

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 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 September 2014.

5. Changes in Material Estimates

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

7. Dividend

A final tax exempt dividend of 3.5 sen per ordinary share of RM 0.50 each, in respect of the financial year ended 31 December 2013 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 September 2014.

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Explanatory Notes**8. Segmental Reporting**

Analysis by activities	Unaudited financial period ended			
	30 September 2014		30 September 2013	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
Manufacturing sector				
Technical rubber division	115,030	12,752	117,030	15,321
Gloves division	795,571	123,278	843,432	119,688
Clean-room division	27,754	1,176	21,924	1,244
	<u>938,355</u>	<u>133,206</u>	<u>982,386</u>	<u>136,253</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 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 September 2014.

12. Contingent Liabilities

As at 30 September 2014, the Company has unsecured outstanding contingent liabilities amounting to RM154.943 million (31 Dec 2013: RM168.970 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	
	30/09/2014 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>

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

	Quarter ended			Financial period ended		
	30/09/14	30/09/13	%	30/09/14	30/09/13	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Turnover						
Technical rubber division	34,957	44,436	(21.33)	115,030	117,030	(1.71)
Gloves division	283,511	276,390	2.58	795,571	843,432	(5.67)
Clean-room division	9,884	12,721	(22.30)	27,754	21,924	26.59
	<u>328,352</u>	<u>333,547</u>	(1.56)	<u>938,355</u>	<u>982,386</u>	(4.48)
Net Profit Before Taxation						
Technical rubber division	3,330	6,822	(51.19)	12,752	15,321	(16.77)
Gloves division	41,608	39,993	4.04	123,278	119,688	3.00
Clean-room division	322	911	(64.65)	1,176	1,244	(5.47)
	<u>45,260</u>	<u>47,726</u>	(5.17)	<u>137,206</u>	<u>136,253</u>	0.70

Technical rubber division

The decrease in turnover in the current quarter and financial period over last year's corresponding results was attributed to lower export of industrial and automotive parts while the infrastructural products together with marine and dock fenders remain strong. The lower profit before taxation was in tandem with lower turnover and higher operational cost.

Gloves division

The lower turnover in the current year over last year's corresponding results was mainly due to lower selling prices as a result of lower raw material cost. In quantity terms we sold more gloves and this had produced higher profit. The profit before tax in the current quarter and financial period for 2014 was affected by an unrealised loss in derivatives in hedged US currency amounting to RM 1.843 million (arising from a total nominal value of RM 117.628 million hedged).

Clean-room division

This division continues to perform to expectation, with increased turnover while profitability was affected by expansion and professional "trade mark" fees of the trading company.

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 ended 30/09/14		Preceding quarter ended 30/06/14		% change
	RM '000		RM '000		
Turnover					
Technical rubber division	34,957		43,002	(18.71)
Gloves division	283,511		251,653		12.66
Clean-room division	9,884		9,171		7.77
	<u>328,352</u>		<u>303,826</u>		8.07
		%		%	%
Net Profit Before Taxation		turnover		turnover	change
Technical rubber division	3,330	9.53	5,086	11.83	(34.53)
Gloves division	41,608	14.68	39,289	15.61	5.90
Clean-room division	322	3.26	430	4.69	(25.12)
	<u>45,260</u>	13.78	<u>44,805</u>	14.75	1.02

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Explanatory Notes

14.2 continue

Technical rubber division (“TRPs”)

The infrastructure products remain strong in the Asean region while the weak world economy had affected the industrial and automotive parts resulting in lower turnover in the current quarter. The lower profit is in tandem with the lower turnover.

Gloves division

The contribution of the additional new 5 lines output in the current quarter running in full capacity had increased the turnover. The overall current quarter profit margin, was affected by the provision of unrealised loss in derivatives in hedged US currency amounting to RM 1.843 million (arising from a total nominal value of RM 117.628 million).

Clean-room division

Turnover was consistent and profitability was affected by higher expansion and professional “trade mark” fees at the trading company and is within management’s expectations.

14.3 Current Year Prospects

Technical rubber division

The infrastructure and dock and marine fenders products are performing to expectations whereas the industrial and automotive parts are experiencing weak demand in the world market. Management is vigorously looking into international markets for more diversified technical products and expects the remaining quarter results to be positive.

Clean-room division

This division capital expansion programme has been completed with improved facilities producing superior quality products. We are working closely with our partners for continued product certification and acceptance which will ensure continuous 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 the remaining quarter of 2014, Plant (1) with 5 lines has commenced contributing in the third quarter of 2014. Competition is strong in the gloves market. However management is confident with the state of the art manufacturing lines giving high production output with efficient cost savings and our strong product mix in nitrile and natural rubber gloves, we are fully confident to compete and perform in this competitive market.

The current order for our gloves is fully taken up for the remaining quarter of 2014. The remaining 2 plants i.e. Plant (2) with 6 lines delivered in September; and Plant (3) with a total of 6 lines is scheduled to be delivered in December. Their commercial productions are expected in November 2014 and January 2015 respectively. The three new 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 continues 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 their efficiency and productivity.

Barring any unforeseen circumstances, the Group is optimistic to deliver a better set of performance in the remaining quarter of 2014.

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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 ended 30/09/14 RM'000	Financial period ended 30/09/14 RM'000
Tax expense - current	8,136	23,693
Deferred taxation	1,685	5,460
	<u>9,821</u>	<u>29,153</u>

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

14.7 Group Borrowings

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

	Total Unsecured RM'000
Short Term	
Bank overdraft & revolving credit	22,503
Bankers' acceptance	58,217
Term loan due within 12 months	17,936
	<u>98,656</u>
Term loan due after 12 months	57,180
	<u>155,836</u>

Included in the above bank borrowings are revolving credit amounting to USD 0.0 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 period ended 30 September 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

	Quarter ended		Financial period ended	
	30/09/2014	30/09/2013	30/09/2014	31/09/2013
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	34,403	35,405	105,830	102,089
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)	5.38	5.54	16.55	15.96

14.10 Realised and Unrealised Retained Earnings

	Financial period ended	
	30/09/14	31/12/13
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	507,628	416,876
Unrealised	(30,490)	(23,187)
	<u>477,138</u>	<u>393,689</u>
Less Consolidation adjustment	(13,488)	(13,488)
	<u>463,650</u>	<u>380,201</u>

14.11 Interim Dividend

On 20 November 2013, the directors approved a tax exempt single tier dividend of 3.5 sen per share RM 0.50 each for the financial year ending 31 December 2014. The net dividend of RM22,381,377 will be paid on 23 December 2014.

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
20 November 2014