

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2014

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 2013.

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 2013 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 2014.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period ended 31 March 2014 or in prior interim periods of the current financial year or prior financial year.

6. Movement of Company's Securities

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 period ended 31 March 2014.

7. Dividend

On 23 April 2014, the directors approved a final tax exempt dividend of 3.5 sen per share of RM 0.50 each for the financial year ended 31 December 2013. Subject to members' approval at the forthcoming Annual General Meeting, the net dividend of RM 22,381,377 will be paid on 18 July 2014.

There were no other dividends declared or paid in the current quarter and financial period ended 31 March 2014.

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Explanatory Notes**8. Segmental Reporting**

Analysis by activities	Unaudited financial period ended			
	31 March 2014		31 March 2013	
	Revenue	Results	Revenue	Results
	RM '000	RM '000	RM '000	RM '000
Manufacturing sector				
Technical rubber division	37,071	4,335	35,403	4,337
Gloves division	260,406	42,222	286,023	40,028
Clean-room division	8,700	585	5,841	119
	<u>306,177</u>	<u>47,142</u>	<u>327,267</u>	<u>44,484</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 April 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 period ended 31 March 2014.

12. Contingent Liabilities

As at 31 March 2014, the Company has unsecured outstanding contingent liabilities amounting to RM 192.380 million (31 Dec 2013: RM 168.970 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	
	31/03/2014	31/12/2013
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>0</u>	<u>53,498</u>

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

	Current Quarter and financial period ended		
	31/03/14	31/03/13	%
	RM '000	RM '000	chg
Turnover			
Technical rubber division	37,071	35,403	4.71
Gloves division	260,406	286,023	(8.96)
Clean-room division	8,700	5,841	48.95
	<u>306,177</u>	<u>327,267</u>	(6.44)
Net Profit Before Taxation			
Technical rubber division	4,335	4,337	0.00
Gloves division	42,222	40,028	7.98
Clean-room division	585	119	>100.00
	<u>47,142</u>	<u>44,484</u>	5.98

Technical rubber division

Output, other than the infrastructure products, increased but due to the lower cost of raw materials, the increase in turnover was marginal.

The completion of the supply of infrastructure products in the last quarter of the preceding year, which has a relatively higher profit margin, has resulted in unchanged profit before taxation despite the higher turnover.

Gloves division

In the current quarter, the staggered conversion of 8 lines producing powdered natural latex gloves to produce powder free nitrile gloves and upgrading of operations has resulted in lower production and sales. The lower turnover was also due to lower price of raw materials.

The higher production efficiency and superior quality of the gloves produced and the right product mix had offset the lower turnover and increased profitability.

Clean-room division

This division continues to perform creditably, with increased turnover and profitability.

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

Group Results	Current quarter ended 31/03/14		Preceding quarter ended 31/12/13		% change
	RM '000	RM '000	RM '000	RM '000	
Turnover					
Technical rubber division	37,071		43,876		(15.51)
Gloves division	260,406		274,049		(4.98)
Clean-room division	8,700		9,458		(8.01)
	<u>306,177</u>		<u>327,383</u>		(6.47)
		%		%	%
Net Profit Before Taxation		turnover		turnover	change
Technical rubber division	4,335	11.69	5,422	12.36	(20.05)
Gloves division	42,222	16.21	40,228	14.68	4.96
Clean-room division	585	3.31	313	3.31	86.90
	<u>47,142</u>	15.40	<u>45,963</u>	14.04	2.57

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14.2 continue

Technical rubber division

The completed contracts to supply infrastructure products early in the preceding quarter caused a reduction in turnover and profitability.

Gloves division

In the current quarter, 8 lines producing powdered natural latex gloves were, on a staggered basis, converted into lines producing powder free nitrile gloves. Together with ongoing works to upgrade certain production lines this has contributed to lower production and sales.

Profitability was not affected due to the better efficiency, superior quality production and optimum product mix. In fact the ongoing automation and efficiency has generated better profit margins.

Clean-room division

The lower turnover in the quarter was due to the festive season but profitability improved due to better efficiency and product mix.

14.3 Current Year Prospects

Technical rubber division

Sale of industrial and automotive parts will continue to expand, whilst efforts to supply infrastructure products into the local and international markets is positive.

Clean-room division

The aggressive marketing of its quality products and increasing market acceptance of the products and their inherent superior quality will ensure continued growth and profitability.

Gloves division

The Group is positive of increased turnover and profitability in this division as world demand for gloves continues to expand.

The Group continues to expand its production operations through the installation of “state of the art” production lines and automation and upgrading of existing lines. The R & D section continues to develop new gloves, improves quality and production efficiency. The engineering section strives to improve production processes through automation to reduce cost and improve efficiency. These in-house activities had resulted in superior production environment, producing cost effective quality gloves. For the fiscal year, the Group will be commissioning three plants with a total of 17 “state of the art” fast production lines capable of producing 6 billion pieces of gloves.

Plant (1) with 5 lines had been commissioned in April 2014 and shall provide a small contribution towards sales and profit in the second quarter. Full production is expected in the second half of 2014.

Plant (2) with 6 lines is expected to be commissioned in July 2014 with contributions in the third/fourth quarter.

Plant (3) also with 6 lines, is expected to be commissioned in September or October 2014 with a small contribution in the fourth quarter.

The three plants, when fully operational in the fiscal year 2015, will have an installed capacity of 6 billion pieces of gloves. Together with the existing installed capacity of 16 billion pieces, the Group’s total installed capacity in 2015 would be 22 billion pieces of gloves per year.

While the increasing rise in production cost due to increase in wages and utilities cost is a concern, the Group will endeavour to overcome these impact through technology by the installation of new “state of the art” high efficient production lines and improvements to existing production lines.

The Group is optimistic, barring unforeseen circumstances, of continuing good performance for the balance of the fiscal year.

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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

	Current quarter and financial period ended 31/03/14 RM'000
Tax expense - current	7,912
Deferred taxation	1,905
	<u>9,817</u>

The effective income tax rate for the current quarter and financial period ended 31 March 2014 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 31 March 2014.

14.7 Group Borrowings

a) The Group borrowings as at 31 March 2014 were as follows:

	Total Unsecured RM'000
Short Term	
Bank overdraft & revolving credit	74,413
Bankers' acceptance	69,264
Term loan due within 12 months	15,409
	<u>159,086</u>
Term loan due after 12 months	34,926
	<u>194,012</u>

Included in the above bank borrowings are revolving credit amounting to USD 21.0 million (31 Dec 2013: USD 13.0 million) and term loan amounting to USD 8.0 million (31 Dec 2013: USD 8.0 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 period ended 31 March 2014.

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

	Current quarter and financial period ended	
	31/03/2014	31/03/2013
	RM'000	RM'000
Profit after tax and minority interest	36,833	33,224
Basic earnings per share		
Basic number of ordinary shares in issue ('000)	639,468	639,468
Basic earnings per share (sen)	5.76	5.20

14.10 Realised and Unrealised Retained Earnings

	Financial period ended	
	31/03/14	31/12/13
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries and its' subsidiaries		
Realised	455,614	416,876
Unrealised	(25,092)	(23,187)
	<u>430,522</u>	<u>393,689</u>
Less Consolidation adjustment	(13,488)	(13,488)
	<u>417,034</u>	<u>380,201</u>

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
23 May 2014