



KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE FINANCIAL QUARTER ENDED 31 DECEMBER 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 year ended 31 December 2020.

5. Changes in Material Estimates

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

On 09 Nov 2020 the directors approved an interim tax exempt dividend of 3.0 sen per ordinary share for the financial year ended 31 December 2020. The dividend of RM 76,736,148 was paid on 09 Dec 2020.

There were no other dividends declared or paid in the current quarter and financial year ended 31 December 2020.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

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 year ended					
- 31/12/2020					
Revenue	163,247	3,333,044	155,906	419,822	4,072,019
Intercompany elimination	0	0	0	(418,505)	(418,505)
	<u>163,247</u>	<u>3,333,044</u>	<u>155,906</u>	<u>1,317</u>	<u>3,653,514</u>
Profit before tax	<u>22,419</u>	<u>1,397,823</u>	<u>31,441</u>	<u>(7,052)</u>	<u>1,444,631</u>
- 31/12/2019					
Revenue	180,740	1,960,030	74,041	20,739	2,235,550
Intercompany elimination	0	0	0	(18,380)	(18,380)
	<u>180,740</u>	<u>1,960,030</u>	<u>74,041</u>	<u>2,359</u>	<u>2,217,170</u>
Profit before tax	<u>27,372</u>	<u>246,323</u>	<u>2,634</u>	<u>43</u>	<u>276,372</u>
Quarter ended					
- 31/12/2020 (4Q20)					
Revenue	53,256	1,207,662	45,556	356,225	1,662,699
Intercompany elimination	0	0	0	(355,677)	(355,677)
	<u>53,256</u>	<u>1,207,662</u>	<u>45,556</u>	<u>548</u>	<u>1,307,022</u>
Profit before tax	<u>7,694</u>	<u>753,427</u>	<u>10,843</u>	<u>(7,096)</u>	<u>764,868</u>
- 31/12/2019 (4Q19)					
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>

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 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.

On 27 November 2020, Ideal Quality Sdn Bhd, a subsidiary of the Company entered into a sale and purchase agreement (“SPA2711”) with Daijin Tech (M) Sdn. Bhd for the acquisition of the freehold industrial property measuring approximately 12,140.55 square metres located at Lot 5007, Batu 5, Jalan Meru, 41050 Klang, Selangor Darul Ehsan (“Property”) for a total cash consideration of RM 19,300,000.00.

This SPA2711 was completed with full payment made on 11 January 2021.

There were no other significant event that has occurred between 01 January 2021 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**

On 10 September 2020, the Company acquired an additional 5% in Doshin Rubber Products (M) Sdn Bhd, bringing its shareholdings to 80%.

During the current quarter, the Company bought back 2,752,000 ordinary shares from the open market at an average price of RM 4.997 per share. The total consideration paid including transaction costs was RM 13.797 million, which was financed by internally generated funds.

Of the total 2,557,871,665 issued and fully paid ordinary shares as at 31 December 2020, 2,752,000 ordinary shares are held as treasury shares by the Company.

Other than the above, 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 2020.

12. Contingent Liabilities

As at 31 December 2020, the Company has unsecured outstanding contingent liabilities amounting to RM554.737 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 year ended	
	31/12/2020	31/12/2019
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>17,370</u>	<u>nil</u>

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

	Individual Period			Cumulative Period		
	(4th Quarter)					
	Current	Preceding Year		Current	Preceding Year	
	Year	Corresponding		Year	Corresponding	
	Quarter	Quarter	Changes	to-date	Period	Changes
	31/12/20	31/12/19	%	31/12/20	31/12/19	%
	RM '000	RM '000		RM '000	RM '000	
Revenue	1,307,022	578,347	125.99	3,653,514	2,217,170	64.78
Operating profit	770,086	74,492	933.78	1,459,528	291,939	399.94
Profit Before						
Interest and Tax	770,086	74,492	933.78	1,458,528	291,939	399.94
Profit before tax	764,868	72,279	958.22	1,444,631	276,372	422.71
Profit after tax	543,824	61,577	783.16	1,092,612	227,681	379.89
Profit attributed						
To Ordinary Equity						
Shareholders	542,487	61,033	788.84	1,087,090	224,653	383.90

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 year ended					
- 31/12/2020					
Revenue	163,247	3,333,044	155,906	419,822	4,072,019
Intercompany elimination	0	0	0	(418,505)	(418,505)
	<u>163,247</u>	<u>3,333,044</u>	<u>155,906</u>	<u>1,317</u>	<u>3,653,514</u>
Profit before tax	<u>22,419</u>	<u>1,397,823</u>	<u>31,441</u>	<u>(7,052)</u>	<u>1,444,631</u>
PBT/Revenue %	13.73	41.94	20.17	na	39.54
- 31/12/2019					
Revenue	180,740	1,960,030	74,041	20,739	2,235,550
Intercompany elimination	0	0	0	(18,380)	(18,380)
	<u>180,740</u>	<u>1,960,030</u>	<u>74,041</u>	<u>2,359</u>	<u>2,217,170</u>
Profit before tax	<u>27,372</u>	<u>246,323</u>	<u>2,634</u>	<u>43</u>	<u>276,372</u>
PBT/Revenue %	15.14	12.57	3.56	1.82	12.46
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(9.68)	70.05	110.57	(44.17)	64.78
Results	(18.10)	467.48	1,093.66	na	422.71
	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	Total RM '000
Quarter ended					
- 31/12/2020 (4Q20)					
Revenue	53,256	1,207,662	45,556	356,225	1,662,699
Intercompany elimination	0	0	0	(355,677)	(355,677)
	<u>53,256</u>	<u>1,207,662</u>	<u>45,556</u>	<u>548</u>	<u>1,307,022</u>
Profit before tax	<u>7,694</u>	<u>753,427</u>	<u>10,843</u>	<u>(7,096)</u>	<u>764,868</u>
PBT/Revenue %	14.45	62.39	23.80	na	58.52
- 31/12/2019 (4Q19)					
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	131.22	12.50
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	18.54	135.85	117.67	19.65	125.99
Profit before tax	57.37	1,041.16	1,315.54	na	958.22

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 year ("CY20") with Preceding year corresponding financial year ("LY19")

For the full financial year ended 31 December 2020, the Group recorded revenue of RM3,653.51 million, an increase of 64.78% as compared with RM2,217.17 million in FY2019. Profit before taxation (PBT) was RM1,444.63 million, rising 422.71% as compared with RM276.37 million last year. The stronger results were mainly attributable to the improved performance in the Gloves and Cleanroom division as compared with the previous year.

The Gloves division's revenue was RM3,333.04 million in FY2020, an increase of 70.05% compared with RM1,960.03 million last year. PBT rose 467.48% to RM1,397.82 million from RM246.32 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 (+19.22%) and better average selling price as compared with FY2019. In FY2020, the Group's nitrile to natural rubber (NBR:NR) split stands at 84:16.

The Technical Rubber Products (TRPs) division recorded revenue of RM163.25 million in FY2020, easing 9.68% as compared with RM180.74 million last year. PBT was RM22.42 million, easing 18.10% from RM27.37 million recorded in FY2019. The performance was mainly attributable to lower sales deliveries and sales of lower margin products.

The Cleanroom division recorded revenue and PBT of RM155.91 million and RM31.44 million respectively for FY2020, as compared with RM74.04 million and RM2.63 million in FY2019.

Comparison of Current quarter ("4Q20") with Preceding year corresponding quarter ("4Q19")

For the 4th quarter ended 31 December 2020, the Group's revenue increased by 125.99% to RM1,307.02 million as compared with RM578.35 million in 4Q19. Profit before taxation (PBT) rose 958.22% to RM764.87 million as compared with RM72.28 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 135.85% to RM1,207.66 million in 4Q20 from RM512.03 million in 4Q19, while PBT rose 1041.16% to RM753.43 million in the current quarter as compared with RM66.02 million from a year ago. The improved performance was mainly attributable to the higher volume sold (+14.80%) and better average selling price as compared with 4Q19.

The TRPs division recorded revenue of RM53.26 million in the current quarter, rising 18.54% as compared with RM44.93 million in 4Q19. PBT rose 57.37% to RM7.69 million as compared with RM4.89 million from a year ago. The improved performance in the current quarter was mainly attributable to increased sales and deliveries of higher margin products.

The Cleanroom division grew revenue and PBT by 117.67% and 1315.54% respectively to RM45.56 million and RM10.84 million in 4Q19, as compared with RM20.93 million and RM0.77 million in 4Q19. 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 31/12/2020 RM '000	Immediate Preceding Quarter 30/09/2020 RM '000	Changes %
Revenue	1,307,022	1,033,347	26.48
Operating profit	770,086	438,928	75.45
Profit Before Interest and Tax	770,086	438,928	75.45
Profit before tax	764,868	436,393	75.27
Profit after tax	543,824	351,165	54.86
Profit attributed To Ordinary Equity Shareholders	542,487	348,741	55.56

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Current Quarter ended - 31/12/2020 (4Q20)					
Revenue	53,256	1,207,662	45,556	356,225	1,662,699
Intercompany elimination	0	0	0	(355,677)	(355,677)
	<u>53,256</u>	<u>1,207,662</u>	<u>45,556</u>	<u>548</u>	<u>1,307,022</u>
Profit before tax	<u>7,694</u>	<u>753,427</u>	<u>10,843</u>	<u>(7,096)</u>	<u>764,868</u>
PBT/Revenue %	14.45	62.39	23.80	na	58.52
Preceding 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
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	14.62	27.58	13.17	813.33	26.48
Profit before tax	(21.10)	80.83	6.44	na	75.27

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 (“4Q20”) with immediate Preceding Quarter (“3Q20”)

The Group recorded revenue of RM1,307.02 million in 4Q20, rising 26.48% as compared with RM1,033.35 million in the immediate preceding quarter. PBT rose 75.27% to RM764.87 million from RM436.39 million in 3Q20. The performance was mainly attributable to the improvement in the Gloves and Cleanroom division.

The Gloves division recorded revenue of RM1,207.67 million in 4Q20, rising 27.58% from RM946.57 million in 3Q20. PBT rose 80.83% to RM753.43 million in 4Q20 as compared with RM416.65 million in the immediate preceding quarter. The improved performance was mainly attributable to the better average selling price as compared with 3Q20.

The TRPs division recorded revenue of RM53.26 million in the current quarter, rising 14.62% as compared with RM46.47 million in 3Q20. PBT eased 21.10% to RM7.69 million as compared with RM9.75 million in the immediate preceding quarter. The performance in the current quarter was mainly attributable to increased deliveries of lower margin products.

The Cleanroom division grew revenue and PBT by 13.17% and 6.44% respectively to RM45.56 million and RM10.84 million in 4Q20, as compared with RM40.25 million and RM10.19 million in 3Q20. 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. The International Monetary Fund (“IMF”) in its latest January 2021 World Economic Outlook (“WEO”) report has projected global growth to contract by -3.5% in 2020 (Oct 2020 WEO: -4.4%), 0.9 percentage points higher than the previous forecast, reflecting stronger-than-expected momentum in the second half of 2020. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 (Oct 2020 WEO: +5.2%), up 0.3 percentage points relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional economic policy support. Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook, according to the IMF.

Against this backdrop, the demand for personal protective equipment including protective gloves grew significantly. In its January 2021 projections, the Malaysian Rubber Glove Manufacturers Association (“MARGMA”) expects Malaysia’s glove export revenue to hit RM29.8 billion in 2020 compared with RM17.4 billion in 2019. Global demand is estimated to reach 360 billion gloves in 2020 compared with 270 billion in 2019. Moving forward, MARGMA projects annual demand growth of 15-20% with Malaysia’s projected glove export revenue to be RM34 billion in 2021 and global glove demand to be 420 billion pieces.

The health and safety of all our employees remains our utmost priority and stringent COVID-19 measures have been in place since the start of the pandemic and will continue to be enforced to minimise the risk of infection and disruption to our operations.

For the Gloves division, demand continues to exceed supply and the Group expects this to remain for FY2021. Post-pandemic, the demand for gloves will continue to undergo secular growth as a result of increased healthcare standards and hygiene awareness in the medical and non-medical sectors. With our new incoming capacity and efficiency improvements, the Group expects the Gloves division to deliver an even stronger performance in FY2021.

For the Technical Rubber Products (TRP) division, the anticipated gradual uptick in economic activity and infrastructure spending domestically and regionally will continue to bode well for the infrastructure and automotive segment, and the Group expects this division to remain profitable in FY2021.

With the strong long-term relationships with our customers and robust demand for the Group’s products in the Gloves and Cleanroom division coupled with a stable TRPs division, Management is confident that FY2021 will be an extraordinary year for the Group.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

Explanatory Notes**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

	Current Quarter ended		Financial year ended	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
	RM'000	RM'000	RM'000	RM'000
Tax expense - current	185,592	17,492	310,267	58,334
Deferred taxation	35,452	(6,790)	41,752	(9,823)
	<u>221,044</u>	<u>10,702</u>	<u>352,019</u>	<u>48,511</u>

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 2020.

14.7 Group Borrowings

a) The Group borrowings as at 31 December 2020 were as follows:

	Total Unsecured	
	As at	As at
	31/12/2020	31/12/2019
	RM'000	RM'000
Short Term		
Revolving credit	188,000	229,017
Bankers' acceptance	195,214	95,726
Term loans due within 12 months	<u>64,551</u>	<u>77,200</u>
	447,765	401,943
Long Term		
Term loans due after 12 months	<u>106,972</u>	<u>163,291</u>
	<u>544,737</u>	<u>565,234</u>

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

	As at	
	31/12/2020	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 year ended 31 December 2020.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

14.8 Derivative Financial assets/(liabilities)

Group	As at 31/12/2020			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 to sell	788,230	17,860	-	207,097	2,349	-
Contracts to buy	141,881	-	(2,747)	-	-	-

Forward foreign exchange contracts are used to manage the foreign currency exposures arising from the Group's receivables and payables 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		Financial year ended	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	542,487	61,003	1,087,090	224,653
Basic earnings per share				
Basic number of ordinary shares in issue ('000)	2,557,872	2,557,872	2,557,872	2,557,872
Basic earnings per share (sen)	21.21	2.38	42.50	8.78

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
16 February 2021