



## **KOSSAN RUBBER INDUSTRIES BHD**

Company No. 48166-W  
(Incorporated in Malaysia)

### **INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2019**

#### **Explanatory Notes**

##### **1. Basis of Preparation**

The unaudited interim financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards and paragraph 9.22 of the Main Marketing Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad. The accounting policies and method of computation adopted for the interim financial reports were consistent with new standards effective from 1/1/2019 inclusive of those adopted for the audited financial statements for the year ended 31 December 2018.

##### **2. Annual Audit Report**

The audit report of the audited financial statements for the year ended 31 December 2018 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 2019.

##### **5. Changes in Material Estimates**

There were no significant changes in estimates used in the current quarter and financial period ended 31 March 2019.

##### **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 period ended 31 March 2019.

##### **7. Dividend**

On 04 January 2019, the directors approved an interim tax exempt dividend of 3.0 sen per ordinary shares for the financial year ended 31 December 2018. The dividend of RM 38,368,074 was paid on 30 January 2019.

On 12 April 2019, the directors recommended a final tax exempt dividend of 3.0 sen per ordinary share for the financial year ended 31 December 2018. This dividend was approved at the 2019 Annual General Meeting and the amount of RM 38,368,074 will be paid on 21 June 2019.

There were no other dividends declared or paid in the current quarter and financial period ended 31 March 2019.

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**Explanatory Notes****8. Segmental Reporting**

	<b>Divisions</b>				
	<b>Technical Rubber RM '000</b>	<b>Gloves RM '000</b>	<b>Clean-Room RM '000</b>	<b>Investment Holding RM '000</b>	<b>Total RM '000</b>
<b>Quarter and financial period ended - 31/03/2019</b>					
Revenue	46,678	496,988	17,110	4,416	565,192
Intercompany elimination	0	0	0	( 3,724 )	( 3,724 )
	<u>46,678</u>	<u>496,988</u>	<u>17,110</u>	<u>692</u>	<u>561,468</u>
Profit before taxation	<u>6,811</u>	<u>67,961</u>	<u>575</u>	<u>( 269 )</u>	<u>75,078</u>
<b>Quarter and financial period ended - 31/03/2018</b>					
Revenue	43,576	419,311	20,372	4,644	487,903
Intercompany elimination	0	0	0	( 3,725 )	( 3,725 )
	<u>43,576</u>	<u>419,311</u>	<u>20,372</u>	<u>919</u>	<u>484,178</u>
Profit before taxation	<u>5,042</u>	<u>47,468</u>	<u>416</u>	<u>106</u>	<u>53,032</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 2019 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 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 2019.

**12. Contingent Liabilities**

As at 31 March 2019, the Company has unsecured outstanding contingent liabilities amounting to RM549.574 million (31 Dec 2018: RM491.255 million) being corporate guarantees given to financial institutions for banking facilities granted to certain subsidiaries.

**13. Capital and other Commitments**

	<b>As at financial period ended</b>	
	<b>31/03/2019 RM'000</b>	<b>31/12/2018 RM'000</b>
Property, plant and equipment		
Within one year: Contracted but not provided	<u>7,734</u>	<u>7,734</u>

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**Explanatory Notes****14. Additional Information required pursuant to MMLR.****14.1 Review of Results**

	Current Quarter Financial period ended		Changes %
	31/03/19 RM '000	31/03/18 RM '000	
Revenue	561,468	484,178	15.96
Operating profit	79,721	56,957	39.97
Profit Before Interest and Tax	79,721	56,957	39.97
Profit before tax	75,078	53,032	41.57
Profit after tax	59,472	45,289	31.32
Profit attributed To Ordinary Equity Shareholders	58,723	44,514	31.92

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
<b>Quarter and financial period ended - 31/03/2019</b>					
Revenue	46,678	496,988	17,110	4,416	565,192
Intercompany elimination	0	0	0	( 3,724 )	( 3,724 )
	46,678	496,988	17,110	692	561,468
Profit before taxation	6,811	67,961	575	( 269 )	75,078
PBT/Revenue %	14.59	13.68	3.36	( 38.87 )	13.37
<b>- 31/03/2018</b>					
Revenue	43,576	419,311	20,372	4,644	487,903
Intercompany elimination	0	0	0	( 3,725 )	( 3,725 )
	43,576	419,311	20,372	919	484,178
Profit before taxation	5,042	47,468	416	106	53,032
PBT/Revenue %	11.57	11.32	2.04	11.53	10.95
<b>Comparison of financial period Percentage change</b>					
Revenue	7.12	18.52	( 16.01 )	( 24.70 )	15.96
Profit before tax	35.09	43.17	38.22	na	41.57

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**Explanatory Notes****Additional Information required by MMLR.****14.1 Review of Results (continue)****Comparison of Current quarter and financial period to date ("1QFY2019") with Preceding year quarter and financial period to date ("1QFY2018")**

For the quarter and financial period ended 31 March 2019, the Group recorded revenue of RM 561.47 million, an increase of 15.96% as compared with RM 484.18 million in the corresponding period last year. Profit before taxation (PBT) rose 41.57% to RM75.08 million as compared with RM53.03 million in 2018. The better performance was attributable to improvements in all three divisions - Gloves, Technical Rubber Products and Cleanroom.

The Gloves division's revenue rose 18.52% to RM496.99 million as compared with RM419.31 million in 2018, with PBT increasing by 43.17% to RM67.96 million compared with RM47.47 million from a year ago. The improved performance was achieved on the back of continued strong demand for the Group's glove products, with higher volume sold (+18.8%) from increased production output as compared with the previous year corresponding period.

The TRPs division's revenue rose 7.12% to RM46.68 million as compared with RM43.58 million in 2018, with PBT increasing by 35.09% to RM6.81 million from RM5.04 million recorded in the previous year corresponding period. The better performance was mainly attributable to higher sales deliveries, favourable raw materials prices and sales of higher margin products.

The Cleanroom division recorded revenue and PBT of RM17.11 million and RM0.58 million respectively in the current period under review, as compared with revenue and PBT of RM20.37 and RM0.42 million respectively in 2018.

**14.2 Explanatory comments on any material change in the profit before taxation for the quarter reported on as compared with the preceding quarter.**

	<b>Current Quarter 31/03/2019 RM '000</b>	<b>Immediate Preceding Quarter 31/12/2018 RM '000</b>	<b>Changes %</b>
Revenue	561,468	589,372	( 4.73 )
Operating profit	79,721	76,726	3.90
Profit Before Interest and Tax	79,721	76,726	3.90
Profit before tax	75,078	71,400	5.15
Profit after tax	59,472	61,033	( 2.56 )
Profit attributed To Ordinary Equity Shareholders	58,723	59,514	( 1.33 )

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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 (continue)**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
<b>Current Quarter ended - 31/03/2019 (1Q19)</b>					
Revenue	46,678	496,988	17,110	4,416	565,192
Intercompany elimination	0	0	0	( 3,724 )	( 3,724 )
	<u>46,678</u>	<u>496,988</u>	<u>17,110</u>	<u>692</u>	<u>561,468</u>
Profit before taxation	<u>6,811</u>	<u>67,961</u>	<u>575</u>	<u>( 269 )</u>	<u>75,078</u>
PBT/Revenue %	14.59	13.68	3.36	( 38.87 )	13.37
<b>Preceding Quarter ended - 31/12/2018 (4Q18)</b>					
Revenue	50,380	519,360	18,832	5,140	593,712
Intercompany elimination	0	0	0	( 4,340 )	( 4,340 )
	<u>50,380</u>	<u>519,360</u>	<u>18,832</u>	<u>800</u>	<u>589,372</u>
Profit before tax	<u>8,458</u>	<u>62,500</u>	<u>1,099</u>	<u>( 657 )</u>	<u>71,400</u>
PBT/Revenue %	16.79	12.03	5.84	na	12.12
<b>Comparison of quarters</b>					
<b>Percentage change</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Revenue	( 7.35)	( 4.31)	( 9.14)	( 13.50)	( 4.73)
Profit before tax	( 19.47)	8.74	(47.68)	59.06	5.15

**Comparison of Current Quarter (“1Q19”) with immediate Preceding Quarter (“4Q18”)**

On a quarter-on-quarter basis, the Group recorded revenue of RM561.47 million in 1Q19 as compared with RM 589.37 million in the immediate preceding quarter. Profit before tax (PBT) rose 5.15% to RM75.08 million from RM71.40 million in 4Q18. The higher PBT was attributable to the improved earnings of the Gloves division.

The Gloves division recorded revenue of RM496.99 million in 1Q19, easing 4.31% from RM519.36 million in 4Q18. PBT however rose 8.74% to RM67.96 million in 1Q19 compared with RM63.07 million in the immediate preceding quarter. The improved earnings were achieved on the back of continued strong demand for the Group’s glove products, with higher volume sold (+4.68%) as compared with 4Q18.

The TRPs division recorded revenue of RM46.68 million in the current quarter, a decrease of 7.35% as compared with RM50.38 million in 4Q18, while PBT decreased 19.47% to RM6.81 million as compared with RM8.46 million in the immediate preceding quarter. PBT was lower mainly due to lower deliveries and increase in raw material prices (SMR10 +8.16%).

The Cleanroom division recorded revenue and PBT of RM17.11 million and RM0.58 million respectively in 1Q19, as compared with RM18.83 million and RM1.11 million in 4Q18.

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### **Explanatory Notes**

#### **14.3 Current Year Prospects**

The demand for gloves remains resilient. Global demand is projected to grow to 300 billion pieces of gloves in 2019 (source: MARGMA) (2018: 268 billion pieces). The operating environment remains challenging, however the Group's manufacturing plants continue to operate at full capacity.

Plant 18 (2.5 billion pieces) and Plant 19 (3 billion pieces) are set to be fully commissioned by the 3rd quarter and 4th quarter of 2019 respectively.

For the Technical Rubber Products division, the Group views this division as stable and is optimistic of the performance for 2019.

Despite rising costs and heightened competition, Kossan has continued to pursue its transformation and growth strategies, focusing on cost savings as well as improvements in production technology and operating efficiency. Management is confident that FY2019 will be a growth year for the Group.

#### **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**

	<b>Current Quarter and Financial period ended</b>	
	<b>31/03/2019</b>	<b>31/03/2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Tax expense	13,331	6,148
Deferred taxation	<u>2,275</u>	<u>1,595</u>
	<u>15,606</u>	<u>7,743</u>

The effective income tax rate for the current quarter and financial period ended 31 March 2019 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 31 March 2019.

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**Explanatory Notes****14.7 Group Borrowings**

a) The Group borrowings as at 31 March 2019 were as follows:

	<b>Total Unsecured</b>	
	<b>As at 31/03/2019</b>	<b>As at 31/12/2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Short Term</b>		
Revolving credit	128,765	79,450
Bankers' acceptances	122,371	116,846
Term loans due within 12 months	<u>79,788</u>	<u>82,133</u>
	330,924	278,429
<b>Long Term</b>		
Term loans due after 12 months	<u>218,650</u>	<u>228,400</u>
	<u>549,574</u>	<u>506,829</u>

Included in the above Group borrowings in foreign denomination were as follows:

	<b>As at 31/03/2019</b>	<b>As at 31/12/2018</b>
	Unsecured Short term – revolving credit	
Foreign currency	<u>US\$10,000,000</u>	<u>US\$10,000,000</u>
RM equivalent	<u>RM 40,765,000</u>	<u>RM 41,415,000</u>
Average exchange rate RM to US\$ 1.00	<u>RM 4.0765</u>	<u>RM 4.1450</u>

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 2019.

**14.8 Material Litigation**

There were no pending material litigation since the last audited annual financial statements date to the date of issue of the quarterly report.

**14.9 Earnings Per Share**

	<b>Current Quarter Financial period ended</b>	
	<b>31/03/2019</b>	<b>31/03/2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Profit after tax and minority interest</b>	<u>58,723</u>	<u>44,514</u>
<b>Basic earnings per share</b>		
Basic number of ordinary shares in issue ('000)	1,278,936	1,278,936
Basic earnings per share (sen)	<u>4.59</u>	<u>3.48</u>

On behalf of the Board

**Tan Sri Dato' Lim Kuang Sia**  
**Managing Director**  
24 May 2019