

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 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 30 June 2015.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial period ended 30 June 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 30 June 2015.

7. Dividend

On 22 April 2015, the directors recommended 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. The dividend of RM 28,776,056 was approved by the members at the Annual General Meeting held on 18 June 2015, and paid on 22 July 2015.

There were no other dividends declared or paid in the current quarter and financial period ended 30 June 2015.

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Explanatory Notes

8. Segmental Reporting

Analysis by activities	Unaudited financial period ended			
	30 June 2015		30 June 2014	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
Manufacturing sector				
Technical rubber division	74,278	3,733	80,073	9,421
Gloves division	652,066	113,437	512,059	81,671
Clean-room division	28,691	2,010	17,871	854
	<u>755,035</u>	<u>119,180</u>	<u>610,003</u>	<u>91,946</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 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 30 June 2015.

12. Contingent Liabilities

As at 30 June 2015, the Company has unsecured outstanding contingent liabilities amounting to RM153.888 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	
	30/06/2015 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>

Explanatory Notes

14. Additional Information required by the Bursa Securities Listing Requirements

14.1 Review of Results

	Quarter ended			Financial period ended		
	30/06/15	30/06/14	%	30/06/15	30/06/14	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Revenue						
Technical rubber division	39,053	43,002	(9.18)	74,278	80,073	(7.24)
Gloves division	329,976	251,653	31.12	652,066	512,059	27.34
Clean-room division	<u>16,750</u>	<u>9,171</u>	82.64	<u>28,691</u>	<u>17,871</u>	60.55
	<u>385,779</u>	<u>303,826</u>	26.97	<u>755,035</u>	<u>610,003</u>	23.78
Net Profit Before Taxation						
Technical rubber division	2,385	5,086	(53.11)	3,733	9,421	(60.49)
Gloves division	56,655	39,289	44.20	113,437	81,671	38.90
Clean-room division	<u>1,134</u>	<u>430</u>	163.72	<u>2,010</u>	<u>854</u>	135.36
	<u>60,174</u>	<u>44,805</u>	34.30	<u>119,180</u>	<u>91,946</u>	29.62

The Group reported a 29.6% increase in profit before taxation of RM119.18 million for the first six month ("1st 6 months") of FY2015 compared with RM91.95 million in FY2014 backed by 23.8% increase in revenue. Both latex glove division and cleanroom division were the major contributors to this year-on-year ("y-o-y") strong earnings growth. For the 1st 6 months of the current year, the profit before taxation for latex glove division and cleanroom division registered a solid 38.9% and 135.4% growth respectively. As for quarter-on-quarter ("q-o-q") comparison, profit before taxation of the current quarter grew by 34.3% riding on 26.9% higher in revenue.

The Group's earnings before taxation, interest, depreciation and amortization ("EBITDA") for the 1st 6 months of the current year continued to expand further to 20.6% as compared with 20.0% in FY2014 due to better product mix and improved operational efficiency in glove division.

Technical rubber division ("TRPs")

Softer world demand due to weaken economy condition and higher production cost continued to impair the earnings momentum of our TRPs division. The 1st 6 months revenue and profit before taxation reduced by 7.2% and 60.5% respectively. The absorption of group's senior management overheads were the major factors of lower profitability. Nevertheless, the softer performance in TRPs division was within Management's expectation.

Gloves division

The year-to-date revenue and profit before taxation of current year grew by 27.3% and 38.9% respectively as compared with the previous year. As for q-o-q basis, the revenue and profit before taxation recorded a 31.1% and 44.2% growth respectively. The strong earnings performance was mainly attributed to approximately 37% higher in quantity of glove sold, better product mix and improved operational efficiency. As usual, the Group was operating consistently at an average of above 85% of its available capacity. For the 1st 6 months ended 30 June, the product mix was higher in nitrile segment which accounted for 68% of the total quantity of glove sold (versus 59% of FY2014).

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Explanatory Notes**14.1 Review of Results (continue)****Clean-room division**

Cleanroom division continued to record positive growth in both revenue and earnings. This division reported 135.4% growth in profit before taxation in the 1st 6 months of current year riding on 60.6% increase in revenue. As for q-o-q comparison, both revenue and profit before taxation grew by 82.6% and 163.7% respectively. Higher sales volume of various cleanroom products and lower overhead cost were the major factor for this set of strong performance.

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 30/06/15		Preceding quarter ended 31/03/15		
<u>Group Results</u>	RM '000		RM '000		%
Revenue					change
Technical rubber division	39,053		35,225		10.87
Gloves division	329,976		322,089		2.45
Clean-room division	16,750		11,942		40.26
	<u>385,779</u>		<u>369,256</u>		4.47
	%		%		%
Net Profit Before Taxation	revenue		revenue		change
Technical rubber division	2,385	6.11	1,349	3.83	76.79
Gloves division	56,665	17.17	56,781	17.63	(00.20)
Clean-room division	1,134	6.77	876	7.34	29.45
	<u>60,174</u>	15.60	<u>59,006</u>	15.98	1.98

Technical rubber division (“TRPs”)

Compared with its preceding quarter, the revenue and profit before taxation of current quarter registered a notable growth of 10.9% and 76.8% respectively. Increased sales of more infrastructure products in the current quarter was the main contributory factor.

Gloves division

The profit before taxation of RM56.67 million remained comparable with its preceding quarter of RM56.78 million. Revenue grew marginally by 2.5% as there was negligible quantity of glove added during the quarter. This was mainly due to the newly commissioned Plant 3 which were fully operational since June only start contributing in July and consistent with our comments in 1st quarter result announcement. The product mix of nitrile and natural rubber for the current quarter stood at 68:32 (versus 66:34 of its preceding quarter).

Clean-room division

Notable growth of more than 40% in revenue and 29.5% in profit before taxation was delivered by the Group’s clean room division. This impressive performance for the current quarter was mainly attributed to increased sales volume of various clean room products and improved overhead cost.

14.3 Current Year Prospects

The prospect of the remaining quarters of current year remains strong and solid as the newly commissioned Plant 2 and 3 which were in full operation since June are expected to contribute more significantly from July onward. The new capacity of nitrile glove from the 2 plants has been taken up fully by customers as of todate and this will underpin the strong earnings growth for the second half of the year (“2H 2015”).

Currently, the Group is operating with 22 billion pieces of gloves per annum and with all the plants operating in almost full capacity, the Group’s product mix of nitrile and natural rubber glove is expected to be 69:31 for current year (versus 57:43 in FY2014).

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Explanatory Notes**14.3 Current Year Prospects (continue)**

The prospect for TRPs division will continue to improve as evidenced by our performance in second quarter. Overall, we are more optimistic with the performance of TRPs in the second half of current year as we expect more orders from customers. The Management will continue to be vigilant over the overhead cost and adopt various measures to reduce the overhead cost further to ensure better profitability and same time, actively exploring into international markets for higher value added technical products.

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

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

	Quarter ended ended 30/06/2015 RM'000	Financial period ended 30/06/2015 RM'000
Tax expense - current	10,178	21,104
Deferred taxation	1,603	3,648
	<u>11,781</u>	<u>24,752</u>

The effective income tax rate for the current quarter and financial period ended 30 June 2015 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 2015.

14.7 Group Borrowings

a) The Group borrowings as at 30 June 2015 were as follows:

	Total Unsecured RM'000
Short Term	
Bank overdraft & revolving credit	37,348
Bankers' acceptance	53,062
Term loan due within 12 months	16,375
	<u>106,785</u>
Term loan due after 12 months	49,804
	<u>156,589</u>

Included in the above bank borrowings are revolving credit amounting to USD nil (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 30 June 2015.

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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

	Current Quarter ended		Financial period ended	
	30/06/2015	30/06/2014	30/06/2015	30/06/2014
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	47,440	34,593	92,890	71,425
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)	7.42	5.41	14.53	11.17

14.10 Realised and Unrealised Retained Earnings

	Financial period ended	
	30/06/2015	31/12/2014
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	613,524	517,350
Unrealised	(22,847)	(19,262)
	<u>590,677</u>	<u>498,088</u>
Less Consolidation adjustment	(17,052)	(17,052)
	<u><u>573,625</u></u>	<u><u>481,036</u></u>

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
20 August 2015