

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2004

Explanatory Notes

1. Basis of Preparation

The unaudited interim financial statements have been prepared in accordance with MASB 26 Interim Financial Reporting and Chapter 9 Part K of the Bursa Malaysia Listing Requirements.

The accounting policies and method of computation adopted for the interim financial statements are consistent with those adopted for the audited annual financial statements for the year ended 31 December 2003 and includes the adoption of new MASB Standards, if any, applicable to the Group.

2. Annual Audit Report

The audit report of the audited financial statements for the year ended 31 December 2003 was not subject to any qualification.

3. Seasonal or Cyclical of 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 financial period to date.

5. Changes in Material Estimates

There were no material changes in the nature and amount of estimates used in the current quarter and interim financial statements ended 30 June 2004 as reported in prior interim periods of the current financial year or prior financial year.

6. Movement of Company's 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 interim financial period ended 30 June 2004.

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Explanatory Notes**7. Dividend**

	Current quarter ended 30/06/2004 RM '000	Interim financial period ended 30/06/2004 RM '000
Interim dividend paid	<u>2,398</u>	<u>2,398</u>

No dividend was declared for the current quarter and the interim financial period ended 30 June 2004. A final dividend of 5% less income tax at 28% was approved on 18 June 2004 for the financial year ended 31 December 2003 and payable on 27 August 2004.

8. Segmental Reporting

Analysis by activities	Interim Financial Statements ended 30 June 2004	
	Segment Revenue RM '000	Segment Results RM '000
Manufacturing sector	130,165	13,582
Engineering sector	<u>0</u>	<u>0</u>
	<u>130,165</u>	<u>13,582</u>

9. Valuation of Property, Plant and Equipment

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements, as the Group does not adopt a revaluation policy on its property, plant and equipment.

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

No significant event has occurred between 30 June 2004 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 interim financial period ended 30 June 2004.

12. Contingent Liabilities

As at 30 June 2004, the Company has unsecured outstanding contingent liabilities amounting to RM34,160,227 (2003: RM22,410,805) being corporate guarantees given to financial institutions for banking/hire purchase facilities granted to certain subsidiaries.

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13. Additional Information required by the Bursa Malaysia Listing Requirements

13.1 Review of Results

The Group recorded a pre-tax profit of RM 7.184 million on a turnover of RM71.282 million for the current quarter ended 30 June 2004 against a pre-tax profit RM 6.398 million on a turnover of RM 58.883 million in the immediate preceding quarter, an improvement of 12.28% and 21.05% in respect of pre-tax profit and turnover respectively. The lower profit margin was attributed to the higher cost of latex experience in the second quarter compared to the first quarter. For the first half to June, the Group recorded a pre-tax profit of RM 13.582 million compared to RM 7.863 million for the same period last year, an improvement of 72.73%.

13.2 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 30/06/2004	Preceding quarter ended 31/03/2004
<u>Group Results</u>	RM '000	RM '000
Turnover	<u>71,282</u>	<u>58,883</u>
Net Profit Before Taxation	<u>7,184</u>	<u>6,398</u>
<u>Segmental Analysis</u>		
Manufacturing sector	7,184	6,398
Engineering sector	<u>0</u>	<u>0</u>
Net Profit Before Taxation	<u>7,184</u>	<u>6,398</u>

13.3 Current Year Prospects

Under the Group's ongoing expansion program, an additional factory is being built to accommodate 9 new improved production lines. These lines are expected to be commissioned in December 2004.

With both the industrial rubber products and gloves operations reporting improved performance, the Group is optimistic of continuing good results for the rest of the year.

13.4 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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13.5 Taxation

	Current quarter ended 30/06/2004 RM '000	Interim financial period ended 30/06/2004 RM '000
Current tax expense	496	912
Deferred taxation	700	1,440
	<u>1,196</u>	<u>2,352</u>

The tax rate for the current quarter and interim financial period ended 30 June 2004 is lower than the statutory rate due to the availability of tax incentives.

13.6 Profit on Sale of Investment and/or Properties

There were no sale of investments or properties in the current quarter and interim financial period ended 30 June 2004.

13.7 Quoted Securities

There were no purchase or disposal of quoted securities in the current quarter and interim financial period ended 30 June 2004.

13.8 Status of Corporate Proposal announced but not completed

There were no corporate proposals announced but not completed at the date of issue of this quarterly report.

13.9 Group Borrowings

a) The Group borrowings as at 30 June 2004 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Short Term	40,393	2,330	42,723
Long Term	<u>3,422</u>	<u>0</u>	<u>3,422</u>
	<u>43,815</u>	<u>2,330</u>	<u>46,145</u>

Included in secured short-term borrowings is a line of credit of US\$ 136,093.00, obtained by the overseas subsidiary. The Ringgit equivalent as at 30 June 2004 is RM517,155.00. Other than the above, all the other borrowings are denominated in Ringgit Malaysia.

b) There were no debt securities in the interim financial period ended 30 June 2004.

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13.10 Financial Instruments with Off Balance Sheet Risk

There were no financial instruments with off balance sheet financial risk at the date of issue of this quarterly report.

13.11 Material Litigation

The Group has on 30 April 2002 announced that a Summon (complaint at law) has been instituted against one of its trade debtors for the recovery of debts. On 20 May 2004, a Settlement Agreement to settle the lawsuit whereby the Defendants agreed to pay and the Plaintiffs has agreed to accept the payment of USD80,000.00 in full settlement of the lawsuit.

On 11 December 2003 the Group announced that a legal suit has been instituted in the United States of America (USA) District Court by one of its customer against its subsidiary companies for compensatory damages for alleged breach of warranties of sale of goods and misrepresentation in respect of gloves sold in year 2000. Solicitors for the Group have advised that there are no merits to the claims and there is a good prospect of success in defending the suit.

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

On behalf of the Board

Lim Kuang Sia
Managing Director

20 August 2004
Klang