

KOSSAN RUBBER INDUSTRIES BHD

Company No. 48166-W
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2007

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 annual financial statements for the year ended 31 December 2006 and includes the adoption of new Financial Reporting Standards (“FRS”) applicable to the Group.

During the financial year, the Group opted to early adopt FRS 112, Income Taxes, replacing FRS112₂₀₀₄, Income Taxes.

FRS 112, which is only effective for the financial period beginning on or after 1 July 2007, allows recognition of deferred tax assets pertaining to unutilised reinvestment allowances. Such recognition is treated as a change of accounting policies and accordingly, is recognised retrospectively and certain comparative figures have been restated.

2. Annual Audit Report

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

5. Changes in Material Estimates

There were no material changes in the nature and amount of estimates used in the current quarter and unaudited financial year ended 31 December 2007 or in prior interim periods of the current financial year or prior financial year.

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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 current quarter and unaudited financial year ended 31 December 2007.

7. Dividend

A first and final dividend of 5% less 27% income tax and 8% tax-exempt dividend for the financial year ended 31 December 2006 were paid on 10 August 2007.

There were no other dividends declared or paid in the current quarter and the interim financial year ended 31 December 2007.

8. Segmental Reporting

| Analysis by activities | Unaudited Financial Year ended 31 December 2007 | |
|------------------------------------|--|--------------------|
| | Revenue RM '000 | Results RM '000 |
| Manufacturing sector | | |
| Gloves division | 588,427 | 50,483 |
| Technical rubber products division | <u>109,491</u> | <u>8,543</u> |
| | <u>697,918</u> | <u>59,026</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 annual audited financial statements.

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

No significant event has occurred between 01 January 2008 and the date of this announcement which will materially affect the earnings or income of the Group.

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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 in the unaudited financial year ended 31 December 2007.

12. Contingent Liabilities

As at 31 December 2007, the Company has unsecured outstanding contingent liabilities amounting to RM 172.732 million 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's turnover and pre-tax profit for the quarter under review is RM 186.340 million and RM 15.679 million against the preceding year corresponding quarter's figure of RM 170.716 million and RM 14.844 million, an increase of 9.15% and 5.63% respectively. The increases in revenue and pre-tax profit are within management expectations.

13.2 Explanatory comments on any material change in the profit before taxation for the quarter reported on as compared with the preceding quarter.

| <u>Group Results</u> | Current quarter ended 31/12/2007 RM '000 | Preceding quarter ended 31/09/2007 RM '000 |
|-----------------------------|--|--|
| Turnover | 186,340 | 188,311 |
| Net Profit Before Taxation | 15,679 | 15,458 |

Turnover and pre-tax profit in the current quarter compared to the preceding quarter is consistent with management expectations.

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13.3 Current Year Prospects

The Group has again achieved another strong and sustainable profit performance for the year 2007. Our growing market share and expansion both in the gloves and technical rubber products provides a bright prospect as we move into the year 2008. We are confident that our performance in 2008 will be better.

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 31/12/2007 RM'000 | Financial year ended 31/12/2007 RM'000 |
|---------------------------|--|---|
| Current tax expense | 971 | 5,421 |
| Prior year underprovision | 388 | 388 |
| Deferred taxation | (10,338) | (6,978) |
| | <u>(8,979)</u> | <u>(1,169)</u> |

The effective income tax rate for the current quarter and the unaudited financial year ended 31 December 2007 was lower than the statutory rate due to the availability of tax incentives. The adoption of FRS 112 on reinvestment allowance recognition has resulted in a net deferred tax credit for the current quarter and the financial year ended 31 December 2007.

13.6 Profit on Sale of Investment and/or Properties

There were no sale of investments or properties in the current quarter and the unaudited financial year ended 31 December 2007.

13.7 Quoted Securities

There were no purchase or disposal of quoted securities in the current quarter and the financial year ended 31 December 2007.

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13.8 Status of Corporate Proposal announced but not completed

The Company had on 14 November 2007 announced that Doshin Rubber Products Sdn Bhd, a 70% owned subsidiary, had on 10 November 2007 entered into a memorandum of understanding ("MOU") with AMONA INTERNATIONAL VENTURES SDN BHD ("AMONA") a company incorporated in Malaysia and KOHRANG INDUSTRIAL GROUP ("KOHRANG") a company incorporated in the Islamic Republic of Iran, to record their agreement in principle to collaborate on a proposed joint venture to manufacture rubber bearings ("the Project") to be used in construction of buildings in the Islamic Republic of Iran ("the Territory").

The MOU is valid for one (1) year. All the parties involved will undertake a feasibility study to jointly set-up a joint venture company to design and construct testing facilities, manufacturing and testing of seismic rubber bearings to be used in construction of buildings. The actual composition and total estimated cost, to be funded from internal funds, would only be determined at a later stage.

On 28 December 2007 the Company announced that its associate company Kossan Europa AG ("KE"), had commenced members' voluntary liquidation.

KE, which was involved in the trading of industrial rubber products, become dormant during the financial year ended 31 December 2006. The voluntary liquidation of KE is not expected to have any material effect on the earnings and net assets of Kossan for the financial ending 31 December 2007. None of the directors or substantial shareholders of Kossan or persons connected to them has any interest in the voluntary liquidation.

Other than the above, there are no other corporate proposals announced but not completed, for the current quarter and the financial year ended 31 December 2007, to the date of this report.

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13.9 Group Borrowings

a) The Group borrowings as at 31 December 2007 were as follows:

| | Secured | Unsecured | Total |
|-----------------------------------|----------------|------------------|----------------|
| | RM'000 | RM'000 | RM'000 |
| Short Term | | | |
| Bank overdraft & revolving credit | 14,189 | 37,065 | 51,254 |
| Bankers' acceptance | 21,070 | 53,391 | 74,461 |
| Loan due within 12 months | 4,143 | 1,567 | 5,710 |
| | <u>39,402</u> | <u>92,023</u> | <u>131,425</u> |
| Long Term | | | |
| Loan due after 12 months | 16,463 | 8,093 | 24,556 |
| | <u>55,865</u> | <u>100,116</u> | <u>155,981</u> |

Included in unsecured short-term revolving credit is an amount of US\$ 10.0 million obtained by the subsidiaries of the Company. Other than the above, all the other borrowings are denominated in Ringgit Malaysia.

b) There were no debt securities for the financial year ended 31 December 2007.

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

The Company reported that it had received a letter from the International Trade Commission (ITC) on 12 July 2007 on the complaint and allegation by Tillotson Corporation in the United States for intellectual property infringement of certain nitrile gloves under Section 337 of the Tariff Act of 1930 as amended (19 U.S.C 1337). We have instructed our lawyers in the United States to handle this matter and should Tillotson Corporation be successful at the ITC, it is our understanding that the future royalty of USD2.00 per 1000 pieces of nitrile gloves would be payable. However, this cost will be passed on to the customers accordingly. As exports of nitrile gloves to United States constitute less than 5.5% of our Group's total turnover, the Company envisage that this matter will not have any material impact on the performance of the Group.

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.

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Explanatory Notes**13.12 Earnings Per Share**

| | Quarter ended | | Financial period ended | |
|--|---------------|----------|------------------------|----------|
| | 31/12/07 | 31/12/06 | 31/12/07 | 31/12/06 |
| a) Basic earnings per share | | | | |
| Profit for the quarter/year (RM'000) | 24,658 | 15,870 | 60,195 | 43,754 |
| Weighted average number of ordinary shares in issue ('000) | 159,867 | 159,867 | 159,867 | 159,867 |
| Basic earnings per share (sen) | 15.42 | 9.93 | 37.65 | 27.37 |

b) Diluted earnings per share

There is no dilution in earnings per share.

On behalf of the Board

Lim Kuang Sia
Managing Director
25 February 2008