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KOSSAN RUBBER INDUSTRIES BHD

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

INTERIM FINANCIAL REPORT FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2024

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 1/1/2024 inclusive of those adopted for the audited financial statements for the year ended 31 December 2023.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2023 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 other 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 2024.

5. Changes in Material Estimates

There were no significant changes in estimates used in the current quarter and financial period ended 31 March 2024.

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 2024.

7. Dividend Paid

A 1st interim dividend of 2.0 sen per ordinary share for financial year ended 31 December 2023 declared on 22 Feb 2024 amounting to RM 51.03 million was paid out on 08 April 2024.

On 16 April 2024, the directors had recommended a final single tier dividend of 2.0 sen per ordinary share for the financial year ended 31 December 2023 and, if approved by shareholders at the forthcoming Annual General Meeting to be held on 30 May 2024, the final dividend will be paid on 18 July 2024.

Other than the above, there were no other dividends paid in the current quarter and period ended 31 March 2024.

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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	
Quarter ended					
- 31/03/2024					
Revenue	48,945	379,633	23,047	-	451,625
Profit before tax	8,918	26,565	2,423	3,075	40,981
- 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)

* **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 2024 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

There were no 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 2024.

12. Contingent Liabilities

As at 31 March 2024, the Company has unsecured outstanding contingent liabilities amounting to RM3.23 million (31 Dec 2023: RM9.81 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	
	31/03/2024 RM'000	31/12/2023 RM'000
Property, plant and equipment		
Within one year: Contracted but not provided	61,133	63,485

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

	Quarter ended		Changes %
	31/03/24 RM '000	31/03/23 RM '000	
Revenue	451,625	394,708	14.42
Operating profit/(loss)	41,039	(18,626)	320.33
Profit/(loss) Before Interest and tax	41,039	(18,626)	320.33
Profit/(loss) before tax	40,981	(19,074)	314.85
Profit/(loss) after tax	32,045	(23,575)	235.93
Profit/(loss) attributed To Ordinary Equity Shareholders	31,454	(24,254)	229.69

	Divisions				
	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others RM '000	Total RM '000
Quarter ended					
- 31/03/2024					
Revenue	48,945	379,633	23,047	-	451,625
Profit before tax	8,918	26,565	2,423	3,075	40,981
PBT/Revenue %	18.22	7.00	10.51	na	9.07
- 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)
Comparison of financial period					
Percentage change	%	%	%	%	%
Revenue	(12.84)	19.56	9.65	na	14.42
Profit/(loss) before tax	12.67	176.11	52.10	(51.36)	314.85

Comparison of Current quarter and financial period ("1Q24") with Preceding year corresponding quarter and financial period ("1Q23")

For the current financial period and quarter ended 31 March 2024, the Group recorded revenue of RM451.63 million, an increase of 14.42% as compared with RM394.71 million in corresponding period ended 31 March 2023. Profit before taxation (PBT) for 1Q24 was RM40.98 million as compared with loss before taxation (LBT) of RM19.07 million for 1Q23.

The Gloves division's revenue increased by 19.56% to RM379.63 million in 1Q24 as compared with RM317.54 million in 1Q23 due to higher quantity sold. PBT was RM26.57 million in 1Q24 as compared with LBT of RM34.90 million in 1Q23. The increase in PBT was mainly due to higher revenue recorded and lower natural gas price in 1Q24.

The TRPs division's revenue decreased by 12.84% to RM48.95 million in 1Q24 as compared with RM56.15 million in 1Q23 due to lower sales. However, the PBT increased by 12.67% to RM8.92 million as compared with RM7.92 million in 1Q23 due to better products mix.

The Clean-Room division's revenue increased by 9.65% to RM23.05 million in 1Q24 as compared with RM21.02 million in 1Q23. PBT recorded at RM2.42 million in 1Q24 as compared with RM1.59 million in 1Q23 due to higher cost in 1Q23.

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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 31/03/2024 RM '000	Immediate Preceding Quarter 31/12/2023 RM '000	Changes %
Revenue	451,625	400,149	12.86
Operating profit	41,039	4,174	883.21
Profit Before Interest and Tax	41,039	4,174	883.21
Profit before tax	40,981	3,434	1093.39
Profit after tax	32,045	1,596	1907.83
Profit attributable To			
Ordinary Equity Shareholders	31,454	806	3802.48

Divisions

	Technical Rubber RM '000	Gloves RM '000	Clean-Room RM '000	Others RM '000	Total RM '000
Current Quarter ended - 31/03/2024 (1Q24)					
Revenue	48,945	379,633	23,047	-	451,625
Profit before tax	8,918	26,565	2,423	3,075	40,981
PBT/Revenue %	18.22	7.00	10.51	na	9.07
Preceding Quarter ended - 31/12/2023 (4Q23)					
Revenue	44,437	329,583	26,129	-	400,149
Profit/(loss) before tax	9,989	(9,304)	2,837	(88)	3,434
PBT(LBT)/Revenue %	22.48	(2.82)	10.86	na	0.86
Comparison of quarters					
Percentage change	%	%	%	%	%
Revenue	10.14	15.19	(11.80)	na	12.86
Profit/(loss) before tax	(10.72)	385.52	(14.59)	na	1093.39

Comparison of Current Quarter (“1Q24”) with immediate Preceding Quarter (“4Q23”)

For 1Q24, the Group’s revenue was recorded at RM451.63 million as compared with 4Q23 of RM400.15 million, the increase mainly from Gloves and TRP divisions. Profit before taxation (PBT) was RM40.98 million in 1Q24 compared with RM3.43 million in 4Q23 (inclusive of a one-off impairment loss of plant and machinery amounted to RM35.38 million).

The Gloves division’s revenue increased by 15.19% to RM379.63 million in 1Q24 from RM329.58 million in 4Q23 due to higher quantity sold. PBT of RM26.57 million was recorded as compared with LBT of RM9.30 million in 4Q23 (inclusive of a one-off impairment loss of plant and machinery amounted to RM35.38 million).

The TRPs division’s revenue increased by 10.14% to RM48.95 million in 1Q24 as compared with RM44.44 million in 4Q23 due to higher delivery of products in 1Q24. PBT recorded at RM8.92 million in 1Q24 as compared with RM9.99 million in 4Q23.

The Clean-Room division’s revenue was recorded at RM23.05 million in 1Q24 as compared with RM26.13 million in 4Q23 due to lower deliveries. PBT recorded at RM2.42 million in 1Q24 compared with RM2.84 million in 4Q23 was in tandem with the lower revenue.

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Explanatory Notes

14.3 Commentary on Prospects

The persistent supply-demand gap facing by the glove industry, coupled with the pressure from international competitors on average selling prices, are anticipated to persist throughout FY2024. This challenging operational landscape is further impacted by the increase in raw material and natural gas prices in 2QFY2024 and the Group anticipates the raw material price will have a minor increase throughout FY2024, while the natural gas price will depend on the fluctuation in crude oil price. Despite these obstacles, the long-term outlook for glove demand remains positive, driven by stricter standards and increased hygiene awareness in medical and industrial sectors. The current industry consolidation and capacity adjustment have also eased the challenging situation.

The Technical Rubber Products ("TRP") division foresees a gradual increase in global economic activity and infrastructure investment, which is expected to stimulate growth in the infrastructure sectors. The Group anticipates that this division will achieve a satisfactory performance for FY2024.

Moving forward, the Group maintains its unwavering commitment to strengthening our glove division despite the prevailing operational challenges. In light of this, our primary focus remains on enhancing cost-efficiency by accelerating the automation and digital solutions, providing ongoing human resources training, and reinforcing our management systems, which will enable us to reduce our production costs and overcome existing manpower challenges. Furthermore, we are committed to advancing our sustainability initiatives, recognising the growing importance of social and environmental responsibility to our customers.

Despite the challenging landscape mentioned, the Group is cautiously optimistic about its performance for FY2024.

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 ended	
	31/03/2024	31/03/2023
	RM'000	RM'000
Tax expense	8,936	4,501

14.6 Profit after taxation

Profit after taxation arrived after charging/(crediting):

	Quarter ended	
	31/03/2024	31/03/2023
	RM'000	RM'000
Interest expense	58	448
Depreciation	26,069	32,411
Foreign exchange (gain)/loss – realised	(352)	112
Foreign exchange (gain)/loss – unrealised	(875)	1,128
(Gain)/Loss Gain on derivatives – unrealised	(70)	4,979
Interest income	(10,177)	(9,209)
Investment income	(1,447)	(367)
Fair value gains on financial assets at FVTPL	(5,448)	(6,581)

14.7 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 2024.

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Explanatory Notes**14.8 Group Borrowings**

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

	Total Unsecured	
	As at 31/03/2024	As at 31/12/2023
	RM'000	RM'000
Short Term		
Bankers' acceptance	3,116	9,521
Term loans due within 12 months	<u>117</u>	<u>292</u>
	<u>3,233</u>	<u>9,813</u>

b) There were no debt securities for the financial period ended 31 March 2024.

14.9 Derivative Financial assets/(liabilities)

	As at 31/03/2024			As at 31/03/2023		
	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>45,837</u>	<u>70</u>	<u>-</u>	<u>151,896</u>	<u>-</u>	<u>4,979</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.

15. 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.

16. Earnings Per Share

	Quarter ended	
	31/03/2024	31/03/2023
	RM'000	RM'000
Profit after tax and minority interest	<u>31,454</u>	<u>(24,254)</u>
Basic earnings per share		
Weighted average number of ordinary shares in issue ('000)	2,551,620	2,551,620
Basic earnings per share (sen)	<u>1.23</u>	<u>(0.95)</u>

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/ CEO
21 May 2024