

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2006

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 statements were consistent with those adopted for the audited annual financial statements for the year ended 31 December 2005 except for the changes from the adoption of new Financial Reporting Standards (“FRS”) applicable to the Group.

2. Annual Audit Report

The audit report of the audited annual financial statements for the year ended 31 December 2005 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 interim 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 2006, 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 2006.

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7. Dividend

On 19 April 2006, the Company proposes a final dividend of 10% less income tax and a special tax-exempt dividend of 2% for the year ended 31 December 2005. These dividends was approved at the last Annual General Meeting and paid on 10 August 2006. There were no other dividends declared or paid in the current quarter and the interim financial period ended 30 June 2006.

8. Segmental Reporting

Analysis by activities	Interim Financial Statements ended 30 June 2006	
	Revenue RM '000	Results RM '000
Manufacturing sector		
Gloves division	196,615	17,410
Technical rubber products division	43,887	3,062
	<u>240,502</u>	<u>20,472</u>
Engineering sector	0	0
	<u>0</u>	<u>0</u>
Total	<u><u>240,502</u></u>	<u><u>20,472</u></u>

9. Valuation of Property, Plant and Equipment

There were 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 01 July 2006 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

On 31 March 2006, the Group acquired the remaining 720,000 ordinary shares of RM1.00 each representing 30% equity interest in Hibon Corporation Sdn Bhd (“HCSB”) for a total cash consideration of RM 2,586,456 or at RM 3.59 per share. The net tangible assets of HCSB as at 31 December 2005 amounted at RM 2.376 per share. With the acquisition HCSB is now a wholly owned subsidiary of the Company. There were no other 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 the interim financial period ended 30 June 2006.

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12. Contingent Liabilities

As at 30 June 2006, the Company has unsecured outstanding contingent liabilities amounting to RM 115,382,892 (2005: RM 73,231,461) being corporate guarantees given to financial institutions for banking/hire purchase facilities granted to certain subsidiaries.

13. Additional Information required by the Bursa Securities Listing Requirements

13.1 Review of Results

The Group recorded a turnover and pre-tax profit of RM 240.502 million and RM 20.472 million for the interim financial period ended 30 June 2006 compared to RM 173.867 million and RM 17.387 million for the same period last year, an increase of 38.32% and 17.74% respectively. The increase in revenue is mainly contributed both by the 13 lines gloves expansion and also the average selling price to cover cost of raw materials.

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 30/06/2006 RM '000	Preceding quarter ended 31/03/2006 RM '000
<u>Group Results</u>		
Turnover	<u>133,269</u>	<u>107,233</u>
Net Profit Before Taxation	<u>11,671</u>	<u>8,801</u>
Segmental Analysis		
Manufacturing sector	11,671	8,801
Engineering sector	<u>0</u>	<u>0</u>
Total	<u>11,671</u>	<u>8,801</u>

The improved performance for the current quarter was due to the successful commissioning of 13 new lines, which provides higher revenue.

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13.3 Current Year Prospects

As announced in the first quarter, the 26 new gloves manufacturing lines expansion is on schedule. The first 13 lines which commenced operations in the current quarter have boosted revenue for the interim financial period ended 30 June 2006. The next 13 lines, schedule to be commissioned in the fourth quarter, are expected to further contribute positively to the performance of the year. The Group is optimistic of continuing to perform well in the second half of the year 2006.

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.

13.5 Taxation

	Current quarter ended 30/06/2006 RM '000	Financial period ended 30/06/2006 RM '000
Current tax expense	538	1,170
Deferred taxation	1,530	2,330
	<u>2,068</u>	<u>3,500</u>

The effective income tax rate for the current quarter and the interim financial period ended 30 June 2006 was 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 the interim financial period ended 30 June 2006.

13.7 Quoted Securities

There were no purchase or disposal of quoted securities in the current quarter and the interim financial period ended 30 June 2006.

13.8 Status of Corporate Proposal announced but not completed

There were no corporate proposals announced but not completed, for the current quarter and the interim financial period ended 30 June 2006, to the date of this report.

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Explanatory Notes**13.9 Group Borrowings**

a) The Group borrowings as at 30 June 2006 were as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Short Term			
Bank overdraft & Revolving credit	1,552	0	1,552
Bankers' acceptance	62,088	28,798	90,886
Loan due within 12 months	4,925	0	4,925
	<hr/>	<hr/>	<hr/>
	68,565	28,798	97,363
Long Term			
Loan due after 12 months	21,489	0	21,489
	<hr/>	<hr/>	<hr/>
	90,055	28,797	118,852
	<hr/>	<hr/>	<hr/>

All the above borrowings are denominated in Ringgit Malaysia.

b) There were no debt securities in the financial period ended 30 June 2006.

13.10 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.

13.11 Material Litigation

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

17 August 2006