

**KOSSAN RUBBER INDUSTRIES BHD**

Company No. 48166-W  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2013****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 2012.

Unless otherwise described below, the adoption of the above pronouncements are expected to have no significant impact to the financial statements of the Group upon their initial application.

**2. Annual Audit Report**

The audit report of the audited financial statements for the year ended 31 December 2012 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 2013.

**5. Changes in Material Estimates**

There were no estimates used in the current quarter and financial year ended 31 December 2013 or in prior interim periods of the current financial year or prior financial year.

**6. Movement of Company's Securities****a) Movement of Companies Securities**

On 02 September 2013 the Company announced a proposed Bonus Issue, to be credited as fully paid-up at par, on the basis of one (1) Bonus Share for every one (1) Existing Share held by the entitled shareholders of the Company. The Bonus Issue exercise was completed on 8 November 2013 with the issuance of 319,733,952 Ordinary shares of RM0.50 each and the said Bonus Shares were listed on the Main Market of Bursa Malaysia Securities Berhad on 11 November 2013.

**b) Share Buy Back / Treasury Shares**

	<b>Units of Shares</b>	<b>Value RM '000</b>
As at beginning of period 01 January 2013	1,114,400	3,460
Disposed in the quarter and financial year ended 31 December 2013	<u>(1,114,400)</u>	<u>(7,600)</u>
As at end of 31 December 2013; Gain in Share Premium	-	4,140
	<u>                    </u>	<u>                    </u>

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**Explanatory Notes****Movement of Company's Securities (continue)**

The Company's treasury shares totalling 1,114,400 shares were fully sold through the Bursa Securities between 11 October 2013 and 31 October 2013. A net gain amounting of RM 4.140 million from the disposal of treasury shares was credited in the Share Premium Reserve account accordingly.

Other than the above Bonus Issue and share buy back and disposal disclosed herein, there were no other issuance and repayment of debt and equity securities, share cancellations and resale of treasury shares in the current quarter and financial year ended 31 December 2013.

**7. Dividend**

A final tax exempt dividend of 7.0 sen per ordinary share, in respect of the financial year ended 31 December 2012 amounting to RM 22,303,369 was paid on 16 July 2013.

On 22 November 2013, the directors approved an interim tax exempt dividend of 3.5 sen per share of RM 0.50 each for the financial year ended 31 December 2013. The net dividend of RM 22,381,377 was paid on 20 December 2013.

There were no other dividends declared or paid in the current quarter and financial year ended 31 December 2013.

**8. Segmental Reporting**

Analysis by activities	Unaudited financial period ended			
	31 December 2013		31 December 2012	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
<b>Manufacturing sector</b>				
Technical rubber division	160,906	20,743	141,317	17,249
Gloves division	1,117,481	159,916	1,074,734	121,099
Clean-room division	31,382	1,557	17,950	103
	<u>1,309,769</u>	<u>182,216</u>	<u>1,234,001</u>	<u>138,451</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 January 2014 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 significant 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 2013, other than the following;

<u>Date of event</u>	<u>Event</u>
10 June 2013	Acquisition of Assurguard Sdn Bhd a wholly owned subsidiary for RM 2.00

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**Explanatory Notes****12. Contingent Liabilities**

As at 31 December 2013, the Company has unsecured outstanding contingent liabilities amounting to RM 148.801 million (31 Dec 2012: RM 184.426 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	
	31/12/2013	31/12/2012
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>53,498</u>	<u>44,074</u>

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

	Quarter ended			Financial year ended		
	31/12/13	31/12/12	%	31/12/13	31/12/12	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Turnover						
Technical rubber division	43,876	35,184	24.70	160,906	141,317	13.86
Gloves division	274,049	277,821	( 1.36)	1,117,481	1,074,734	3.98
Clean-room division	9,458	5,570	69.82	31,382	17,950	74.83
	<u>327,383</u>	<u>318,575</u>	2.77	<u>1,309,769</u>	<u>1,234,001</u>	6.14
Net Profit Before Taxation						
Technical rubber division	5,422	6,848	(20.82)	20,743	17,249	20.26
Gloves division	40,228	33,444	20.28	159,916	121,099	32.05
Clean-room division	313	824	(62.01)	1,557	103	>100.00
	<u>45,963</u>	<u>41,116</u>	11.79	<u>182,216</u>	<u>138,451</u>	31.61

**Technical rubber division**

The higher turnover for the financial year 2013 was partly due to increased sales of infrastructure and automotive products. The higher profits for the financial year 2013 achieved was due to lower raw material prices and increased turnover. The whole financial year 2013 shows a better reflection of the performance of the division.

**Gloves division**

On a quarterly basis, turnover in monetary value showed a slight decline compared to the corresponding quarter in the preceding year. However actual quantity sold showed significant increases but not reflected due to the lower selling price (due to lower raw material price).

Profits before taxation in the current quarter and financial year was affected by the unrealised losses provision in foreign exchange derivatives and year-end translations of payables amounting to RM2.845 million. The better performance were due to lower cost of raw materials, better production efficiency and better product mix with higher sale of nitrile gloves.

**Clean-room division**

Better utilisation of newly installed facilities resulted in higher turnover. Profit has improved for the financial year 2013 due to higher efficiency and cost control. The financial year comparison is a better reflection of the performance of the division.

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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.**

<u>Group Results</u>	<b>Current quarter ended 31/12/2013</b>	<b>Preceding quarter ended 30/09/2013</b>		
	<b>RM '000</b>	<b>RM '000</b>	<b>%</b>	<b>change</b>
Turnover				
Technical rubber division	43,876	44,436	(	1.26)
Gloves division	274,049	276,390	(	0.85)
Clean-room division	9,458	12,721	(	25.64)
	<u>327,383</u>	<u>333,547</u>	(	1.85)
	%	%		%
Net Profit Before Taxation			turnover	turnover
Technical rubber division	5,422	6,822	12.36	15.35 (
Gloves division	40,228	39,993	14.68	14.47
Clean-room division	313	911	3.31	7.16 (
	<u>45,963</u>	<u>47,726</u>		65.64)

**Technical rubber division**

Turnover was fairly stable with a decreased of 1.26%. Profit before taxation decreased by 20.52% partly due to unrealised losses provision in foreign exchange derivatives amounting to RM 0.319 million.

**Gloves division**

The turnover is lower although quantity sold showed significant increases due to the lower selling prices arising from lower raw material price. However profits before taxation, based on the quantity sold, reflected the performance of the Group. The profit was also affected by unrealised losses provision in foreign exchange derivatives and year-end translations of payables amounting to RM2.845 million.

**Clean-room division**

The lower turnover resulted in lower profit before taxation.

**14.3 Current Year Prospects**

The continuing improvements in the USA market and recovery in the European economies will have a favourable impact on the Kossan Group as the Group exports a very substantial portion of its output to these countries. However the acute shortage of labour and increasing utility cost in Malaysia is a concern. Kossan Group has taken and will continue to take actions to reduce these impacts.

For the gloves division, the Group had installed fast lines which will reduce production cost. Continued investment in R & D will improve production processes, improve production quality, reduce production cost, develop new products, improve existing products and meet customers' stringent requirements. Engineering and automation inputs will reduce head counts in an environment of acute labour shortage and reduce utilities consumption of water, electricity and gas. Computerisation in automation will also reduce head count and administrative costs.

Labour, especially qualified and experience employee, is an essential key to the Group success. The Group continues to improve key personnel performance by providing in-house and external training. With the implementation of these key factors, the Group is optimistic of achieving good results in all divisions of the Group.

The technical rubber division have done well in 2013 and optimistically to do well in 2014.

The clean-room division continue to receive accreditation from multinational electronics companies and this will auger well for this division.

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**Explanatory Notes**

**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**

	<b>Current quarter ended 31/12/2013</b>	<b>Financial period ended 31/12/2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Tax expense - current	9,550	35,280
Tax expense – prior years overprovision	( 5,135)	( 5,135)
Deferred taxation	2,005	7,720
	<u>6,420</u>	<u>37,865</u>

The effective income tax rate for the current quarter and financial year ended 31 December 2013 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 2013.

**14.7 Group Borrowings**

a) The Group borrowings as at 31 December 2013 were as follows:

	<b>Total Unsecured RM'000</b>
<b>Short Term</b>	
Bank overdraft & revolving credit	46,033
Bankers' acceptance	51,662
Term loan due within 12 months	15,522
	<u>113,217</u>
Term loan due after 12 months	36,888
	<u>150,105</u>

Included in the above bank borrowings are revolving credit amounting to USD 13.0 million (31 Dec 2012: USD 13.0 million) and term loan amounting to USD 12.245 million (31 Dec 2012: USD 10.0 million) obtained by four subsidiaries of the Company. 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 2013.

**14.8 Material Litigation**

There were no pending material litigation since the last audited annual balance sheet date to the date of issue of the quarterly report.

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**Explanatory Notes**

**14.9 Earnings Per Share**

	<b>Quarter ended</b>		<b>Financial period ended</b>	
	<b>31/12/13</b>	<b>31/12/12</b>	<b>31/12/13</b>	<b>31/12/12</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Profit after tax and minority interest</b>	<b>38,556</b>	<b>29,656</b>	<b>140,645</b>	<b>102,163</b>
<b>a) Basic earnings per share</b>				
Basic number of ordinary shares in issue ('000)	639,468	639,468	639,468	639,468
Basic earnings per share (sen)	6.03	4.64	21.99	15.98

The ordinary shares in the quarter or financial year ended 31 December 2013 were diluted when the Bonus Issue exercise was completed on 8 November 2013 with the issuance of 319,733,952 Ordinary shares of RM0.50 each and the said Bonus Shares were listed on the Main Market of Bursa Malaysia Securities Berhad on 11 November 2013.

**14.10 Realised and Unrealised Retained Earnings**

	<b>Financial period ended</b>	
	<b>31/12/13</b>	<b>31/12/12</b>
	<b>(unaudited)</b>	<b>(audited)</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained earnings of Kossan Rubber Industries and its' subsidiaries		
Realised	418,749	466,938
Unrealised	( 23,897)	( 8,180)
	<u>394,852</u>	<u>458,758</u>
Less Consolidation adjustment	( 10,427)	( 10,427)
	<u><u>384,425</u></u>	<u><u>448,331</u></u>

On behalf of the Board

**Dato' Lim Kuang Sia**  
**Managing Director**  
**26 February 2014**