

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 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, if any, arising 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 September 2006 or 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 September 2006.

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7. Dividend

A final dividend of 10% less income tax and a special tax-exempt dividend of 2% for the year ended 31 December 2005 were paid on 10 August 2006.

There were no other dividends declared or paid in the current quarter and the interim financial period ended 30 September 2006.

8. Segmental Reporting

Analysis by activities	Interim Financial Statements ended 30 September 2006	
	Revenue	Results
	RM '000	RM '000
Manufacturing sector		
Gloves division	332,943	29,042
Technical rubber products division	<u>70,202</u>	<u>4,680</u>
	<u>403,145</u>	<u>33,722</u>

9. Valuation of Property, Plant and Equipment

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

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

No significant event has occurred between 01 October 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 Company 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. 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 in the interim financial period ended 30 September 2006.

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12. Contingent Liabilities

As at 30 September 2006, the Company has unsecured outstanding contingent liabilities amounting to RM 142,986,645 (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 403.145 million and RM 33.722 million for the interim financial period ended 30 September 2006 compared to RM 280.680 million and RM 26.797 million for the same period last year, an improvement of 43.63% and 25.84% respectively. The increase in revenue is mainly contributed both by the 13 gloves lines expansion and also in the higher average selling price to cover the 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 30/09/2006 RM '000	Preceding quarter ended 30/06/2006 RM '000
<u>Group Results</u>		
Turnover	162,643	133,269
Net Profit Before Taxation	13,250	11,671
Segmental Analysis		
Manufacturing sector	13,250	11,671
Engineering sector	0	0
Total	13,250	11,671

The improved performance for the current quarter was due to the 13 additional new lines. Net profit before taxation over turnover in the current quarter decreased to 8.15% from 8.75%. The selling price was increased to recover the increases in cost of raw materials, without proportionate increase in profit contributions.

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13.3 Current Year Prospects

The balance 13 lines (making a total 26 additional lines for 2006) had been fully commissioned in the fourth quarter and are expected to further contribute positively to the performance of the year. The Group is optimistic of continuing to perform well for the remaining quarter 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 30/09/2006 RM '000	Financial period ended 30/09/2006 RM '000
Current tax expense	1,108	2,278
Deferred taxation	1,250	3,580
	<u>2,358</u>	<u>5,858</u>

The effective income tax rate for the current quarter and the interim financial period ended 30 September 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 September 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 September 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 September 2006, to the date of this report.

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Explanatory Notes**13.9 Group Borrowings**

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

	Secured RM'000	Unsecured RM'000	Total RM'000
Short Term			
Bank overdraft & Revolving credit	12,329	3,477	15,806
Bankers' acceptance	67,637	26,060	93,697
Loan due within 12 months	5,079	0	5,079
	<hr/>	<hr/>	<hr/>
	85,045	29,537	114,582
Long Term			
Loan due after 12 months	21,826	0	21,826
	<hr/>	<hr/>	<hr/>
	106,871	29,537	136,408
	<hr/>	<hr/>	<hr/>

All the above borrowings are denominated in Ringgit Malaysia.

b) There were no debt securities in the financial period ended 30 September 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

16 November 2006