



KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE FINANCIAL QUARTER ENDED 30 SEPTEMBER 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 September 2020.

5. Changes in Material Estimates

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

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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					
- 30/09/2020 (9M20)					
Revenue	109,992	2,125,382	110,351	63,596	2,409,321
Intercompany elimination	0	0	0	(62,829)	(62,829)
	<u>109,992</u>	<u>2,125,382</u>	<u>110,351</u>	<u>767</u>	<u>2,346,492</u>
Profit before tax	<u>14,725</u>	<u>644,396</u>	<u>20,598</u>	<u>44</u>	<u>679,763</u>
- 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>
Quarter ended					
- 30/09/2020 (3Q20)					
Revenue	46,465	946,567	40,255	8,944	1,042,231
Intercompany elimination	0	0	0	(8,884)	(8,884)
	<u>46,465</u>	<u>946,567</u>	<u>40,254</u>	<u>60</u>	<u>1,033,347</u>
Profit before tax	<u>9,751</u>	<u>416,654</u>	<u>10,187</u>	<u>(199)</u>	<u>436,393</u>
- 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>

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 was completed with full payment received on 01 October 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 was completed with full payment made on 03 September 2020.

On 01 October 2020, the Company announced it has finalised its remediation fee to be paid to migrant workers estimated at RM 50 million. The first payment of 20% amounting to approximately RM 10 million has been paid in November 2020 and the balance will be completed within the next 18 months. Kossan is committed to ensure that migrant workers are free from debt bondage, forced labour in-line with our prior implementation of the zero-cost recruitment policy.

There were no other significant event that has occurred between 01 October 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 10 September 2020, the Company acquired an additional 5% in Doshin Rubber Products (M) Sdn Bhd, bringing its shareholdings to 80%.

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 2020.

12. Contingent Liabilities

As at 30 September 2020, the Company has unsecured outstanding contingent liabilities amounting to RM511.678 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	
	30/09/2020	31/12/2019
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>nil</u>	<u>nil</u>

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

	Individual Period (3rd Quarter)			Cumulative Period		
	Current Year Quarter 30/09/20 RM '000	Preceding Year Corresponding Quarter 30/09/19 RM '000	Changes %	Current Year to-date 30/09/20 RM '000	Preceding Year Corresponding Period 30/09/19 RM '000	Changes %
Revenue	1,033,347	531,257	94.51	2,346,492	1,643,257	42.80
Operating profit	438,928	65,540	569.71	689,442	220,489	212.69
Profit Before						
Interest and Tax	438,928	65,540	569.71	689,442	220,489	212.69
Profit before tax	436,393	62,768	595.25	679,763	207,828	227.08
Profit after tax	351,165	50,164	600.03	549,787	166,346	229.91
Profit attributed						
To Ordinary Equity						
Shareholders	348,741	49,175	609.18	544,602	163,781	232.52

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

	Divisions				
	Technical Rubber	Gloves	Clean-Room	Investment Holding	Total
Financial period ended	RM '000	RM '000	RM '000	RM '000	RM '000
- 30/09/2020 (9M20)					
Revenue	109,992	2,125,382	110,351	63,596	2,409,321
Intercompany elimination	0	0	0	(62,829)	(62,829)
	<u>109,992</u>	<u>2,125,382</u>	<u>110,351</u>	<u>767</u>	<u>2,346,492</u>
Profit before tax	<u>14,725</u>	<u>644,396</u>	<u>20,598</u>	<u>44</u>	<u>679,763</u>
PBT/Revenue %	13.39	30.32	18.67	5.74	28.97
- 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>
PBT/Revenue %	16.49	12.67	3.82	na	12.65
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(19.13)	46.36	107.57	(59.67)	42.80
Results	(34.35)	250.36	913.18	na	227.08
	Divisions				
	Technical Rubber	Gloves	Clean-Room	Investment Holding	Total
Quarter ended	RM '000	RM '000	RM '000	RM '000	RM '000
- 30/09/2020 (3Q20)					
Revenue	46,465	946,567	40,255	8,944	1,042,231
Intercompany elimination	0	0	0	(8,884)	(8,884)
	<u>46,465</u>	<u>946,567</u>	<u>40,254</u>	<u>60</u>	<u>1,033,347</u>
Profit before tax	<u>9,751</u>	<u>416,654</u>	<u>10,187</u>	<u>(199)</u>	<u>436,393</u>
PBT/Revenue %	20.99	44.02	25.31	na	42.23
- 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
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(0.31)	103.24	118.82	(88.14)	94.51
Profit before tax	19.40	670.80	1,131.80	29 18	595.25

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Explanatory Notes

Additional Information required by MMLR.

Comparison of Current financial period to date ("9M20") with Preceding year corresponding financial period to date ("9M19")

For the 9 months financial period ended 30 September 2020, the Group's revenue increased by 42.80% to RM2,346.49 million as compared with RM1,643.26 million in 9M19. Profit before taxation (PBT) rose 227.08% to RM679.76 million in 9M20 as compared with RM207.83 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 46.36% to RM2,125.38 million in 9M20 as compared with RM1,452.19 million in 9M19. PBT rose 250.36% to RM644.40 million as compared with RM183.93 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 (+20.8%) from increased production output and higher average selling price.

The TRPs division recorded revenue of RM109.99 million in 9M20, easing 19.13% as compared with RM136.01 million in the corresponding period last year. PBT eased 34.35% to RM14.73 million as compared with RM22.43 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 general slowdown in the infrastructure and automotive industry due to the COVID-19 pandemic compared with the corresponding period last year.

The Cleanroom division grew revenue and PBT by 107.57% and 913.18% respectively to RM110.35 million and RM20.60 million in 9M20, as compared with RM53.16 million and RM2.03 million in 9M19. 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 ("3Q20") with Preceding year corresponding quarter ("3Q19")

For the 3rd quarter ended 30 September 2020, the Group's revenue increased by 94.51% to RM1,033.35 million as compared with RM531.26 million in 3Q19. Profit before taxation (PBT) rose 595.25% to RM436.39 million as compared with RM62.77 million in the corresponding quarter last year. The performance was attributable to the improvement in all three divisions – Gloves, TRPs and Cleanroom.

The Gloves division's revenue increased 103.24% to RM946.57 million in 3Q20 from RM465.75 million in 3Q19, with PBT rising 670.80% to RM416.65 million in the current quarter as compared with RM54.06 million from a year ago. The improved performance was mainly attributable to the higher volume sold (+34.9%) and higher average selling price as compared with 3Q19.

The TRPs division recorded revenue of RM46.47 million in the current quarter as compared with RM46.61 million in 3Q19, while PBT rose 19.40% to RM9.75 million as compared with RM8.17 million from a year ago. The improved performance in the current quarter was mainly attributable to the resumption of full operations from the lockdown imposed under the Movement Control Order (MCO) and the rebound in deliveries in the infrastructure segment.

The Cleanroom division grew revenue and PBT by 118.82% and 1131.80% respectively to RM40.25 million and RM10.19 million in 3Q20, as compared with RM18.40 million and RM0.83 million in 3Q19. 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.

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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.**

	Current Quarter 30/09/2020 RM '000	Immediate Preceding Quarter 30/06/2020 RM '000	Changes %
Revenue	1,033,347	701,680	47.27
Operating profit	438,928	164,242	167.24
Profit Before Interest and Tax	438,928	164,242	167.24
Profit before tax	436,393	160,836	171.33
Profit after tax	351,165	132,352	165.33
Profit attributed To Ordinary Equity Shareholders	348,741	131,057	166.10

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Current Quarter ended - 30/09/2020 (3Q20)					
Revenue	46,465	946,567	40,255	8,944	1,042,231
Intercompany elimination	0	0	0	(8,884)	(8,884)
	<u>46,465</u>	<u>946,567</u>	<u>40,254</u>	<u>60</u>	<u>1,033,347</u>
Profit before tax	<u>9,751</u>	<u>416,654</u>	<u>10,187</u>	<u>(199)</u>	<u>436,393</u>
PBT/Revenue %	20.99	44.02	25.31	na	42.23
Preceding 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
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	84.85	50.11	(11.65)	(85.44)	47.27
Profit before tax	542.36	176.64	18.88	na	171.33

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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)

Comparison of Current Quarter (“3Q20”) with immediate Preceding Quarter (“2Q20”)

The Group recorded revenue of RM1,033.35 million in 3Q20, rising 47.27% as compared with RM701.68 million in the immediate preceding quarter. PBT rose 171.33% to RM436.39 million from RM160.84 million in 2Q20. The performance was attributable to the improvement in all three divisions – Gloves, TRPs and Cleanroom.

The Gloves division recorded revenue of RM946.57 million in 3Q20, rising 50.11% from RM630.57 million in 2Q20. PBT rose 176.64% to RM416.65 million in 3Q20 as compared with RM150.61 million in the immediate preceding quarter. The improved performance was mainly attributable to the higher volume sold (+9.2%) and higher average selling price as compared with 2Q20.

The TRPs division recorded revenue of RM46.47 million in the current quarter, rising 84.85% as compared with RM25.14 million in 2Q20. PBT rose 542.36% to RM9.75 million as compared with RM1.52 million in the immediate preceding quarter. The improved performance in the current quarter was mainly attributable to the resumption of full operations from the lockdown imposed under the Movement Control Order (MCO) and the rebound in deliveries in the infrastructure segment.

The Cleanroom division recorded revenue of RM40.25 million in the current quarter, easing 11.65% from RM45.56 million in 2Q20, while PBT rose 18.88% to RM10.19 million from RM8.57 million in the immediate preceding quarter. The improved performance was mainly attributable to the sales of higher margin products.

14.3 Current Year Prospects

The COVID-19 pandemic has caused economic activity to contract dramatically on a global scale. The International Monetary Fund (“IMF”) in its latest October 2020 World Economic Outlook (“WEO”) report has revised up its global growth projections to -4.4% (June 2020 WEO: -4.9%). Despite the upward revision, the global economy is still on track for a deep recession, with the ascent back to pre-pandemic levels long and prone to setbacks, according to the IMF.

Despite these conditions however, the demand for personal protective equipment including protective gloves grew exponentially as a result of the pandemic. In September 2020, the Malaysian Rubber Glove Manufacturers Association (“MARGMA”) had revised upwards its forecast for glove export revenue and volume by 36.7% and 9.1% respectively to RM29.8 billion and 240 billion pieces from RM21.8 billion and 220 billion pieces in its July 2020 forecast. Post-COVID-19, MARGMA expects glove demand to expand by at least 20-25% from the usual 8-10% annual growth rate.

The Technical Rubber Products (TRP) division, which had been impacted by the Movement Control Order (MCO), has since resumed full operations with a substantial improvement in its performance in the current quarter. With the anticipated gradual uptick in economic activity and infrastructure spending domestically and regionally, the TRP’s division, which comprises the infrastructure and automotive segment, is well placed to capitalise on the continued recovery in these sectors, and the Group expects this division to remain profitable.

In the Gloves division, demand continues to far exceed supply. The increase in average selling price has started to be reflected in the current quarter, and the Group expects further significant upward price adjustments on a quarter-on-quarter basis in the 4th quarter of FY2020.

Management is confident of a further step-up in revenue and profit growth in the 4th quarter and for FY2020 to be an exceptional growth year for the Group.

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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	
	30/09/2020	30/06/2019	30/09/2020	30/06/2019
	RM'000	RM'000	RM'000	RM'000
Tax expense - current	82,428	10,529	124,676	34,832
Deferred taxation	<u>2,800</u>	<u>2,075</u>	<u>6,300</u>	<u>6,650</u>
	<u>85,228</u>	<u>12,604</u>	<u>130,976</u>	<u>41,482</u>

The effective income tax rate for the current quarter and financial period ended 30 September 2020 was lower than the statutory rate due to the availability of tax incentives.

14.6 Status of Corporate Proposal announced but not completed

On 25 August 2020, the Company announced a proposed bonus issue of 1,278,935,808 new ordinary shares in Kossan on the basis of 1 Bonus Share for each existing Kossan shares.

On 13 October 2020, the Company announced that the Bonus Issue has been completed following the listing of and quotation for 1,278,935,808 Bonus Shares issued pursuant to the Bonus Issue on the Main Market of Bursa Securities.

There were no other corporate proposals announced but not completed, for the current quarter and financial period ended 30 September 2020.

14.7 Group Borrowings

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

	Total Unsecured	
	As at 30/09/2020	As at 31/12/2019
	RM'000	RM'000
Short Term		
Revolving credit	193,000	229,017
Bankers' acceptance	131,211	95,726
Term loans due within 12 months	<u>60,700</u>	<u>77,200</u>
	384,911	401,943
Long Term		
Term loans due after 12 months	<u>126,767</u>	<u>163,291</u>
	511,678	565,234

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

	As at	
	30/09/2020	31/12/2019
Unsecured Short term – revolving credit		
Foreign currency	<u>nil</u>	<u>US\$10,000,000</u>
RM equivalent	<u>nil</u>	<u>RM 41,018,000</u>
Average exchange rate RM to US\$ 1.00	<u>nil</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 September 2020.

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14.8 Derivative Financial assets/(liabilities)

Group	As at 30/09/2020			As at 31/12/2019		
	Nominal			Nominal		
	Value RM'000	Assets RM'000	Liabilities RM'000	Value RM'000	Assets RM'000	Liabilities RM'000
Derivatives at fair value through profit and loss -Forward foreign exchange contracts	695,844	3,197	-	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 30/09/2020		Financial period ended 30/09/2019	
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	348,741	49,175	544,602	163,781
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)	27.27	3.84	42.58	12.81

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

On behalf of the Board

Mohamed Shafeii Bin Abdul Gaffoor

Chairman

09 November 2020