



KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 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 September 2019.

5. Changes in Material Estimates

There were no significant changes in estimates used in the current quarter and financial period ended 30 September 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 September 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 was paid on 21 June 2019.

There were no other dividends declared or paid in the current quarter and financial period ended 30 September 2019.

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Explanatory Notes**8. Segmental Reporting**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial period ended					
- 30/09/2019 (9M19)					
Revenue	136,006	1,452,186	53,163	13,381	1,654,736
Intercompany elimination	0	0	0	(11,479)	(11,479)
	<u>136,006</u>	<u>1,452,186</u>	<u>53,163</u>	<u>1,902</u>	<u>1,643,257</u>
Profit before tax	<u>22,428</u>	<u>183,925</u>	<u>2,033</u>	<u>(558)</u>	<u>207,828</u>
- 30/09/2018 (9M18)					
Revenue	134,237	1,357,450	60,697	14,352	1,566,736
Intercompany elimination	0	0	0	(11,874)	(11,874)
	<u>134,237</u>	<u>1,357,450</u>	<u>60,697</u>	<u>2,478</u>	<u>1,554,862</u>
Profit before tax	<u>20,032</u>	<u>156,037</u>	<u>2,466</u>	<u>(607)</u>	<u>177,928</u>
Quarter ended					
- 30/09/2019 (3Q19)					
Revenue	46,609	465,746	18,396	4,537	535,288
Intercompany elimination	0	0	0	(4,031)	(4,031)
	<u>46,609</u>	<u>465,746</u>	<u>18,396</u>	<u>506</u>	<u>531,257</u>
Profit before tax	<u>8,167</u>	<u>54,055</u>	<u>827</u>	<u>(281)</u>	<u>62,768</u>
- 30/09/2018 (3Q18)					
Revenue	46,125	505,778	21,025	4,694	577,622
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>46,125</u>	<u>505,778</u>	<u>21,025</u>	<u>969</u>	<u>573,897</u>
Profit before tax	<u>6,882</u>	<u>63,068</u>	<u>923</u>	<u>(47)</u>	<u>70,826</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 October 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

On 30 August 2019, the Company through KISB Limited Shanghai, incorporated a subsidiary called Pureshield (Shanghai) Health Science and Technology Co. Limited, under the China Shanghai Chongming District Market Supervision and Administration Bureau in China. As at 30 September 2019, this subsidiary remained dormant.

On 17 September 2019, the Company acquired an additional 5% in Doshin Rubber Products (M) Sdn Bhd, bringing its shareholdings to 75%.

There were no other 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 September 2019.

12. Contingent Liabilities

As at 30 September 2019, the Company has unsecured outstanding contingent liabilities amounting to RM575.153 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	
	30/09/2019	31/12/2018
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>nil</u>	<u>7,734</u>

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

	Individual Period (3 rd Quarter)			Cumulative Period		
	Current Year Quarter 30/09/19 RM '000	Preceding Year Corresponding Quarter 30/09/18 RM '000	Changes %	Current Year to-date 30/09/19 RM '000	Preceding Year Corresponding Period 30/09/18 RM '000	Changes %
Revenue	531,257	573,897	(7.43)	1,643,257	1,554,862	5.69
Operating profit	65,540	76,467	(14.29)	220,489	192,094	14.78
Profit Before Interest and Tax	65,540	76,467	(14.29)	220,489	192,094	14.78
Profit before tax	62,768	70,826	(11.38)	207,828	177,928	16.80
Profit after tax	50,164	55,108	(8.97)	166,346	144,266	15.31
Profit attributed To Ordinary Equity Shareholders	49,175	54,146	(9.18)	163,781	141,269	15.94

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial period ended - 30/09/2019 (9M19)					
Revenue	136,006	1,452,186	53,163	13,381	1,654,736
Intercompany elimination	0	0	0	(11,479)	(11,479)
	136,006	1,452,186	53,163	1,902	1,643,257
Profit before tax	22,428	183,925	2,033	(558)	207,828
PBT/Revenue %	16.49	12.65	3.83	na	12.65
- 30/09/2018 (9M18)					
Revenue	134,237	1,357,450	60,697	14,352	1,566,736
Intercompany elimination	0	0	0	(11,874)	(11,874)
	134,237	1,357,450	60,697	2,478	1,554,862
Profit before tax	20,032	156,037	2,466	(607)	177,928
PBT/Revenue %	14.92	11.49	4.06	na	11.44
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	1.32	6.98	(12.41)	(23.24)	5.69
Results	11.96	17.87	(17.56)	na	16.80

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

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Quarter ended					
- 30/09/2019 (3Q19)					
Revenue	46,609	465,746	18,396	4,537	535,288
Intercompany elimination	0	0	0	(4,031)	(4,031)
	<u>46,609</u>	<u>465,746</u>	<u>18,396</u>	<u>506</u>	<u>531,257</u>
Profit before tax	<u>8,167</u>	<u>54,055</u>	<u>827</u>	<u>(281)</u>	<u>62,768</u>
PBT/Revenue %	17.52	11.61	4.50	na	11.81
- 30/09/2018 (3Q18)					
Revenue	46,125	505,778	21,025	4,694	577,622
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>46,125</u>	<u>505,778</u>	<u>21,025</u>	<u>969</u>	<u>573,897</u>
Profit before tax	<u>6,882</u>	<u>63,068</u>	<u>923</u>	<u>(47)</u>	<u>70,826</u>
PBT/Revenue %	14.92	12.47	4.39	na	12.34
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	1.05	(7.91)	(12.50)	(47.78)	(7.43)
Profit before tax	18.67	(14.29)	(10.40)	na	(11.38)

Additional Information required by MMLR.**Comparison of Current financial period to date ("9M19") with corresponding financial period ("9M18")**

In the first nine (9) months of 2019, the Group's revenue increased by 5.69% to RM1,643.26 million as compared with RM1,554.86 million for the corresponding period in 2018. Profit before taxation (PBT) rose 16.80% to RM207.83 million in 9M19 as compared with RM177.93 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 6.98% to RM1,452.19 million in 9M19 as compared with RM1,357.45 million in 9M18. PBT rose 17.87% to RM183.93 million as compared with RM156.04 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 (+9.21%) 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 1.32% to RM136.00 million in 9M19 as compared with RM134.24 million in 9M18, while PBT rose 11.96% to RM22.43 million from RM20.03 million recorded in the previous year corresponding period. The improved performance was mainly attributable to increased sales deliveries.

The Cleanroom division recorded revenue and PBT of RM53.16 million and RM2.03 million respectively in 9M19, as compared with RM60.70 million and RM2.47 million in 9M18.

Comparison of Current quarter (3Q19) with corresponding quarter (3Q18)

For the 3Q19, the Group recorded a decrease in revenue of 7.43% to RM531.26 million as compared with RM573.90 million in 3Q18, while PBT eased 11.38% to RM62.77 million as compared with RM70.83 million in the previous year. The lower revenue and PBT was mainly attributable to the Gloves division as compared with the previous year.

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Explanatory Notes**14.1 Review of Results (continue)****Comparison of Current quarter (3Q19) with corresponding quarter (3Q18)**

The Gloves division's revenue eased 7.91% to RM465.75 million in 3Q19 from RM505.78 million in 3Q18, while PBT eased 14.29% to RM54.06 million in the current quarter as compared with RM63.07 million from a year ago. The performance was mainly attributable to lower average selling prices and the increase in natural gas costs (+5.77%) as compared with 3Q18.

The TRPs division's revenue of RM46.61 million in 3Q19 was 1.05% higher as compared with RM46.13 million in 3Q18, while PBT increased 18.67% to RM8.17 million in the current quarter compared to RM6.88 million in the previous year corresponding quarter. The better performance was mainly attributable to increased sales deliveries.

The Cleanroom division recorded revenue and PBT of RM18.40 million and RM0.83 million respectively in 3Q19, as compared with RM21.03 million and RM0.92 million in 3Q18.

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 30/09/2019 RM '000	Immediate Preceding Quarter 30/06/2019 RM '000	Changes %
Revenue	531,257	550,533	(3.50)
Operating profit	65,540	75,226	(12.88)
Profit Before Interest and Tax	65,540	75,226	(12.88)
Profit before tax	62,768	69,980	(10.31)
Profit after tax	50,164	56,709	(11.54)
Profit attributed To Ordinary Equity Shareholders	49,175	55,883	(12.00)

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Current Quarter ended - 30/09/2019 (3Q19)					
Revenue	46,609	465,746	18,396	4,537	535,288
Intercompany elimination	0	0	0	(4,031)	(4,031)
	<u>46,609</u>	<u>465,746</u>	<u>18,396</u>	<u>506</u>	<u>531,257</u>
Profit before tax	<u>8,167</u>	<u>54,055</u>	<u>827</u>	<u>(281)</u>	<u>62,768</u>
PBT/Revenue %	17.52	11.61	4.50	na	11.81
Preceding Quarter ended - 30/06/2019 (2Q19)					
Revenue	42,720	489,454	17,657	4,427	554,258
Intercompany elimination	0	0	0	(3,725)	(3,725)
	<u>42,720</u>	<u>489,454</u>	<u>17,657</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	12.65	3.57	na	12.71
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	9.10	(4.84)	4.19	(27.92)	(3.50)
Profit before tax	9.62	(12.69)	31.25	na	(10.31)

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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)

Comparison of Current Quarter (“3Q19”) with immediate Preceding Quarter (“2Q19”)

On a quarter-on-quarter basis, the Group recorded revenue of RM531.26 million in 3Q19, easing 3.50% as compared with RM 550.53 million in the immediate preceding quarter. PBT eased 10.31% to RM62.77 million from RM69.98 million in 2Q19.

The Gloves division recorded revenue of RM465.75 million in 3Q19, easing 4.84% from RM489.45 million in 2Q19. PBT eased 12.69% to RM54.06 million in 3Q19 as compared with RM61.91 million in the immediate preceding quarter. The performance was mainly attributable to the increase in natural gas costs (+5.37%) which can only be passed in the next quarter, as well as the temporary shortage of labour in 3Q19.

The TRPs division recorded revenue of RM46.61 million in the current quarter, rising 9.10% as compared with RM42.72 million in 2Q19. PBT increased 9.62% to RM8.17 million as compared with RM7.45 million in the immediate preceding quarter. The improved performance was mainly attributable to increased sales deliveries.

The Cleanroom division recorded revenue and PBT of RM18.40 million and RM0.83 million respectively in 3Q19, as compared with RM17.66 million and RM0.63 million in 2Q19.

14.3 Current Year Prospects

The first nine (9) months of the 2019 year have been characterised by cost increases. Despite the challenging operating environment affecting the industry, Kossan has delivered a 16.8% increase in PBT for 9M19 compared with the previous year corresponding period.

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

With a performance strategy that focuses on cost control, improvements in manufacturing technology and operating efficiency, Management is confident of achieving an improved performance in the final quarter of 2019.

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		Financial period ended	
	30/09/2019	30/09/2018	30/09/2019	30/09/2018
	RM'000	RM'000	RM'000	RM'000
Tax expense - current	10,529	14,483	34,832	29,133
Deferred taxation	2,075	1,235	6,650	4,529
	<u>12,604</u>	<u>15,718</u>	<u>41,482</u>	<u>33,662</u>

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

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Explanatory Notes**14.7 Group Borrowings**

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

	Total Unsecured	
	As at 30/09/2019	As at 31/12/2018
	RM'000	RM'000
Short Term		
Revolving credit	214,870	79,450
Bankers' acceptance	100,866	116,846
Term loans due within 12 months	<u>75,700</u>	<u>82,133</u>
	391,436	278,429
Long Term		
Term loans due after 12 months	<u>183,717</u>	<u>228,400</u>
	<u>575,153</u>	<u>506,829</u>

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

	As at 30/09/2019	As at 31/12/2018
	Unsecured Short term – revolving credit	
Foreign currency	<u>US\$10,000,000</u>	<u>US\$10,000,000</u>
RM equivalent	<u>RM 41,870,000</u>	<u>RM 41,415,000</u>
Average exchange rate RM to US\$ 1.00	<u>RM 4.1870</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 September 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

	Current Quarter ended		Financial period ended	
	30/09/2019	30/09/2018	30/09/2019	30/09/2018
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	49,175	54,146	163,781	141,269
<hr/>				
Basic earnings per share				
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>3.84</u>	<u>4.23</u>	<u>12.81</u>	<u>11.05</u>

There is no dilution in earnings per share as there are no potential diluted ordinary shares.

On behalf of the Board

Tan Sri Dato' Lim Kuang Sia
Managing Director
21 November 2019