

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 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 September 2018.

5. Changes in Material Estimates

There were no significant changes in estimates used in the current quarter and financial period ended 30 September 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 September 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 September 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
Financial period ended					
- 30/09/2018					
Revenue	134,237	1,357,450	60,697	14,352	1,566,736
Intercompany elimination	0	0	0	(11,874)	(11,874)
	<u>134,237</u>	<u>1,357,450</u>	<u>60,697</u>	<u>2,478</u>	<u>1,554,862</u>
Profit before tax	<u>20,032</u>	<u>156,037</u>	<u>2,466</u>	<u>(607)</u>	<u>177,928</u>
- 30/09/2017					
Revenue	119,772	1,302,147	56,135	13,792	1,491,846
Intercompany elimination	0	0	0	(12,174)	(12,174)
	<u>119,772</u>	<u>1,302,147</u>	<u>56,135</u>	<u>1,618</u>	<u>1,479,672</u>
Profit before tax	<u>11,807</u>	<u>156,305</u>	<u>2,304</u>	<u>192</u>	<u>170,608</u>
Quarter ended					
- 30/09/2018 (3Q18)					
Revenue	46,125	505,778	21,025	4,694	577,622
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>46,125</u>	<u>505,778</u>	<u>21,025</u>	<u>969</u>	<u>573,897</u>
Profit before tax	<u>6,882</u>	<u>63,068</u>	<u>923</u>	<u>(47)</u>	<u>70,826</u>
- 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>

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 October 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 September 2018.

12. Contingent Liabilities

As at 30 September 2018, the Company has unsecured outstanding contingent liabilities amounting to RM498.936 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 financial period ended	
	30/09/2018	31/12/2017
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	4,234	4,234

14. Additional Information required pursuant to MMLR.
14.1 Review of Results

	Individual Period (3 rd Quarter)			Cumulative Period		
	Current Year Quarter 30/09/18 RM '000	Preceding Year Corresponding Quarter 30/09/17 RM '000	Changes %	Current Year to-date 30/09/18 RM '000	Preceding Year Corresponding Period 30/09/17 RM '000	Changes %
Revenue	573,897	489,180	17.32	1,554,862	1,479,672	5.08
Operating profit	76,467	61,312	24.72	192,094	178,691	7.50
Profit Before Interest and Tax	76,467	61,312	24.72	192,094	178,691	7.50
Profit before tax	70,826	58,195	21.70	177,928	170,608	4.29
Profit after tax	55,108	46,025	19.73	144,266	139,118	3.70
Profit attributed To Ordinary Equity Shareholders	54,146	45,680	18.53	141,269	137,724	2.57

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial period ended - 30/09/2018					
Revenue	134,237	1,357,450	60,697	14,352	1,566,736
Intercompany elimination	0	0	0	(11,874)	(11,874)
	134,237	1,357,450	60,697	2,478	1,554,862
Profit before tax	20,032	156,037	2,466	(607)	177,928
PBT/Revenue %	14.92	11.49	4.06	na	11.44
- 30/09/2017					
Revenue	119,772	1,302,147	56,135	13,792	1,491,846
Intercompany elimination	0	0	0	(12,174)	(12,174)
	119,772	1,302,147	56,135	1,618	1,479,672
Profit before tax	11,807	156,305	2,304	192	170,608
PBT/Revenue %	9.86	12.00	4.10	11.87	11.53
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	12.08	4.25	8.13	53.15	5.08
Results	69.66	(0.17)	7.03	na	4.29

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

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Quarter ended					
- 30/09/2018 (3Q18)					
Revenue	46,125	505,778	21,025	4,694	577,622
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>46,125</u>	<u>505,778</u>	<u>21,025</u>	<u>969</u>	<u>573,897</u>
Profit before tax	<u>6,882</u>	<u>63,068</u>	<u>923</u>	<u>(47)</u>	<u>70,826</u>
PBT/Revenue %	14.92	12.47	4.39	na	12.34
- 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 financial period					
Percentage change	%	%	%	%	%
Revenue	21.60	18.75	(15.21)	82.14	17.32
Profit before tax	89.48	17.62	16.25	na	21.70

Additional Information required by MMLR.**Comparison of Current Year To Date ("9M18") with Preceding Year To Date ("9M17")**

For the 9 months of FY2018, the Group recorded revenue of RM1,554.86 million, an increase of 5.08% as compared with RM1,479.67 million for the corresponding period in 2017. Profit before taxation (PBT) was RM177.93 million, rising by 4.29% as compared with RM170.61 million for the corresponding period last year. The improved year-to-date performance was mainly attributable to the higher contributions from the TRPs division as compared with 9M17.

The Gloves division's revenue for the 9M18 was RM1,357.45 million, an increase of 4.25% compared with RM1302.15 million in 9M17. The PBT was RM156.04 million, easing a negligible 0.17% compared with RM156.31 million recorded in the corresponding period of the previous financial year. The stable performance was mainly attributable to the continued strong demand for the Group's glove products, with higher average selling prices (+4.8%) and higher volume sold (+7.9%) as compared with the preceding year period. Plant 16 (P16) which is capable of producing up to 3 billion pieces of gloves per annum and which has been fully commissioned in August 2018, has started contributing positively to the Group's performance. This model plant is efficient, utilising high-speed dipping technology with a high degree of automation to reduce dependence on manual labour. The performance was achieved despite the increase in average natural gas (+22.52%) and nitrile (+8.47%) prices as well as the less favourable MYR/USD exchange rate (-8.23%). In the period under review, natural rubber prices declined (-29.69%).

The TRPs division's revenue rose 12.08% to RM134.24 million for the 9M18 as compared with RM119.77 million in 9M17, while PBT soared 69.66% to RM20.03 million from RM11.81 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 Cleanroom division recorded revenue and PBT of RM60.70 million and RM2.47 million respectively for 9M18, as compared with RM56.14 million and RM2.30 million in 9M17.

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Explanatory Notes**14.1 Review of Results (continue)****Comparison of Current Quarter ("3Q18") with Previous Year Corresponding Quarter ("3Q17")**

For the 3Q18, the Group recorded its highest quarterly revenue of RM573.90 million, an increase of 17.32% as compared with RM489.18 million in 3Q17, while PBT rose 21.70% to RM70.83 million in the current quarter as compared with RM58.20 million in the previous year.

The Gloves division's revenue rose 18.75% to RM505.78 million in 3Q18 from RM425.92 million in 3Q17, with PBT increasing by 17.62% to RM63.07 million in the current quarter as compared with RM53.62 million from a year ago. The improved performance was achieved on the back of continued strong demand for the Group's glove products, with higher average selling prices (+11.5%) and higher volume sold (+11.9%) as compared with the preceding year period. This was achieved despite the increase in natural gas (+23.74%) and nitrile (+38.35%) prices as well as the less favourable MYR/USD exchange rate (-3.93%). In the period under review, natural rubber prices declined (-23.67%).

The TRPs division's revenue of RM46.13 million was 21.60% higher as compared with RM37.93 million in 3Q17, while PBT soared 89.48% to RM6.88 million in the current quarter compared to RM3.63 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 RM21.03 million and RM0.92 million respectively in 3Q18, as compared with RM24.80 million and RM0.79 million in 3Q17.

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 30/09/2018 RM '000	Immediate Preceding Quarter 30/06/2018 RM '000	Changes %
Revenue	573,897	496,787	15.52
Operating profit	76,467	58,969	29.67
Profit Before Interest and Tax	76,467	58,969	29.67
Profit before tax	70,826	54,904	29.00
Profit after tax	55,108	44,703	23.28
Profit attributed To Ordinary Equity Shareholders	54,146	43,443	24.64

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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. (continue)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Current Quarter ended - 30/09/2018 (3Q18)					
Revenue	46,125	505,778	21,025	4,694	577,622
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>46,125</u>	<u>505,778</u>	<u>21,025</u>	<u>969</u>	<u>573,897</u>
Profit before tax	<u>6,882</u>	<u>63,068</u>	<u>923</u>	<u>(47)</u>	<u>70,826</u>
PBT/Revenue %	14.92	12.47	4.39	na	12.34
Preceding 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	5.83	na	11.05
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	3.57	16.98	8.94	64.52	15.52
Profit before tax	(15.13)	36.11	(17.96)	na	29.00

Comparison of Current Quarter (“3Q18”) with immediate Preceding Quarter (“2Q18”)

On a quarter-on-quarter basis, Group recorded its highest quarterly revenue of RM573.90 million in 3Q18, an increase of 15.52% as compared with RM496.79 million in 2Q18, while PBT surged 29.00% to RM70.83 million in the current quarter from RM54.90 million in the immediate preceding quarter. The improved performance was mainly attributable to the improved performance in the Gloves division.

The Gloves division’s revenue surpassed the half-a-billion ringgit mark to RM505.78 million in 3Q18, an increase of 16.98% from RM432.36 million in 2Q18. PBT surged 36.11% to RM63.07 million compared with RM46.34 million in the immediate preceding quarter. The improved performance was mainly attributable to the continued strong demand for the Group’s glove products with higher volume sold (+7.71%) arising from the new capacity coming onstream as well as existing plants running at full capacity, improved average selling prices (+1.8%), increased manufacturing and production efficiency and effective cost controls. Plant 16 (P16) which is capable of producing up to 3 billion pieces of gloves per annum and which has been fully commissioned in August 2018, has started contributing positively to the Group’s performance in the current quarter. The performance was achieved despite the increase in nitrile (+7.31%) prices in the current quarter as compared with 2Q18.

The TRPs division recorded revenue of RM46.13 million in the current quarter, an increase of 3.57% as compared with the RM44.54 million recorded in 2Q18, while PBT decreased to RM6.88 million compared with RM8.11 million in the immediate preceding quarter. The lower performance was mainly attributable to the sales mix of lower margin products in the current quarter as compared with 2Q18.

The Cleanroom division recorded revenue and PBT of RM21.03 million and RM0.92 million respectively in 3Q18 as compared with RM19.30 million and RM1.13 million in 2Q18.

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14.3 Current Year Prospects

The glove industry's prospects remain strong with continued growth in the demand for the Group's glove products.

Plant 17 (P17) which is capable of producing up to 1.5 billion pieces of gloves per annum has been fully commissioned in November 2018 and is expected to contribute positively to the Group's performance in the coming quarter.

Construction works for Plant 18 (2.5 billion pieces) and Plant 19 (3 billion pieces) are currently on-track, with expected full commissioning by the 2nd quarter of 2019 and 4th quarter of 2019 respectively.

Thereafter, the next phase of the Group's expansion programme will be focused on Bidor, Perak, following the purchase of the 824-acre land for RM87.4 million in March 2018. This piece of land is intended to accommodate the Group's 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 commence in 2020 and to take eight years to complete. 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 upon completion. The land's strategic location with excellent connectivity and readily 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 and new capacity coming on-stream, coupled with the continued strong demand for our gloves, ongoing transformation program and improvements in operating efficiency, Management is confident of achieving an improved performance in the final quarter of 2018.

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	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
	RM'000	RM'000	RM'000	RM'000
Tax expense	14,483	9,820	29,133	24,295
Deferred taxation	1,235	2,350	4,529	7,195
	<u>15,718</u>	<u>12,170</u>	<u>33,662</u>	<u>31,490</u>

The effective income tax rate for the current quarter and financial period ended 30 September 2018 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 September 2018.

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Explanatory Notes**14.7 Group Borrowings**

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

	Total Unsecured	
	As at 30/09/2018 RM'000	As at 31/12/2017 RM'000
Short Term		
Revolving credit	79,412	78,595
Bankers' acceptances	116,617	90,194
Term loans due within 12 months	<u>47,810</u>	<u>38,564</u>
	243,839	207,353
Long Term		
Term loans due after 12 months	<u>255,097</u>	<u>186,456</u>
	498,936	393,809

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

	As at 30/09/2018	As at 31/12/2017
Unsecured Short term – revolving credit		
Foreign currency	<u>US\$10,000,000</u>	<u>US\$10,000,000</u>
RM equivalent	<u>RM 41,412,500</u>	<u>RM 40,595,000</u>
Average exchange rate RM to US\$ 1.00	<u>RM 4.1413</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 September 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	
	30/09/2018 RM'000	30/06/2017 RM'000	30/09/2018 RM'000	30/06/2017 RM'000
Profit after tax and minority interest	<u>54,146</u>	<u>45,680</u>	<u>141,269</u>	<u>137,724</u>
Basic earnings per share				
Basic number of ordinary shares in issue ('000)	1,278,936	1,278,936	1,278,936	1,278,936
Basic earnings per share (sen)	<u>4.23</u>	<u>3.57</u>	<u>11.05</u>	<u>10.77</u>

On behalf of the Board

Tan Sri Dato' Lim Kuang Sia
Managing Director
16 November 2018