

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2012

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 2011 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 2011 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 2012 or in prior interim periods of the current financial year or prior financial year.

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6. Movement of Company's Securities

a) Movement of Companies Securities

Other than share-buy back, 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 2012.

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 2012 | | | 1,114,400 | 3,460 |
| Purchase in the period ended 30 June | - | - | - | - |
| As at end of 30 June 2012 | | | <u>1,114,400</u> | <u>3,460</u> |

7. Dividend

The proposed final tax exempt dividend of 4.0 sen per ordinary share, in respect of the financial year ended 31 December 2011 was approved by the members at the Annual General Meeting on 21 June 2012, and the net dividend of RM 12,744,782 was paid on 18 July 2012.

There were no other dividends declared or paid in the current quarter and financial period ended 30 June 2012.

8. Segmental Reporting

| Analysis by activities | Unaudited financial period ended | | | |
|------------------------------------|----------------------------------|--------------------|--------------------|--------------------|
| | 30 June 2012 | | 30 June 2011 | |
| | Revenue RM '000 | Results RM '000 | Revenue RM '000 | Results RM '000 |
| Manufacturing sector | | | | |
| Gloves division | 515,658 | 52,553 | 463,875 | 49,266 |
| Technical rubber products division | 71,446 | 7,785 | 68,181 | 5,286 |
| Clean-room products division | 7,083 | (608) | 0 | 0 |
| Engineering division | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| | <u>594,187</u> | <u>59,730</u> | <u>532,056</u> | <u>54,552</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 year's audited financial statements.

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

No other significant event has occurred between 01 July 2012 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 period ended 30 June 2012.

12. Contingent Liabilities

As at 30 June 2012, the Company has unsecured outstanding contingent liabilities amounting to RM 139,608 million (31 Dec 2011: RM 140.195 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 | |
|--|------------------------------|------------|
| | 30/06/2012 | 30/06/2011 |
| | RM'000 | RM'000 |
| Property plant and equipment | | |
| Within one year: Contracted but not provided | - | - |

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

| | Quarter ended | | | Financial period ended | | |
|----------------------------|----------------|----------------|---------|------------------------|----------------|---------|
| | 30/06/12 | 30/06/11 | % | 30/06/12 | 30/06/11 | % |
| | RM '000 | RM '000 | chg | RM '000 | RM '000 | chg |
| Turnover | | | | | | |
| Technical rubber divisions | 38,039 | 37,818 | + 0.58 | 71,446 | 68,181 | + 4.79 |
| Gloves divisions | 262,942 | 237,792 | +10.58 | 515,658 | 463,875 | + 11.16 |
| Clean-room division | 3,772 | 0 | na | 7,083 | 0 | na |
| Engineering division | 0 | 0 | na | 0 | 0 | na |
| | <u>304,753</u> | <u>275,610</u> | +10.57 | <u>594,187</u> | <u>532,056</u> | + 11.68 |
| Net Profit Before Taxation | | | | | | |
| Technical rubber divisions | 4,378 | 2,198 | + 99.18 | 7,785 | 5,286 | + 47.27 |
| Gloves divisions | 27,041 | 24,450 | + 10.60 | 52,553 | 49,266 | + 6.67 |
| Clean-room division | (322) | 0 | na | (608) | 0 | na |
| Engineering division | 0 | 0 | na | 0 | 0 | na |
| | <u>31,097</u> | <u>26,648</u> | + 16.70 | <u>59,730</u> | <u>54,552</u> | + 9.49 |

Technical rubber division

Turnover increase is within management expectation. The higher profit is partly due lower raw material cost and better efficiency

Gloves division

Turnover and profit before taxation increased by 10.58% and 10.60% in the current quarter over the preceding year's quarter due to higher sales volume. Profitability in the six months period ended 30 June 2012 was partly due to higher sales volume. The 6.67% increased in six months period ended 30 June 2012 is within management expectation.

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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.**

| Group Results | Current quarter ended 30/06/2012 RM '000 | Preceding quarter ended 31/03/2012 RM '000 | % growth |
|-------------------------------------|---|---|---------------------|
| Turnover | | | |
| Technical rubber products divisions | 38,039 | 33,407 | 13.86 |
| Gloves divisions | 262,942 | 252,716 | 4.05 |
| Clean-room division | 3,772 | 3,311 | 13.92 |
| Engineering division | <u>0</u> | <u>0</u> | na |
| | <u>304,753</u> | <u>289,434</u> | |
| | % | % | % |
| Net Profit Before Taxation | turnover | turnover | increase |
| Technical rubber products divisions | 4,378 11.51 | 3,407 10.20 | 28.50 |
| Gloves divisions | 27,041 10.23 | 25,512 10.10 | 5.99 |
| Clean-room division | (322) (8.54) | (286) (8.64) | 12.59 |
| Engineering division | <u>0 na</u> | <u>0 na</u> | na |
| | <u>31,097</u> | <u>28,633</u> | |

Technical rubber products division

Turnover and profit before tax increased by 13.86% and 28.5% compared to the immediate preceding quarter due to delivery of contracted project, lower raw material cost and better synergy in production efficiency.

Gloves division

Turnover of gloves continued to grow despite strong competition in the market. Sales increased by 4.05% compared to the immediate preceding quarter. Profit before tax grew by 5.99% compared to the immediate preceding quarter due to increased sales and maximising production capacity.

Clean-room division

Turnover continued to grow due to the efforts by the Group to penetrate new market with new products. This division incurred losses due to development cost of clean-room gloves still in progress.

14.3 Current Year Prospects

The technical rubber products division is expected to grow steadily, with attention on infrastructure products and additional demands from overseas. Management is confident profits from this division can be maintained for the second half of the year.

In the gloves division, management is confident the demand for all types of gloves will remain strong. The commissioned 9 new single formers lines capable of producing 1.25 billion pieces of nitrile glove thereby increasing output from 38% to 44% in the second half of 2012. The new surgical gloves production is expected to come on stream in November 2012. With the strong demand and increased output, management is confident profits are expected to grow in tandem in the second half of the year.

The clean-room division will continue to expand its mask and wipes products and market aggressively into the electronic sector. This division will also proceed strongly with the expansion of clean-room gloves. Management is confident this approach will contribute positively towards the Group's performance in 2012.

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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 30/06/2012 RM'000 | Financial period ended 30/06/2012 RM'000 |
|-------------------|--|---|
| Tax expense | 5,808 | 10,433 |
| Deferred taxation | 1,230 | 2,780 |
| | <u>7,038</u> | <u>13,213</u> |

The effective income tax rate for the current quarter and financial period ended 30 June 2012 was lower than the statutory rate due to the availability of tax incentives.

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 2012, to the date of this report.

14.7 Group Borrowings

a) The Group borrowings as at 30 June 2012 were as follows:

| | Secured RM'000 | Unsecured RM'000 | Total RM'000 |
|-----------------------------------|---------------------------|-----------------------------|-------------------------|
| Short Term | | | |
| Bank overdraft & revolving credit | 7,015 | 24,573 | 31,588 |
| Bankers' acceptance | 14,851 | 74,744 | 89,595 |
| Term loan due within 12 months | 0 | 6,292 | 6,292 |
| | <u>21,866</u> | <u>105,609</u> | <u>127,475</u> |
| Term loan due after 12 months | 112 | 13,304 | 13,416 |
| | <u>21,978</u> | <u>118,913</u> | <u>140,891</u> |

Included in unsecured short-term revolving credit is an amount of USD 8.0 million (31 December 2011: 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 2012.

14.8 Material Litigation

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**14.9 Earnings Per Share**

| | Quarter ended | | Financial period ended | |
|--|----------------------|-----------------|-------------------------------|-----------------|
| | 30/06/12 | 30/06/11 | 30/06/12 | 30/06/11 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit after tax and minority interest | 23,621 | 20,938 | 45,575 | 43,892 |
| 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) | 7.39 | 6.55 | 14.25 | 13.73 |
| b) Diluted earnings per share for share buyback | | | | |
| Basic number of ordinary shares in issue ('000) | 318,620 | 318,620 | 318,620 | 318,620 |
| Basic earnings per share (sen) | 7.41 | 6.57 | 14.30 | 13.78 |

There is no dilution in ordinary shares in the quarter or financial period ended 30 June 2012.

14.10 Realised and Unrealised Retained Earnings

| | Financial period ended | |
|---|-------------------------------|-----------------|
| | 30/06/12 | 31/12/11 |
| | RM'000 | RM'000 |
| Total retained earnings of Kossan Rubber Industries and its' subsidiaries | | |
| Realised | 427,809 | 380,086 |
| Unrealised | (35,644) | (33,536) |
| | <u>392,165</u> | <u>346,550</u> |
| Less Consolidation adjustment | (7,240) | (7,240) |
| | <u>384,885</u> | <u>339,310</u> |

On behalf of the Board

Dato' Lim Kuang Sia
Managing Director
23 August 2012