



STRETCHING LIMITS • SINCE 1979

KOSSAN RUBBER INDUSTRIES BHD

Company No. 197901003918 (48166-W)
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE FINANCIAL QUARTER ENDED 30 JUNE 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 30 June 2023.

5. Changes in Material Estimates

There were no significant changes in estimates used in the current quarter and financial period ended 30 June 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 30 June 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 30 June 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
Financial period ended					
- 30/06/2023					
Revenue	103,978	633,398	44,875	0	782,251
Profit/(loss) before tax	16,494	(46,976)	3,971	9,967	(16,544)
- 30/06/2022					
Revenue	87,884	1,126,972	59,308	0	1,274,164
Profit before tax	9,078	164,341	3,352	7,363	184,134
Quarter ended					
- 30/06/2023					
Revenue	47,826	315,861	23,856	0	387,543
Profit/(loss) before tax	8,579	(12,073)	2,379	3,645	2,530
- 30/06/2022					
Revenue	38,566	520,413	30,880	0	589,859
Profit before tax	3,998	53,328	2,043	4,926	64,295

* **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 July 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 30 June 2023	-	-
Balance as at 30 June 2023	<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 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 30 June 2023.

12. Contingent Liabilities

As at 30 June 2023, the Company has unsecured outstanding contingent liabilities amounting to RM30.78 million (31 Dec 2022: RM70.88 million) being corporate guarantees given to financial institutions for banking facilities granted to certain subsidiaries.

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Explanatory Notes**13. Capital and other Commitments**

	As at financial period ended	
	30/06/2023	31/12/2022
	RM'000	RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	<u>81,561</u>	<u>96,345</u>

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

	Individual Period (2 nd Quarter)			Cumulative Period		
	Current Year Quarter 30/06/23 RM '000	Preceding Year Corresponding Quarter 30/06/22 RM '000	Changes %	Current Year to-date 30/06/23 RM '000	Preceding Year Corresponding Period 30/06/22 RM '000	Changes %
Revenue	387,543	589,859	(34.30)	782,251	1,274,164	(38.61)
Operating profit/(loss)	2,787	65,260	(95.73)	(15,839)	186,124	(108.51)
Profit/(loss) Before Interest and Tax	2,787	65,260	(95.73)	(15,839)	186,124	(108.51)
Profit/(loss) before tax	2,530	64,295	(96.07)	(16,544)	184,134	(108.98)
Profit/(loss) after tax	(2,656)	46,495	(105.71)	(26,231)	137,147	(119.13)
Profit/(loss) attributed To Ordinary Equity Shareholders	(3,298)	45,992	(107.17)	(27,553)	136,095	(120.25)

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others RM '000	Total RM '000
Financial period ended - 30/06/2023					
Revenue	103,978	633,398	44,875	0	782,251
Profit/(loss) before tax	16,494	(46,976)	3,971	9,967	(16,544)
PBT/(LBT)/Revenue %	15.86	(7.42)	8.85	na	(2.12)
- 30/06/2022					
Revenue	87,884	1,126,972	59,307	0	1,274,164
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
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	18.31	(43.80)	(24.33)	na	(38.61)
Profit before tax	81.69	(128.59)	18.47	35.37	(108.98)

KOSSAN RUBBER INDUSTRIES BHD

Company No. 197901003918 (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	Others RM '000	Total RM '000
Quarter ended					
- 30/06/2023					
Revenue	47,826	315,861	23,856	0	387,543
Profit/(loss) before tax	8,579	(12,073)	2,379	3,645	2,530
PBT/(LBT)/Revenue %	17.94	(3.08)	9.97	na	0.65
Quarter ended					
- 30/06/2022					
Revenue	38,566	520,413	30,880	0	589,859
Profit before tax	3,998	53,328	2,043	4,926	64,295
PBT/Revenue %	10.37	10.25	6.62	na	10.90
Comparison of quarter period					
Percentage change	%	%	%	%	%
Revenue	24.01	(39.31)	(22.75)	na	(34.30)
Profit/(loss) before tax	114.58	(122.64)	16.45	(26.01)	(96.07)

Comparison of Current quarter and financial period to date ("1H23") with Preceding year corresponding quarter and financial period to date ("1H22")

For the 6 months ended 30 June 2023, the Group recorded revenue of RM782.25 million, a decrease of 38.6% as compared with RM1.27 billion in 1H22 due to lower revenue from Gloves and Clean-Room divisions. Loss before taxation (LBT) was RM16.54 million as compared with profit before tax (PBT) of RM184.13 million in 1H22 due to losses in the Gloves division mitigated by the profit before tax in the TRP and Clean-Room divisions.

The Gloves division's revenue decreased by 43.8% to RM633.40 million in 1H23 as compared with RM1.13 billion in 1H22 due to the lower average selling price (ASP) and volume sold. LBT was RM46.98 million in 1H23 as compared with PBT of RM164.34 million in 1H22 due to market competition, higher energy and labour costs and lower plant utilisation in 1H23.

The TRPs division's revenue increased by 18.3% to RM103.98 million in 1H23 as compared with RM87.88 million in 1H22 due to higher deliveries of TRPs products. PBT increased by 81.7% to RM16.49 million as compared with RM9.08 million in 1H22 due to higher margin products.

The Clean-Room division's revenue decreased by 24.3% to RM44.88 million in 1H23 as compared with RM59.31 million in 1H22 due to lower ASP in Clean-Room's products. PBT increased by 18.5% to RM3.97 million in 1H23 as compared with RM3.35 million in 1H22 due to higher costs in 1H22.

KOSSAN RUBBER INDUSTRIES BHD

Company No. 197901003918 (48166-W)

(Incorporated in Malaysia)

Explanatory Notes**14.1 Review of Results (continue)****Comparison of Current quarter ("2Q23") with Preceding year corresponding quarter ("2Q22")**

For the second quarter ended 30 June 2023, the Group recorded revenue of RM387.54 million, a decrease of 34.30% as compared with RM589.86 million in 2Q22 due to the lower revenue from the Gloves and Clean-Room divisions. Profit before taxation (PBT) was RM2.53 million as compared with a profit before tax of RM64.30 million in 2Q22 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 39.3% to RM315.86 million in 2Q23 as compared with RM520.41 million in 2Q22 due to the lower average selling price (ASP) and volume sold. Loss before tax was RM12.07 million in 2Q23 as compared with a profit before tax of RM53.33 million in 2Q22 due to market competition, higher energy and labour costs and lower plant utilisation in 2023.

The TRPs division's revenue increased by 24.0% to RM47.83 million in 2Q23 as compared with RM38.57 million in 2Q22 due to higher deliveries for TRPs products. PBT increased by 114.6% to RM8.58 million in 2Q23 as compared with RM4.00 million in 2Q22 due to higher margin products.

The Clean-Room division's revenue decreased by 22.80% to RM23.86 million in 2Q23 as compared with RM30.88 million in 2Q22 due to lower ASP in Clean-Room's products. PBT increased by 16.5% to RM2.38 million in 2Q23 as compared with RM2.04 million in 2Q22 due to higher costs in 2Q22.

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 30/06/2023 RM '000	Immediate Preceding Quarter 31/03/2023 RM '000	Changes %
Revenue	387,543	394,708	(1.82)
Operating profit/(loss)	2,787	(18,626)	114.96
Profit/(loss) Before Interest and Tax	2,787	(18,626)	114.96
Profit/(loss) before tax	2,530	(19,074)	113.26
Profit/(loss) after tax	(2,656)	(23,575)	88.73
Profit/(loss) attributable To Ordinary Equity Shareholders	(3,298)	(24,254)	86.40

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others RM '000	Total RM '000
Current Quarter ended - 30/06/2023 (2Q23)					
Revenue	47,826	315,861	23,856	0	387,543
Profit/(loss) before tax	8,579	(12,073)	2,379	3,645	2,530
PBT/(LBT)/Revenue %	17.94	(3.08)	9.97	na	0.65
- 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)
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	(14.83)	(0.53)	13.49	na	(1.82)
Profit/(loss) before tax	8.39	65.41	49.35	(42.34)	113.26

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Company No. 197901003918 (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 (“2Q23”) with immediate Preceding Quarter (“1Q23”)

For 2Q23, the Group’s revenue decreased by 1.8% to RM387.54 million as compared with 1Q23 of RM394.71 million due to lower revenue from the Gloves and TRP division mitigated by the increase in the Clean-Room division. Profit before taxation (PBT) was RM2.53 million in 2Q23 from a loss before tax of RM19.07 million in 1Q23 due to the lower losses from the Gloves division and higher profit from the TRP and Clean-Room divisions.

The Gloves division’s revenue was RM315.86 million in 2Q23 from RM317.54 million in 1Q23. Loss before tax decreased to RM12.07 million in 2Q23 as compared with LBT of RM34.90 million in 1Q23 due to lower energy costs.

The TRPs division’s revenue decreased by 14.8% to RM47.83 million in 2Q23 as compared with RM56.15 million in 1Q23 due to lower deliveries for TRPs products. PBT increased by 8.4% to RM8.58 million as compared with RM7.92 million in 1Q23 due to higher margin products.

The Clean-Room division’s revenue increased by 13.5% to RM23.86 million in 2Q23 as compared with RM21.02 million in 1Q23 due to higher demand in Clean-Room products. PBT increased by 49.3% to RM2.38 million from RM1.59 million in 1Q23.

14.3 Commentary on Prospects

Although there are signs of stabilising, the glove sector continues to be impacted by a supply-demand imbalance and this is expected to continue in the second half of FY2023. Aggressive expansions during the pandemic and disruptive pricing from overseas competitors have led to the current very challenging operating environment which is expected till the end of the year.

Recognising these challenges, the Group had embarked on a capacity rationalisation exercise in FY2022 to be more efficient and lower operating costs where we decommissioned two older plants (14 years and 19 years respectively) with a total capacity of 3 billion pieces. Notwithstanding the challenges, the Group remains committed to the glove industry and will continue to focus on effective cost management and developing specialized products while accelerating digitalization and automation across our operations to enhance productivity, efficiency, and lower production costs.

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.

Following the launch of the Greening Value Chain (GVC) programme on 7th March 2023, the Group achieved another milestone on 18th July 2023, being recognized by the Malaysia Book of Records as the first glove manufacturer to establish a strategic partnership with Bank Negara Malaysia (BNM) for its initiative aimed at assisting small and medium sized enterprises (SMEs) in decarbonizing. 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.

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Explanatory Notes**14.5 Taxation**

	Quarter period ended		Financial period ended	
	30/06/2023	30/06/2022	30/06/2023	30/06/2022
	RM'000	RM'000	RM'000	RM'000
Tax expense	4,211	15,150	8,712	41,487
Deferred taxation	975	2,650	975	5,500
	<u>5,186</u>	<u>17,800</u>	<u>9,687</u>	<u>46,987</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 2023.

14.7 Group Borrowings

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

	Total Unsecured	
	As at 30/06/2023	As at 31/12/2022
	RM'000	RM'000
Short Term		
Bankers' acceptance	13,534	27,353
Term loans due within 12 months	<u>17,246</u>	<u>43,230</u>
	30,780	70,583
Long Term		
Term loans due after 12 months	<u>0</u>	<u>291</u>
	<u>30,780</u>	<u>70,874</u>

b) There were no debt securities for the financial period ended 30 June 2023.

14.8 Derivative Financial assets/(liabilities)

	As at 30/06/2023			As at 31/12/2022		
	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>65,440</u>	-	<u>2,026</u>	<u>205,017</u>	-	<u>79</u>
Contracts to buy	<u>-</u>	-	<u>-</u>	<u>22,518</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 ended		Financial period ended	
	30/06/2023	30/06/2022	30/06/2023	30/06/2022
	RM'000	RM'000	RM'000	RM'000
Profit/(loss) after tax and minority interest	(3,298)	45,992	(27,553)	136,095
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/(loss) per share (sen)	(0.13)	1.80	(1.08)	5.33

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 July 2023