

**KOSSAN RUBBER INDUSTRIES BHD**  
Company No. 48166-W  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2015**

**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 2014.

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 2014 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 2015.

**5. Changes in Material Estimates**

There were no estimates used in the current quarter and financial period ended 31 March 2015 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 2015.

**7. Dividend**

On 22 April 2015, the directors proposed a final ordinary tax exempt dividend of 4.5 sen per ordinary share of RM 0.50 each for the financial year ended 31 December 2014. Subject to members' approval at the forthcoming Annual General Meeting, the net dividend of RM 28,776,056 will be paid on 22 July 2015.

There were no other dividends declared or paid in the current quarter and financial period ended 31 March 2015.

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**8. Segmental Reporting**

Analysis by activities	Unaudited financial period ended			
	31 March 2015		31 March 2014	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
<b>Manufacturing sector</b>				
Technical rubber division	35,225	1,349	37,071	4,335
Gloves division	322,089	56,781	260,406	42,222
Clean-room division	11,942	876	8,700	585
	<u>369,256</u>	<u>59,006</u>	<u>306,177</u>	<u>47,142</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 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 period ended 31 March 2015.

**12. Contingent Liabilities**

As at 31 March 2015, the Company has unsecured outstanding contingent liabilities amounting to RM170.930 million (31 Dec 2014: RM202.697 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	
	31/03/2015 RM'000	31/12/2014 RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>0</u>	<u>44,811</u>

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**14. Additional Information required by the Bursa Securities Listing Requirements**

**14.1 Review of Results**

	<b>Current Quarter and financial period ended</b>		
	<b>31/03/15</b>	<b>31/03/14</b>	<b>%</b>
	<b>RM '000</b>	<b>RM '000</b>	<b>chg</b>
Revenue			
Technical rubber division	35,225	37,071	( 4.98)
Gloves division	322,089	260,406	23.69
Clean-room division	<u>11,942</u>	<u>8,700</u>	37.26
	<u>369,256</u>	<u>306,177</u>	20.60
Net Profit Before Taxation			
Technical rubber division	1,349	4,335	( 68.88)
Gloves division	56,781	42,222	34.48
Clean-room division	<u>876</u>	<u>585</u>	49.74
	<u>59,006</u>	<u>47,142</u>	25.17

The Group reported a 25.2% increase in profit before taxation of RM59.0 million for current year quarter as compared with RM47.1 million of its corresponding year quarter on the back of 20.6% higher in revenue. Latex glove and clean room division were the major contributors to higher revenue and profitability for current year quarter.

The Group's earnings before taxation, interest, depreciation and amortization ("EBITDA") margin expanded from 19.3% to 20.9% due to overall improvement of operating efficiency and better product mix in glove segment.

**Technical rubber division (TRP)**

This division reported a lower profit before taxation by 68.9% as compared with its corresponding quarter. Slower sales due to the weak world economy condition which further dampened by dropping oil prices, higher production cost after the hikes in energy prices and completion of some projects in supplying infrastructure products on project basis, absorption of group's senior management overheads of RM2.0 million were the major factors attributed to the lower profit before taxation in this quarter.

**Gloves division**

The glove revenue and profit before taxation of current quarter increased by 23.69% and 34.48% respectively. Profit before taxation from glove segment improved positively to 17.6%, versus 16.2% in previous years' quarter due to better operating efficiency. The stronger performance was mainly attributed to approximately 30% higher quantity of glove sold and better product mix. The significant increase in quantity of glove sold was however partly offset by lower selling prices due to softer raw material costs. As usual, the Group was operating at an average utilization rate of above 85% of its total production capacity and its product mix of nitrile and natural rubber improved to 66:34 (versus its corresponding quarter of 57:43).

**Clean-room division**

The Group's clean room division also reported significant growth in revenue and profit before taxation by 37.3% and 49.7% respectively. This set of strong performance was mainly attributed to increased sales volume of various clean room products and reduced overhead cost.

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**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 31/03/15</b>		<b>Preceding quarter ended 31/12/14</b>		%
	<b>RM '000</b>		<b>RM '000</b>		change
Revenue					%
Technical rubber division	35,225		47,032		( 25.10)
Gloves division	322,089		301,064		6.99
Clean-room division	11,942		12,862		( 7.15)
	<u>369,256</u>		<u>360,958</u>		2.30
		%		%	%
Net Profit Before Taxation		revenue		revenue	change
Technical rubber division	1,349	3.80	4,188	8.90	( 67.79)
Gloves division	56,781	17.63	44,324	14.72	28.10
Clean-room division	876	7.34	702	5.46	24.79
	<u>59,006</u>	15.98	<u>49,214</u>	13.63	19.90

For the current quarter, the Group reported a profit before taxation of RM59.0 million from its continuous operations, which is 19.9% higher as reported in preceding quarter. Both latex glove and clean room division remained as the major segments for stronger revenue and profit performance. Overall EBITDA expanded to 20.9% for quarter under review versus 18.3% reported in the preceding quarter.

**Technical rubber division (“TRPs”)**

The revenue for current quarter reduced by 25.1% and profit before taxation by 67.8% as compared with its preceding year quarter. The lower sales and profit before taxation during the quarter due mainly to:

- Softer demand for industrial and automotive parts against the already weak world economy condition which dampened further by dropping oil prices,
- Completion of projects in supplying infrastructure products;
- Absorption of senior’s management overhead costs; and
- Lower local market sales due to uncertainties from GST implementation.

**Gloves division**

The 7.0% higher in revenue was mainly due to higher quantity of glove sold by 4.5% in current quarter. As compared with its preceding quarter, there was minimum quantity of glove added. The 4.5% higher quantity of glove sold was mainly attributed to revamp of 2 old plants that brought about higher output from the more efficient and technologically advanced production lines and small capacity added from Plant 2 which commenced its trial run in March this year. Higher sales, better product mix and improved production efficiency in all our glove plants brought about 28.1% higher in profit before taxation, from RM44.3 million reported in the preceding quarter to RM56.8 million. Profit before taxation margin also improved significantly to 17.6%, from 14.7% in the preceding quarter.

**Clean-room division**

Clean room division profits registered a 24.8% higher at RM0.88 million for current quarter against a marginal 7.2% lower in revenue or RM11.9 million, as compared with RM12.9 million in the preceding quarter. The performance of these two quarters is deemed to be consistent with management’s expectation.

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### **Explanatory Notes**

#### **14.2 Current Year Prospects**

Plant 2 and 3 with 4 billion pieces of capacity will be running in full capacity start from June onward and therefore, profit contribution from this 2 plant is insignificant for the current quarter. The new 4 billion pieces of nitrile capacity has been taken up fully by customers as of today. On this positive note, we are optimistic that the second half of the year (“2H 2015”) will have better performance.

Currently, the Group is operating with 22 billion pieces of gloves per annum and with all the plants operating in full capacity, the Group’s product mix of nitrile and natural rubber glove will change to 69:31 from 57:43 in 2014.

Despite with the present installed capacity of 22 billion pieces, we are still unable to cope with customer demands and riding with this strong demand momentum, the Group will plan to put up another 2 new nitrile plants capable of producing 4.5 billion pieces of nitrile glove per annum. The construction works of this 2 new nitrile glove plants is expected to commence within the next 3 months and its commercial production is targeted to be by early of 2017.

As for 2016, we still foresee a double digits growth in quantity as the 4 billion piece of nitrile glove from Plant 2 and 3 which will spill over into 2016 coupled with the revamp of old plants that will provide additional quantity of gloves due to better productivity.

As for clean room division, the encouraging growth trend in both revenue and profitability is expected to continue into the remaining months of 2015 riding on higher utilization of the expanded capacity due mainly to continuous certification and increasing acceptance of our clean room products by more customers.

The prospect for our TRP division will improve gradually in the coming quarters as the orders particularly for our infrastructure products are recovering due to kick starts of more new projects. Nevertheless, the Management will continue to keep the overall operating cost low through various production improvement program and same time, vigorously exploring into international market for higher value added technical rubber products. Safe from any untoward circumstances, the Group is confident to perform better in the remaining quarters.

#### **14.3 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 and financial period ended 31/03/15 RM’000</b>
Tax expense - current	10,926
Deferred taxation	2,045
	<u>12,971</u>

The effective income tax rate for the current quarter and financial period ended 31 March 2015 was lower than the statutory rate due to the availability of tax incentives.

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**Explanatory Notes****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 2015.

**14.7 Group Borrowings**

a) The Group borrowings as at 31 March 2015 were as follows:

	<b>Total Unsecured RM'000</b>
<b>Short Term</b>	
Bank overdraft & revolving credit	71,530
Bankers' acceptance	51,565
Term loan due within 12 months	11,375
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	134,470
Term loan due after 12 months	37,443
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	<u>171,913</u>

Included in the above bank borrowings are revolving credit amounting to USD 8.0 million (31 Dec 2014: 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 31 March 2015.

**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.

**14.9 Earnings Per Share**

	<b>Current Quarter financial period ended</b>	
	<b>31/03/2015</b>	<b>31/03/2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Profit after tax and minority interest</b>	45,450	36,833
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<b>Basic earnings per share</b>		
Basic number of ordinary shares in issue ('000)	639,468	639,468
Basic earnings per share (sen)	7.11	5.76
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**Explanatory Notes****14.10 Realised and Unrealised Retained Earnings**

	<b>Financial period ended</b>	
	<b>31/03/2015</b>	<b>31/12/2014</b>
	<b>(unaudited)</b>	<b>(audited)</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	563,845	517,350
Unrealised	( 20,307)	( 19,262)
	<hr/>	<hr/>
	543,538	498,088
Less Consolidation adjustment	( 17,052)	( 17,052)
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	<u>526,486</u>	<u>481,036</u>

On behalf of the Board

**Dato' Lim Kuang Sia**  
**Managing Director**  
**21 May 2015**