the quarter under review as compared with 1Q18. With the exception of Plant 16 which had been fully commissioned in August 2018, all our production lines are running at full capacity. As such there were minimal contributions from Plant 16 in the 2nd quarter of 2018.

The TRPs division recorded revenue of RM44.54 million in the current quarter, an increase of 2.20% compared with the RM43.58 million recorded in 1Q18, while PBT soared by 60.83% to RM8.11 million compared with RM5.04 million in the immediate preceding quarter. The better performance was mainly attributable to higher sales deliveries and sales of higher margin products.

The Cleanroom division recorded revenue and PBT of RM19.3 million and RM1.13 million respectively in 2Q18, as compared with from RM20.37 million and RM0.42 million in 1Q18.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes

13.2 Current Year Prospects

The demand for the Group's glove products continues to be robust. The Group's latest Plant 16 is a model plant that will focus on the production of nitrile gloves and utilises high-speed dipping technology with a high degree of automation to reduce dependence on manual labour. Plant 16 which is capable of producing up to 3 billion pieces of gloves per annum, has been fully commissioned in August 2018.

Construction works for Plant 17 (1.5 billion pieces), 18 (2.5 billion pieces) and 19 (3 billion pieces) are underway and expected to be fully commissioned by the 4th quarter of 2018, 2nd quarter of 2019 and 4th quarter of 2019 respectively. Upon completion, these 3 new plants would be capable of producing an additional 7 billion pieces of gloves per annum, bringing the Group's total installed capacity to 32 billion pieces of gloves per year by FY2019.

Moving further ahead, the Group's purchase of a piece of 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, which is currently in the planning stage, to take eight years to complete and the additional capacity which will come on-stream progressively, is projected to add a total additional output of 45 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 longer-term expansion programme.

For the Technical Rubber Products division, the Group views this division as stable and is optimistic of the performance for the 2018 year.

With the Group's expansion plans, continued strong demand for our gloves, ongoing transformation program, improvements in operating efficiency and new plants coming on-stream, 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

	Quarter period ended		Financial period ended	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
	RM'000	RM'000	RM'000	RM'000
Tax expense - current	8,501	8,103	14,650	14,475
Deferred taxation	1,700	2,140	3,295	4,845
	<u>10,201</u>	<u>10,243</u>	<u>17,945</u>	<u>19,320</u>

The effective income tax rate for the current quarter and financial period ended 30 June 2018 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. The Subdivision has been completed following the listing of and quotation for 1,278,935,808 Subdivided Shares on the Main Market of Bursa Securities on 24 July 2018.

There were no other corporate proposals announced but not completed, for the current quarter and financial period ended 30 June 2018.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**14.7 Group Borrowings**

a) The Group borrowings as at 30 June 2018 were as follows:

	Total Unsecured	
	As at 30/06/2018 RM'000	As at 31/12/2017 RM'000
Short Term		
Revolving credit	117,000	78,595
Bankers' acceptances	109,718	90,194
Term loans due within 12 months	<u>48,534</u>	<u>38,564</u>
	<u>275,252</u>	<u>207,353</u>
Long Term		
Term loans due after 12 months	<u>244,847</u>	<u>186,456</u>
	<u>520,099</u>	<u>393,809</u>

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

	As at 30/06/2018	As at 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 81,190,000</u>	<u>RM 40,595,000</u>
Average exchange rate RM to US\$ 1.00	<u>RM 4.0595</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 30 June 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 ended		Financial period ended	
	30/06/2018 RM'000	30/06/2017 RM'000	30/06/2018 RM'000	30/06/2017 RM'000
Profit after tax and minority interest	43,443	45,510	87,958	92,045
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>6.79</u>	<u>7.12</u>	<u>13.75</u>	<u>14.39</u>

On behalf of the Board

Tan Sri Dato' Lim Kuang Sia
Managing Director
17 August 2018