

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2010

Explanatory Notes

1. Basis of Preparation

The unaudited interim financial statements have been prepared in accordance with FRS 134 Interim Financial Reporting and Chapter 9 Part K of the Bursa Securities Listing Requirements. The accounting policies and method of computation adopted for the interim financial reports were consistent with those adopted for the audited financial statements for the year ended 31 December 2009 and includes the adoption of new Financial Reporting Standards (“FRS”) applicable to the Group.

Unless otherwise described below, the adoption of the above pronouncements are expected to have no significant impact to the financial statements of the Group upon their initial application.

FRS 8, Operating Segments

FRS 8 replaces FRS 114²⁰⁰⁴, Segment Reporting and requires the identification and reporting of operating segments based on internal reports that are regularly reviewed by the chief operating decision maker of the Group in order to allocate resources to the segment and to assess its performance. Currently, the Group presents segment information in respect of its business segments. As for geographical segments, the Group operations are principally located in Malaysia and customer base does not reflect the actual location of shipment/deliveries. As this is a disclosure standard, there will be no impact on the financial position or results of the Group.

FRS 139, Financial Instruments: Recognition and Measurement.

FRS 139 sets out the new requirements for the recognition and measurement of the Group's financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments at the balance sheet date reflects the designation of the financial instruments. The Group determines the classification at initial recognition and for the purpose of the first adoption of the standard, as at transitional date on 1 January 2010.

These changes in accounting policies have been made in accordance with the transitional provisions of FRS 139. For first time adoption, adjustments arising from remeasuring the financial instruments at the beginning of the financial period were recognised as adjustments are applied prospectively to the opening balance of retained earnings or another appropriate reserve. Comparative figures as at 31 December 2009 are not adjusted.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2009 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.

5. Changes in Material Estimates

There were no estimates used in the current quarter and unaudited financial year ended 31 December 2010 or in prior interim periods of the current financial year or prior financial year.

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Explanatory Notes**6. Movement of Company's Securities****a) Bonus Issue**

On 21 April 2010, the Company announced the proposal for a bonus issue of 159,866,976 new ordinary shares of RM 0.50 each (bonus shares) on the basis of one (1) bonus share for every one (1) existing shares. This bonus issue has been completed with the listing of and quotation for the 159,866,976 bonus shares on the Main Board of Bursa Malaysia Securities Berhad on 29 July 2010.

b) Share-Buy Back

	Current quarter ended 31/12/2010	Financial year ended 31/12/2010
Total number of shares purchased (units of shares)	<u>969,400</u>	<u>969,400</u>
Total cash consideration paid (RM)	<u>3,030,984</u>	<u>3,030,984</u>
Highest value per share (RM)	3.17	3.17
Lowest value per share (RM)	3.03	3.03

Other than the above, there were no issuance and repayment of debt and equity securities, share-buy backs, share cancellations, shares held as treasury shares and resale of treasury shares in the current quarter and financial year ended 31 December 2010.

7. Dividend

On 21 April 2010, the Company has proposed a first and final tax exempt dividend of 9 sen per ordinary share, amounting to RM 14,388,028, in respect of the financial year ended 31 December 2009. This dividend was paid on 19 July 2010.

There were no other dividends declared or paid in the current quarter and financial year ended 31 December 2010.

8. Segmental Reporting

Analysis by activities	Unaudited financial period ended			
	31 December 2010		31 December 2009	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
Manufacturing sector				
Gloves division	936,477	140,456	754,772	88,758
Technical rubber products division	111,141	7,749	87,220	6,510
Engineering division	253	(145)	143	(278)
	<u>1,047,871</u>	<u>148,061</u>	<u>842,135</u>	<u>94,990</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 years' audited financial statements.

10. Material Events Subsequent to the End of the Interim Report

No significant event has occurred between 01 January 2011 and the date of this announcement which will materially affect the earnings or income of the Group.

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Explanatory Notes**11. Changes in the Composition of the Group**

There were no significant 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 2010.

12. Contingent Liabilities

As at 31 December 2010, the Company has unsecured outstanding contingent liabilities amounting to RM 158.026 million (31 Dec 2009: RM 159.241 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	
	31/12/2010	31/12/2009
	RM'000	RM'000
Property plant and equipment		
Within one year: Contracted but not provided	9,000	2,143

14. Additional Information required by the Bursa Securities Listing Requirements**14.1 Review of Results**

	Quarter ended			Financial year ended		
	31/12/10	31/12/09	%	31/12/10	31/12/09	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Turnover	252,973	227,749	+ 11.11	1,047,871	842,135	+ 24.43
Pre-tax Profit	34,913	31,562	+ 10.62	148,060	85,828	+ 72.51

The higher turnover and increased in pre-tax profit is attributed to the Groups' expansion in the gloves division with better product mix and margin.

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 ended 31/12/2010	Preceding quarter ended 30/09/2010
	RM '000	RM '000
<u>Group Results</u>		
Turnover	<u>252,973</u>	<u>275,635</u>
Net Profit Before Taxation	<u>34,913</u>	<u>38,108</u>

The high price of raw materials in the last quarter has resulted in buyers holding lower stock levels. This has resulted in a temporary reduction of revenue.

14.3 Current Year Prospects

The results for the year ended 2010 of the Group were within expectations. For the year, demand for gloves remains good and management is cautiously optimistic of consistent performance in the financial year of 2011.

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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 31/12/2010 RM'000	Financial year ended 31/12/2010 RM'000
Tax expense	3,280	11,100
Deferred taxation	2,183	18,370
	<u>5,463</u>	<u>29,470</u>

The effective income tax rate for the current quarter and financial period ended 31 December 2010 was lower than the statutory rate due to the availability of tax incentives.

14.6 Profit on Sale of Investment and/or Properties

There were no sales of investments or properties in the current quarter and financial year ended 31 December 2010.

14.7 Quoted Securities

There were no purchases or disposal of quoted securities in the current quarter and financial year ended 31 December 2010.

14.8 Status of Corporate Proposal announced but not completed

There were no other corporate proposals announced but not completed, for the current quarter and financial year ended 31 December 2010, to the date of this report.

14.9 Group Borrowings

a) The Group borrowings as at 31 December 2010 were as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Short Term			
Bank overdraft & revolving credit	6,908	25,771	32,679
Bankers' acceptance	35,716	58,640	94,356
Loan due within 12 months	725	5,543	6,268
	<u>43,349</u>	<u>89,954</u>	<u>133,303</u>
Long Term			
Loan due after 12 months	3,622	22,241	25,863
	<u>46,971</u>	<u>112,195</u>	<u>159,166</u>

Included in unsecured short-term revolving credit is an amount of USD 8.0 million (31 December 2009: US\$ 8.5 million) obtained by two subsidiaries of the Company. Other than the above, all the other borrowings were denominated in Ringgit Malaysia.

b) There were no debt securities for the financial period ended 31 December 2010.

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14.10 Financial Instruments with Off Balance Sheet Risk

Foreign currency forward contracts were entered and continue to be entered to limit the exposure of the Group to fluctuations in foreign currency exchange rates on foreign currency receipts and payments. The Group has complied with the requirements of FRS 139 with the initial adaptation from 01 January 2010. The accounts impacted by these standards have been adjusted accordingly wherever necessary.

As at 31 December 2010, the Group has the following outstanding financial instruments:

Type	Notional amount RM'000	Fair Value RM'000	Gain RM'000
Foreign exchange contract (US\$ to sell)			
Expiry:			
Less than 1 year	269,314	265,728	3,586
More than 1 year	nil	nil	nil

14.11 Material Litigation

On 14 February 2011 the Company announce that Ms.Seow Yin Lee (the "Plaintiff") has instituted legal proceedings against Perusahaan Getah Asas Sdn Bhd ("PGA"), being a wholly owned subsidiary of the Company, by way of a writ of summons and a statement of claim in the High Court of Malaya at Shah Alam (the "Action") The Plaintiff claims the existence of a non-disclosure agreement that was entered with PGA, which the Plaintiff alleges was breached by PGA sometime in late 2009 and/or early 2010. The Plaintiff is seeking an injunction against, amongst others, PGA, its holding company and subsidiaries, and damages in the sum of RM 24 million for breach of the alleged non-disclosure agreement and interest at 8% per annum over the said sum from the date of filing of the writ.

The sum of RM24million as claimed is alleged by the Plaintiff to be her reputation loss, financial loss or damages in projected profits. With respect to this allegation, the Plaintiff has not provided the method or means of calculating such a loss.

The Company and PGA, through their solicitors are in the midst of preparing a defence to the Action. The Directors of the Company and PGA in consultation with their solicitors are of the view that the Action is lacking in merit, frivolous and that the prospects of successfully defending the Action are good. In the unlikely event that the Plaintiff obtains judgment in the Action against PGA, the Company is confident that it would not give rise to any material or adverse impact to the financial position of the Company or any members of its Group.

Other than the above, there were no pending material litigation since the last audited annual balance sheet date to the date of issue of the quarterly report.

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Explanatory Notes**14.12 Earnings Per Share**

	Quarter ended		Financial year ended	
	31/12/10	31/12/09	31/12/10	31/12/09
Profit (RM'000)	29,247	23,975	118,188	66,679
a) Basic earnings per share				
Basic number of ordinary shares in issue ('000)	319,734	319,734	319,734	319,734
Basic earnings per share (sen)	9.15	7.50	36.96	20.85
b) Diluted earnings per share				
Basic number of ordinary shares in issue ('000)	319,734	319,734	319,734	319,734
Adjustment for share buy-back	(969)	nil	(969)	nil
Diluted number of ordinary shares in issue ('000)	318,765	319,734	318,765	319,734
Basic earnings per share (sen)	9.18	7.50	37.08	20.85

14.13 Realised and Unrealised Retained Earnings

	Financial year ended	
	31/12/10	31/12/09
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries and its' subsidiaries		
Realised	283,433	na
Unrealised	5,929	na
	289,362	na

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
23 February 2011