

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 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 30 June 2011 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) Movement of Companies Securities**

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 30 June 2011.

b) Share Buy Back

	Price paid per share		Units of Shares	Value RM '000
	Lowest RM	Highest RM		
As at beginning of period 01 January 2011			969,400	3,031
Purchase in the quarter ended 31 March	2.92	2.96	145,000	429
Purchase in the quarter ended 30 June	-	-	-	-
As at end of 30 June 2011			<u>1,114,400</u>	<u>3,460</u>

7. Dividend

At the Annual General Meeting held on 21 June 2011, the members approved a first and final tax exempt dividend of 8 sen per ordinary share, in respect of the financial year ended 31 December 2010. The net dividend of RM 25,489,564 was paid on 19 July 2011.

There were no other dividends declared or paid in the current quarter and financial period ended 30 June 2011.

8. Segmental Reporting

Analysis by activities	Unaudited financial period ended			
	30 June 2011		30 June 2010	
	Revenue RM '000	Results RM '000	Revenue RM '000	Results RM '000
Manufacturing sector				
Gloves division	463,875	49,266	467,682	71,756
Technical rubber products division	68,181	5,286	51,581	3,283
	<u>532,056</u>	<u>54,522</u>	<u>519,263</u>	<u>75,039</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 July 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 30 June 2011.

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Explanatory Notes**12. Contingent Liabilities**

As at 30 June 2011, the Company has unsecured outstanding contingent liabilities amounting to RM 146.972 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	
	30/06/2011	31/12/2010
	RM'000	RM'000
Property plant and equipment		
Within one year: Contracted but not provided	-	9,000

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

	Quarter ended			Financial period ended		
	30/06/11	30/06/10	%	30/06/11	30/06/10	%
	RM '000	RM '000	chg	RM '000	RM '000	chg
Turnover	275,610	256,495	+ 7.45	532,056	519,263	+ 2.46
Pre-tax Profit	26,648	36,253	- 26.49	54,552	75,039	- 27.30

The higher turnover was partly due to higher selling price. The high cost of natural rubber latex has resulted in 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.

	Current quarter ended 30/06/2011	Preceding quarter ended 31/03/2011
	RM '000	RM '000
<u>Group Results</u>		
Turnover	<u>275,610</u>	<u>256,446</u>
Net Profit Before Taxation	<u>26,648</u>	<u>27,904</u>

The level of turnover in the current quarter is within management expectations. Pre-tax profit margin dropped from 10.88% to 9.67% in the current quarter mainly due to competitive market.

14.3 Current Year Prospects

Global demand for gloves remains strong and vibrant. With more manpower available, management is confident of higher capacity utilisation in the gloves division. Base on these factors and barring any unforeseen circumstances, management is optimistic of better performance in the second half of the financial year,

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**

	Current quarter ended 30/06/2011 RM'000	Financial period ended 30/06/2011 RM'000
Tax expense	4,262	7,054
Deferred taxation	1,088	2,821
	<u>5,350</u>	<u>9,875</u>

The effective income tax rate for the current quarter and financial period ended 30 June 2011 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 period ended 30 June 2011.

14.7 Quoted Securities

There were no purchases or disposal of quoted securities in the current quarter and financial period ended 30 June 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 .

On 13 June 2011, the Company announced that the above acquisition was completed.

Other than the above, there were no other corporate proposals announced but not completed, for the current quarter and financial period ended 30 June 2011, to the date of this report.

14.9 Group Borrowings

a) The Group borrowings as at 30 June 2011 were as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Short Term			
Bank overdraft & revolving credit	1,306	25,729	27,035
Bankers' acceptance	8,166	82,899	91,065
Loan due within 12 months	454	5,542	5,996
	<u>9,926</u>	<u>114,170</u>	<u>124,096</u>
Long Term			
Loan due after 12 months	2,270	19,912	22,182
	<u>12,196</u>	<u>134,082</u>	<u>146,278</u>

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 30 June 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. 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 30 June 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	247,430	244,252
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 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 period ended	
	30/06/11	30/06/10	30/06/11	30/06/10
	RM'000	RM'000	RM'000	RM'000
Profit after tax and minority interest	20,938	30,004	43,892	60,391
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)	6.55	9.38	13.73	18.89
b) Diluted earnings per share				

There is no dilution in ordinary shares in the quarter or financial period ended 30 June 2011.

14.13 Realised and Unrealised Retained Earnings

	Financial period ended	
	30/06/11	31/12/10
	RM'000	RM'000
Total retained earnings of Kossan Rubber Industries and its' subsidiaries		
Realised	304,588	311,759
Unrealised	(23,917)	(27,146)
	<u>328,505</u>	<u>284,613</u>

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
24 August 2011