



KOSSAN RUBBER INDUSTRIES BHD

Company No. 197901003918 (48166-W)

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2023

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 1/1/2023 inclusive of those adopted for the audited financial statements for the year ended 31 December 2022.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2022 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 financial period ended 31 March 2023.

5. Changes in Material Estimates

There were no significant changes in estimates used in the current quarter and financial period ended 31 March 2023.

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 31 March 2023.

7. Dividend Paid

A 1st interim dividend of 2.5 sen per ordinary share for financial year ended 31 December 2022 declared on 16 Feb 2023 amounting to RM 63.79 million was paid out on 22 March 2023.

Other than the above, there were no other dividends paid in the current quarter and financial period ended 31 March 2023.

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Explanatory Notes**8. Segmental Reporting**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others* RM '000	Total RM '000
Quarter and financial period ended					
- 31/03/2023					
Revenue	56,153	317,536	21,019	-	394,708
Profit/(loss) before tax	7,915	(34,904)	1,593	6,322	(19,074)
- 31/03/2022					
Revenue	49,318	609,261	28,428	-	687,007
Profit before tax	5,080	111,013	1,309	2,437	119,839

* **Others** division of the Group mainly comprise investment holding, engineering and management 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 April 2023 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 2023	6,252	26,764
Buy back during the period ended 31 March 2023	-	-
Balance as at 31 March 2023	<u>6,252</u>	<u>26,764</u>

Of the total 2,557,871,616 issued and fully paid ordinary shares as at 31 March 2023, 6,252,000 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 period ended 31 March 2023.

12. Contingent Liabilities

As at 31 March 2023, the Company has unsecured outstanding contingent liabilities amounting to RM36.60 million (31 Dec 2022: RM70.88 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	
	31/03/2023 RM'000	31/12/2022 RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>88,128</u>	<u>96,345</u>

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

	Current Quarter and Financial period ended		Changes %
	31/03/23 RM '000	31/03/22 RM '000	
Revenue	394,708	687,007	(42.55)
Operating profit/(loss)	(18,626)	120,864	(115.41)
Profit/(loss) Before			
Interest and tax	(18,626)	120,864	(115.41)
Profit/(loss) before tax	(19,074)	119,839	(115.92)
Profit/(loss) after tax	(23,575)	90,652	(126.01)
Profit/(loss) attributed			
To Ordinary Equity			
Shareholders	(24,254)	90,103	(126.92)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others RM '000	Total RM '000
Quarter and financial period ended					
- 31/03/2023					
Revenue	56,153	317,536	21,019	-	394,708
Profit/(loss) before tax	7,915	(34,904)	1,593	6,322	(19,074)
PBT/(LBT)/Revenue %	14.10	(10.99)	7.58	na	(4.83)
- 31/03/2022					
Revenue	49,318	609,261	28,428	-	687,007
Profit before tax	5,080	111,013	1,309	2,437	119,839
PBT/Revenue %	10.30	18.22	4.61	na	17.44
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	13.86	(47.88)	(26.07)	na	(42.55)
Profit/(loss) before tax	55.81	(131.44)	21.70	159.42	(115.92)

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Explanatory Notes**14.1 Review of Results (continue)****Comparison of Current quarter and financial period to date ("1Q23") with Preceding year corresponding quarter and financial period to date ("1Q22")**

For the first quarter ended 31 March 2023, the Group recorded revenue of RM394.71 million, a decrease of 42.55% as compared with RM687.00 million in 1Q22 due to the lower revenue from the Gloves and Clean-Room divisions. Loss before taxation (LBT) was RM19.07 million as compared with a profit before tax of RM119.84 million in 1Q22 due to losses from the Gloves division mitigated by the profit from the TRP and Clean-Room divisions.

The Gloves division's revenue decreased by 47.9% to RM317.54 million in 1Q23 as compared with RM609.26 million in 1Q22 due to the lower average selling price (ASP) and volume sold. Loss before tax was RM34.90 million in 1Q23 as compared with a profit before tax of RM111.01 million in 1Q22 due to market competition, customer destocking and higher costs due to lower plant utilisation. Additionally, the performance in 1Q23 was affected by higher energy costs due to the increase in natural gas and electricity tariffs.

The TRPs division's revenue increased by 13.9% to RM56.15 million in 1Q23 as compared with RM49.32 million in 1Q22 due to higher deliveries for TRPs products. PBT increased by 55.8% to RM7.92 million in 1Q23 as compared with RM5.08 million in 1Q22 in tandem with the higher revenue.

The Clean-Room division's revenue decreased by 26.1% to RM21.02 million in 1Q23 as compared with RM28.43 million in 1Q22 due to lower ASP in Clean-Room's products. PBT increased by 21.7% to RM1.59 million in 1Q23 as compared with RM1.31 million in 1Q22 due to higher costs in 1Q22.

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 31/03/2023 RM '000	Immediate Preceding Quarter 31/12/2022 RM '000	Changes %
Revenue	394,708	481,446	(18.02)
Operating profit/(loss)	(18,626)	2,217	(940.14)
Profit/(loss) Before Interest and Tax	(18,626)	2,217	(940.14)
Profit/(loss) before tax	(19,074)	956	(2095.19)
Profit/(loss) after tax	(23,575)	(2,483)	(849.46)
Profit/(loss) attributable To			
Ordinary Equity Shareholders	(24,254)	(2,489)	(874.45)

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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)**

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others RM '000	Total RM '000
Current Quarter ended					
- 31/03/2023 (1Q23)					
Revenue	56,153	317,536	21,019	-	394,708
Profit/(loss) before tax	7,915	(34,904)	1,593	6,322	(19,074)
PBT/(LBT)/Revenue %	14.10	(10.99)	7.58	na	(4.83)
Preceding Quarter ended					
- 31/12/2022 (4Q22)					
Revenue	44,435	402,645	34,366	-	481,446
Profit/(loss) before tax	7,629	(22,701)	3,460	12,568	956
PBT/(LBT)/Revenue %	17.19	(5.64)	10.07	na	0.20
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	26.37	(21.14)	(38.84)	na	(18.02)
Profit/(loss) before tax	3.75	(53.16)	(53.96)	(49.70)	(2095.19)

Comparison of Current Quarter (“1Q23”) with immediate Preceding Quarter (“4Q22”)

For 1Q23, the Group’s revenue decreased by 18.0% to RM394.71 million as compared with 4Q22 of RM481.45 million due to lower revenue from the Gloves and Clean-Room division. Loss before taxation (LBT) was RM19.07 million in 1Q23 as compared with profit before tax of RM0.96 million in 4Q22 due to the losses from the Gloves division mitigated by the profit from the TRP and Clean-Room divisions.

The Gloves division’s revenue decreased by 21.1% to RM317.54 million in 1Q23 from RM402.65 million in 4Q22 due to lower average selling price (ASP) and volume sold. Loss before tax was RM34.90 million in 1Q23 as compared with LBT of RM22.70 million in 4Q22 due to market competition, customer destocking and higher costs due to lower plant utilisation. Additionally, the performance in the current quarter was affected by higher energy costs due to the increase in natural gas and electricity tariffs.

The TRPs division’s revenue increased by 26.4% to RM56.15 million in 1Q23 as compared with RM44.44 million in 4Q22 due to higher deliveries for TRPs products. PBT increased by 3.8% to RM7.92 million as compared with RM7.63 million in 4Q22 in tandem with the higher revenue.

The Clean-Room division’s revenue decreased by 38.8% to RM21.02 million in 1Q23 as compared with RM34.37 million in 4Q22 due to lower demand in Clean-Room products. PBT decreased by 54.0% to RM1.59 million from RM3.46 million in 4Q22 in tandem with the lower revenue.

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Explanatory Notes

14.3 Commentary on Prospects

The demand-supply imbalance continues to negatively impact the glove sector. The oversupply of gloves as a result of surplus installed capacity arising from the pandemic-driven surge in additional capacity as well as inventory destocking from customers have forced average selling prices (ASPs) to fall significantly from its peak coupled with some overseas competitors selling the gloves at lower price in order to capture the market. At the same time, the sector faces higher energy and labour costs. These headwinds are expected to persist throughout FY2023 and the Group has placed its near-term expansion plans on hold in line with the prevailing market conditions.

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 for FY2023.

As a result of the headwinds affecting the glove sector, the Group expects the performance for FY2023 to be challenging. Beyond the near-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. Emerging economies with low per capita consumption will also drive glove demand in the long run. The Group remains committed to the glove industry and will continue to focus on effective cost management and specialised products that meet specific requirements while accelerating the transformation into digitalisation and automation across our operations to increase productivity and efficiency to lower the production cost.

As part of KOSSAN's commitment to Sustainability and ESG, on 7 March 2023, the Group launched Malaysia's first Greening Value Chain (GVC) programme. The GVC programme is an initiative by Bank Negara Malaysia (BNM) in collaboration with financial institutions and strategic partners which aims to assist small and medium-sized enterprises (SMEs) in decarbonizing and greening their operations, aligning with the global race towards achieving Net Zero emissions. Through the GVC programme, KOSSAN's qualifying SME suppliers will have access to BNM's Low Carbon Transition Facility (LCTF) to fund their working capital or capital expenditures related to low-carbon practices.

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 and Financial period ended	
	31/03/2023	31/03/2022
	RM'000	RM'000
Tax expense	4,501	26,337
Deferred taxation	-	2,850
	<u>4,501</u>	<u>29,187</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 31 March 2023.

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Explanatory Notes**14.7 Group Borrowings**

a) The Group borrowings as at 31 March 2023 were as follows:

	Total Unsecured	
	As at 31/03/2023	As at 31/12/2022
	RM'000	RM'000
Short Term		
Bankers' acceptance	6,217	27,353
Term loans due within 12 months	<u>30,267</u>	<u>43,230</u>
	36,484	70,583
Long Term		
Term loans due after 12 months	<u>117</u>	<u>291</u>
	<u>36,601</u>	<u>70,874</u>

b) There were no debt securities for the financial period ended 31 March 2023.

14.8 Derivative Financial assets/(liabilities)

	As at 31/03/2023			As at 31/12/2022		
	Nominal Value	Assets	Liabilities	Nominal Value	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
Derivatives at fair value through profit and loss						
-Forward foreign exchange						
Contracts to sell	<u>151,896</u>	-	<u>4,979</u>	<u>205,017</u>	-	<u>79</u>
Contracts to buy	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,518</u>	<u>-</u>	<u>1,134</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.

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.

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Explanatory Notes**15. Earnings Per Share**

	Current Quarter and Financial period ended	
	31/03/2023	31/03/2022
	RM'000	RM'000
Profit/(loss) after tax and minority interest	(24,254)	90,103
Basic earnings per share		
Weighted average number of ordinary shares in issue ('000)	2,551,620	2,551,620
Basic earnings/(loss) per share (sen)	(0.95)	3.53

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

On behalf of the Board

Tan Sri Dato' Lim Kuang Sia
Group Managing Director
27 April 2023