



## **KOSSAN RUBBER INDUSTRIES BHD**

Company No. 48166-W  
(Incorporated in Malaysia)

### **INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 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 30 June 2019.

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

There were no significant changes in estimates used in the current quarter and financial period ended 30 June 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 30 June 2019.

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

On 04 January 2019, the directors approved an interim tax exempt dividend of 3.0 sen per ordinary share 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 30 June 2019.

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

|                               | <b>Divisions</b>                        |                           |                               |   |                          |
|-------------------------------|---|---------------------------|-------------------------------|---|--------------------------|
|                               | <b>Technical<br/>Rubber<br/>RM '000</b> | <b>Gloves<br/>RM '000</b> | <b>Clean-Room<br/>RM '000</b> | <b>Investment<br/>Holding<br/>RM '000</b> | <b>Total<br/>RM '000</b> |
| <b>Financial period ended</b> |   |                           |                               |   |                          |
| <b>- 30/06/2019</b>           |   |                           |                               |   |                          |
| Revenue                       | 89,397                                  | 975,002                   | 46,207                        | 8,844                                     | 1,119,450                |
| Intercompany elimination      | 0                                       | 0                         | 0                             | ( 7,449 )                                 | ( 7,449 )                |
|                               | <u>89,397</u>                           | <u>975,002</u>            | <u>46,207</u>                 | <u>1,395</u>                              | <u>1,112,001</u>         |
| Profit before tax             | <u>14,261</u>                           | <u>129,870</u>            | <u>1,206</u>                  | <u>( 277 )</u>                            | <u>145,060</u>           |
| <b>- 30/06/2018</b>           |   |                           |                               |   |                          |
| Revenue                       | 88,112                                  | 851,673                   | 39,671                        | 9,658                                     | 989,114                  |
| Intercompany elimination      | 0                                       | 0                         | 0                             | ( 8,149 )                                 | ( 8,149 )                |
|                               | <u>88,112</u>                           | <u>851,673</u>            | <u>39,671</u>                 | <u>1,509</u>                              | <u>980,965</u>           |
| Profit before tax             | <u>13,151</u>                           | <u>93,805</u>             | <u>1,542</u>                  | <u>( 560 )</u>                            | <u>107,938</u>           |
| <b>Quarter ended</b>          |   |                           |                               |   |                          |
| <b>- 30/06/2019</b>           |   |                           |                               |   |                          |
| Revenue                       | 42,720                                  | 478,014                   | 29,097                        | 4,427                                     | 554,258                  |
| Intercompany elimination      | 0                                       | 0                         | 0                             | ( 3,725 )                                 | ( 3,725 )                |
|                               | <u>42,720</u>                           | <u>478,014</u>            | <u>29,097</u>                 | <u>702</u>                                | <u>550,533</u>           |
| Profit before tax             | <u>7,450</u>                            | <u>61,908</u>             | <u>630</u>                    | <u>( 8 )</u>                              | <u>69,980</u>            |
| <b>- 30/06/2018</b>           |   |                           |                               |   |                          |
| Revenue                       | 44,536                                  | 432,362                   | 19,300                        | 5,014                                     | 501,212                  |
| Intercompany elimination      | 0                                       | 0                         | 0                             | ( 4,425 )                                 | ( 4,425 )                |
|                               | <u>44,536</u>                           | <u>432,362</u>            | <u>19,300</u>                 | <u>589</u>                                | <u>496,787</u>           |
| Profit before tax             | <u>8,109</u>                            | <u>46,336</u>             | <u>1,125</u>                  | <u>( 666 )</u>                            | <u>54,904</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 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 30 June 2019.

**12. Contingent Liabilities**

As at 30 June 2019, the Company has unsecured outstanding contingent liabilities amounting to RM581.355 million (31 Dec 2018: RM491.255 million) being corporate guarantees given to financial institutions for banking facilities granted to certain subsidiaries.

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**Explanatory Notes****13. Capital and other Commitments**

|  | As at financial period ended |            |
|--|------------------------------|------------|
|  | 30/06/2019                   | 31/12/2018 |
|  | RM'000                       | RM'000     |
| Property, plant and equipment                |                              |            |
| Within one year: Contracted but not provided | 4,234                        | 7,734      |

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

|   | Individual Period<br>(2 <sup>nd</sup> Quarter)    |   |              | Cumulative Period                                 |  |              |
|---|---|---|--------------|---|--|--------------|
|   | Current<br>Year<br>Quarter<br>30/06/19<br>RM '000 | Preceding Year<br>Corresponding<br>Quarter<br>30/06/18<br>RM '000 | Changes<br>% | Current<br>Year<br>to-date<br>30/06/19<br>RM '000 | Preceding Year<br>Corresponding<br>Period<br>30/06/18<br>RM '000 | Changes<br>% |
| Revenue   | 550,533   | 496,787   | 10.82        | 1,112,001   | 980,965  | 13.36        |
| Operating profit  | 75,226  | 58,969  | 27.57        | 154,949   | 115,929  | 33.66        |
| Profit Before<br>Interest and Tax                       | 75,226  | 58,969  | 27.57        | 154,949   | 115,929  | 33.66        |
| Profit before tax                                       | 69,980  | 54,904  | 27.46        | 145,060   | 107,938  | 34.39        |
| Profit after tax  | 56,709  | 44,703  | 26.86        | 116,182   | 89,993   | 29.10        |
| Profit attributed<br>To Ordinary Equity<br>Shareholders | 55,883  | 43,443  | 28.64        | 114,607   | 87,958   | 30.30        |

|                                       | Divisions                      |                   |                       |                                  |                  |
|---------------------------------------|--------------------------------|-------------------|-----------------------|----------------------------------|------------------|
|                                       | Technical<br>Rubber<br>RM '000 | Gloves<br>RM '000 | Clean-Room<br>RM '000 | Investment<br>Holding<br>RM '000 | Total<br>RM '000 |
| <b>Financial period ended</b>         |                                |                   |                       |                                  |                  |
| <b>- 30/06/2019</b>                   |                                |                   |                       |                                  |                  |
| Revenue                               | 89,397                         | 975,002           | 46,207                | 8,844                            | 1,119,450        |
| Intercompany elimination              | 0                              | 0                 | 0                     | ( 7,449 )                        | ( 7,449 )        |
|                                       | 89,397                         | 975,002           | 46,207                | 1,395                            | 1,112,001        |
| Profit before tax                     | 14,261                         | 129,870           | 1,206                 | ( 277 )                          | 145,060          |
| PBT/Revenue %                         | 15.95                          | 13.32             | 2.61                  | ( 19.86 )                        | 13.05            |
| <b>- 30/06/2018</b>                   |                                |                   |                       |                                  |                  |
| Revenue                               | 88,112                         | 851,673           | 39,671                | 9,658                            | 989,114          |
| Intercompany elimination              | 0                              | 0                 | 0                     | ( 8,149 )                        | ( 8,149 )        |
|                                       | 88,112                         | 851,673           | 39,671                | 1,509                            | 980,965          |
| Profit before tax                     | 13,151                         | 93,805            | 1,542                 | ( 560 )                          | 107,938          |
| PBT/Revenue %                         | 14.93                          | 11.01             | 3.89                  | ( 37.11 )                        | 11.00            |
| <b>Comparison of financial period</b> |                                |                   |                       |                                  |                  |
| <b>Percentage change</b>              | %                              | %                 | %                     | %                                | %                |
| Revenue                               | 1.46                           | 14.48             | 16.48                 | ( 7.55 )                         | 13.36            |
| Profit before tax                     | 8.44                           | 38.45             | ( 21.79 )             | na                               | 34.39            |

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**Explanatory Notes****14.1 Review of Results (continue)**

|                                       | <b>Divisions</b>                        |                           |                               |   | <b>Total<br/>RM '000</b> |
|---------------------------------------|---|---------------------------|-------------------------------|---|--------------------------|
|                                       | <b>Technical<br/>Rubber<br/>RM '000</b> | <b>Gloves<br/>RM '000</b> | <b>Clean-Room<br/>RM '000</b> | <b>Investment<br/>Holding<br/>RM '000</b> |                          |
| <b>Financial period ended</b>         |   |                           |                               |   |                          |
| <b>Quarter ended</b>                  |   |                           |                               |   |                          |
| <b>- 30/06/2019</b>                   |   |                           |                               |   |                          |
| Revenue                               | 42,720                                  | 478,014                   | 29,097                        | 4,427                                     | 554,258                  |
| Intercompany elimination              | 0                                       | 0                         | 0                             | ( 3,725 )                                 | ( 3,725 )                |
|                                       | <u>42,720</u>                           | <u>478,014</u>            | <u>29,097</u>                 | <u>702</u>                                | <u>550,533</u>           |
| Profit before tax                     | <u>7,450</u>                            | <u>61,908</u>             | <u>630</u>                    | <u>( 8 )</u>                              | <u>69,980</u>            |
| PBT/Revenue %                         | 17.44                                   | 12.95                     | 2.17                          | na  | 12.71                    |
| <b>- 30/06/2018</b>                   |   |                           |                               |   |                          |
| Revenue                               | 44,536                                  | 432,362                   | 19,300                        | 5,014                                     | 501,212                  |
| Intercompany elimination              | 0                                       | 0                         | 0                             | ( 4,425 )                                 | ( 4,425 )                |
|                                       | <u>44,536</u>                           | <u>432,362</u>            | <u>19,300</u>                 | <u>589</u>                                | <u>496,787</u>           |
| Profit before tax                     | <u>8,109</u>                            | <u>46,336</u>             | <u>1,125</u>                  | <u>( 666 )</u>                            | <u>54,904</u>            |
| PBT/Revenue %                         | 18.21                                   | 10.72                     | 5.83                          | na  | 11.05                    |
| <b>Comparison of financial period</b> |   |                           |                               |   |                          |
| <b>Percentage change</b>              | <b>%</b>                                | <b>%</b>                  | <b>%</b>                      | <b>%</b>                                  | <b>%</b>                 |
| Revenue                               | ( 4.08)                                 | 10.56                     | 50.76                         | 19.19                                     | 10.82                    |
| Profit before tax                     | ( 8.13)                                 | 33.61                     | ( 44.00)                      | na  | 27.46                    |

**Additional Information required by MMLR.****Comparison of Current financial period to date ("1H19") with corresponding financial period ("1H18")**

For the 1H19, the Group's revenue increased by 13.36% to RM1,112.00 million as compared with RM980.97 million for the corresponding period in 2018. Profit before taxation (PBT) rose 34.39% to RM145.06 million in 1H19 as compared with RM107.94 million for the corresponding period last year. The improved year-to-date performance was mainly attributable to the improved performance from the Gloves and TRPs division.

The Gloves division's revenue rose 14.48% to RM975.00 million in 1H19 as compared with RM851.67 million in 1H18. PBT rose 38.45% to RM129.87 million as compared with RM93.81 million recorded in the corresponding period last year. The improved performance was achieved on the back of demand growth for the Group's glove products, with higher volume sold (+14.88%) from increased production output, as well as increased manufacturing efficiency and effective cost controls as compared with the previous year corresponding period.

The TRPs division's revenue rose 1.46% to RM89.40 million in 1H19 as compared with RM88.11 million in 1H18, while PBT rose 8.44% to RM14.26 million from RM13.15 million recorded in the previous year corresponding period last year. The improved performance was mainly attributable to increased sales deliveries and sales of higher margin products.

The Cleanroom division recorded revenue and PBT of RM46.21 million and RM1.21 million respectively in 1H19, as compared with RM39.67 million and RM1.54 million in 1H18.

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**Explanatory Notes****14.1 Review of Results (continue)****Additional Information required by MMLR.****Comparison of Current quarter (2Q19) with corresponding quarter (2Q18)**

For the 2Q19, the Group recorded higher revenue of 10.82% to RM550.53 million as compared with RM496.79 million in 2Q18, while PBT rose 27.46% to RM69.98 million as compared with RM54.90 million in the previous year. The better performance was attributable to the improved performance in the Gloves division as compared with the previous year.

The Gloves division's revenue rose 10.56% to RM478.01 million in 2Q19 from RM432.36 million in 2Q18, with PBT rising 33.61% to RM61.91 million in the current quarter as compared with RM46.34 million from a year ago. The improved performance was achieved on the back of demand growth for the Group's glove products, with higher volume sold (+8.71%) from increased production output, as well as increased manufacturing efficiency and effective cost controls as compared with the previous year corresponding period.

The TRPs division's revenue of RM42.70 million in 2Q19 was 4.08% lower as compared with RM44.54 million in 2Q18, while PBT decreased 8.13% to RM7.45 million in the current quarter compared to RM8.11 million in the previous year corresponding quarter. The weaker performance was mainly attributable to lower sales deliveries and increase in raw material prices (SMR10 +13.91%).

The Cleanroom division recorded revenue and PBT of RM29.10 million and RM0.63 million respectively in 2Q19, as compared with RM19.30 million and RM1.13 million in 2Q18.

**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<br/>Quarter<br/>30/06/2019<br/>RM '000</b> | <b>Immediate<br/>Preceding<br/>Quarter<br/>31/03/2019<br/>RM '000</b> | <b>Changes<br/>%</b> |
|---|---|---|----------------------|
| Revenue   | 550,533   | 561,468   | ( 1.95 )             |
| Operating profit                                  | 75,226  | 79,721  | ( 5.64 )             |
| Profit Before Interest and Tax                    | 75,226  | 79,721  | ( 5.64 )             |
| Profit before tax                                 | 69,980  | 75,078  | ( 6.79 )             |
| Profit after tax                                  | 56,709  | 59,472  | ( 4.65 )             |
| Profit attributed To Ordinary Equity Shareholders | 55,883  | 58,723  | ( 4.84 )             |

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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<br>Rubber<br>RM '000 | Gloves<br>RM '000 | Clean-Room<br>RM '000 | Investment<br>Holding<br>RM '000 | Total<br>RM '000 |
| <b>Current Quarter ended<br/>- 30/06/2019 (2Q19)</b>   |                                |                   |                       |                                  |                  |
| Revenue  | 42,720                         | 478,014           | 29,097                | 4,427                            | 554,258          |
| Intercompany elimination                               | 0                              | 0                 | 0                     | ( 3,725 )                        | ( 3,725 )        |
|  | <u>42,720</u>                  | <u>478,014</u>    | <u>29,097</u>         | <u>702</u>                       | <u>550,533</u>   |
| Profit before tax                                      | <u>7,450</u>                   | <u>61,908</u>     | <u>630</u>            | <u>( 8 )</u>                     | <u>69,980</u>    |
| PBT/Revenue %  | 17.44                          | 12.95             | 2.17                  | na                               | 12.71            |
| <b>Preceding Quarter ended<br/>- 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>Comparison of quarters</b>                          |                                |                   |                       |                                  |                  |
| <b>Percentage change</b>                               | <b>%</b>                       | <b>%</b>          | <b>%</b>              | <b>%</b>                         | <b>%</b>         |
| Revenue  | ( 8.48)                        | ( 3.82)           | 70.06                 | 1.45                             | ( 1.95)          |
| Profit before tax                                      | 9.38                           | ( 8.91)           | 9.57                  | na                               | ( 6.79)          |

**Comparison of Current Quarter (“2Q19”) with immediate Preceding Quarter (“1Q19”)**

On a quarter-on-quarter basis, the Group recorded revenue of RM550.53 million in 2Q19, easing 1.95% as compared with RM 561.47 million in the immediate preceding quarter. PBT eased 6.79% to RM69.98 million from RM75.08 million in 1Q19.

The Gloves division recorded revenue of RM478.01 million in 2Q19, easing 3.82% from RM496.99 million in 1Q19. PBT eased 8.91% to RM61.91 million in 2Q19 as compared with RM67.96 million in the immediate preceding quarter. The weaker earnings were a result of scheduled revamp and upgrading works across the Group’s plants for efficiency improvements and energy savings in the current quarter as compared with 1Q19.

The TRPs division recorded revenue of RM42.72 million in the current quarter, easing 8.48% as compared with RM46.68 million in 1Q19. PBT meanwhile increased 9.38% to RM7.45 million as compared with RM6.81 million in the immediate preceding quarter. The improved performance was mainly attributable to sales of higher margin products.

The Cleanroom division recorded revenue and PBT of RM29.10 million and RM0.63 million respectively in 2Q19, as compared with RM17.11 million and RM0.58 million in 1Q19.

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### Explanatory Notes

#### 14.3 Current Year Prospects

The first half of the 2019 year has been characterised by cost increases and increased competition. Despite the challenging operating environment affecting the industry, Kossan continues to outperform, with a 34% increase in profit before taxation for the 1<sup>st</sup> half of 2019 compared with the previous year corresponding period.

For the Technical Rubber Products division, the Group views this division as stable.

With the Group's transformation plans and a growth strategy that focuses on cost savings, advanced manufacturing technology and continuous improvements in 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

|                       | Quarter period ended |               | Financial period ended |               |
|-----------------------|----------------------|---------------|------------------------|---------------|
|                       | 30/06/2019           | 30/06/2018    | 30/06/2019             | 30/06/2018    |
|                       | RM'000               | RM'000        | RM'000                 | RM'000        |
| Tax expense - current | 10,971               | 8,501         | 24,303                 | 14,650        |
| Deferred taxation     | <u>2,300</u>         | <u>1,700</u>  | <u>4,575</u>           | <u>3,295</u>  |
|                       | <u>13,271</u>        | <u>10,201</u> | <u>28,878</u>          | <u>17,945</u> |

The effective income tax rate for the current quarter and financial period ended 30 June 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 30 June 2019.

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

a) The Group borrowings as at 30 June 2019 were as follows:

|                                 | <b>Total Unsecured</b>                 |  |
|---------------------------------|--|--|
|                                 | <b>As at<br/>30/06/2019<br/>RM'000</b> | <b>As at<br/>31/12/2018<br/>RM'000</b> |
| <b>Short Term</b>               |  |  |
| Revolving credit                | 179,418                                | 79,450                                 |
| Bankers' acceptances            | 121,738                                | 116,846                                |
| Term loans due within 12 months | <u>78,109</u>                          | <u>82,133</u>                          |
|                                 | 379,265                                | 278,429                                |
| <b>Long Term</b>                |  |  |
| Term loans due after 12 months  | <u>202,642</u>                         | <u>228,400</u>                         |
|                                 | <u>581,907</u>                         | <u>506,829</u>                         |

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

|   | <b>As at<br/>30/06/2019</b> | <b>As at<br/>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 41,418,000</u>        | <u>RM 41,415,000</u>        |
| Average exchange rate RM to US\$ 1.00   | <u>RM 4.1418</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 30 June 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 ended</b> |                              | <b>Financial period ended</b> |                              |
|---|------------------------------|------------------------------|-------------------------------|------------------------------|
|   | <b>30/06/2019<br/>RM'000</b> | <b>30/06/2018<br/>RM'000</b> | <b>30/06/2019<br/>RM'000</b>  | <b>30/06/2018<br/>RM'000</b> |
| <b>Profit after tax and minority interest</b>   | 55,883                       | 43,443                       | 114,607                       | 87,958                       |
| <b>Basic earnings per share</b>                 |                              |                              |                               |                              |
| Basic number of ordinary shares in issue ('000) | 1,278,936                    | 1,278,936                    | 1,278,936                     | 1,278,936                    |
| Basic earnings per share (sen)                  | <u>4.37</u>                  | <u>3.40</u>                  | <u>8.96</u>                   | <u>6.88</u>                  |

On behalf of the Board

**Tan Sri Dato' Lim Kuang Sia**  
Managing Director  
22 August 2019