

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 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 year ended 31 December 2014.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial year ended 31 December 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 year ended 31 December 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.

An interim tax exempt dividend of 3.5 sen per ordinary share of RM 0.50 each, in respect of the financial year ending 31 December 2014 amounting to RM 22,381,377 was paid on 23 December 2014.

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

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

Explanatory Notes**8. Segmental Reporting**

Analysis by activities	Unaudited financial period ended			
	31 December 2014		31 December 2013	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
Manufacturing sector				
Technical rubber division	162,062	16,940	160,268	15,015
Gloves division	1,096,634	167,603	1,117,491	163,788
Clean-room division	40,617	1,878	29,533	1,331
	<u>1,299,313</u>	<u>186,421</u>	<u>1,307,292</u>	<u>180,134</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 2015 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 2014.

12. Contingent Liabilities

As at 31 December 2014, the Company has unsecured outstanding contingent liabilities amounting to RM161.325 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	
	31/12/2014 RM'000	31/12/2013 RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>35,107</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		
	31/12/14	31/12/13	%	31/12/14	31/12/13	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Turnover						
Technical rubber division	47,032	43,876	7.19	162,062	160,268	1.12
Gloves division	301,064	274,049	9.86	1,096,634	1,117,491	(1.87)
Clean-room division	12,862	9,458	36.00	40,617	29,533	37.53
	<u>360,958</u>	<u>327,383</u>	10.26	<u>1,299,313</u>	<u>1,307,292</u>	(0.61)
Net Profit Before Taxation						
Technical rubber division	4,188	5,422	(22.76)	16,940	15,015	12.82
Gloves division	44,324	40,228	10.18	167,603	163,788	2.33
Clean-room division	702	313	>100.00	1,878	1,331	41.17
	<u>49,214</u>	<u>45,963</u>	7.07	<u>186,421</u>	<u>180,134</u>	3.49

Technical rubber division

The Group posted an encouraging growth of 12.8% in profit before taxation against a marginal increase of 1.1% in revenue for the full year ("FY2014") ended 31 December compared with the previous financial year. This positive earnings growth reflects the Group's ability to combat rising production cost mainly attributed to increases in natural gas and electricity prices during the past 12 months; and maintained its ever competitive position. Overall sales volume in infrastructure products, automotive parts and marine fenders increased positively on the back of higher demand from overseas but the much lower raw material prices have offset the volume growth and thus rendered to minimal growth in revenue.

Gloves division

Lower average selling prices on the back of declining world latex prices (both natural and nitrile latex prices declined by some 29% and 10% averagely in FY2014 versus FY2013) and loss of production value amounting to approximately RM18.0 million due to state-wide water rationing during the month of April coupled with the scheduled revamp of some aged production lines, were the major factors causing the negligible 1.9% lower in glove revenue for FY2014.

Total volume of glove produced and sold remained flattish for the first 9 months of FY2014 due to limited capacity despite the orders from customers have been consistently mounting. The capacity constraint came to a temporal relief after our Plant 1 with 5 double-former high speed technological advanced production lines came into full commercial production in October and the new capacity, although is limited, helped in lifting the profit before tax by a marginal 2.3% for the whole financial year.

As usual, the Group was operating at an average utilisation rate of above 85% of its available capacity during the 12 months under review and its production mix for nitrile and natural rubber gloves as at 31 December marked at 57:43 respectively.

Clean-room division

The Group's cleanroom division registered an upbeat growth of 37.5% in revenue and 41.2% in profit before tax for FY2014. With much concerted marketing efforts and product quality improvement moves, our cleanroom products including gloves, wipes and masks have been getting more recognitions and approvals from our customers in the cleanroom industries and thus boosted the overall sales volume for FY2014.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

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.**

	Current quarter ended 31/12/14		Preceding quarter ended 31/09/14		
<u>Group Results</u>	RM '000		RM '000		%
Turnover					change
Technical rubber division	47,032		34,957		34.54
Gloves division	301,064		283,511		6.19
Clean-room division	12,862		9,884		30.13
	<u>360,958</u>		<u>328,352</u>		9.93
		%		%	%
Net Profit Before Taxation		turnover		turnover	change
Technical rubber division	4,188	8.90	3,330	9.53	25.77
Gloves division	44,324	14.72	41,608	14.68	6.53
Clean-room division	702	5.46	322	3.26	>100.00
	<u>49,214</u>	13.63	<u>45,260</u>	13.78	8.74

Technical rubber division (“TRPs”)

Higher exports sales in infrastructure products, automotive parts and dock fenders were the key driver to higher revenue and earnings in the current quarter. Consistently declining raw material prices and fuelled by increased cost efficiency have placed us in a highly competitive position in the market we are competing in and this enabled us to win more orders from overseas customers besides gaining more market shares throughout the last 2 quarters.

Gloves division

The increase of 6.2% and 6.5% in revenue and profit before taxation respectively in current quarter was mainly attributed to higher volume of glove made and sold after Plant 1 with 5 double-former high speed technological advanced production lines commenced its maiden commercial production in end –August and full run in October. The subject plant is capable to produce not lower than 1.5 billion pieces of glove per annum. Plant 2 with 6 double-former high speed technological advanced production lines which capable to produce minimum 2.0 billion pieces of glove averagely was delivered on schedule i.e. December and thus, new capacity from Plant 2 has negligible contribution for the current quarter’s performance.

Clean-room division

Our Cleanroom division registered a fascinating 30.1% growth in revenue in the current quarter as compared with its immediate preceding quarter. Its profit before taxation shot up significantly by above 110% in the current quarter mainly attributed to lower operating cost as compared with its immediate preceding quarter. To recap, the subject division experienced higher cost in its immediate preceding quarter arising from ongoing expansion and costly professional fees on trade mark registration.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

14.3 Current Year Prospects

Technical rubber division

The good sales momentum in infrastructure products and marine dock fenders of FY2014 is expected to continue into current year as we are experiencing increasing orders particularly from our customers in Asian Region since 3rd quarter FY2014. As for automotive segment, we remain cautiously positive amidst the slow to moderate economy recovery in US (2014-2015 GDP expected to expand 2.6% to 3.0%) and Euro Zone (2014-2015 GDP expected to expand 0.8% to 1.1%) respectively. Nevertheless, with a lower oil prices, more people are working in US and consumers feel good, we are of the same view with car makers in Detroit that total vehicle sold in US for the 2015 will still upbeat and should register a moderate growth. Quoted in Wall Street Journal on 24 February 2015, total vehicle sold in January 2015 was 1.152 million, increased by 13.7% as compared to 1.013 million of car sold in January 2014. General Motor joined in the foray and cited that total car sold and delivered in January 2015 hits 202,786 unit, the best January's sales in 7 years. This positive development will provide ample opportunities for Kossan to win more orders for automotive parts be it new or replacement from our existing customers in US riding on increasing outsourcing trend.

Despite of the mixed economy conditions, the Management has never relax in keeping the overall operating cost low through various production improvement programs but also vigorously exploring into international markets for higher value added technical products.

Well equipped with strong technical capability, state-of-art testing facilities, continuous recognition from world class customers on our products coupled with a team of professional engineers, the Management is confident able to deliver at least the similar growth rate, if not higher in its revenue and earnings for FY2015.

Clean-room division

With the expanded capacity and continuous aggressive market penetration into Asia and China, the major user of cleanroom products coupled with more acceptance of our products, this division is expected to deliver another set of solid performance in 2015.

Gloves division

We expect a solid growth in both revenue and earnings for 2015 with additional 6 billion pieces of gloves added after the full completion of our 2013 expansion where 3 plants have been built with 17 double-former high speed technological advanced production lines running in full force. This too, have enlarged the Group's annual production capacity to 22 billion pieces from 16 billion pieces. The product mix of nitrile and natural rubber have also shifted to 70:30 from 57:43 previously. Our production capacity despite added by 6 billion pieces and delivered to customers' with confirmed orders, the Management will kick start another phase of expansion within the next 6 months as new orders are continue building up for various glove products.

Besides satisfying capacity needs of our customers, at Kossan, we aim to produce gloves for maximum satisfaction and usage of our wide range customers. We emphasize on product innovation at in-house R&D facilities, to develop new materials and specialised gloves to cater for some specific applications. We will continue to place more efforts and resources on production process improvements and automation, to improve product quality and overall efficiency aiming to reduce head counts. We will build more new and modern production lines with high output combined with high degree of automation to safeguard our highly competitive position in the challenging market condition.

Barring any unforeseen circumstances, the Group is optimistic to deliver a better set of performance in 2015.

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 31/12/14 RM'000	Financial period ended 31/12/14 RM'000
Tax expense - current	8,563	32,256
Deferred taxation	1,684	7,145
	<u>10,247</u>	<u>39,401</u>

The effective income tax rate for the current quarter and financial year ended 31 December 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 year ended 31 December 2014.

14.7 Group Borrowings

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

	Total Unsecured RM'000
Short Term	
Bank overdraft & revolving credit	50,865
Bankers' acceptance	59,769
Term loan due within 12 months	11,375
	<u>122,009</u>
Term loan due after 12 months	40,054
	<u>162,063</u>

Included in the above bank borrowings are revolving credit amounting to USD 8.0 million (31 Dec 2013: USD 13.0 million) and term loan amounting to USD 0.0 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 ended 31 December 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	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	37,934	38,556	143,763	136,422
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)	5.93	6.03	22.48	21.33

14.10 Realised and Unrealised Retained Earnings

	Financial period ended	
	31/12/14	31/12/13
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	520,597	416,876
Unrealised	(27,908)	(23,187)
	<u>492,689</u>	<u>393,689</u>
Less Consolidation adjustment	(13,488)	(13,488)
	<u>479,201</u>	<u>380,201</u>

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
25 February 2015