

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2011

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 2010 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.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2010 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 period ended 31 March 2011 or in prior interim periods of the current financial year or prior financial year.

6. Movement of Company’s Securities

Share-Buy Back	Price paid per share		Units of Shares	Value RM '000
	Lowest	Highest		
Financial period ended 31 March 2011	RM	RM		
As at beginning of period			969,400	3,031
Purchase in the quarter ended 31 March	2.92	2.96	145,000	429
As at end of period			<u>1,114,400</u>	<u>3,460</u>

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 period ended 31 March 2011.

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Explanatory Notes**7. Dividend**

On 21 April 2011, the Company has proposed a first and final tax exempt dividend of 8 sen per ordinary share, in respect of the financial year ended 31 December 2010. Subject to members' approval at the forthcoming Annual General Meeting, the net dividend of RM 25,578,716 will be paid on 19 July 2011.

There were no other dividends declared or paid in the current quarter and financial period ended 31 March 2011.

8. Segmental Reporting

Analysis by activities	Unaudited financial period ended			
	31 March 2011		31 March 2010	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
Manufacturing sector				
Gloves division	226,083	24,816	236,680	37,261
Technical rubber products division	30,363	3,088	26,089	1,518
	<u>256,446</u>	<u>27,904</u>	<u>262,769</u>	<u>38,779</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 April 2011 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 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 period ended 31 March 2011..

12. Contingent Liabilities

As at 31 March 2011, the Company has unsecured outstanding contingent liabilities amounting to RM 154.058 million (31 Dec 2010: RM 156.747 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	
	31/03/2011 RM'000	31/12/2010 RM'000
Property plant and equipment		
Within one year: Contracted but not provided	-	9,000

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

	Quarter ended			Financial period ended		
	31/03/11	31/03/10	%	31/03/11	31/03/10	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Turnover	256,446	262,769	- 2.41	256,446	262,769	- 2.41
Pre-tax Profit	27,904	38,779	-28.04	27,904	38,779	-28.04

The lower turnover was partly due to buyers holding lower stock levels due to the increase in raw materials. The surge in natural rubber latex cost has contributed to the lower pre-tax profit.

14.2 Explanatory comments on any material change in the profit before taxation for the quarter reported on as compared with the preceding quarter.

<u>Group Results</u>	Current quarter ended 31/03/2011	Preceding quarter ended 31/12/2010
	RM '000	RM '000
Turnover	<u>256,446</u>	<u>252,973</u>
Net Profit Before Taxation	<u>27,904</u>	<u>34,913</u>

The level of turnover in the current quarter is within management expectations. Pre-tax profit margin dropped from 13.8% to 10.88% in the current quarter mainly due to the higher cost of natural latex.

14.3 Current Year Prospects

The results for the quarter ended 31 March 2011 of the Group were within expectations taking into consideration of the increase in raw materials cost of natural latex and the weakening USD. Management is optimistic of better performance in the remaining periods of the financial year, barring any unforeseen circumstances.

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 31/03/2011	Financial period ended 31/03/2011
	RM'000	RM'000
Tax expense	2,792	2,792
Deferred taxation	1,733	1,733
	<u>4,525</u>	<u>4,525</u>

The effective income tax rate for the current quarter and financial period ended 31 March 2011 was lower than the statutory rate due to the availability of tax incentives.

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Explanatory Notes

14.6 Profit on Sale of Investment and/or Properties

There were no sales of investments or properties in the current quarter and financial period ended 31 March 2011.

14.7 Quoted Securities

There were no purchases or disposal of quoted securities in the current quarter and financial period ended 31 March 2011.

14.8 Status of Corporate Proposal announced but not completed

On 23 March 2011 the Company announced it has entered into a Share Sale Agreement with Inout Enterprise Pte Ltd and Soode Optik Pte Ltd for the acquisition of 51% of the issued and paid up capital of Cleanera HK Limited, a company incorporated in Hong Kong, for a total cash consideration of USD 3,060,000.00 . The acquisition is in the finalisation stage and is expected to be completed by 30 June 2011.

Other than the above, there were no other corporate proposals announced but not completed, for the current quarter and financial period ended 31 March 2011, to the date of this report.

14.9 Group Borrowings

a) The Group borrowings as at 31 March 2011 were as follows:

	Secured	Unsecured	Total
	RM'000	RM'000	RM'000
Short Term			
Bank overdraft & revolving credit	1,614	25,422	27,036
Bankers' acceptance	33,382	66,413	99,795
Loan due within 12 months	609	5,542	6,151
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	35,605	97,377	132,982
Long Term			
Loan due after 12 months	3,046	21,115	24,161
	<hr/>	<hr/>	<hr/>
	38,651	118,492	157,143

Included in unsecured short-term revolving credit is an amount of USD 8.0 million (31 December 2010: US\$ 8.0 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 March 2011.

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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 and the accounts impacted by these standards have been adjusted accordingly wherever necessary.

As at 31 March 2011, the Group has the following outstanding financial instruments:

Type	Notional amount RM'000	Fair Value RM'000
Foreign exchange contract (US\$ to sell)		
Expiry:		
Less than 1 year	223,405	219,920
More than 1 year	nil	nil

14.11 Material Litigation

On 14 February 2011 the Company announced that Ms.Seow Yin Lee (the "Plaintiff") has instituted legal proceedings against Perusahaan Getah Asas Sdn Bhd ("PGA"), 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 ("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 Agreement and interest at 8% per annum over the said sum from the date of filing of the writ.

The sum of RM 24 million 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 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 period ended	
	31/03/11	31/03/10	31/03/11	31/03/10
Profit (RM'000)	22,955	30,379	22,955	30,379
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)	7.18	9.50	7.18	9.50
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	(1,114)	0	(1,114)	0
Diluted number of ordinary shares in issue ('000)	318,620	319,734	318,620	319,734
Diluted earnings per share (sen)	7.20	9.53	7.20	9.53

14.13 Realised and Unrealised Retained Earnings

	Financial period ended	
	31/03/11	31/12/10
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries and its' subsidiaries		
Realised	332,879	311,759
Unrealised	(25,311)	(27,146)
	307,568	284,613

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
19 May 2011