



KOSSAN RUBBER INDUSTRIES BHD

Company No. 197901003918
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2022

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 1/1/2022 inclusive of those adopted for the audited financial statements for the year ended 31 December 2021.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2021 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 2022.

5. Changes in Material Estimates

There were no significant changes in estimates used in the current quarter and financial period ended 30 June 2022.

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 2022.

7. Dividend Paid

A 4th interim dividend of 12.0 sen per ordinary share for financial year ended 31 December 2021 declared on 17 Feb 2022 amounting to RM 306.19 million was paid out on 22 April 2022.

Other than the above, there were no other dividends paid in the current quarter and financial period ended 30 June 2022.

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Explanatory Notes**8. Segmental Reporting**

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others* RM '000	
Financial period ended					
- 30/06/2022					
Revenue	87,884	1,126,972	59,307	6,327	1,280,490
Profit before tax	9,078	164,341	3,352	7,363	184,134
- 30/06/2021					
Revenue	91,938	4,216,417	117,508	4,301	4,430,164
Profit before tax	13,395	2,745,641	25,147	(6,894)	2,777,289
Quarter ended					
- 30/06/2022					
Revenue	38,566	517,712	30,880	2,701	589,859
Profit before tax	3,998	53,328	2,043	4,926	64,295
- 30/06/2021					
Revenue	50,395	2,123,481	61,179	2,960	2,238,015
Profit/(loss) before tax	6,892	1,388,507	13,650	(5,300)	1,403,749

* **Others** division of the Group mainly comprise investment holding and engineering services which are not of sufficient size to be reported separately.

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 July 2022 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**Treasury Shares**

	No of shares '000	Total Value RM '000
Balance as at 01 January 2022	6,252	26,764
Buy back during the quarter ended 30 June 2022	-	-
Balance as at 30 June 2022	<u>6,252</u>	<u>26,764</u>

Of the total 2,557,871,616 issued and fully paid ordinary shares as at 30 June 2022, 6,252,000 ordinary shares are held as treasury shares by the Company.

On 30 June 2022, the Company acquired the balance 50% shares of Aseptapak Sdn Bhd for US\$2.00, with a goodwill amount of RM 372,000 arising from this acquisition. Aseptapak Sdn Bhd is now 100% subsidiary (previously classified as investment in joint venture) of the Company and is currently dormant in its operations.

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 period ended 30 June 2022.

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Explanatory Notes**12. Contingent Liabilities**

As at 30 June 2022, the Company has unsecured outstanding contingent liabilities amounting to RM194.72 million (31 Dec 2021: RM237.43 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	
	30/06/2022	31/12/2021
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>116,068</u>	<u>127,416</u>

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

	Individual Period (2 nd Quarter)			Cumulative Period		
	Current Year Quarter 30/06/22 RM '000	Preceding Year Corresponding Quarter 30/06/21 RM '000	Changes %	Current Year to-date 30/06/22 RM '000	Preceding Year Corresponding Period 30/06/21 RM '000	Changes %
Revenue	589,859	2,238,015	(73.64)	1,280,490	4,430,164	(71.10)
Operating profit	65,260	1,404,938	(95.35)	186,124	2,781,283	(93.31)
Profit Before						
Interest and Tax	65,260	1,404,938	(95.35)	186,124	2,781,283	(93.31)
Profit before tax	64,295	1,403,749	(95.42)	184,134	2,777,289	(93.37)
Profit after tax	46,495	1,065,901	(95.64)	137,147	2,108,831	(93.50)
Profit attributed						
To Ordinary Equity						
Shareholders	45,992	1,064,847	(95.68)	136,095	2,106,670	(93.54)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others RM '000	Total RM '000
Financial period ended					
- 30/06/2022					
Revenue	87,884	1,126,972	59,307	6,327	1,280,490
Profit before tax	9,078	164,341	3,352	7,363	184,134
PBT/Revenue %	10.33	14.58	5.65	116.37	14.38
- 30/06/2021					
Revenue	91,938	4,216,417	117,508	4,301	4,430,164
Profit/(loss) before tax	13,395	2,745,641	25,147	(6,894)	2,777,289
PBT/Revenue %	14.57	65.12	21.40	na	62.69
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(4.41)	(73.27)	(49.53)	47.11	(71.10)
Profit before tax	(32.23)	(94.01)	(86.67)	na	(93.37)

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

	Divisions				Total RM '000
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Investment Holding RM '000	
Financial period ended					
Quarter ended					
- 30/06/2022					
Revenue	38,566	517,712	30,880	2,701	589,859
Profit before tax	3,998	53,328	2,043	4,926	64,295
PBT/Revenue %	10.37	10.30	6.62	182.38	10.90
- 30/06/2021					
Revenue	50,395	2,123,481	61,179	2,960	2,238,015
Profit/(loss) before tax	6,892	1,388,507	13,650	(5,300)	1,403,749
PBT/Revenue %	13.68	65.39	22.31	na	62.72
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(23.47)	(75.62)	(49.53)	(8.75)	(73.64)
Profit before tax	(41.99)	(96.16)	(85.03)	na	(95.42)

Additional Information required by MMLR.**Comparison of Current quarter and financial period to date ("1H22") with Preceding year corresponding quarter and financial period to date ("1H21")**

For the 6 months ended 30 June 2022, the Group recorded revenue of RM1.28 billion, a decrease of 71.1% as compared with RM4.43 billion in 1H21 due to lower revenue from all three divisions. Profit before taxation (PBT) decreased by 93.4% to RM184.13 million as compared with RM2.78 billion in 1H21 in tandem with the lower revenue.

The Gloves division's revenue decreased by 73.3% to RM1.13 billion in 1H22 as compared with RM4.22 billion in 1H21 due to the lower average selling price (ASP) and volume sold. PBT decreased by 94.0% to RM164.34 million in 1H22 as compared with RM2.75 billion in 1H21 in tandem with the lower revenue.

The TRPs division's revenue decreased by 4.4% to RM87.88 million in 1H22 as compared with RM91.94 million in 1H21 due to lower deliveries from the Automotive segment. PBT decreased by 32.2% to RM9.08 million as compared with RM13.40 million in 1H21 in tandem with the lower revenue.

The Clean-Room division's revenue decreased by 49.5% to RM59.31 million in 1H22 as compared with RM117.51 million in 1H21 due to lower ASP in Clean-Room's products. PBT decreased by 86.7% to RM3.35 million in 1H22 as compared with RM25.15 million in 1H21 in tandem with the lower revenue.

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Explanatory Notes**14.1 Review of Results (continue)****Comparison of Current quarter ("2Q22") with Preceding year corresponding quarter ("2Q21")**

For the second quarter ended 30 June 2022, the Group registered revenue of RM589.86 million, a decrease of 73.6% as compared with RM2.24 billion in 2Q21 due to the decrease in revenue from the Gloves, TRP and Clean-Room divisions. Profit before taxation ("PBT") was RM64.30 million, decreasing 95.4% as compared with RM1.40 billion in 2Q21 in tandem with the lower revenue.

The Gloves division recorded revenue of RM517.71 million in 2Q22, decreasing 75.3% from RM2.09 billion in 2Q21 due to the lower average selling price (ASP) and volume sold. PBT decreased 96.1% to RM53.33 million in 2Q22 as compared with RM1.36 billion in 2Q21 in tandem with the lower revenue.

The TRPs division recorded revenue of RM38.57 million in 2Q22, decreasing 23.5% as compared with RM50.40 million in 2Q21 due to lower deliveries in TRPs products. PBT decreased 42.0% to RM4.00 million as compared with RM6.89 million in 2Q21 in tandem with the lower revenue.

The Clean-Room division recorded revenue of RM30.88 million, decreasing 49.5% as compared with RM61.18 million in 2Q21 due to lower ASP in Clean-Room products. PBT decreased 85.0% to RM2.04 million in 2Q22 as compared with RM13.65 million in 2Q21 in tandem with the lower revenue.

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 30/06/2022 RM '000	Immediate Preceding Quarter 31/03/2022 RM '000	Changes %
Revenue	589,859	690,632	(14.59)
Operating profit	65,260	120,864	(46.01)
Profit Before Interest and Tax	65,260	120,864	(46.01)
Profit before tax	64,295	119,839	(46.35)
Profit after tax	46,495	90,652	(48.71)
Profit attributable To Ordinary Equity Shareholders	45,992	90,103	(48.96)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others RM '000	Total RM '000
Current Quarter ended - 30/06/2022 (2Q22)					
Revenue	38,566	517,712	30,880	2,701	589,859
Profit before tax	3,998	53,328	2,043	4,926	64,295
PBT/Revenue %	10.37	10.30	6.62	182.38	10.90
Preceding Quarter ended - 31/03/2022 (1Q22)					
Revenue	49,318	609,261	28,428	3,625	690,632
Profit before tax	5,080	111,013	1,309	2,437	119,839
PBT/Revenue %	10.30	18.22	4.61	67.23	17.35
Comparison of quarters Percentage change					
Revenue	(21.80)	(15.03)	8.63	(25.49)	(14.59)
Profit/(loss) before tax	(21.30)	(51.96)	56.07	102.13	(46.35)

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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 (“2Q22”) with immediate Preceding Quarter (“1Q22”)

For 2Q22, the Group’s revenue decreased by 14.6% to RM589.86 million as compared with 1Q22 of RM690.63 million due to lower revenue from the Gloves and TRP divisions mitigated by the higher revenue from the Clean-Room division. Profit before taxation (PBT) decreased by 46.4% to RM64.30 million in 2Q22 as compared with RM119.84 million in 1Q22 due to the lower profit from Gloves and TRP divisions mitigated by the higher profit from Clean-Room.

The Gloves division’s revenue decreased by 15.0% to RM517.71 million in 2Q22 from RM609.26 million in 1Q22 due to the lower average selling price (ASP) as a result of oversupply of gloves in the market. PBT decreased by 52.0% to RM53.33 million in 2Q22 as compared with RM111.01 million in 1Q22 in tandem with the lower revenue. Performance in the quarter was also affected by higher energy and labour costs.

The TRPs division’s revenue decreased by 21.8% to RM38.57 million in 2Q22 as compared with RM49.32 million in 1Q22 due to lower deliveries in TRPs products. PBT decreased by 21.3% to RM4.00 million as compared with RM5.08 million in 1Q22 in tandem with the lower revenue.

The Clean-Room division’s revenue increased by 8.6% to RM30.88 million in 2Q22 as compared with RM28.43 million in 1Q22 due to the higher demand in Clean-Room products. PBT increased RM0.73 million to RM2.04 million in 2Q22 as compared with RM1.12 million in 1Q22.

14.3 Commentary on Prospects

In the near term, the glove industry will be confronted by an oversupply situation as a result of overstocking and subsequent inventory adjustments from customers, forcing average selling price (ASP) to come down. In addition, surplus installed capacity arising from existing and new entrants, higher energy costs as a result of the Russia-Ukraine conflict, and the increase in minimum wages will continue to impact the glove industry. As such, the Group expects to encounter strong headwinds in the second half of FY2022. Over the longer-term, global glove demand is expected to remain on a growth path as a result of a shift in glove usage due to higher healthcare standards and hygiene awareness in both the medical and non-medical sectors.

For the Technical Rubber Products (“TRP”) division, the anticipated gradual uptick in economic activity and infrastructure spending globally will continue to spur the infrastructure and automotive segments and the Group expects this division to deliver a satisfactory performance in the second half of FY2022.

Due to the headwinds affecting the glove sector, the Group expects the performance in the second half of FY2022 to be challenging. As such, the Group will place its near-term expansion plans on hold subject to prevailing market conditions. However, the Group remains positive on the glove industry and will continue to focus our efforts on accelerating our transformation and reinvestments into digitalisation and automation to increase productivity and efficiency.

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.

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Explanatory Notes**14.5 Taxation**

	Quarter period ended		Financial period ended	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021
	RM'000	RM'000	RM'000	RM'000
Tax expense	15,150	327,348	41,487	646,458
Deferred taxation	2,650	10,500	5,500	22,000
	<u>17,800</u>	<u>337,848</u>	<u>46,987</u>	<u>668,458</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 period ended 30 June 2022.

14.7 Group Borrowings

a) The Group borrowings as at 30 June 2022 were as follows:

	Total Unsecured	
	As at 30/06/2022	As at 31/12/2021
	RM'000	RM'000
Short Term		
Bankers' acceptance	120,019	130,455
Term loans due within 12 months	<u>45,451</u>	<u>51,451</u>
	<u>165,470</u>	<u>181,906</u>
Long Term		
Term loans due after 12 months	<u>29,246</u>	<u>55,552</u>
	<u>194,716</u>	<u>237,428</u>

b) There were no debt securities for the financial period ended 30 June 2022.

14.8 Derivative Financial assets/(liabilities)

	As at 30/06/2022			As at 31/12/2021		
	Nominal Value RM'000	Assets RM'000	Liabilities RM'000	Nominal Value RM'000	Assets RM'000	Liabilities RM'000
Group						
Derivatives at fair value through profit and loss						
-Forward foreign exchange						
Contracts to sell	<u>308,986</u>	-	<u>6,499</u>	<u>627,349</u>	638	<u>70</u>
Contracts to buy	<u>58,523</u>	78	-	<u>78,612</u>	-	<u>433</u>

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.

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Explanatory Notes**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. Earnings Per Share

	Current Quarter ended		Financial period ended	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	45,992	1,064,847	136,095	2,106,670
Basic earnings per share				
Weighted average number of ordinary shares in issue ('000)	2,551,620	2,552,324	2,551,620	2,552,324
Basic earnings per share (sen)	1.80	41.72	5.33	82.54

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****26 July 2022**