



**KOSSAN RUBBER INDUSTRIES BHD**

Company No. 48166-W  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 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 Market 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 year ended 31 December 2019.

**5. Changes in Material Estimates**

There were no significant changes in estimates used in the current quarter and financial year ended 31 December 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 year ended 31 December 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.

On 23 December 2019, the directors approved an interim tax exempt dividend of 3.0 sen per ordinary share for the financial year ending 31 December 2019. The dividend of RM 38,368,074 was paid on 20 January 2020.

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

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

	<b>Divisions</b>				<b>Total RM '000</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>Financial year ended</b>					
<b>- 31/12/2019</b>					
Revenue	180,934	1,964,222	74,092	20,739	2,239,987
Intercompany elimination	0	0	0	( 18,380)	( 18,380)
	<u>180,934</u>	<u>1,964,222</u>	<u>74,092</u>	<u>2,359</u>	<u>2,221,607</u>
Profit before tax	<u>27,316</u>	<u>249,948</u>	<u>2,800</u>	<u>43</u>	<u>280,107</u>
<b>- 31/12/2018</b>					
Revenue	184,386	1,871,932	80,975	19,492	2,156,785
Intercompany elimination	0	0	0	( 16,214)	( 16,214)
	<u>184,386</u>	<u>1,871,932</u>	<u>80,975</u>	<u>3,278</u>	<u>2,140,571</u>
Profit before tax	<u>27,896</u>	<u>219,003</u>	<u>3,628</u>	<u>( 1,263)</u>	<u>249,264</u>
<b>Quarter ended</b>					
<b>- 31/12/2019 (4Q19)</b>					
Revenue	44,928	512,034	20,929	7,358	585,249
Intercompany elimination	0	0	0	( 6,900)	( 6,900)
	<u>44,928</u>	<u>512,034</u>	<u>20,929</u>	<u>458</u>	<u>578,349</u>
Profit before tax	<u>4,889</u>	<u>66,023</u>	<u>766</u>	<u>601</u>	<u>72,279</u>
<b>- 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>

**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**

On 15 January 2020, a subsidiary of the Company entered into a conditional sale and purchase agreement (“SPA”) for the disposal of its vacant freehold industrial land measuring approximately 390,397 sq. metres (4,202,194.27 sq.ft) (“Land”) in the District of Kuala Langat, State of Selangor for a total cash consideration of RM 147,749,148.00. The audited net book value of this land as at 31 December 2018 is RM 96,697,695.00. This SPA is not completed at the date of this announcement.

There were no other significant event that has occurred between 01 January 2020 and the date of this announcement which will materially affect the earnings or income of the Group.

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**Explanatory Notes****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 31 December 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 year ended 31 December 2019.

**12. Contingent Liabilities**

As at 31 December 2019, the Company has unsecured outstanding contingent liabilities amounting to RM565.234 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 year ended</b>	
	<b>31/12/2019</b>	<b>31/12/2018</b>
	<b>RM'000</b>	<b>RM'000</b>
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**

	<b>Individual Period (4<sup>th</sup> Quarter)</b>			<b>Cumulative Period</b>		
	<b>Current Year Quarter 31/12/19 RM '000</b>	<b>Preceding Year Corresponding Quarter 31/12/18 RM '000</b>	<b>Changes %</b>	<b>Current Year to-date 31/12/19 RM '000</b>	<b>Preceding Year Corresponding Period 31/12/18 RM '000</b>	<b>Changes %</b>
Revenue	578,348	589,372	( 1.87)	2,221,607	2,140,571	3.79
Operating profit	74,492	76,726	( 2.91)	294,981	268,768	9.75
Profit Before						
Interest and Tax	74,492	76,726	( 2.91)	294,981	268,768	9.75
Profit before tax	72,279	71,400	1.23	280,107	249,264	12.37
Profit after tax	61,577	61,033	0.89	227,922	204,599	11.40
Profit attributed						
To Ordinary Equity						
Shareholders	61,033	59,514	2.50	224,783	199,773	12.52

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

	<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>Financial year ended</b>					
<b>- 31/12/2019</b>					
Revenue	180,934	1,964,222	74,092	20,739	2,239,987
Intercompany elimination	0	0	0	( 18,380)	( 18,380)
	<u>180,934</u>	<u>1,964,222</u>	<u>74,092</u>	<u>2,359</u>	<u>2,221,607</u>
Profit before tax	<u>27,316</u>	<u>249,948</u>	<u>2,800</u>	<u>43</u>	<u>280,107</u>
PBT/Revenue %	15.10	12.73	3.78	na	12.61
<b>- 31/12/2018</b>					
Revenue	184,386	1,871,932	80,975	19,492	2,156,785
Intercompany elimination	0	0	0	( 16,214)	( 16,214)
	<u>184,386</u>	<u>1,871,932</u>	<u>80,975</u>	<u>3,278</u>	<u>2,140,571</u>
Profit before tax	<u>27,896</u>	<u>219,003</u>	<u>3,628</u>	<u>( 1,263)</u>	<u>249,264</u>
PBT/Revenue %	15.13	11.70	4.48	na	11.65
<b>Comparison of financial year</b>					
<b>Percentage change</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Revenue	( 1.87)	4.93	( 8.50)	( 28.04)	3.79
Results	( 2.08)	14.13	(22.82)	na	12.37

	<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 ended</b>					
<b>- 31/12/2019 (4Q19)</b>					
Revenue	44,928	512,034	20,929	7,358	585,249
Intercompany elimination	0	0	0	( 6,900)	( 6,900)
	<u>44,928</u>	<u>512,034</u>	<u>20,929</u>	<u>458</u>	<u>578,349</u>
Profit before tax	<u>4,889</u>	<u>66,023</u>	<u>766</u>	<u>601</u>	<u>72,279</u>
PBT/Revenue %	10.88	12.89	3.66	na	12.50
<b>- 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 financial period</b>					
<b>Percentage change</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Revenue	( 10.82)	( 1.41)	11.14	( 42.75)	( 1.87)
Profit before tax	( 42.20)	5.64	( 30.30)	na	1.23

## **KOSSAN RUBBER INDUSTRIES BHD**

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### **Explanatory Notes**

#### **14.1 Review of Results (continue)**

##### **Additional Information required by MMLR.**

##### **Comparison of Current Year To Date ("FY2019") with Preceding Year to Date ("FY2018")**

For the 12 months of financial year ended 31 December 2019, the Group recorded revenue of RM2,221.61 million, an increase of 3.79% as compared with RM2,140.57 million in FY2018. Profit before taxation (PBT) was RM280.11 million, rising 12.37% as compared with RM249.26 million last year. The stronger results were mainly attributable to the improved performance in the Gloves division as compared with the previous year.

The Gloves division revenue was RM1,964.22 million in FY2019, an increase of 4.93% compared with RM1,871.93 million last year. PBT rose 14.13% to RM249.95 million from RM219.00 million recorded in the previous financial year. The improved performance was mainly attributable to the strong demand growth for the Group's glove products, with higher volume sold (+7.77%) as compared with FY2018 as well as increased manufacturing efficiency and effective cost controls. In FY2019, the Group's nitrile to natural rubber (NBR:NR) split stands at 79:21.

The Technical Rubber Products (TRPs) division revenue of RM180.93 million in FY2019 was 1.87% lower as compared with RM184.39 million last year. PBT was RM27.32 million, easing 2.08% from RM27.90 million recorded in FY2018. The performance was mainly attributable to lower sales deliveries.

The Cleanroom division recorded revenue and PBT of RM74.09 million and RM2.80 million respectively for FY2019, as compared with RM80.98 million and RM3.63 million in FY2018.

##### **Comparison of Current quarter (4Q19) with previous year corresponding quarter (4Q18)**

For the 4<sup>th</sup> quarter ended 31 December 2019, the Group recorded revenue of RM578.35 million as compared with RM589.37 million in 4Q18, easing by 1.87%. PBT rose 1.23% to RM72.28 million as compared with RM71.40 million in the previous year corresponding quarter.

The Gloves division revenue eased 1.41% to RM512.03 million in 4Q19 from RM519.36 million in 4Q18, while PBT rose 5.64% to RM66.02 million in the current quarter as compared with RM62.50 million from a year ago. The improved performance was mainly attributable to higher volume sold (+3.8%) as compared with 4Q18. The results were achieved in spite of higher natural gas (+5.77%) costs, start-up costs from the recently completed plants, as well as higher foreign worker recruitment costs as compared with the previous year corresponding quarter.

The TRPs division recorded revenue of RM44.93 million in the current quarter, easing 10.82% as compared with RM50.38 million in 4Q18. PBT decreased 42.20% to RM4.89 million as compared with RM8.46 million from a year ago. The performance was mainly attributable to lower sales deliveries and sales of lower margin products.

The Cleanroom division recorded revenue and PBT of RM20.93 million and RM0.77 million respectively in 4Q19, as compared with RM18.83 million and RM1.10 million in 4Q18.

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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.**

	<b>Current Quarter 31/12/2019 RM '000</b>	<b>Immediate Preceding Quarter 30/09/2019 RM '000</b>	<b>Changes %</b>
Revenue	578,349	531,257	8.86
Operating profit	74,492	65,540	13.66
Profit Before Interest and Tax	74,492	65,540	13.66
Profit before tax	72,279	62,768	15.15
Profit after tax	61,577	50,164	22.75
Profit attributed To Ordinary Equity Shareholders	61,003	49,175	24.05

	<b>Divisions</b>				<b>Total RM '000</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>Current Quarter ended - 31/12/2019 (4Q19)</b>					
Revenue	44,928	512,034	20,929	7,358	585,249
Intercompany elimination	0	0	0	( 6,900)	( 6,900)
	<u>44,928</u>	<u>512,034</u>	<u>20,929</u>	<u>458</u>	<u>578,349</u>
Profit before tax	<u>4,889</u>	<u>66,023</u>	<u>766</u>	<u>601</u>	<u>72,279</u>
PBT/Revenue %	10.88	12.89	3.66	na	12.50
<b>Preceding Quarter ended - 30/09/2019 (3Q19)</b>					
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
<b>Comparison of quarters</b>					
<b>Percentage change</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Revenue	( 3.61)	9.94	13.77	( 9.49)	8.86
Profit before tax	( 40.14)	22.14	( 7.38)	na	15.15

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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 (“4Q19”) with immediate Preceding Quarter (“3Q19”)**

On a quarter-on-quarter basis, the Group recorded revenue of RM578.35 million in 4Q19, rising 8.86% as compared with RM 531.26 million in the immediate preceding quarter. PBT rose 15.15% to RM72.28 million from RM62.77 million in 3Q19. The performance was mainly attributable to the improvement in the Gloves division.

The Gloves division recorded revenue of RM512.03 million in 4Q19, rising 9.94% from RM465.75 million in 3Q19. PBT rose 22.14% to RM66.02 million in 4Q19 as compared with RM54.06 million in the immediate preceding quarter. The improved performance was mainly attributable to the higher volume sold (+7.6%) as compared with 3Q19. The results were achieved in spite of higher start-up costs from the recently completed plants, as well as higher foreign worker recruitment costs.

The TRPs division recorded revenue of RM44.93 million in the current quarter, easing 3.61% as compared with RM46.61 million in 3Q19. PBT decreased 40.14% to RM4.89 million as compared with RM8.17 million in the immediate preceding quarter. The performance was mainly attributable to lower sales deliveries and sales of lower margin products.

The Cleanroom division recorded revenue and PBT of RM20.93 million and RM0.77 million respectively in 4Q19, as compared with RM18.40 million and RM0.83 million in 3Q19.

**14.3 Current Year Prospects**

The 2019 year has been characterised by cost increases and increased competition. Despite the challenging operating environment affecting the industry, Kossan has delivered a 12.4% increase in profit before taxation for FY2019 as compared with the previous year.

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

The Group acknowledged and has taken precaution measures on the seriousness of the Covid-19 epidemic. The impact, if any, on the Group operations is closely monitored.

With the Group’s expansion plans and new capacity coming on-stream as well as continued improvements in operating efficiency, management is confident that FY2020 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 ended		Financial period ended	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM’000	RM’000	RM’000	RM’000
Tax expense	17,492	12,812	52,325	41,819
Deferred taxation	( 6,790)	( 2,445)	( 140)	2,846
	<u>10,702</u>	<u>10,367</u>	<u>52,185</u>	<u>44,665</u>

The effective income tax rate for the current quarter and financial year ended 31 December 2019 was lower than the statutory rate due to the availability of tax incentives.

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**Explanatory Notes****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 2019.

**14.7 Group Borrowings**

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

	<b>Total Unsecured</b>	
	<b>As at 31/12/2019 RM'000</b>	<b>As at 31/12/2018 RM'000</b>
<b>Short Term</b>		
Revolving credit	229,017	79,450
Bankers' acceptance	95,726	116,846
Term loans due within 12 months	<u>68,200</u>	<u>82,133</u>
	392,943	278,429
<b>Long Term</b>		
Term loans due after 12 months	<u>172,292</u>	<u>228,400</u>
	<u>565,235</u>	<u>506,829</u>

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

	<b>As at 31/12/2019</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 41,018,000</u>	<u>RM 41,415,000</u>
Average exchange rate RM to US\$ 1.00	<u>RM 4.1018</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 year ended 31 December 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 year ended</b>	
	<b>31/12/2019 RM'000</b>	<b>31/12/2018 RM'000</b>	<b>31/12/2019 RM'000</b>	<b>31/12/2018 RM'000</b>
<b>Profit after tax and minority interest</b>	61,033	59,514	224,783	199,773
<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>4.77</u>	<u>4.65</u>	<u>17.58</u>	<u>15.62</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 February 2020**