



KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2020

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 1/1/2020 inclusive of those adopted for the audited financial statements for the year ended 31 December 2019.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2019 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 2020.

5. Changes in Material Estimates

There were no significant changes in estimates used in the current quarter and financial period ended 30 June 2020.

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 2020.

7. Dividend

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.

On 21 May 2020 the directors approved a second interim tax exempt dividend of 3.0 sen per ordinary share for the financial year ended 31 December 2019. The dividend of RM 38,368,074 was paid on 19 June 2020.

There were no other dividends declared or paid in the current quarter and financial period ended 30 June 2020.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**8. Segmental Reporting**

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Financial period ended					
- 30/06/2020					
Revenue	63,526	1,178,815	70,096	54,652	1,367,089
Intercompany elimination	0	0	0	(53,945)	(53,945)
	<u>63,526</u>	<u>1,178,815</u>	<u>70,096</u>	<u>707</u>	<u>1,313,144</u>
Profit before tax	<u>4,973</u>	<u>227,743</u>	<u>10,410</u>	<u>244</u>	<u>243,370</u>
- 30/06/2019					
Revenue	89,397	986,442	34,767	8,844	1,119,450
Intercompany elimination	0	0	0	(7,449)	(7,449)
	<u>89,397</u>	<u>986,442</u>	<u>34,767</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>
Quarter ended					
- 30/06/2020					
Revenue	25,136	630,568	45,564	46,389	747,657
Intercompany elimination	0	0	0	(45,977)	(45,977)
	<u>25,136</u>	<u>630,568</u>	<u>45,564</u>	<u>412</u>	<u>701,680</u>
Profit before tax	<u>1,518</u>	<u>150,612</u>	<u>8,569</u>	<u>137</u>	<u>160,836</u>
- 30/06/2019					
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>

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 01 April 2020, Ideal Quality Sdn Bhd, a subsidiary of the Company entered into a conditional sale and purchase agreement (“SPA0104”) 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 RM153,380,091.00. The audited net book value of this land as at 31 December 2019 was RM 96,697,695.00. This SPA0104 is pending completion at the date of this announcement.

On 18 May 2020, Perusahaan Getah Asas Sdn Bhd, a subsidiary of the Company entered into a sale and purchase agreement (“SPA1805”) with Improgen Sdn Bhd, a related party company (under Chapter 10 of Listing Requirements), for the acquisition of the vacant freehold industrial land measuring approximately 11,314 square metres in the District of Klang, State of Selangor for a total cash consideration of RM6,570,000.00. This SPA1805 was completed on 29 July 2020.

On 6 July 2020, Ideal Quality Sdn Bhd, a subsidiary of the Company, entered into a sale and purchase agreement (“SPA0607”) with Advance Boilers Sdn Bhd for the acquisition of the freehold industrial property measuring approximately 4.0494 hectares located at Lot 6074, Jalan Haji Abdul Manan, Meru, 42200 Kapar, Selangor Darul Ehsan (“Property”) for a total cash consideration of RM 40,000,000.00. This SPA0607 is pending completion at the date of this announcement.

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

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**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 2020.

12. Contingent Liabilities

As at 30 June 2020, the Company has unsecured outstanding contingent liabilities amounting to RM556.462 million (31 Dec 2019: RM664.001 million) being corporate guarantees given to financial institutions for banking facilities granted to certain subsidiaries.

13. Capital and other Commitments

	As at financial period ended	
	30/06/2020	31/12/2019
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>5,913</u>	<u>nil</u>

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

	Individual Period			Cumulative Period		
	(2nd Quarter)					
	Current	Preceding Year		Current	Preceding Year	
	Year	Corresponding		Year	Corresponding	
	Quarter	Quarter	Changes	to-date	Period	Changes
	30/06/20	30/06/19	%	30/06/20	30/06/19	%
	RM '000	RM '000		RM '000	RM '000	
Revenue	701,680	550,533	27.45	1,313,144	1,112,001	18.09
Operating profit	164,242	75,226	118.33	250,514	154,949	61.68
Profit Before						
Interest and Tax	164,242	75,226	118.33	250,514	154,949	61.68
Profit before tax	160,836	69,980	129.83	243,370	145,060	67.77
Profit after tax	132,352	56,709	133.39	197,622	116,182	70.10
Profit attributed						
To Ordinary Equity						
Shareholders	131,057	55,883	134.52	195,860	114,607	70.90

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

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
Financial period ended					
- 30/06/2020					
Revenue	63,526	1,178,815	70,096	54,652	1,367,089
Intercompany elimination	0	0	0	(53,945)	(53,945)
	<u>63,526</u>	<u>1,178,815</u>	<u>70,096</u>	<u>707</u>	<u>1,313,144</u>
Profit before tax	<u>4,973</u>	<u>227,743</u>	<u>10,410</u>	<u>244</u>	<u>243,370</u>
PBT/Revenue %	7.83	19.32	14.85	34.51	18.53
- 30/06/2019					
Revenue	89,397	986,442	34,767	8,844	1,119,450
Intercompany elimination	0	0	0	(7,449)	(7,449)
	<u>89,397</u>	<u>986,442</u>	<u>34,767</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>
PBT/Revenue %	15.95	13.17	3.47	(19.86)	13.05
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(28.94)	19.50	101.62	(49.32)	18.09
Profit before tax	(65.13)	75.36	763.18	na	67.77

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Financial period ended					
Quarter ended					
- 30/06/2020					
Revenue	25,136	630,568	45,564	46,389	747,657
Intercompany elimination	0	0	0	(45,977)	(45,977)
	<u>25,136</u>	<u>630,568</u>	<u>45,564</u>	<u>412</u>	<u>701,680</u>
Profit before tax	<u>1,518</u>	<u>150,612</u>	<u>8,569</u>	<u>137</u>	<u>160,836</u>
PBT/Revenue %	6.04	23.89	18.81	33.25	22.92
- 30/06/2019					
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 financial period					
Percentage change	%	%	%	%	%
Revenue	(41.16)	28.83	158.05	(41.31)	27.45
Profit before tax	(79.62)	143.28	1260.16	na	129.83

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes

14.1 Review of Results (continue)

Additional Information required by MMLR.

Comparison of Current financial period to date ("1H20") with Preceding year corresponding financial period to date ("1H19")

For the 1st half of financial year ending 31 December 2020, the Group's revenue increased by 18.09% to RM1,313.14 million as compared with RM1,112.00 million in 1H19. Profit before taxation (PBT) rose 67.77% to RM243.37 million in 1H20 as compared with RM145.06 million for the corresponding period last year. The improved year-to-date performance was mainly attributable to the improved performance in the Gloves and Cleanroom divisions.

The Gloves division's revenue rose 19.50% to RM1,178.82 million in 1H20 as compared with RM986.44 million in 1H19. PBT rose 75.36% to RM227.74 million as compared with RM129.87 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 (+14.03%) from increased production output and better average selling price.

The TRPs division recorded revenue of RM63.53 million in 1H20, easing 28.94% as compared with RM89.40 million in the corresponding period last year. PBT eased 65.13% to RM4.97 million as compared with RM14.26 million in the previous year corresponding period. The performance in the current period was weaker as expected, impacted by the imposition of the Movement Control Order (MCO) which had disrupted the division's operations, as well as the slowdown in the infrastructure and automotive industry due to the COVID-19 pandemic.

The Cleanroom division grew revenue and PBT by 101.62% and 763.18% respectively to RM70.10 million and RM10.41 million in 1H20, as compared with RM34.77 million and RM1.21 million in 1H19. The improved performance was mainly attributable to the increase in the demand for the division's products as a result of the COVID-19 pandemic.

Comparison of Current quarter ("2Q20") with Preceding year corresponding quarter ("2Q19")

For the 2nd quarter ended 30 June 2020, the Group's revenue increased by 27.45% to RM701.68 million as compared with RM550.53 million in 2Q19. Profit before taxation (PBT) rose 129.83% to RM160.85 million as compared with RM69.98 million in the corresponding quarter last year. The performance was mainly attributable to the improvement in the Gloves and Cleanroom division.

The Gloves division's revenue increased 28.83% to RM630.57 million in 2Q20 from RM489.45 million in 2Q19, while PBT rose 143.28% to RM150.61 million in the current quarter as compared with RM61.91 million from a year ago. The improved performance was mainly attributable to the higher volume sold (+21.1%) and better average selling price as compared with 2Q19.

The TRPs division recorded revenue of RM25.14 million in the current quarter, easing 41.16% as compared with RM42.72 million in 2Q19. PBT eased 79.62% to RM1.52 million as compared with RM7.45 million from a year ago. The performance in the current quarter was weaker as expected, impacted by the imposition of the Movement Control Order (MCO) which had disrupted the division's operations, as well as the slowdown in the infrastructure and automotive industry due to the COVID-19 pandemic.

The Cleanroom division grew revenue and PBT by 158.05% and 1260.16% respectively to RM45.56 million and RM8.57 million in 2Q20, as compared with RM17.66 million and RM0.63 million in 2Q19. The improved performance was mainly attributable to the increase in the demand for the division's products as a result of the COVID-19 pandemic.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

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.**

	Current Quarter 30/06/2020 RM '000	Immediate Preceding Quarter 31/03/2020 RM '000	Changes %
Revenue	701,680	611,465	14.75
Operating profit	164,242	86,272	90.38
Profit Before Interest and Tax	164,242	86,272	90.38
Profit before tax	160,836	82,534	94.87
Profit after tax	132,352	65,270	102.78
Profit attributed To Ordinary Equity Shareholders	131,057	64,803	102.24

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Current Quarter ended - 30/06/2020 (2Q20)					
Revenue	25,136	630,568	45,564	46,389	747,657
Intercompany elimination	0	0	0	(45,977)	(45,977)
	<u>25,136</u>	<u>630,568</u>	<u>45,564</u>	<u>412</u>	<u>701,680</u>
Profit before tax	<u>1,518</u>	<u>150,612</u>	<u>8,569</u>	<u>137</u>	<u>160,836</u>
PBT/Revenue %	6.04	23.89	18.81	33.25	22.92
Preceding Quarter ended - 31/03/2020 (1Q20)					
Revenue	38,391	548,247	24,532	8,263	619,433
Intercompany elimination	0	0	0	(7,968)	(7,968)
	<u>38,391</u>	<u>548,247</u>	<u>24,532</u>	<u>295</u>	<u>611,465</u>
Profit before tax	<u>3,455</u>	<u>77,130</u>	<u>1,842</u>	<u>107</u>	<u>82,534</u>
PBT/Revenue %	9.00	14.07	7.51	36.27	13.50
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	(34.53)	15.02	85.73	39.66	14.75
Profit before tax	(56.06)	95.27	365.20	28.04	94.87

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

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 (“2Q20”) with immediate Preceding Quarter (“1Q20”)

The Group recorded revenue of RM701.68 million in 2Q20, rising 14.75% as compared with RM 611.47 million in the immediate preceding quarter. PBT rose 94.87% to RM160.84 million from RM82.53 million in 1Q20. The performance was mainly attributable to the improvement in the Gloves and Cleanroom division.

The Gloves division recorded revenue of RM630.57 million in 2Q20, rising 15.02% from RM548.25 million in 1Q20. PBT rose 95.27% to RM150.61 million in 2Q20 as compared with RM77.13 million in the immediate preceding quarter. The improved performance was mainly attributable to the higher volume sold (+6.0%) and better average selling price as compared with 1Q20.

The TRPs division recorded revenue of RM25.14 million in the current quarter, easing 34.53% as compared with RM38.39 million in 1Q20. PBT eased 56.06% to RM1.52 million as compared with RM3.46 million in the immediate preceding quarter. The performance in the current quarter was weaker as expected, impacted by the imposition of the Movement Control Order (MCO) which had disrupted the division’s operations, as well as the slowdown in the infrastructure and automotive industry due to the COVID-19 pandemic.

The Cleanroom division grew revenue and PBT by 85.73% and 365.20% respectively to RM45.56 million and RM8.57 million in 2Q20, as compared with RM24.53 million and RM1.84 million in 1Q20. The improved performance was mainly attributable to the increase in the demand for the division’s products as a result of the COVID-19 pandemic.

14.3 Current Year Prospects

The COVID-19 pandemic has had a significant impact on the world economy. In June 2020, the International Monetary Fund in its latest World Economic Outlook (“WEO”) report has revised the global growth for 2020 to -4.9% (April 2020 WEO: -3.0%) indicating a more negative impact than anticipated, with a recovery that is projected to be more gradual than previously forecasted.

Against this backdrop however, the need for personal protective equipment, including rubber gloves has increased significantly. In its July 2020 industry briefing, the Malaysian Rubber Glove Manufacturers Association (“MARGMA”) projected global glove demand to grow 20% to 330 billion pieces in 2020 (2019: 298 billion pieces), with Malaysia expected to export 220 billion pieces of gloves valued at RM21.8 billion in the current year compared with 170 billion pieces worth RM17.4 billion in 2019.

The Technical Rubber Products division has been impacted by the Movement Control Order as well as the slowdown in the infrastructure and automotive industry as a result of the pandemic. However, the TRP’s division only constitutes less than 4% of revenue currently. The division has since resumed full operations after the government began easing the lockdown measures and the Group expects this division will remain profitable.

For the Gloves division, the COVID-19 outbreak started in China and subsequently spread to Europe and the USA in March 2020. New cases continue to be high with concerns of a second wave occurring as countries around the world reopen their economies. As a result, the demand for protective gloves grew exponentially, leading to a supply-demand imbalance. With our selling prices for gloves quoted 45-60 days before delivery, the increase in prices started to be reflected in June 2020 and we will definitely see a significant quarter-on-quarter increase in average selling prices in the 3rd quarter and especially in the 4th quarter of FY2020.

Premised on the above and with additional capacity of around 15% - 20%, management is confident of a further step-up in revenue and profit growth on a quarter-on-quarter basis in the 3rd quarter and more significantly in the 4th quarter of FY2020.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

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	
	30/06/2020	30/06/2019	30/06/2020	30/06/2019
	RM'000	RM'000	RM'000	RM'000
Tax expense - current	26,734	10,971	42,248	24,303
Deferred taxation	1,750	2,300	3,500	4,575
	<u>28,484</u>	<u>13,271</u>	<u>45,748</u>	<u>28,878</u>

The effective income tax rate for the current quarter and financial period ended 30 June 2020 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 2020.

14.7 Group Borrowings

a) The Group borrowings as at 30 June 2020 were as follows:

	Total Unsecured	
	As at 30/06/2020	As at 31/12/2019
	RM'000	RM'000
Short Term		
Revolving credit	227,845	229,017
Bankers' acceptance	125,975	95,726
Term loans due within 12 months	60,700	77,200
	<u>414,520</u>	<u>401,943</u>
Long Term		
Term loans due after 12 months	141,942	163,291
	<u>556,462</u>	<u>565,234</u>

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

	As at	
	30/06/2020	31/12/2019
Unsecured Short term – revolving credit		
Foreign currency	<u>US\$10,000,000</u>	<u>US\$10,000,000</u>
RM equivalent	<u>RM 42,845,000</u>	<u>RM 41,018,000</u>
Average exchange rate RM to US\$ 1.00	<u>RM 4.2845</u>	<u>RM 4.1018</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 2020.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

14.8 Derivative Financial assets/(liabilities)

Group	As at 30/06/2020			As at 31/12/2019		
	Nominal Value	Assets	Liabilities	Nominal Value	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Derivatives at fair value through profit and loss -Forward foreign exchange contracts	336,767	3,081	-	207,097	2,349	-

Forward foreign exchange contracts are used to manage the foreign currency exposures arising from the Group's receivables denominated in currencies other than the functional currencies of Group entities. These forward foreign exchange contracts have maturities of less than one year after the end of the reporting period.

14.9 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.

15.0 Earnings Per Share

	Current Quarter ended 30/06/2020		Financial period ended 30/06/2020	
	30/06/2020 RM'000	30/06/2019 RM'000	30/06/2020 RM'000	30/06/2019 RM'000
Profit after tax and minority interest	131,057	55,883	195,860	114,607
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)	10.25	4.37	15.31	8.96

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

On behalf of the Board

Tan Sri Dato' Lim Kuang Sia
Managing Director
25 August 2020