

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 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 30 June 2014.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period ended 30 June 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 30 June 2014.

7. Dividend

The proposed final tax exempt dividend of 3.5 sen per share of RM 0.50 each for the financial year ended 31 December 2013 was approved at the Annual General Meeting of shareholders on 25 June 2014. The net dividend amounting to RM 22,381,377 was paid on 18 July 2014.

There were no other dividends declared or paid in the current quarter and financial period ended 30 June 2014.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**8. Segmental Reporting**

Analysis by activities	Unaudited financial period ended			
	30 June 2014		30 June 2013	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
Manufacturing sector				
Technical rubber division	80,073	9,421	72,594	8,499
Gloves division	512,059	81,671	567,043	79,695
Clean-room division	17,871	854	9,203	334
	<u>610,003</u>	<u>91,946</u>	<u>648,840</u>	<u>88,528</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 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 30 June 2014.

12. Contingent Liabilities

As at 30 June 2014, the Company has unsecured outstanding contingent liabilities amounting to RM 164.756 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	
	30/06/2014 RM'000	31/12/2013 RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>0</u>	<u>53,498</u>

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

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

	Quarter ended			Financial period ended		
	30/06/14	30/06/13	%	30/06/14	30/06/13	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Turnover						
Technical rubber divisions	43,002	37,191	15.62	80,073	72,594	10.30
Gloves divisions	251,653	281,020	(10.45)	512,059	567,043	(9.70)
Clean-room division	9,171	3,362	>100.00	17,871	9,203	94.19
	<u>303,826</u>	<u>321,573</u>	(5.52)	<u>610,003</u>	<u>648,840</u>	(5.99)
Net Profit Before Taxation						
Technical rubber divisions	5,086	4,162	22.20	9,421	8,499	10.85
Gloves divisions	39,289	39,667	(0.95)	81,671	79,695	2.48
Clean-room division	430	215	100.00	854	334	>100.00
	<u>44,805</u>	<u>44,044</u>	1.73	<u>91,946</u>	<u>88,528</u>	3.86

Technical rubber division

The increase in turnover in the current quarter and financial period over last year's corresponding results was attributed to greater export of automotive parts and marine and dock fenders. The profit before taxation increases in tandem with increased turnover.

Gloves division

One of our plants in Jeram, Klang experienced production interruption due to state-wide water rationing in April and during the four weeks water rationing, some production lines have to be put idle and this had resulted production output loss of approximately RM 18.0 million; and directly affected our sales and earnings during the quarter. Lower raw material price was another factor of lower sales value.

Nevertheless the Group improved production efficiency and higher product-mix in nitrile gloves had offset the lower turnover and at same time, enhanced the Group's overall profitability.

Clean-room division

This division continues to perform to expectation, 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.

<u>Group Results</u>	Current quarter		Preceding quarter		% change
	ended 30/06/14		ended 31/03/14		
	RM '000		RM '000		
Turnover					
Technical rubber division	43,002		37,071	16.00	
Gloves division	251,653		260,406	(3.36)	
Clean-room division	9,171		8,700	5.41	
	<u>303,826</u>		<u>306,177</u>	(0.77)	
		%		%	
Net Profit Before Taxation		turnover		turnover	change
Technical rubber division	5,086	11.83	4,335	11.69	17.32
Gloves division	39,289	15.61	42,382	16.28	(7.30)
Clean-room division	430	4.69	424	4.87	1.41
	<u>44,805</u>	14.75	<u>47,141</u>	15.39	(4.96)

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes

14.2 continue

Technical rubber division (“TRPs”)

Higher export sales in automotive parts and large dock fenders are the key contributor to higher profit in our TRPs division. Consistently low raw material prices and coupled with our cost control measures have put us in a more competitive position in the world market and lead to more orders from overseas customers for the two quarters under review.

Gloves division

The Group’s production output was slightly affected during the state-wide water rationing in the month of April. In this production interruption, our output value was reduced by approximately RM18.0 million and lead to lower profit margin during the quarter.

Clean-room division

Turnover and profitability was consistent and within managements expectations.

14.3 Current Year Prospects

Technical rubber division

The lower cost of natural rubber and automation of operation process has reduced our cost and increased our competitiveness of automotive parts and infrastructure products into the international markets. Management expects the second half results to improve positively.

Clean-room division

The division is undergoing expansion in aggressive marketing in Asia and China, the major user of clean-room products. Continuing certification and acceptance of our 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 grow. Moving into second half of 2014, 3 plants with a total of 17 advanced production lines which is capable of producing 6 billion pieces of gloves will be completed. The construction of plants and commissioning of lines are on schedule as per management’s capacity planning.

Plant (1) with 5 lines was completed in June and having full commercial production in August 2014. As for the remaining 2 plants i.e. Plant (2) and (3) with a total of 12 lines are expected to be delivered in September and November; and scheduled for full commercial production in November 2014 and January 2015 respectively.

These three plants, when fully operational in the fiscal year of 2015, will enlarge the Group’s installed capacity from the existing of 16 billion to 22 billion pieces of gloves per annum and will underpin a stronger performance for 2015.

The Group is vigilant to escalating production cost due to increasing wages and higher utilities cost; and always take these challenges as motivation to improve further. In order to minimise the impact from higher production cost, the Group continue to place great efforts in technology by developing fast speed and more efficient production lines to stay competitive. Revamp works are also actively carried out on existing production lines to improve its efficiency and productivity.

Barring any unforeseen circumstances, the Group is optimistic to deliver a stronger set of performance in the second half of 2014.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

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 ended 30/06/14 RM'000	Financial period ended 30/06/14 RM'000
Tax expense - current	7,646	15,558
Deferred taxation	1,870	3,775
	<u>9,516</u>	<u>19,333</u>

The effective income tax rate for the current quarter and financial period ended 30 June 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 30 June 2014.

14.7 Group Borrowings

a) The Group borrowings as at 30 June 2014 were as follows:

	Total Unsecured RM'000
Short Term	
Bank overdraft & revolving credit	58,359
Bankers' acceptance	65,071
Term loan due within 12 months	14,280
	<u>137,710</u>
Term loan due after 12 months	30,812
	<u>168,522</u>

Included in the above bank borrowings are revolving credit amounting to USD 16.0 million (31 Dec 2013: USD 13.0 million) and term loan amounting to USD 7.0 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 30 June 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.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

Explanatory Notes**14.9 Earnings Per Share**

	Quarter ended		Financial period ended	
	30/06/2014	30/06/2013	30/06/2014	31/06/2013
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	34,593	33,462	71,425	66,633
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)	5.41	5.23	11.17	10.42

14.10 Realised and Unrealised Retained Earnings

	Financial period ended	
	30/06/14	31/12/13
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its' subsidiaries		
Realised	492,076	416,876
Unrealised	(26,962)	(23,187)
	<hr/>	<hr/>
	465,114	393,689
Less Consolidation adjustment	(13,488)	(13,488)
	<hr/>	<hr/>
	451,626	380,201

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
20 August 2014