

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 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 year ended 31 December 2015.

5. Changes in Material Estimates

There were no estimates used in the current quarter and financial year ended 31 December 2015 or in prior interim periods of the current financial year or prior financial year.

6. Movement of Company's Securities

There were no 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 2015.

7. Dividend

On 19 November 2015, the directors recommended an interim tax exempt dividend of 5.5 sen per ordinary share of RM 0.50 each for the financial year ending 31 December 2015. The net dividend of RM35,170,734 was paid on 12 January 2016.

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

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Explanatory Notes**8. Segmental Reporting**

Analysis by activities	Unaudited financial year ended			
	31 Dec 2015		31 Dec 2014	
	Revenue	Results	Revenue	Results
	RM '000	RM '000	RM '000	RM '000
Manufacturing sector				
Technical rubber division	160,224	20,423	162,062	16,940
Gloves division	1,412,005	243,131	1,096,842	167,903
Clean-room division	63,713	4,985	42,836	1,878
	<u>1,635,942</u>	<u>268,539</u>	<u>1,301,740</u>	<u>186,721</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 2016 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 2015.

12. Contingent Liabilities

As at 31 December 2015, the Company has unsecured outstanding contingent liabilities amounting to RM183.499 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 year ended	
	31/12/2015	31/12/2014
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>0</u>	<u>44,811</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 year ended		
	31/12/15	31/12/14	%	31/12/15	31/12/14	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Revenue						
Technical rubber division	45,820	47,032	(2.58)	160,224	162,062	(1.13)
Gloves division	376,034	301,064	24.90	1,412,005	1,096,842	28.73
Clean-room division	<u>17,309</u>	<u>12,862</u>	34.57	<u>63,713</u>	<u>42,836</u>	48.73
	<u>439,163</u>	<u>360,958</u>	21.67	<u>1,635,942</u>	<u>1,301,740</u>	25.67
Net Profit Before Taxation						
Technical rubber division	6,079	4,188	45.15	20,423	16,940	20.56
Gloves division	71,410	44,324	61.11	243,131	167,903	44.80
Clean-room division	<u>1,025</u>	<u>702</u>	46.01	<u>4,985</u>	<u>1,878</u>	165.44
	<u>78,514</u>	<u>49,214</u>	59.53	<u>268,539</u>	<u>186,721</u>	43.82

The Group reported an increase in turnover of 25.67% in the current financial year over the previous corresponding financial year. In tandem with increase in turnover, the profit before taxation also reported an increase of 43.82% for the same comparative financial year. All three division performed remarkably well with strong growth in profit before taxation for the current year's quarter compared to corresponding results in last year quarter.

Technical rubber division ("TRPs")

Despite the world economy remained weak and subdued, this division was able to maintain its revenue as compare with last financial year. Management's efforts in improving its overall productivity and efficient measures in combating rising production cost has bear good return with 20.6% year-on-year increase in profit before taxation. Generally, both revenue and profitability have been on uptrend for the past 6 months.

Gloves division

The year-to-date revenue and profit before taxation of current year grew by 28.73% and 44.80% respectively as compared with the previous year. As for q-o-q basis, the revenue and profit before taxation recorded a 24.90 % and 61.11 % growth respectively. The strong earnings performance was mainly attributed to higher quantity of glove sold by approximately 26% as compared with previous financial year, better product mix and improved operational efficiency. Notably, the Group's profitability remained strong despite tougher operating environment. All the main profitability parameters registered good increase with EBITDA grew from 19.1% to 21.0%, Profit before taxation grew from 14.3% to 16.4% and profit after taxation grew from 11.4% to 12.7% respectively as compared with previous financial year..

As usual, the Group was operating at an average utilisation rate of above 80% of its available capacity during the 12 months under review and its production mix for nitrile and natural latex gloves as of 31 December 2015 stood at 70:30 respectively as compared with 57:43 of previous financial year 2014.

Clean-room division

The synergy effects of greater research and development and state of the art production facilities for our clean-room gloves have contributed to wider accreditation by major users in the electrical and software industries. Cleanroom division continued to record positive growth in both revenue and earnings. Higher sales volume of various cleanroom products and lower overhead cost were the major factor for this set of strong performance.

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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.**

Group Results	Current quarter ended 31/12/15		Preceding quarter ended 30/09/15		% change
	RM '000		RM '000		
Revenue					
Technical rubber division	45,820		40,126		14.19
Gloves division	376,034		383,906		(2.05)
Clean-room division	17,309		17,711		(2.27)
	<u>439,163</u>		<u>441,743</u>		(0.58)
		%		%	%
Net Profit Before Taxation		revenue		revenue	change
Technical rubber division	6,079	13.27	5,757	14.35	5.58
Gloves division	71,410	18.99	63,096	16.44	13.18
Clean-room division	1,025	5.92	1,993	11.25	(48.57)
	<u>78,514</u>	17.87	<u>70,846</u>	16.04	10.82

Technical rubber division (“TRPs”)

Compared with its preceding quarter, both the revenue and profit before taxation grew by 14.19% and 5.58% respectively for the current quarter. Lower materials cost, higher sale of more infrastructure products and better cost control were the main contributory factors of this good performance. -

Gloves division

The profit before taxation was 13.18% higher as compared with its preceding quarter against a marginal lower revenue. Revenue for the quarter was 2.05% lower as compared with its preceding quarter due mainly to lower raw material costs as the average bulk latex prices was 11.5% lower in fourth quarter as compared with third quarter. Higher quantity of nitrile glove sold alongside with better margin product mix have contributed to better profit margin where the profit before taxation margin strengthen from 16.4% to 19.0% in the quarter under reviewed.

For the quarter under reviewed, the utilisation rate was above 80% of its available capacity and the product mix of nitrile and natural rubber for the current quarter stood at 70:30 (versus 68:32 of its preceding quarter).

Clean-room division

Clean-room division reported a softer set of performance in current quarter. Revenue dropped by 2.27% due to year end deferment of deliveries whereas lower profit before taxation was attributed to minimal gain from currency exchange as compared with its preceding quarter.

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Explanatory Notes

14.3 Current Year Prospects

The Group delivered an extraordinary performance in the current financial year with 43.8% growth in profit before taxation and we expect this good run to continue into financial year 2016. With the right strategies and direction, the performance of all three division is expected to advance moving into the financial year 2016.

Largely, the earnings growth for financial year 2016 will be underpinned by the balance of 2.0 billion pieces of nitrile glove capacity flowed over from our 2 new plants which commenced production in July 2015. Our continual effort in carrying out revamp and modification works on some of our aged production lines will amplify our profitability growth due to higher productivity and improved efficiency throughout the financial year of 2016. Currently, we are operating with 22 billion pieces of capacity with 70% into nitrile glove. Despites of the recent hefty 30% growth in capacity, all our production lines are running almost at full capacity and there are still pending up orders from our customers. This positive note strengthens our view that demand for glove is still strong.

Riding on this momentum, we are embarking on another phase of business expansion. We are currently working on another phase of big scale expansion on our 56 acres of land bank in Bestari Jaya within the next few months and the entire expansion program will keep us busy for the next 4 years. The subject land is ready with all the necessary infrastructures and is capable to house 4 plants with total output of not lower than 18 billion per annum. The entire expansion program will be carried out in 4 phases with 1 plants each and total cost excluding the land is estimated to be RM450 million. We expect the first plant with 4.5 billion pieces of capacity under Phase 1 to be completed and start contributing by fourth quarter of financial year 2017.

Meantime, another ongoing project is also expected to complete and contribute in second half of financial year 2017. We have started construction of one nitrile glove plant located in Jalan Meru near to our existing plants and this plant once completed, will add another 3.0 billion pieces of glove to the existing. With this expansion program gradually completing and contributing within financial year 2017, we are optimistic earnings growth will be a new record from financial year 2017 and beyond with this 7.5 billion pieces of glove capacity added.

Besides satisfying capacity needs for our customers, the Management aims to produce gloves for maximum satisfaction and usage of our wide range of customers. We emphasize on product innovation through leveraging on our strong in-house developed R&D capabilities, to develop new materials and specialised gloves to cater for more specific applications.

In anticipating more challenging operating environment going forward with escalating production cost, 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 dependence on manual workers. More new and advanced technological high speed production lines combined with high degree of automation will be built in order to stay competitive. We believe, with our superior R&D capability, we will be able to ride through all the challenges smoothly and steadily.

Backed by the long term and sustainable earnings growth program and right strategy, the Board of directors is highly optimistic in achieving our targeted growth for the financial year 2016.

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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

	Quarter ended 31/12/2015 RM'000	Financial year ended 31/12/2015 RM'000
Tax expense - current	17,474	51,638
Deferred taxation	4,457	9,787
	<u>21,931</u>	<u>61,425</u>

The effective income tax rate for the current quarter and financial year ended 31 December 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 year ended 31 December 2015.

14.7 Group Borrowings

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

	Total Unsecured RM'000
Short Term	
Revolving credit	41,000
Bankers' acceptance	43,559
Term loan due within 12 months	16,375
	<u>100,936</u>
Long Term	
Term loan due after 12 months	82,620
	<u>183,554</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 year ended 31 December 2015.

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Explanatory Notes**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 year ended	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	55,206	37,934	203,262	145,597
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)	8.63	5.93	31.79	22.77

14.10 Realised and Unrealised Retained Earnings

	Financial year ended	
	31/12/2015	31/12/2014
	(unaudited)	(audited)
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries Bhd and its subsidiaries		
Realised	696,055	517,350
Unrealised	(23,957)	(19,262)
	672,098	498,088
Less Consolidation adjustment	(17,052)	(17,052)
	655,046	481,036

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
23 February 2016