

Moving Forward

ANNUAL REPORT
2006



KOSSAN RUBBER INDUSTRIES BHD
(Company No.: 48166-W)

www.kossan.com.my

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KOSSAN RUBBER INDUSTRIES BHD ■ ANNUAL REPORT 2006



KOSSAN RUBBER INDUSTRIES BHD
(Company No.: 48166-W)



WEAR SAFE MALAYSIA SDN BHD
HAS BEEN REGISTERED BY
SGS YARSLY INTERNATIONAL CERTIFICATION
SERVICES LIMITED AGAINST ISO 13485:2003



PERUSAHAAN GETAH ASAS SDN BHD
HAS BEEN REGISTERED BY
SGS YARSLY INTERNATIONAL CERTIFICATION
SERVICES LIMITED AS/NZS ISO 13485:2003



PERUSAHAAN GETAH ASAS SDN BHD
HAS BEEN REGISTERED BY
SGS YARSLY INTERNATIONAL CERTIFICATION
SERVICES LIMITED ISO 9001:2000



KOSSAN LATEX INDUSTRIES (M) SDN BHD
HAS BEEN REGISTERED BY
LLOYD'S REGISTER QUALITY ASSURANCE LIMITED
AGAINST MS ISO 9001:2000



HIBON CORPORATION SDN BHD
HAS BEEN REGISTERED BY
LLOYD'S REGISTER QUALITY ASSURANCE LIMITED
AGAINST MS ISO 9001:2000



ISO/TS 16949:2002
Licence No. JA TF20004
SAI Global



KOSSAN RUBBER INDUSTRIES BHD
HAS BEEN CERTIFIED BY
SAI- Global Limited, Australia
AGAINST AS/NZS ISO 9001:2000



REGISTRATION # :
AU-QEC 12558

CE
0120



CGSB Listed



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ANNUAL REPORT 2006

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“ BUSINESS STABILITY WITH LONG
TERM SUSTAINABLE GROWTH ”

CORPORATE MISSION



Keeping a healthy growth through teamwork

Opting to be competitive through the provision of good services and quality products

Striving to reduce Malaysia's dependence on imported rubber goods

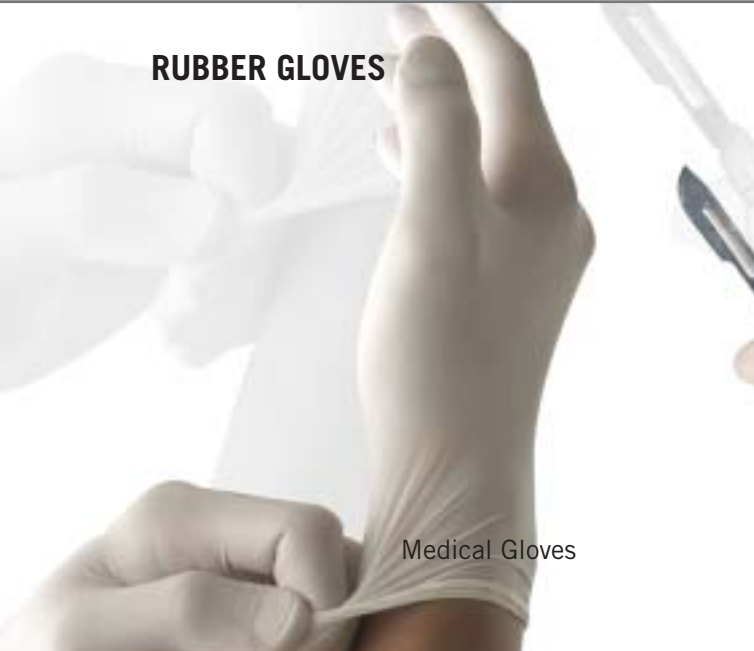
Stepping up the welfare and professionalism of our employees

Aspiriring to develop more high technology products

Navigating towards Malaysia's vision 2020

RUBBER GLOVES

“ We are a **major OEM supplier** of medical application gloves in the World ”



Medical Gloves



Surgical Gloves

OUR PRODUCTS ARE THAN 50 COUNTRIES

TECHNICAL RUBBER PRODUCTS



General Application

• Pipe Seals



• Gaskets

Rubber Rollers for Printing & General Industries



Automotive Parts

• Bushing



Laboratory Gloves

General Purposes Gloves

Food Handling Gloves

EXPORTED TO MORE AROUND THE WORLD

Rubber Fenders for Marine Application



• Arch (V) Fender



• Cell Fender

“ We are one of the **largest manufacturers** of technical rubber products in Malaysia ”



• Solid & Sponge Profiles



• Water Stop



• Laminated Bearing Pad



• Anti-Vibration Pad



• Bridge Expansion Joint

Construction and Civil Engineering

Extruded Rubber Products



• Pressure Sensor Profiles



CORPORATE INFORMATION

BOARD OF DIRECTORS

Y. BHG. DATO' HAJI MOKHTAR BIN HAJI SAMAD
D.S.S.A., A.M.N., P.M.C., P.J.K., J.P
(Independent Non-Executive Chairman)

LIM KUANG SIA
(Managing Director/Chief Executive Officer)

LIM KUANG YONG
(Executive Director)

LIM KUANG WANG
(Executive Director)

LIM KWAN HWA
(Executive Director)

HENG BAK TAN
(Non-Independent Non-Executive Director)

Y. BHG. DATO' TAI CHANG ENG @
TEH CHANG YING
D.S.S.A., A.M.S., P.J.K.
(Independent Non-Executive Director)

TONG SIEW CHOO
(Independent Non-Executive Director)

LIM LENG BUNG
(Alternate to LIM KUANG WANG)

COMPANY SECRETARIES

CHIA ONG LEONG (MIA 4797)
CHIA YEW NGO (LS 1831)

BUSINESS AND REGISTERED ADDRESS

WISMA KOSSAN
LOT 782, JALAN SUNGAI PUTUS
OFF BATU 3 ³/₄, JALAN KAPAR
42100 KLANG, SELANGOR
Tel : 03-3291 2657
Fax : 03-3291 2903
E-mail : kossan@kossan.po.my
Website : www.kossan.com

AUDITORS

KHOO TENG KEAT & CO. (AF 0033)

PRINCIPAL BANKERS

OCBC BANK (MALAYSIA) BERHAD
EON BANK BERHAD
BANK MUAMALAT (MALAYSIA) BERHAD
UNITED OVERSEAS BANK (MALAYSIA) BERHAD
STANDARD CHARTERED BANK (MA) BERHAD

SHARE REGISTRAR

SYMPHONY SHARE REGISTRARS SDN. BHD.
LEVEL 26, MENARA MULTI-PURPOSE
CAPITAL SQUARE
NO. 8, JALAN MUNSHI ABDULLAH
50100 KUALA LUMPUR
Tel : 03-2721 2222
Fax : 03-2721 2530

STOCK EXCHANGE LISTING

BURSA MALAYSIA SECURITIES BERHAD
– MAIN BOARD

FINANCIAL HIGHLIGHTS

OPERATIONS (RM Million)

for the years ended 31 December

	2002	2003	2004	2005	2006
Revenue	154.517	182.051	280.846	385.991	571.339
Net Profit Before Tax	16.284	18.669	29.303	36.181	48.453
Net Profit After Tax	15.560	16.738	22.127	28.946	39.632
Dividend (%)	3.0	10.0	10.0	12.0	13.0

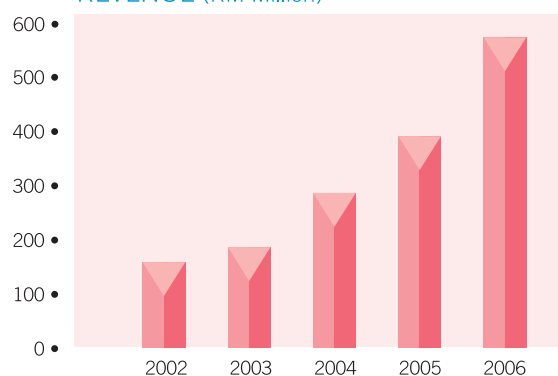
BALANCE SHEET (RM Million)

as at 31 December

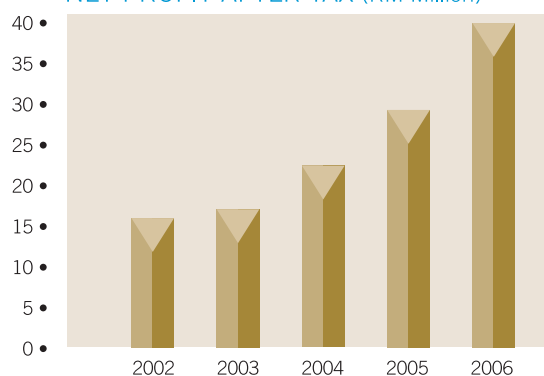
	2002	2003	2004	2005	2006
Share Capital	51.740	66.611	66.611	79.933	79.933
Shareholders' Fund	95.504	121.763	136.880	158.566	190.797
NTA (per share) (RM)	1.85	1.83	2.05	0.99*	1.19*

* NTA per share is calculated based on 159,866,976 shares at RM0.50 each.

REVENUE (RM Million)



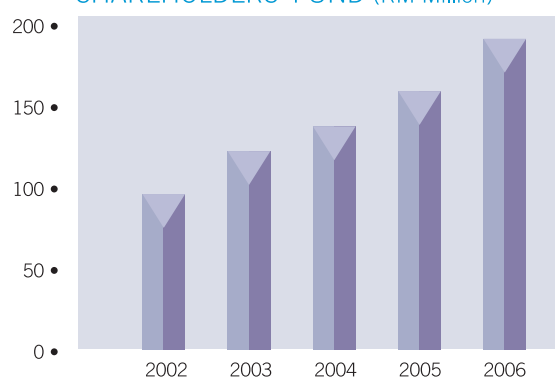
NET PROFIT AFTER TAX (RM Million)



SHARE CAPITAL (RM Million)



SHAREHOLDERS' FUND (RM Million)



CHAIRMAN'S STATEMENT

Y. BHG. DATO' HAJI MOKHTAR BIN HAJI SAMAD



IT IS MY PLEASURE TO PRESENT ON BEHALF OF THE BOARD OF DIRECTORS, THE ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS OF KOSSAN RUBBER INDUSTRIES BHD AND ITS SUBSIDIARIES (“KOSSAN GROUP”) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006.

PERFORMANCE REVIEW

I am pleased that the Kossan Group's good run in 2005 has flowed through to 2006. Despite the highly competitive market amidst soaring raw materials and crude oil prices coupled with the appreciation of the Malaysian Ringgit since July 2005, the Kossan Group was however able to brave through the challenges and achieved another record-breaking performance. Including this year, the Kossan Group is in the 11th year of unbroken profitability track record since listing in year 1996.



GROWING FINANCIAL STRENGTH

For the financial year ended 31 December 2006, the Kossan Group registered revenue and pre-tax profit growth of 49.8% and 33.9% respectively. The Group's revenue increased to RM571.3 million from RM381.3 million in 2006. Its pre-tax profit rose to RM48.5 million from RM36.2 million in 2005. The Group's favorable performance was mainly attributable to its examination gloves division, which accounted for 84.1% and 86.2% of total revenue and pre-tax profit respectively.

The Kossan Group's impressive growth in pre-tax profit bears testimony to the Group's resilience. The Group's significant increase in net profit after tax by 36.3% to RM39.6 million from RM29.0 million in 2005, reflects a net return to shareholders fund of 20.3% and earnings per share of 24.8 sen per share of 50 sen.

ACTIVITIES AND PROSPECTS OF THE GROUP

The business activities of the Group continued to expand and 2006 marked the 11th consecutive year of notable growth. Looking ahead, examination gloves will be the main growth driver supported by expansion programs in our strategic business masterplan for the next 3 to 5 years to come. Our technical rubber products division too has equally compelling potential to contribute to the overall growth riding on the higher demand for more customized and technical rubber products by our MNC customers from overseas. As a substantial portion of the Group's business are from OEM, the continuing and escalating worldwide outsourcing trend augurs well for the Group's growth.

Superior technical ability and capability to produce quality rubber products at reasonable prices, coupled with the Group's strong positioning and proven track record, will provide the Group with competitive edge in the global market, and underpin more inspiring future growth and prospects.

DIVIDEND

The Board of Directors of Kossan Group is pleased to recommend for shareholders' approval a First and Final Dividend of 5% per share (less 27% income tax) and a 8% tax exempt for the financial year ended 31 December 2006. Total dividend payout will be RM9,312,251 compared to the 10% (less 28% income tax) plus 2% tax exempt of RM7,353,881 paid for the fiscal year of 2005, a growth of 26.6%. This higher dividend payout reflects the Group's strong commitment to deliver excellent shareholders' return.

APPRECIATION

The Board of Directors of Kossan Group would like to thank our customers and business associates, the regulatory authorities, investors and shareholders, investment analysts, members of the press and medias for the continuing strong support, which has enabled the Group to achieve another successful year.

I would like to take this opportunity to express my sincere appreciation and thanks to my fellow directors for their constant support and contribution.

To the Management and staff, I wish to express my heartfelt gratitude for your commendable and dedicated performance, diligence, loyalty, and whole-hearted commitment towards the development and growth of the Group.

Y.BHG DATO' HAJI MOKHTAR BIN HAJI SAMAD
Chairman

25 May 2007

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

LIM KUANG SIA



OUR PURPOSE AT KOSSAN IS VERY CLEAR :
“ **BUSINESS STABILITY WITH LONG
TERM SUSTAINABLE GROWTH**”

DEAR VALUED STAKEHOLDERS,

We had another good run in 2006! We again delivered a sparkling year-on-year growth rate of more than 30% in spite of a grueling business environment attributed to stiff rise in bulk latex price and stronger Ringgit Malaysia. I am most delighted to report that this is the 6th consecutive year of double digit growth in both revenue and profit before tax, thus, fulfilling our commitment to our shareholders to deliver long term sustainable growth. At Kossan, our purpose is very clear: To achieve Business Stability with Long Term Sustainable Growth; and this commitment to our shareholders has given us and will continue to give us the confidence and zeal to excel at all times.



OVERVIEW

The historic price hikes in bulk latex and crude oil in the last fiscal year had affected the performance of many industries generally and in particular, the rubber glove industry. The already tough operating environment is further aggravated due to rising Ringgit Malaysia against the US dollar. In spite of operating with a much higher cost component, our two business segments - examination gloves and technical rubber products continue to register remarkable growth. The Examination Gloves division accounted for about 84% of the Group's total revenue and operating earnings while the Technical Rubber Products division contributed the remaining 16% for year 2006.

The Kossan Group's strong and sustainable profit performance is well reflected in its share price. The Group's market capitalization increased substantially from RM345.3 million at the beginning of year 2006 to RM748.2 million at 31 December 2006.

Examination Gloves Division

For the year under review, the Examination Gloves division generated RM42.0 million pre-tax earnings on the back of revenue totaling RM480.2 million.

In 2006, 26 new production lines were added progressively to the existing 49 lines and this expansion boosted our production capacity by another 50% to 7.5 billion pieces of gloves per annum from the previous 5.0 billion pieces. Due to overwhelming demand for our powder-free medical and surgical gloves, we have in early May 2007 commissioned another 13 production lines able to produce an additional of 1.5 billion pieces of gloves, raising the Group's production capacity to 9.0 billion pieces per annum.

The Group is very careful when planning for expansion and all our expansion plans are purely market-demand driven and our all time high utilization rate of not less than 90% of our installed capacity speaks well for this. In 2006, total actual output of gloves stood at 5.8 billion pieces out of our effective installed capacity of 6.0 billion pieces and more than 95% of this total output was made up by high quality medical gloves.

Technical Rubber Products ("TRPs") Division

The performance of our TRPs division is equally compelling and generated total revenue of RM91.0 million for the year under review. Riding on the increased outsourcing trend globally, we are upbeat about the prospects of our TRPs division. Being the largest manufacturer for TRPs in the country, our manufacturing track record of 27 years coupled with our incessant efforts in R&D and marketing have positioned us well in the world market.

R&D EFFORTS TO CONTINUE

Using technology to win in business has been our focus. The year under review also saw the Group's continuing efforts in R&D, computerization, automation and upgrading of production and operation systems which are important in product quality improvement and higher productivity with minimum wastage or rejects.

HUMAN RESOURCE DEVELOPMENT

At Kossan, we understand that our employees are the driving force of the Group's success. Our strength lies in having a group of highly competent and ethical staff united by our strong spirit of teamwork. This proffers us a great competitive advantage in executing our business strategies to achieve the projected results and performance. Being a committed employer, we have developed a comprehensive program to pool and retain the right people, nurture talents and groom future leaders.

INVESTOR RELATIONS AND STAKEHOLDERS COMMUNICATIONS

At Kossan, we believed in great level of transparency and good corporate governance. In keeping with this objective, our Group Corporate Affairs department continues to structure programs including periodic briefing for investment analysts and fund managers with the aim of providing them with up-to-date information of the Company as well as keeping them informed on the key developments of the rubber glove industry. We value feedbacks from our stakeholders and the investment community; and views and comments obtained are channeled to senior management and the Board in a timely manner to help shape action plans.

CUSTOMERS' SATISFACTION IS OUR SUCCESS FACTOR

Maintaining excellent customer service and practising professionalism in all our business dealings are part of our success factors. This is in-line with our Corporate Vision.

Over the years, significant measures and efforts had been made to ensure that our customers are satisfied with our products and services rendered including the setting of the shortest time frame to respond to customer's feedback, timely delivery and good quality assurance. Our efforts had won us recognition and strong trust from our customers and suppliers. We shall reinforce this belief that Kossan products are synonymous with quality, timely delivery and excellent customer service. To our valued customers, our ultimate goal is to satisfy you and earn your unrivalled trust in our products!

PROSPECTS

The year ahead looks set to be another exciting one for the Group. On the back of escalating global latex gloves consumption, which is projected to grow at the rate of not less than 10% per annum due to greater awareness and concern over hygiene standard, global improved health consciousness among consumers and the increasing usage by non-medical segments; Kossan, being the market leader in premier powder-free medical gloves, is well-positioned to tap onto such growth.

On the examination glove front, we are on track to achieve our targeted world market share of 10% through aggressive and well-planned capacity expansion. While capacity expansion is the key factor to growth in the latex glove industry in general, at Kossan, we walk the extra miles to build and leverage on our existing strength to produce more value-added and quality products in order to reinforce our competitive edge. As we believe in business stability and long term growth, we must not only be growing big but also growing strong too!

Our TRPs division which currently contributed about 16% to the Group's total revenue is expected to deliver double digits growth in the coming years. Being the largest manufacturer of TRPs in the country and well-equipped with cutting-edge manufacturing technologies, we are in a strong position to meet the rising demand from industrialized nations which consume substantial quantity of rubber based industrial products, or OEM parts as part of their outsourcing

strategy. As we believe in working together to create value, we will continue to identify strategic partnerships overseas, to unlock and reap the business value together.

We are upbeat about the bright prospect and our strong position in our business; and we will continue to stay focused on what we are best in. For greater success in the future, the Group continues to benchmark the current local operating conditions with the Asia-Pacific region and will consider set up bases in these places should there be advantages over the local operating conditions. Besides growing organically by capitalizing on our strength, the Group is also keen to grow by acquisition of companies with similar nature of business that fit our criteria. Nevertheless, we remain cautious and adopt vigilant scrutiny on any offer as the main motivation for any take over must be value creation and proffers synergy to the Group.

To maintain the above 30% growth rate registered in the past 2 financial years, the Group will continue to intensify our marketing efforts and study, analyze and improve the production systems in our plants to further enhance our productivity and efficiency, which we at Kossan always believe, is vital to stay competitive in the industry. We are confident that our performance in 2007 will be better, barring any unforeseen changes in the operating environment, both locally and globally.

ACKNOWLEDGEMENT

I would like to put on record my heartfelt appreciation to all our customers, shareholders, government authorities, business associates, investment analysts and fund managers who have supported and believed in us over the years. We look forward to your continuing support and trust for the year ahead.

And of course, my gratitude also goes to our dedicated employees, whose unwavering commitments to deliver value and quality products and services to our customers lies at the heart of our every success.

LIM KUANG SIA
Managing Director

25 May 2007

DIRECTORS' PROFILE

Y. BHG DATO' HAJI MOKHTAR BIN HAJI SAMAD

Y. Bhg Dato' Haji Mokhtar Bin Haji Samad, a Malaysian aged 59, was appointed the Non-Executive Chairman of Kossan on 22 February 2002. He is an Independent Director and is the Chairman of the Audit Committee. He is a member of the Nomination Committee and Remuneration Committee.

He has a wide range of business interest and sits on the board of several private companies. He is currently the Yang DiPertua of the Persatuan Kontraktor Melayu Malaysia, Wilayah Persekutuan, Timbalan President of

Persatuan Kontraktor Melayu Malaysia and a member of Majlis Penasihat Dewan Perniagaan Melayu Malaysia, Bandaraya Kuala Lumpur.

He does not have any family relationship with any director and/or major shareholder of Kossan. He also does not have any business arrangements involving Kossan.

He has not been convicted of any offences within the past 10 years.

LIM KUANG SIA

Mr. Lim Kuang Sia, ("KS LIM") a Malaysian aged 54, was appointed the Managing Director/ Chief Executive Officer of Kossan on 22 February 2002. He is a founder director of Kossan. Mr. KS Lim graduated from Nanyang University in Singapore with a Bachelor of Science (Chemistry) degree. He also has a post-graduate Diploma in Chemical Engineering from University College and a Master in Chemical Engineering from Imperial College, both at the University of London. Mr. KS Lim is a member of the Malaysian Rubber Export Promotion Council Board of Trustees.

Other than Kossan, he has no directorship in other public company. He sits on the boards of several private companies.

Mr. KS Lim is a member of the Audit Committee and the Remuneration Committee.

Mr. K.S Lim is an indirect substantial shareholder by virtue of his substantial shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan. He also holds 190,944 shares in his own name.

Mr. KS Lim is the younger brother of Messrs Lim Kuang Yong, Lim Kuang Wang and Lim Kwan Hwa, the elder brother of Mr. Lim Leng Bung, an alternate director, and the brother in law of Mr. Heng Bak Tan.

He has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

LIM KUANG YONG

Mr. Lim Kuang Yong, ("KY Lim") a Malaysian aged 60, was appointed to the Board of Kossan on 22 October 1979. He has more than 20 years business experience in marine hardware. He is currently in charge of the Examination Gloves Division.

Other than Kossan, he has no directorship in other public company. He sits on the boards of several private companies.

Mr. KY Lim is an indirect substantial shareholder by virtue of his substantial shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan.

Mr. KY Lim is the eldest brother of Messrs Lim Kuang Wang, Lim Kwan Hwa, Lim Kuang Sia and Lim Leng Bung and the brother in law of Mr. Heng Bak Tan.

He has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

LIM KUANG WANG

Mr. Lim Kuang Wang, ("KW LIM") a Malaysian aged 58, was appointed to the Board of Kossan on 27 May 1995. He has more than 20 years business experience in trading and manufacturing. He is currently involved in the Examination Gloves Division.

Other than Kossan, he has no directorship in other public company. He sits on the boards of several private companies.

Mr. KW Lim is an indirect substantial shareholder by virtue of his substantial shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan. He also holds 359,424 shares in his own name.

Mr. KW Lim is the elder brother of Messrs Lim Kwan Hwa, Lim Kuang Sia and Lim Leng Bung, the younger brother of Mr. Lim Kuang Yong and the brother in law of Mr. Heng Bak Tan.

He has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

LIM KWAN HWA

Mr. Lim Kwan Hwa, ("KH Lim") a Malaysian aged 56, was appointed to the Board of Kossan on 27 May 1995. He is currently in charge of Kossan Latex Industries (M) Sdn. Bhd., a wholly owned subsidiary of Kossan.

Other than Kossan, he has no directorship in other public company. He sits on the boards of several private companies.

Mr. KH Lim is an indirect substantial shareholder by virtue of his substantial shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan.

Mr. KH Lim is the elder brother of Messrs Lim Kuang Sia and Lim Leng Bung, the younger brother of Messrs Lim Kuang Yong and Lim Kuang Wang and the brother in law of Mr. Heng Bak Tan.

He has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

LIM LENG BUNG

Mr. Lim Leng Bung, ("LB Lim") a Malaysian aged 43, was appointed to the Board of Kossan on 27 May 1995 as an alternate to Mr Lim Kuang Wang. He currently heads the production portfolio in Kossan.

Other than Kossan, he has no directorship in other public company. He sits on the boards of several private companies.

Mr. LB Lim is an indirect substantial shareholder by virtue of his substantial shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan.

Mr. LB Lim is the youngest brother of Messrs Lim Kuang Yong, Lim Kuang Wang, Lim Kwan Hwa and Lim Kuang Sia and the brother in law of Mr. Heng Bak Tan.

He has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

HENG BAK TAN

Mr. Heng Bak Tan, a Malaysian aged 57, was appointed to the Board of Kossan on 29 October 1984 as a non executive Director. He is non independent. He has more than 10 years experience in rubber moulding and extrusion.

Other than Kossan, he has no directorship in other public company. He sits on the boards of several private companies.

Mr. Heng is an indirect major shareholder by virtue of his shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan.

He is the brother in law of Messrs Lim Kuang Yong, Lim Kuang Wang, Lim Kwan Hwa, Lim Kuang Sia and Lim Leng Bung.

He has not entered into any transaction, whether directly or indirectly, which has a conflict with the Company other than those disclosed in the financial statements.

He has not been convicted of any offences within the past 10 years.

Y. BHG DATO' TAI CHANG ENG @ TEH CHANG YING

Y. Bhg. Dato' Tai Chang Eng @ Teh Chang Ying, a Malaysian aged 61, was appointed to the Board of Kossan on 12 August 1996. He is an Independent Non Executive Director. He is the Chairman of the Nomination and Remuneration Committees and a member of the Audit Committee.

Besides Kossan, he is also a director of Resintech Berhad. He sits on the boards of several private companies.

He holds 149,760 shares in Kossan.

He does not have any family relationship with any director and/or major shareholder of Kossan. He also does not have any business arrangements involving Kossan.

He has not been convicted of any offences within the last 10 years.

TONG SIEW CHOO

Madam Tong Siew Choo, a Malaysian aged 46, was appointed to the Board of Kossan on 22 February 2002 as an Independent Non Executive Director. She is a Chartered Accountant with membership in the Malaysian Institute of Accountants and the Malaysian Association of Certified Public Accountants. She has her own audit firm.

She is a member of the Audit and Nomination Committees.

She is a director of Flonic Hi-Tec Bhd., a company listed on the Mesdaq Market of Bursa Malaysia Securities Berhad.

She holds 14,976 shares in Kossan.

She does not have any family relationship with any director and/or major shareholder of Kossan. She also does not have any business arrangements involving Kossan.

She has not been convicted of any offences within the last 10 years.

CORPORATE GOVERNANCE STATEMENT

THE MALAYSIAN CODE ON CORPORATE GOVERNANCE (“THE CODE”)

The Board of Directors of Kossan Rubber Industries Bhd. recognises and continues to subscribe and practise the principles of good corporate governance set out in the Code as a fundamental part of discharging its responsibilities to protect and enhance shareholders value and the financial performance of the Group.

The Board is pleased to report to the shareholders on the manner the Group has applied the principles, and the extent of compliance with the best practices of corporate governance of the Code for the financial years ended 31 December 2006.

BOARD OF DIRECTORS

The Board is made up of nine (9) directors comprising four (4) Executive Directors, one (1) Non Independent Non Executive Director, three (3) Independent Non Executive Directors and one (1) Alternate Director. The Directors' profile are set out on pages 11 to 13 of the this Annual Report.

DUTIES AND RESPONSIBILITIES

The Board has overall responsibility for corporate governance, strategic direction, formulation of policies and overseeing the investments and businesses of the Group. The various policies, procedures and guidelines implemented by the Group clearly set out the roles, responsibilities and authorities of staff of the Group, and ensure that the direction and control of the Group rests firmly with the Board. The Board has in place clear terms of reference for the Board, the Chairman and the Executive Directors, spelling out their duties and responsibilities.

The roles of the Chairman and the Managing Director are separated and clearly defined, so as to ensure that there is a balance of power and authority. The Chairman is responsible for ensuring Board effectiveness and conduct, whilst the Managing Director has overall responsibility for the business operating units, organisational effectiveness and implementation of Board policies and decisions. The presence of three Independent Non-Executive Directors fulfills a pivotal role in corporate accountability. Although all the Directors have equal responsibility for the Group's operations, the role of these Independent Non-Executive Directors are particularly important as they provide unbiased and independent views, advice and judgement which provides sufficient check and balance. The Board is of the view that it is not necessary to identify a senior Independent Non-Executive Director to whom other Directors may bring their concerns to, as all Directors believe that they can freely express their views at Board meetings.

The Board is alert to the possibility of potential conflicts of interest involving the Directors and the Company and affirms its commitments to ensuring that such situations of conflicts are avoided.

BOARD MEETING

The Board meets on a quarterly basis with additional meeting being convened to address urgent issues. The details of attendance of meeting of each directors at Board Meetings held during the financial year ended 31 December 2006 are as follows:

Directors	Position	Attendance
Dato' Haji Mokhtar Bin Haji Samad	Independent Non-Executive Chairman	3/5
Lim Kuang Sia	Managing Director/ Chief Executive Officer	5/5
Dato' Tai Chang Eng @ Teh Chang Ying	Independent Non-Executive Director	5/5
Lim Kuang Yong	Executive Director	4/5
Lim Kuang Wang	Executive Director	5/5
Lim Kwan Hwa	Executive Director	4/5
Heng Bak Tan	Non-Independent Non-Executive Director	5/5
Tong Siew Choo	Independent Non-Executive Director	5/5

DETAILS OF BOARD MEETINGS

Date of Meeting	Time
23.02.2006	4.00 p.m.
19.04.2006	4.00 p.m.
18.05.2006	4.00 p.m.
17.08.2006	4.00 p.m.
16.11.2006	4.00 p.m.

All the above meetings were held at Lot 782, Jalan Sungai Putus, Off Batu 3 ³/₄, Jalan Kapar, 42100 Klang, Selangor Darul Ehsan.

SUPPLY OF INFORMATION

All the Directors are provided with quarterly reports on the performance of the Group. An agenda and a set of Board papers are distributed in sufficient time prior to Board meetings to enable the Directors to consider and obtain further explanation and clarification, where necessary, and be properly prepared for discussion and informed decision making. The Board papers include reports on financial, operational, corporate, regulatory, business development matters and minutes of meetings of all board committees.

The Board is regularly updated and advised on new statutory as well as regulatory requirements relating to duties and responsibilities of Directors. Directors may obtain independent professional advice in the furtherance of their duties. All Directors also have access to the advice and services of the Company Secretary.

DIRECTORS TRAINING

All the Directors have attended the Mandatory Accreditation Programme (MAP) prescribed by Bursa Malaysia. As an integral element in the process of appointing new Directors, the Company provides an orientation programme for new Board members. Directors also receive further training from time to time, particularly on relevant new laws and regulations.

All the Directors have attended the Continuing Education Programme ("CEP") sessions and obtained the requisite CEP points. They are committed to continue with training on an annual basis to keep abreast of new regulatory development and listing requirements.

DIRECTORS RE-ELECTION

In accordance with the Company's Articles of Association, all Directors who are appointed by the Board in the year are subject to re-election by shareholders at the next Annual General Meeting immediately after their appointment.

Directors over seventy (70) years of age submit themselves for re-appointment annually, in accordance with Section 129(6) of the Companies Act, 1965.

In accordance with the Company's Articles of Association, one-third of the remaining Directors, including the Managing Director, submit themselves for re-election by rotation at each Annual General Meeting. The re-election of each director is voted separately.

DIRECTORS REMUNERATION

The Remuneration Committee annually reviews the performance of Executive Directors before making recommendation to the Board on adjustments in remuneration of Executive Directors to reflect their respective contribution for the year as well as to ensure remunerations which are competitive and consistent with the Company's corporate objectives and strategy.

All Non-Executive Directors receive fees which are endorsed by the Board for approval by shareholders of the Company at the Annual General Meeting. The level of remuneration reflect the level of responsibilities undertaken.

The Directors' remuneration for the financial year ended 31 December 2006 were as follow:-

	Salaries RM	Other Emoluments RM	Fees RM	Total RM
Executive Directors	2,064,000	1,210,880	–	3,274,880
Non-Executive Directors	–	–	112,000	112,000
Total	2,064,000	1,210,880	112,000	3,386,880

Directors' Remuneration	Executive Directors	Non-Executive Directors
Below RM50,000	–	4
RM600,000 – RM650,000	4	–
RM800,000 – RM850,000	1	–

The abovementioned Directors' remuneration is the total sum of the remuneration received by the Directors from the Company and its subsidiaries.

BOARD COMMITTEES

To facilitate the smooth transaction of business within the Company, the Board has established the following Board Committees. The terms of reference of each Committee has been approved by the Board and where applicable, comply with the recommendations of the Code.

NOMINATION COMMITTEE

The Nomination Committee comprises three Independent Non-Executive Directors as follows:

Dato' Tai Chang Eng @ Teh Chang Ying	– Chairman, Independent Non-Executive
Dato' Haji Mokhtar Bin Haji Samad	– Independent Non-Executive
Tong Siew Choo	– Independent Non-Executive

The Committee is responsible for proposing new nominees to the Board and appointment to Board Committees and to assess the contribution of each individual Director and the overall effectiveness of the Board on an on-going basis. The final decision as to who shall be appointed a Director remains the responsibility of the full Board, after considering the recommendations of the Committee.

The Board through this Committee is actively pursuing the issue of succession planning for the Chief Executive Officer.

The Company Secretary ensures that all necessary information is obtained from the Directors and that appointments to the Board are properly made in accordance with the regulatory requirements.

One meeting was held in the year under review.

REMUNERATION COMMITTEE

The Remuneration Committee comprises one Non-Independent Executive Director and two Independent Non-Executive Directors, as follows:

Dato' Tai Chang Eng @ Teh Chang Ying	– Chairman, Independent Non-Executive
Dato' Haji Mokhtar Bin Haji Samad	– Independent Non-Executive
Lim Kuang Sia	– Non-Independent Executive

The Remuneration Committee assists in the evaluation of the performance of the Directors and recommends to the Board rewards and benefits for all Directors, commensurate with their contributions to the Group's overall performance.

The Committee met on one (1) occasion in the financial year 2006.

AUDIT COMMITTEE

The Audit Committee reviews issues of accounting policies, presentation for external financial reporting the audit findings of both the external and internal auditors arising from the Company's financial statements, any other issues raised by the Auditors and monitors the adequacy and effectiveness of the internal control systems in place.

The report of the Audit Committee for the year ended 31 December 2006 is set out on pages 23 to 25.

Five meetings were held during the financial year under review.

EXECUTIVE SHARES OPTION SCHEME ("ESOS") COMMITTEE

The ESOS Committee comprising one (1) Executive Director and two (2) Independent Non Executive Directors, was formed on 17.11.2005 to administer the Company' Executive Shares Option Scheme ("ESOS")

The Committee has the power to administer the ESOS in such manner as it shall, in its discretion, deem fit, including such power and duties conferred upon it under the By-laws of the ESOS.

The member of the ESOS committee are:

Dato' Haji Mokhtar Bin Haji Samad – Chairman
Dato' Tai Chang Eng @ Teh Chang Ying
Lim Kuang Sia

During the financial year ended 31 December 2006, no ESOS options were awarded.

RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Board acknowledges the need for shareholders to be informed of all material business matters affecting the Company. Announcements and release of financial results on a quarterly basis provide the shareholders and the investing public with an overview of the Group's performance and operations.

Dialogues are also held with investment analysts and fund managers to keep them abreast with corporate and financial developments within the Group.

ANNUAL GENERAL MEETING

The Annual General Meeting provides a forum for communication with shareholders. At each Annual General Meeting, the Board presents the progress and performance of the business of the Group. The Company encourages shareholders to participate in the question and answer session. The Chairman, Board members and the external auditors are available to reply and provide explanation to any questions raised.

Shareholders can also obtain up-to-date information on the Group's activities by accessing its web site at www.kossan.com.my.

ACCOUNTABILITY AND AUDIT

Financial Reporting

In presenting the annual financial statements and quarterly announcement of results to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

Internal Control

The Directors acknowledge the responsibility of maintaining a good system of internal control, including risk assessments, and the need to review its effectiveness regularly in order to safeguard the Group's assets and therefore shareholders' investments in the Group. This system, by its nature, can only provide reasonable but not absolute assurance against material misstatement, loss or fraud. Reviews are continuously on going to ensure the effectiveness, adequacy and integrity of the system of internal control in safeguarding the Group's assets.

The Group's Statement on Internal Control for the year ended 31 December 2006 set out on pages 21 to 22 of this Annual Report provides an overview of the state of internal control within the Group and the Company. This statement has been approval by the Board.

Relationship with Auditors

The role of the Audit Committee in relation to the auditors is described on pages 23 to 25.

DIRECTORS' RESPONSIBILITY STATEMENT AND OTHER INFORMATION

The Directors are required by the Companies Act, 1965 ("the Act") to prepare financial statements for each financial year which gives a true and fair view of the state of affairs of the Group and the Company and the results and cash flow of the Group and of the Company for the financial year. As required by the Act and the Listing Requirements of Bursa Malaysia Securities Berhad, the financial Statements have been prepared in accordance with applicable approved accounting standards in Malaysia and the provisions of the Act.

In preparing the financial statements the Directors have:-

- (a) selected suitable accounting policies and reviewed and applied them consistently;
- (b) made judgments and estimates that are reasonable and prudent; and
- (c) ensured that all applicable accounting standards have been followed.

The Directors have overall responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to ensure these financial statements comply with the Act. The Director are also responsible and shall take such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

OTHER INFORMATION

During the financial year under review

- (a) **Executive Share Option Scheme (ESOS)**
There were no award of options under the ESOS during the year under review.
- (b) **Utilisation of Proceeds**
The Company did not implement any fund raising exercise.
- (c) **Shares Buy-Back**
There were no share buy-back.

(d) **Options, Warrants or Convertible Securities Exercised**
The Company did not issue any options, warrants or convertible securities

(e) **American Depository Receipt ("ADR") or Global Depository Receipt ("GDR")**
The Company did not sponsored any ADR or GDR programme

(f) **Conflict of Interest**
None of the Directors, other than those disclosed in the Directors' Profile, have any family relationships with other Directors and/or major shareholders of the Company nor any personal interest in any business arrangements involving the Company.

(g) **Material Contracts**
The Company did not have any material contracts involving directors' and major shareholders' interest either still subsisting at the end of the financial year or, if not subsisting, entered into since the end of the previous financial year.

(h) **Sanctions and/or Penalties**
The Company and its subsidiaries, Directors and management have not been imposed with any sanctions and/ or penalties by any regulatory bodies.

(i) **Non-Audit Fees**
Non-audit fees paid to the external auditors of the Group amounted to RM36,600.

(j) **Variation in Results**
There is no material variance between the result for the financial year and the unaudited results previously announced by the Company.

(k) **Profit Guarantee**
The Company did not issue any profit forecast or profit guarantee

(l) **Revaluation Policy**
The Company did not have a policy on revaluation of landed properties.

This Statement is made in accordance with a resolution of the Board of Directors dated 12 April 2007.

STATEMENT ON INTERNAL CONTROL

RESPONSIBILITY

The Board recognises that it is responsible for the Group's system of internal control and for reviewing its adequacy and integrity. The Group's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Notwithstanding and due to the limitations that are inherent in any system of internal control, the system can only provide reasonable and not absolute assurance against material misstatement, loss, fraud or breaches of laws or regulations.

THE GROUP'S SYSTEM OF INTERNAL CONTROL

Key Features of the System of Internal Control

The Board entrusts the daily running of the business to the Managing Director ('MD') and his management team. The Board members receive timely information pertaining to performance and profitability of the Group through quarterly Board papers, which include quantitative and qualitative trends and analyses. At quarterly Board meetings, the Directors review the principal risks affecting the Group through discussion and deliberation of the strategic issues facing the businesses, and resolve on actions to be taken to mitigate such risks.

The MD plays a pivotal role in communicating the Board's expectations of the system of internal control to management. This is achieved, on a day-to-day basis, through his active participation in the operations of the business as well as attendance at various scheduled management and operational level committee meetings where operational and financial risks are discussed and dealt with. The MD will update the Board of any significant matters that require the latter's immediate attention.

The Board believes that the existing supervisory structure of the Group has an appropriate balance of both the Board's and Management's involvement in managing its businesses.

The functions of the Board committees are described in the Corporate Governance Statement on pages 14 to 19. The key roles of the management committees are as follows:-

MANAGEMENT COMMITTEE

Risk Management Committee

Responsible for monitoring the risk management activities of the Group.

Budget and Operations Review Committee

Responsible for monitoring both the financial and non-financial performance of the Group as well as evaluation of other factors affecting operations.

Subsidiary Management Committees

Responsible for monitoring both the operational and financial performance of subsidiary companies as well as evaluation of other factors affecting their operations.

Human Resources Committee

Responsible for focusing on policy setting in relation to employees related issues.

Quality Management Committee

Responsible for all ISO 9001, ISO 13485, ISO/TS 16949:2002 and related matters including monitoring of compliance and resolution of audit findings.

Credit Committee

Responsible for reviewing credit policies and monitoring the credit position of customers.

Work Safety Committee

Responsible for monitoring occupational, health and safety practices.

Technology Review Committee

Responsible for setting the direction and monitoring of research and development activities.

ASSURANCE MECHANISM

The Audit Committee ('AC') is tasked by the Board with the duty of reviewing and monitoring the effectiveness of the Group's system of internal control. The AC periodically receives reports from the independent assurance functions of the Group. The internal audit function provides the AC with an assessment on the adequacy and integrity of the Group's system of internal control via reports from visits conducted at various operating units. The external auditors conduct an annual statutory audit on the financial statements. Areas for improvements, if any, identified during the course of the statutory audit by the external auditors are brought to the attention of the AC through management letters, or at an AC meeting.

The Board reviews the minutes of the AC's meetings. The Report of the AC is set out on pages 23 to 25 of the Annual Report.

Additionally, as part of the requirements of the ISO 9001, ISO 13485 and ISO/TS 16949:2002 certifications, scheduled audits are conducted internally as well as by SAI GLOBAL, SGS YARSLEY INTERNATIONAL and LLOYD'S REGISTER auditors. Results of these audits are reported to the Quality Management Committee which is chaired by the MD. Any pertinent or unresolved issues arising out of these audits are forwarded to the Board for its attention.

The Board of Kossan remains committed towards keeping abreast with the ever-changing business environment in order to support the Group's businesses and size of operations. Cognisant of this fact, the Board, in striving for continuous improvement, has put in place appropriate measures, to further enhance the Group's system of internal control.

The system of internal control is satisfactory and have not resulted in material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

This statement is signed in accordance with a resolution of the Board of Directors.

REPORT OF THE AUDIT COMMITTEE

The Board of Directors have pleasure in submitting the report of the Audit Committee of the Board for the year ended 31 December 2006.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. **Composition**

The Audit Committee shall consist of at least three Directors, a majority of whom are independent. The Chairman of the Audit Committee shall be an independent, non executive Director.

2. **Authority**

The Audit Committee shall have explicit authority to investigate any matter within its terms of reference, the resources which it needs to do so, and full access to information. The Committee shall be able to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.

3. **Responsibility**

The Audit Committee shall be the focal point for communication between external auditors, internal auditors, Directors and the management on matters in connection with financial accounting, reporting and controls. It shall also ensure that accounting policies and practices are adhered to by the Company and its subsidiaries.

4. **Functions**

The duties of the Audit Committee shall include the following:-

- (i) To consider the appointment of the external auditor, the audit fees and any questions of their resignation or dismissal;
- (ii) To discuss with the external auditor before the audit commences, the nature and scope of the audit;
- (iii) To review the quarterly and year-end financial statements of the Company and the Group, focusing particularly on:
 - any changes in major accounting policies and practices;
 - significant adjustments arising from the audit;
 - significant and unusual events;
 - the going concern assumption;
 - compliance with accounting standards and other legal requirements;
- (iv) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss;
- (v) To review the external auditor's audit report, management letter and management's response;
- (vi) To review the assistance given by the employees of the Company and its subsidiaries to the external auditor;

(vii) To consider the appointment of the internal auditor, their remuneration and any questions of their resignation or dismissal;

(viii) To review the internal audit functions namely:

- the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
- the internal audit programme and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal auditor;
- the performance of the internal auditor, whose role includes the examination and evaluation of the Company's operations and their compliance with the relevant policies, codes and legislations;

(ix) To consider any related party transactions and conflict of interest situations that may arise within the Company or Group;

(x) To consider the major findings of internal investigations and management's response; and

(xi) To consider other topics as defined by the Board.

5. Meeting and minutes

(i) The Audit Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.

(ii) The quorum for any meeting shall be at least two, the majority of whom must be independent Directors.

(iii) The Secretary of the Committee shall be the Company Secretary.

COMPOSITION AND ATTENDANCE OF MEETINGS

The Audit Committee comprises the following members and details of attendance of each member at committee meeting held during the year ended 31 December 2006 are as follows:-

Composition of Committee	Attendance at Committee Meeting
Dato' Haji Mokhtar Bin Haji Samad (Chairman/ Independent Non-Executive Director)	3/5
Dato' Tai Chang Eng @ Teh Chang Ying (Member / Independent Non-Executive Director)	5/5
Tong Siew Choo (Member / Independent Non-Executive Director)	5/5
Lim Kuang Sia (Member / Executive Director)	5/5

The General Manager and the Group Accountant were invited and attended all the meetings.

The Group's external auditors attended all the meetings.

INTERNAL AUDIT FUNCTION

The Audit Committee is assisted by an Internal Audit team in maintaining a sound system of internal control. This team is staffed by competent personnel with knowledge of the industry.

The Internal Audit team undertakes internal audit functions based on the audit plan that is reviewed by the Audit Committee and approved by the Board. The audit plan covered a review of operational controls, compliance with law and regulations, quality of assets and management efficiencies, amongst others.

The internal audit reports are deliberated upon by the Audit Committee and recommendations are duly acted upon by management.

ACTIVITIES

The following activities were carried out by the Audit Committee during the year under review:-

- (a) reviewed the quarterly financial statements and Annual Report of the Group prior to presentation for the Board's approval;
- (b) reviewed the terms of the Proposed Shareholders' Mandate for Recurrent Related Party Transactions ("RRPT") and is satisfied the review procedures are sufficient to ensure RRPT will be at arm's length and in accordance with the Group's normal commercial terms and not prejudicial to the shareholders or disadvantageous to the Group.
- (c) reviewed the audit fees and remuneration payable to external and internal auditors;
- (d) reviewed with external auditors their audit plan prior to commencement of audit;
- (e) discussed and reviewed the Group's financial year end statements with the external auditors including issues and findings noted in the course of the audit of the Group's Financial Statements;
- (f) reviewed and discussed with internal auditors their evaluation of the system of internal control of the Group;
- (g) reviewed and appraised the audit report submitted by the internal auditors. The audit reports covered all business sectors of the Group incorporating audit findings and recommendations on system and control weaknesses noted during the course of the audit; and
- (h) reviewed the credit policy and risk management framework of the Group.

The Committee also appraised the adequacy of actions and remedial measures taken by the management in resolving audit issues reported.

The Directors have pleasure in submitting their Report together with the Audited Financial Statements of the Group and of the Company for the financial year ended 31 December 2006.

1. PRINCIPAL ACTIVITIES

The Company is principally involved in investment holding and manufacturing and sales of rubber products. The principal activities of the subsidiaries are stated in Note 7 to the Financial Statements. There were no significant changes in the nature of their activities during the financial year.

2. FINANCIAL RESULTS

	Group RM	Company RM
(a) Profit for the year	39,563,609	20,329,174
Attributable to :		
Equity holders of the Company	39,632,185	20,329,174
Minority interest	(68,576)	0
	39,563,609	20,329,174

(b) In the opinion of the Directors the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than as disclosed in the Financial Statements.

3. DIVIDEND

The dividends paid by the Company since 31 December 2005 are as follows : -

	RM
In respect of the year ended 31 December 2005	
- final dividend of 10% less income tax at 28% paid on 10 August 2006	5,755,211
- a special tax exempt dividend of 2% paid on 10 August 2006	1,598,670
	7,353,881

4. SHARE CAPITAL

No share was issued by the Company during the financial year

5. RESERVES

There were no material transfers to or from the reserves or provisions during the year other than as disclosed in the Financial Statements.

6. DIRECTORS

(a) The Directors in office since the date of the last Report are as follows : -

LIM KUANG SIA
LIM KUANG YONG
HENG BAK TAN
LIM KUANG WANG
LIM KWAN HWA
Y. BHG. DATO' HAJI MOKHTAR BIN HAJI SAMAD, D.S.S.A., A.M.N., P.M.C., P.J.K.
Y. BHG. DATO' TAI CHANG ENG @ TEH CHANG YING, D.S.S.A., A.M.S., P.J.K.
TONG SIEW CHOO
LIM LENG BUNG (Alternate to LIM KUANG WANG)

6. DIRECTORS (continued)

(b) Details of shareholdings in the Company by the Directors who held office at the end of the financial year are as follows:-

Name	Shares of RM0.50 each			Balance 31.12.2006
	Balance 1.1.2006	Bought	Sold	
LIM KUANG SIA				
- direct	190,944	0	0	190,944
- indirect	85,870,944	0	5,000,000	80,870,944
LIM KUANG YONG				
- direct	0	0	0	0
- indirect	85,511,520	0	5,000,000	80,511,520
HENG BAK TAN				
- direct	0	0	0	0
- indirect	14,448	0	0	14,448
LIM KUANG WANG				
- direct	359,424	0	0	359,424
- indirect	85,511,520	0	5,000,000	80,511,520
LIM KWAN HWA				
- direct	0	0	0	0
- indirect	85,511,520	0	5,000,000	80,511,520
Y. BHG. DATO' HAJI MOKHTAR BIN HAJI SAMAD, D.S.S.A., A.M.N., P.M.C., P.J.K.				
- direct	0	0	0	0
LIM LENG BUNG				
- direct	0	0	0	0
- indirect	85,511,520	0	5,000,000	80,511,520
Y. BHG. DATO' TAI CHANG ENG @ TEH CHANG YING, D.S.S.A., A.M.S., P.J.K.				
- direct	149,760	0	0	149,760
TONG SIEW CHOO				
- direct	14,976	0	0	14,976

(c) Details of shareholdings of the Directors in the related companies are as follows : -

(i) HOLDING COMPANY
KOSSAN HOLDINGS (M) SDN. BHD.

Name	Shares of RM0.50 each			Balance 31.12.2006
	Balance 1.1.2006	Bought	Sold	
LIM KUANG SIA - direct	19,000	0	0	19,000
LIM KUANG YONG - direct	19,000	0	0	19,000
HENG BAK TAN - direct	5,000	0	0	5,000
LIM KUANG WANG - direct	19,000	0	0	19,000
LIM KWAN HWA - direct	19,000	0	0	19,000
LIM LENG BUNG - direct	19,000	0	0	19,000

6. DIRECTORS (continued)

(c) Details of shareholdings of the Directors in the related companies are as follows : -

(ii) RELATED COMPANIES

KOSSAN CHEMICAL INDUSTRIES (M) SDN. BHD.

Name		Shares of RM0.50 each			Balance 31.12.2006
		Balance 1.1.2006	Bought	Sold	
LIM KUANG SIA	- direct	12,498	0	0	12,498
HENG BAK TAN	- direct	2	0	0	2

KOSSAN JAPAN ROLLERS SDN. BHD.

LIM KUANG SIA	- direct	1	0	0	1
LIM KUANG WANG	- direct	1	0	0	1

PLEASURE LATEX PRODUCTS SDN. BHD.

LIM KUANG SIA	- direct	1	0	0	1
LIM KUANG YONG	- direct	1	0	0	1

(d) On 16 June 2005, the shareholders had approved an executives' share option scheme for the grant of options to the executive directors and senior management of Kossan and its Malaysian incorporated subsidiary companies (not being a dormant company) ('Kossan Group') to subscribe for the shares in Kossan subject to the terms and conditions of the By-Law. As at the date hereof the option letters have not been issued.

Except for the above, neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements, to which the Company is a party, whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate.

(e) Since the end of the previous financial year, none of the Directors of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in the Financial Statements or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a related corporation with the Directors or with a firm of which he is a member, or with a company in which he has a substantial financial interest other than as disclosed in this report and the benefits included in Note 31 to the Financial Statements.

(f) In accordance with Article 108 of the Articles of Association, MESSRS. LIM KUANG WANG and HENG BAK TAN and Y.BHG. DATO' HAJI MOKHTAR BIN HAJI SAMAD retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

7. OTHER STATUTORY INFORMATION

- (a) Before the Income Statement and Balance Sheet of the Group and of the Company were made out, the Directors had taken reasonable steps : -
- i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and to satisfy themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - ii) to ensure that any current assets which were unlikely to realise their book value in the ordinary course of business were written down to an amount which they might be expected so to realise.
- (b) At the date of this Report, the Directors are not aware of any circumstances which would render : -
- i) the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any substantial extent.
 - ii) the values attributed to current assets in the Financial Statements misleading.
- (c) At the date of this Report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) As at the date of this Report, there are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year to secure the liabilities of any other person.
- (e) i) As at the date of this Report, there are no contingent liabilities which have arisen since the end of the financial year.
- ii) No contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.
- (f) At the date of this Report, the Directors are not aware of any circumstances not otherwise dealt with in the Report or Financial Statements which would render any amount stated in the Financial Statements misleading.
- (g) In the opinion of the Directors the results of the financial year in which this Report is made are not likely to be substantially affected by any item, transaction or event which has arisen in the interval between the end of the financial year and the date of this Report.

On behalf of the Board,

LIM KUANG SIA
(Director)

LIM KUANG YONG
(Director)

16 April 2007
Klang

BALANCE SHEETS

AS AT 31 DECEMBER 2006

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KOSSAN RUBBER INDUSTRIES BHD (48166-W)
ANNUAL REPORT 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
ASSETS					
Non current assets					
Property, plant and equipment	6	229,223,412	168,684,932	36,525,780	36,942,227
Subsidiaries	7	0	0	17,427,885	14,841,429
Associate	8	129,373	105,777	0	0
Other investments	9	116,000	116,000	116,000	116,000
Deferred tax assets	10	1,384,670	1,700,214	0	0
Goodwill on consolidation	11	864,456	0	0	0
		231,717,911	170,606,923	54,069,665	51,899,656
Current assets					
Inventories	12	63,639,712	46,187,692	15,436,923	13,932,812
Trade and other receivables	13	129,380,974	89,598,869	64,536,520	56,122,751
Tax recoverable		2,257,126	3,611,625	1,776,370	2,926,493
Fixed deposits with licensed bank	14	598,365	440,099	0	0
Cash and bank balances		3,728,798	4,870,501	122,362	456,005
		199,604,975	144,708,786	81,872,175	73,438,061
TOTAL ASSETS		431,322,886	315,315,709	135,941,840	125,337,717
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the company					
Share capital	15	79,933,488	79,933,488	79,933,488	79,933,488
Accumulated profits		109,312,558	69,621,825	25,352,032	4,964,310
Revaluation reserve	16	1,560,301	1,618,849	1,560,301	1,618,849
Share premium	17	10,601	10,601	10,601	10,601
Currency translation reserve		(20,377)	27,191	0	0
Dividends payable		0	7,353,881	0	7,353,881
		190,796,571	158,565,835	106,856,422	93,881,129
Minority shareholders' interest		455,982	2,292,630	0	0
Total equity		191,252,553	160,858,465	106,856,422	93,881,129
Non current liabilities					
Bank borrowings	20	28,555,322	20,664,039	0	0
Deferred tax liabilities	10	17,992,903	12,156,083	4,642,425	4,643,940
Hire purchase liabilities	21	13,830,865	3,340,329	977,329	2,055,221
		60,379,090	36,160,451	5,619,754	6,699,161
Current liabilities					
Trade and other payables	22	71,586,892	47,933,393	7,358,931	9,648,919
Hire purchase liabilities	21	8,903,659	4,240,622	1,839,089	1,823,997
Unsecured loan	19	0	239,431	0	0
Taxation		148,822	819,009	0	0
Bank borrowings	20	99,051,870	65,064,338	14,267,644	13,284,511
		179,691,243	118,296,793	23,465,664	24,757,427
Total liabilities		240,070,333	154,457,244	29,085,418	31,456,588
TOTAL EQUITY AND LIABILITIES		431,322,886	315,315,709	135,941,840	125,337,717

The attached notes form an integral part of the Financial Statements.

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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KOSSAN RUBBER INDUSTRIES BHD (48166-W)
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	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Revenue	23	571,338,608	381,329,384	92,788,636	74,815,159
Other operating income		3,098,537	4,661,478	546,720	603,572
		574,437,145	385,990,862	93,335,356	75,418,731
Less					
Changes in inventories of finished goods and work-in-progress		4,915,329	(1,442,494)	1,620,296	5,875,875
Raw material and consumable used		(394,989,730)	(235,007,571)	(38,636,371)	(36,480,905)
Goods purchased for resale		(128,803)	(786,860)	0	0
Staff cost		(63,834,194)	(50,124,277)	(16,985,999)	(15,082,248)
Depreciation		(19,125,637)	(15,773,043)	(3,953,264)	(4,038,613)
Other operating expenses		(45,872,674)	(43,019,546)	(11,924,545)	(14,954,669)
Total operating expenses		(519,035,709)	(346,153,791)	(69,879,883)	(64,680,560)
Profit from operations		55,401,436	39,837,071	23,455,473	10,738,171
Less					
Finance cost		(6,971,327)	(3,723,509)	(850,291)	(792,428)
		48,430,109	36,113,562	22,605,182	9,945,743
Less					
Share of profit of associate		23,210	67,579	0	0
Profit before taxation	24	48,453,319	36,181,141	22,605,182	9,945,743
Less					
Taxation	25	(8,889,710)	(7,155,844)	(2,276,008)	(1,241,814)
Profit for the year		39,563,609	29,025,297	20,329,174	8,703,929
Attributable to :					
Equity holders of the Company		39,632,185	28,946,390	20,329,174	8,703,929
Minority interest		(68,576)	78,907	0	0
		39,563,609	29,025,297	20,329,174	8,703,929
Earnings per share attributable to equity holders of the company (Sen)					
Basic (on profit for the year)	26	24.79	18.11		
Diluted (on profit for the year)		24.79	18.11		

The attached notes form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

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KOSSAN RUBBER INDUSTRIES BHD (48166-W)
ANNUAL REPORT 2006

Attributable to Equity Holders of the Company

	Non-Distributable					Accumulated Profits RM	Dividends Payable RM	Total RM	Minority Interest RM	Total Equity RM
	Share Capital RM	Revaluation Reserve RM	Share Premium RM	Reserve on Consolidation RM	Currency Translation Reserve RM					
At 1 January 2006	79,933,488	1,618,849	10,601	0	27,191	69,621,825	7,353,881	158,565,835	2,292,630	160,858,465
Transfers within reserves on realisation	0	(58,548)	0	0	0	58,548	0	0	0	0
Increase of shareholding in a subsidiary	0	0	0	0	0	0	0	0	(1,721,998)	(1,721,998)
Currency translation differences, representing net loss not recognised in income statement	0	0	0	0	(47,568)	0	0	(47,568)	(46,074)	(93,642)
Profit for the year	0	0	0	0	0	39,632,185	0	39,632,185	(68,576)	39,632,185
Final dividend - 10% less income tax (31 December 2005)	0	0	0	0	0	0	(5,755,211)	(5,755,211)	0	(5,755,211)
Special dividend - 2% tax exempt (31 December 2005)	0	0	0	0	0	0	(1,598,670)	(1,598,670)	0	(1,598,670)
At 31 December 2006	79,933,488	1,560,301	10,601	0	(20,377)	109,312,558	0	190,796,571	455,982	191,252,553
At 1 January 2005	66,611,240	1,677,397	2,714,587	2,265,207	86,657	58,728,429	4,796,010	136,879,527	2,213,723	139,093,250
Transfers within reserves on realisation	0	(58,548)	0	0	0	58,548	0	0	0	0
Write back of reserve on consolidation	0	0	0	(2,265,207)	0	0	0	(2,265,207)	0	(2,265,207)
Bonus issue through capitalisation of accumulated profit and share premium	13,322,248	0	(2,564,587)	0	0	(10,757,661)	0	0	0	0
Expenses for share split, bonus issue and ESOS	0	0	(139,399)	0	0	0	0	(139,399)	0	(139,399)
Currency translation differences, representing net profits not recognised in income statement	0	0	0	0	(59,466)	0	0	(59,466)	0	(59,466)
Net profit for the year	0	0	0	0	0	28,946,390	0	28,946,390	78,907	29,025,297
Final dividend - 10% less income tax (31 December 2004)	0	0	0	0	0	0	(4,796,010)	(4,796,010)	0	4,796,010
Final dividend - 10% less income tax (31 December 2005)	0	0	0	0	0	(5,755,211)	5,755,211	0	0	0
Special dividend - 2% tax exempt (31 December 2005)	0	0	0	0	0	(1,598,670)	1,598,670	0	0	0
At 31 December 2005	79,933,488	1,618,849	10,601	0	27,191	69,621,825	7,353,881	158,565,835	2,292,630	160,858,465

The attached notes form an integral part of the Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share Capital RM	Non-Distributable		Accumulated Profits RM	Dividends Payable RM	Total RM
		Revaluation Reserve RM	Share Premium RM			
At 1 January 2006	79,933,488	1,618,849	10,601	4,964,310	7,353,881	93,881,129
Transfer within reserves on realisation	0	(58,548)	0	58,548	0	0
Net profit for the year	0	0	0	20,329,174	0	20,329,174
Final dividend - 10% less income tax (31 December 2005)	0	0	0	0	(5,755,211)	(5,755,211)
Special dividend - 2% tax exempt (31 December 2005)	0	0	0	0	(1,598,670)	(1,598,670)
At 31 December 2006	79,933,488	1,560,301	10,601	25,352,032	0	106,856,422
At 1 January 2005	66,611,240	1,677,397	2,714,587	14,313,375	4,796,010	90,112,609
Transfers within reserves on realisation	0	(58,548)	0	58,548	0	0
Net profit for the year	0	0	0	8,703,929	0	8,703,929
Final dividend - 10% less income tax (31 December 2004)	0	0	0	0	(4,796,010)	(4,796,010)
Bonus issue through capitalisation of accumulated profit and share premium	13,322,248	0	(2,564,587)	(10,757,661)	0	0
Expenses for bonus issue, share split and ESOS	0	0	(139,399)	0	0	(139,399)
Final dividend - 10% less income tax (31 December 2005)	0	0	0	(5,755,211)	5,755,211	0
Special dividend - 2% tax exempt (31 December 2005)	0	0	0	(1,598,670)	1,598,670	0
At 31 December 2005	79,933,488	1,618,849	10,601	4,964,310	7,353,881	93,881,129

The attached notes form an integral part of the Financial Statements.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		48,453,319	36,181,141	22,605,182	9,945,743
Adjustments for :-					
Depreciation		19,125,637	15,773,043	3,953,264	4,038,613
Profit on disposal of property, plant and equipment		(316,778)	(193,101)	(110,640)	(97,371)
Share of profit of associate		(23,210)	(67,579)	0	0
Interest income		(56,077)	(16,529)	(30,279)	(5,956)
Bad and doubtful debts		114,522	384,773	13,881	0
Property, plant and equipment written off		20,952	21,493	20,952	12,626
Interest expenses		6,971,327	3,723,509	850,291	792,428
Amortisation of goodwill on consolidation		0	880,982	0	0
Write back of reserve on consolidation		0	(2,265,207)	0	0
Operating profit before working capital changes		74,289,692	54,422,525	27,302,651	14,686,083
Increase in fixed deposit pledged to bank		(156,000)	0	0	0
Increase in inventories		(17,533,304)	(8,158,351)	(1,504,111)	(1,912,678)
Increase in receivables		(40,120,329)	(20,879,087)	(8,427,647)	(7,048,183)
Increase in payables		53,620,206	31,913,663	(2,974,096)	5,334,052
Cash generated from operations		70,100,265	57,298,750	14,396,797	11,059,274
Interest received		53,811	13,536	30,279	5,956
Interest paid		(7,011,519)	(3,803,136)	(850,291)	(792,428)
Income tax paid		(2,650,632)	(1,260,194)	(1,127,400)	(518,600)
Tax refund		597,600	0	0	0
Dividends paid		(7,353,881)	(4,796,010)	(7,353,881)	(4,796,010)
Net cash from operating activities		53,735,644	47,452,946	5,095,504	4,958,192
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of property, plant and equipment		2,337,143	232,260	530,633	99,460
Purchase of property, plant and equipment		(55,306,799)	(50,126,459)	(2,908,927)	(2,935,685)
Purchase of investment		(2,586,456)	0	(2,586,456)	0
Net cash used in investing activities		(55,556,112)	(49,894,199)	(4,964,750)	(2,836,225)
CASH FLOWS FROM FINANCING ACTIVITIES 27					
		(2,282,253)	2,387,486	(2,131,637)	(2,889,437)
NET DECREASE IN CASH AND CASH EQUIVALENTS					
		(4,102,721)	(53,767)	(2,000,883)	(767,470)
CURRENCY TRANSLATION DIFFERENCE					
		(11,191)	0	0	0
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR					
		3,358,714	3,412,481	(65,172)	702,298
CASH AND CASH EQUIVALENTS AT END OF THE YEAR					
		(755,198)	3,358,714	(2,066,055)	(65,172)
CASH AND CASH EQUIVALENTS					
Cash and bank balances		3,728,798	4,870,501	122,362	456,005
Bank overdrafts		(4,483,996)	(1,511,787)	(2,188,417)	(521,177)
		(755,198)	3,358,714	(2,066,055)	(65,172)

The attached notes form an integral part of the Financial Statements.

1. GENERAL INFORMATION

The principal activities of the Company are investment holding and manufacturing and sales of rubber products. The activities of the subsidiaries are stated in Note 7 to the Financial Statements. There have been no significant changes in the nature of their activities during the financial year.

At the end of the financial year, the Company has 689 (2005 - 665) employees.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of the Bursa Malaysia Securities Berhad.

The registered address of the Company is Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 æ, Jalan Kapar, 42100 Klang, Selangor.

The Financial Statements are authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 12 April 2007.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Financial Statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board ("MASB") approved accounting standards for entities other than private entities in Malaysia.

The Group has adopted all the new and revised Financial Reporting Standards and Interpretations (hereinafter referred to as FRSs) issued by the Malaysian Accounting Standards Board that are relevant to their operations and effective for annual reporting periods beginning on or after 1 January 2006. The adoption of these new and revised FRSs has resulted in certain changes to the Group's accounting policies as disclosed in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Accounting convention

The Financial Statements of the Group and the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below : -

b) Revenue Recognition

i) Sale of goods

Revenue relating to sale of goods is recognised net of sales taxes and discounts when transfer of risks and rewards have been completed.

ii) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

iii) Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

c) Basis of Consolidation

The Consolidated Financial Statements include the Financial Statements of the Company and all its subsidiaries made up to the end of the financial year.

The Financial Statements of the subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of Consolidation (continued)

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill on consolidation.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in Income Statement.

Intra group transactions, balances and resulting unrealised gains are eliminated on consolidation and the Consolidated Financial Statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered. Uniform accounting policies are adopted in the Consolidated Financial Statements for like transactions and events in similar circumstances.

Minority interest represents the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its assets together with any unamortised balance of goodwill.

The Financial Statements of the parent and its subsidiaries are all drawn up to the same reporting date.

d) Goodwill on Consolidation

Goodwill arising on acquisition represents the excess of cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is stated at cost less any impairment losses.

The carrying amount of goodwill is reviewed annually and is written down for impairment where it is considered necessary.

e) Investments

Investments in subsidiaries, associates and other investments that are held on a long term basis are stated at cost or valuation, less impairment loss, if any.

Investments in subsidiaries which are stated at valuation were last revalued by the Directors during the financial year ended 31 December 1995 on the basis of their net tangible assets and deducting any surplus on revaluation of land and building as of 24 March 1995. Surplus on revaluation is recognised in the revaluation reserve account. The revaluation was carried out for the purpose of a bonus issue exercise undertaken by the Company in 1995 and therefore, it is not the intention of the Directors to adopt a policy of regular periodic revaluation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Investment in Associates

Investment in associates is accounted for in the consolidated Financial Statements using the equity method of accounting. An associate is defined as a company, not being a subsidiary, in which the Group has a long term interest of not less than 20% of the equity and in whose financial and operating policy decisions the Group exercises significant influence.

The Group's share of net after tax results of associates is included in the consolidated income statement.

The results and reserves of the associates are taken from the latest available audited or management accounts. The Group's investment in associates is carried in the balance sheet at an amount that reflects its share of the net assets of these associates.

g) Currency Conversion and Translation

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange differences arising from these transactions are taken to the income statement.

Financial Statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the assets and liabilities, and at exchange rates at the dates of the transactions with respect to the income statement. The resulting translation differences are taken to reserves.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Company and translated at the exchange rate ruling at the date of the transaction.

The principal exchange rates used for every unit of foreign currency ruling at the balance sheet date are as follows : -

	2006 RM	2005 RM
Pound Sterling	6.827	6.418
Singapore Dollar	2.269	2.200
United States Dollar	3.500	3.750
Swiss Franc	2.838	2.831
Australian Dollar	2.723	2.699
Euro	4.578	4.420
New Zealand Dollar	2.429	2.537

h) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Certain freehold and leasehold land are stated at valuation less any identified impairment losses. These properties of the Company have not been revalued since they were first revalued in 1995. The directors have not adopted a policy of regular revaluation of such assets. As permitted under the transitional provisions of International Accounting Standard 16 (Revised): Property, Plant and Equipment, these assets continue to be stated at their 1995 valuation less accumulated depreciation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Property, Plant and Equipment and Depreciation (continued)

Freehold land are not depreciated. Building under construction and plant and machinery under construction will only be depreciated when the assets are ready for their intended use. Depreciation of other property, plant and equipment is provided on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates : -

Factory furniture and equipment	10%
Renovation	10%
Buildings	2%
Plant and machinery	10%
Furniture and fittings	10%
Motor vehicles	20%
Office equipment	10%
Moulds	10% - 20%
Electrical installation	10%

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

i) Impairment of Assets

The carrying amounts of assets other than inventories, deferred tax assets and non-current assets held for sale, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and an appropriate proportion of production overheads.

k) Income Tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised in the future. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the financial period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

l) Finance Lease and Hire Purchase

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership.

The Group recognises finance leases as assets and liabilities in the Balance Sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased asset is consistent with that for depreciable property, plant and equipment as described in Note 3(h).

m) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at bank and deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

n) Borrowings

Interest incurred on borrowings relating to the construction and purchase of property, plant and equipment is capitalised until the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Trade and Other Receivables

Trade and other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An allowance is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.

p) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

q) Employee Benefits

i) Short term benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

ii) Defined contribution plans

Obligations for contributions to defined contribution plans such as Employees Provident Fund are recognised as an expense in the income statement as incurred.

r) Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivable, payable and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

s) Segmental information

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segments assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. Most segment assets can be directly attributed to the segments on a reasonable basis. Segment assets and liabilities do not include income tax assets and liabilities respectively.

t) Intersegment Transfers

Segment revenues, expenses and result include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arm's length transactions. These transfers are eliminated on consolidation.

4. CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW AND REVISED FRSs

On 1 January 2006, the Company adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2006 :

FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Event after the Balance Sheet Date
FRS 116	Property Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earnings Per Assets
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The Group has not adopted the following new and revised FRSs for the financial period beginning 1 January 2006 :

FRS 117	Leases
FRS 124	Related Party Disclosures

The Group has not adopted the deferred FRS 139 – Financial Instruments : Recognition and Measurement and the following FRS and amendment that are mandatory for financial periods beginning on or after 1 January 2007 :

- i) FRS 6 : Exploration for and Evaluation of Mineral Resources
FRS 6 is not relevant to the Company's operations.
- ii) Amendment to FRS 119 2004 : Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures.
FRS 119 2004 is not relevant to the Company.

The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below.

- a) FRS 3 : Business Combinations, FRS 136 : Impairment of Assets and FRS 138 : Intangible Assets

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138. In accordance with the transitional provisions, FRS 3 has been applied for business combinations for which the agreement date is on or after 1 January 2006

- i) Goodwill
The adoption of FRS 3 and revised FRS 136 has resulted in the Group testing for impairment of goodwill annually. Goodwill is now carried at cost less accumulated impairment losses and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods.

- ii) Excess of Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as consolidation reserve)

Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition, after reassessment, is now recognised immediately in profit or loss.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. This change has no impact on the Company's financial statements.

4. CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW AND REVISED FRSs (continued)

b) FRS 101 : Presentation of Financial Statements

Prior to 1 January 2006, minority interest at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and equity. Upon the adoption of the revised FRS 101, minority interest are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year. A similar requirement is also applicable to the statement of changes in equity. The revised FRS 101 also requires disclosure, on the face of the statement of change in equity, total recognised income and expenses for the year, showing separately the amounts attributable to equity holders of the Company and to minority interest.

Prior to 1 January 2006, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax expense in the consolidated income statement. Upon the adoption of the revised FRS 101, the share of taxation of associates accounted for using the equity method are now included in the Group's share of profit or loss reported in the consolidated income statement before arriving at the group's profit or loss before tax.

These changes in presentation have been applied retrospectively and has no impact on the Group's financial statements.

5. SIGNIFICANT ACCOUNTING ESTIMATES

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as stated below : -

i) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives. Management estimates the useful lives of the property, plant and equipment to be 5 to 50 years. The carrying amounts of the Group's and of the Company's property, plant and equipment as at 31 December 2006 were RM229,223,412 (2005 – RM168,684,932) and RM36,525,780 (2005 – RM36,942,227) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and residual values of the property, plant and equipment. Therefore the future depreciation charge could be revised.

ii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to chose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill as at 31 December 2006 were RM864,456 (2005 – RM NIL).

iii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The total carrying value of recognised deferred tax asset of the Group was RM1,384,670 (2005 – RM1,700,214).

6. PROPERTY, PLANT AND EQUIPMENT

Group - 2006	Cost/ Valuation at 1.1.2006 RM	Additions RM	Disposals RM	Currency translation differences RM	Transfers RM	Cost/ Valuation at 31.12.2006 RM
At valuation - Freehold land and buildings	17,490,000	0	0	0	0	17,490,000
At cost - Freehold land and buildings	30,271,451	23,149,260	120,000	0	23,117,797	76,418,508
Plant and machinery	161,380,962	42,621,852	1,136,789	(27,338)	15,034,132	217,872,819
Motor vehicles	8,534,991	650,954	1,137,777	0	0	8,048,168
Factory renovation	3,514,057	306,551	120,374	(10,318)	0	3,689,916
Office furniture and equipment	6,219,432	1,242,279	1,543,273	(128,175)	0	5,790,263
Factory furniture and equipment	1,585,057	391,460	0	0	0	1,976,517
Electrical installation	1,423,059	303,307	0	0	0	1,726,366
Plant and machinery under construction	13,662,267	6,371,478	129,990	0	(15,034,132)	4,869,623
Office renovation	124,146	0	0	0	0	124,146
Buildings under Construction	16,890,597	6,774,857	0	0	(23,117,797)	547,657
	261,096,019	81,811,998	4,188,203	(165,831)	0	338,553,983
	Accumulated depreciation at 1.1.2006 RM	Depreciation charge for the year RM	Disposals RM	Currency translation differences RM	Accumulated depreciation at 31.12.2006 RM	Net book value at 31.12.2006 RM
Freehold land and buildings	4,386,350	1,050,119	0	0	5,436,469	88,472,039
Plant and machinery	76,184,262	15,997,929	377,074	(6,413)	91,798,704	126,074,115
Motor vehicles	5,164,382	1,094,290	1,127,114	0	5,131,558	2,916,610
Factory renovation	1,484,809	322,982	12,226	(1,048)	1,794,517	1,895,399
Office furniture and equipment	3,302,486	398,264	630,474	(51,804)	3,018,472	2,771,791
Factory furniture and equipment	949,383	126,715	0	0	1,076,098	900,419
Electrical installation	918,562	122,923	0	0	1,041,485	684,881
Plant and machinery under construction	0	0	0	0	0	4,869,623
Office renovation	20,853	2,415	0	0	33,268	90,878
Buildings under Construction	0	0	0	0	0	547,657
	92,411,087	19,125,637	2,146,888	(59,565)	109,330,571	229,223,412

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Group - 2005	Cost/ Valuation at 1.1.2005 RM	Additions RM	Disposals/ Deletions RM	Transfers RM	Cost/ Valuation at 31.12.2005 RM	
At valuation - Freehold land and buildings	17,490,000	0	0	0	17,490,000	
At cost - Freehold land and buildings	20,821,065	203,490	0	9,246,896	30,271,451	
Plant and machinery	132,662,009	15,620,030	60,809	13,159,732	161,380,962	
Motor vehicles	7,937,919	1,314,574	767,502	50,000	8,534,991	
Factory renovation	2,874,281	639,776	0	0	3,514,057	
Office furniture and equipment	5,698,069	554,424	33,061	0	6,219,432	
Factory furniture and equipment	1,421,854	163,203	0	0	1,585,057	
Electrical installation	1,423,059	0	0	0	1,423,059	
Plant and machinery under construction	9,912,335	16,959,664	0	(13,209,732)	13,662,267	
Office renovation	106,033	18,113	0	0	124,146	
Buildings under construction	6,708,880	19,428,613	0	(9,246,896)	16,890,597	
	207,055,504	54,901,887	861,372	0	261,096,019	
	Accumulated depreciation at 1.1.2005 RM	Depreciation charge for the year RM	Disposals/ Deletion RM	Transfers RM	Accumulated depreciation at 31.12.2005 RM	Net book value at 31.12.2005 RM
Freehold land and buildings	3,690,848	695,502	0	0	4,386,350	43,375,101
Plant and machinery	63,106,547	13,111,475	23,760	(10,000)	76,184,262	85,196,700
Motor vehicles	4,917,380	995,615	758,613	10,000	5,164,382	3,370,609
Factory renovation	1,200,504	284,305	0	0	1,484,809	2,029,248
Office furniture and equipment	2,868,030	452,803	18,347	0	3,302,486	2,916,946
Factory furniture and equipment	840,158	109,225	0	0	949,383	635,674
Electrical installation	805,651	112,911	0	0	918,562	504,497
Plant and machinery under construction	0	0	0	0	0	13,662,267
Office renovation	9,646	11,207	0	0	20,853	103,293
Buildings under construction	0	0	0	0	0	16,890,597
	77,438,764	15,773,043	800,720	0	92,411,087	168,684,932

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Company - 2006	Cost/ Valuation at 1.1.2006 RM	Additions RM	Disposals/ Deletions RM	Cost/ Valuation at 31.12.2006 RM		
At valuation - Freehold land and buildings	14,437,000	0	0	14,437,000		
At cost - Freehold land and buildings	4,749,563	0	0	4,749,563		
Plant and machinery	40,065,604	3,405,531	447,224	43,023,911		
Motor vehicles	3,658,750	231,497	435,474	3,454,773		
Factory renovation	133,158	0	0	133,158		
Office furniture and equipment	2,242,621	89,093	46,898	2,284,816		
Building under construction	0	251,642	0	251,642		
	165,286,696	3,977,763	929,596	68,334,863		
	Accumulated depreciation at 1.1.2006 RM	Depreciation charge for the year RM	Disposals/ Deletion RM	Accumulated depreciation at 31.12.2006 RM	Net book value at 31.12.2006 RM	
Freehold land and buildings	2,582,971	273,624	0	2,856,595	16,529,968	
Plant and machinery	21,767,005	3,082,215	36,134	24,813,086	18,210,825	
Motor vehicles	2,405,992	440,511	426,571	2,419,932	1,034,841	
Factory renovation	121,544	5,171	0	126,715	6,443	
Office furniture and equipment	1,466,957	151,743	25,945	1,592,755	692,061	
Building under construction	0	0	0	0	251,642	
	28,344,469	3,953,264	488,650	31,809,083	36,525,780	
Company - 2005	Cost/ Valuation at 1.1.2005 RM	Additions RM	Disposals/ Deletions RM	Transfers (to)/ from RM	Cost/ Valuation at 31.12.2005 RM	
At valuation - Freehold land and buildings	14,437,000	0	0	0	14,437,000	
At cost -Freehold land and buildings	4,733,303	16,260	0	0	4,749,563	
Plant and machinery	34,558,189	5,557,415	0	(50,000)	40,065,604	
Motor vehicles	3,753,448	371,271	515,969	50,000	3,658,750	
Factory renovation	133,158	0	0	0	133,158	
Office furniture and equipment	2,161,915	113,767	33,061	0	2,242,621	
	59,777,013	6,058,713	549,030	0	65,286,696	
	Accumulated depreciation at 1.1.2005 RM	Depreciation charge for the year RM	Disposals/ Deletion RM	Transfers (to)/from RM	Accumulated depreciation at 31.12.2005 RM	Net book value at 31.12.2005 RM
Freehold land and buildings	2,309,347	273,624	0	0	2,582,971	16,603,592
Plant and machinery	18,657,833	3,119,172	0	(10,000)	21,767,005	18,298,599
Motor vehicles	2,430,328	481,632	515,968	10,000	2,405,992	1,252,758
Factory renovation	116,373	5,171	0	0	121,544	11,614
Office furniture and equipment	1,326,290	59,014	18,347	0	1,466,957	775,664
	24,840,171	4,038,613	534,315	0	28,344,469	36,942,227

6. PROPERTY, PLANT AND EQUIPMENT (continued)

The freehold land and buildings of the Group and of the Company were revalued in 1995 by the Directors at values of approximately RM17,490,000 and RM14,437,000 respectively which were based on valuations performed by a firm of professional valuers on the open market value basis at 24 March 1995. The surplus arising from this revaluation has been credited to Revaluation Reserve account.

Had the revalued assets been carried at historical cost less accumulated depreciation, the net book values of the Group's and Company's revalued assets that would have been included in the Financial Statements are as follows : -

	Group		Company	
	2006	2005	2006	2005
Freehold land and buildings	8,498,151	8,610,741	6,597,775	6,692,098

Net book values of property, plant and equipment held under hire purchase and finance lease arrangements are as follows:-

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Plant and machinery	39,647,635	2,117,200	5,029,017	4,888,392
Motor vehicles	19,198,165	3,061,181	792,461	982,325
	41,764,835	22,259,346	5,821,478	5,870,717

During the year, the Group and the Company acquired property, plant and equipment with aggregate cost of RM81,811,998 (2005 – RM54,901,887) and RM3,977,763 (2005 – RM6,058,713) respectively of which RM26,505,199 (2005 – RM4,775,428) and RM1,068,836 (2005 – RM3,123,028) respectively were acquired by means of hire purchase arrangements.

The following property, plant and equipment have been pledged to the banks for borrowings granted to the Group and the Company as referred to in Note 20 : -

	Net Book Value			
	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Freehold land and buildings	31,501,273	17,360,896	12,336,221	12,532,944
Plant and machinery	159,765	691,605	0	0
	31,661,038	18,052,501	12,336,221	12,532,944

Included in property, plant and equipment of the Group and the Company are fully depreciated assets which are still in use and cost RM34,471,400 (2005 – RM26,628,913) and RM14,846,658 (2005 – RM10,182,631) respectively.

7. SUBSIDIARIES

	Company	
	2006 RM	2005 RM
Unquoted shares, at valuation	9,691,425	9,691,425
Unquoted shares, at cost	7,736,460	5,150,004
	17,427,885	14,841,429

a) The subsidiaries are as follows : -

Name	Principal activities	Country of incorporation	Effective equity interest	
			2006	2005
i) Kossan Latex Industries (M) Sdn. Bhd.	Manufacturing of latex examination gloves	Malaysia	100%	100%
ii) Perusahaan Getah Asas Sdn. Bhd.	Manufacturing of latex examination gloves	Malaysia	100%	100%
iii) Kossan Engineering (M) Sdn. Bhd.	Fabrication and installation of machinery	Malaysia	100%	100%
iv) Ideal Quality Sdn. Bhd.	Investment holding	Malaysia	100%	100%
v) Top Calibre Sdn. Bhd.	Investment holding	Malaysia	100%	100%
+vi) Envi-Care Sdn. Bhd.	Investment holding	Malaysia	100%	100%
#+vii) Normandin Pacific Holdings Corp.	Trading of latex examination gloves	United States of America	51%	51%
viii) Doshin Rubber Products (M) Sdn. Bhd.	Manufacturing and dealing in rubber products	Malaysia	70%	70%
+ix) Quality Profile Sdn. Bhd.	Manufacturing and dealing in rubber products	Malaysia	70%	70%
x) Hibon Corporation Sdn. Bhd.	Manufacturing and marketing of rubber based parts and products	Malaysia	100%	70%
+xi) Wear Safe (Malaysia) Sdn. Bhd.	Manufacturing of surgical, procedure and examination gloves	Malaysia	70%	70%

+ Sub-subsidiary companies

The Financial Statements of the sub-subsidiary which are not material to the Group are consolidated based on unaudited Financial Statements. This sub-subsidiary is not required to be audited in its country of incorporation.

8. ASSOCIATE

	Group	
	2006 RM	2005 RM
Unquoted shares, at cost	112,272	112,272
Add		
Group share of post acquisition loss	(10,476)	(33,686)
Add		
Exchange adjustments	101,796	78,586
	27,577	27,191
	129,373	105,777
Represented by :-		
Share of net tangible assets	146,367	122,771
Reserve on acquisition	(16,994)	(16,994)
	129,373	105,777

The associate is Kossan Europa AG, a company incorporated in Switzerland in which the Group holds 48% (2005 - 48%) of its issued equities.

The associate is principally involved in trading of industrial rubber products.

9. OTHER INVESTMENTS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Investment in club membership, at cost	116,000	116,000	116,000	116,000

10. DEFERRED TAX (ASSETS)/LIABILITIES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
At beginning of the year	10,455,869	5,708,831	4,643,940	4,468,443
Transfer to income statement	6,493,992	4,401,952	98,842	175,497
(Over)/under provision in prior years	(341,628)	345,086	(100,357)	0
At end of the year	16,608,233	10,455,869	4,642,425	4,643,940
Presented after appropriate offsetting as follows:-				
Deferred tax assets	(1,384,670)	(1,700,214)	0	0
Deferred tax liabilities	17,992,903	12,156,083	4,642,425	4,643,940
	16,608,233	10,455,869	4,642,425	4,643,940

10. DEFERRED TAX (ASSETS)/LIABILITIES (continued)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows : -

Group – 2006	Accelerated capital allowances RM	Revaluation of properties RM	Total RM
Deferred tax liabilities of the Group :			
At beginning of the year	11,171,408	984,675	12,156,083
Transfer to/(from) income statement	6,201,216	(22,768)	6,178,448
Overprovision in prior years	(341,628)	0	(341,628)
At end of the year	7,030,996	961,907	17,992,903
Group - 2005	Decelerated capital allowances RM	Tax losses and unabsorbed capital allowances RM	Total RM
Deferred tax assets of the Group :			
At beginning of the year	0	(1,700,214)	(1,700,214)
Transfer to income statement	0	315,544	315,544
At end of the year	0	(1,384,670)	(1,384,670)
Group - 2005	Accelerated capital allowances RM	Revaluation of properties RM	Total RM
Deferred tax liabilities of the Group :			
At beginning of the year	6,555,497	1,007,443	7,562,940
Transfer to/(from) income statement	4,277,230	(22,768)	4,254,462
Underprovision in prior years	338,681	0	338,681
At end of the year	11,171,408	984,675	12,156,083
Group - 2005	Decelerated capital allowances RM	Tax losses and unabsorbed capital allowances RM	Total RM
Deferred tax assets of the Group :			
At beginning of the year	0	(1,854,109)	(1,854,109)
Transfer to income statement	0	147,490	147,490
Underprovision in prior years	0	6,405	6,405
At end of the year	0	(1,700,214)	(1,700,214)

10. DEFERRED TAX (ASSETS)/LIABILITIES (continued)

Company - 2006	Accelerated capital allowances RM	Revaluation of properties RM	Total RM
Deferred tax liabilities of the Company :			
At beginning of the year	3,659,265	984,675	4,643,940
Transfer to/(from) income statement	121,610	(22,768)	98,842
Overprovision in prior year	(100,357)	0	(100,357)
At end of the year	3,680,518	961,907	4,642,425

Company - 2005	Accelerated capital allowances RM	Revaluation of properties RM	Total RM
Deferred tax liabilities of the Company :			
At beginning of the year	3,461,000	1,007,443	4,468,443
Transfer to/(from) income statement	198,265	(22,768)	175,497
At end of the year	3,659,265	984,675	4,643,940

Deferred tax assets have not been recognised in respect of the following items : -

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Unabsorbed tax losses	203,907	203,907	0	0
Unabsorbed capital allowances	1,263,221	383,725	0	0
	1,467,128	587,632	0	0

The deferred tax assets are not recognised in the balance sheet of a subsidiary as the Group is uncertain of the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

11. GOODWILL ON CONSOLIDATION

	Group	
	2006 RM	2005 RM
At beginning of the year	0	880,982
Increase in shareholding in a subsidiary	864,456	0
Amortisation during the year	0	(880,982)
At end of the year	864,456	0

12. INVENTORIES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Raw material	22,124,950	19,144,632	8,141,214	8,257,399
Finished goods	38,310,310	23,754,295	5,172,861	3,324,694
Work-in-progress	3,204,452	3,288,765	2,122,848	2,350,719
	63,639,712	46,187,692	15,436,923	13,932,812

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Gross receivables	121,276,925	84,356,126	19,021,332	21,748,329
Less				
Allowance for doubtful debts	411,628	416,028	411,628	411,628
	120,865,297	83,940,098	18,609,704	21,336,701
Due from holding company	0	3,646	0	3,646
Due from subsidiaries	0	0	42,819,502	31,180,755
Due from related companies	299,341	0	306,811	566,211
Sundry receivables and deposits	8,216,336	5,655,125	2,800,503	3,035,438
	129,380,974	89,598,869	64,536,520	56,122,751

Included in trade receivables of the Group are receivables arising from trade with related companies amounting to RM698,536 (2005 – RM225,105).

Included in trade receivables of the Company are receivables arising from trade with related companies amounting to RM324,929 (2005 – RM225,105) respectively.

The credit terms granted by the Group range from 30 to 60 days.

The amounts due from subsidiaries and related companies are unsecured, interest free and have no fixed terms of repayment.

14. FIXED DEPOSIT WITH LICENSED BANK

Included in deposits with licensed banks of the Group are amounts of RM598,365 (2005 – RM440,099) pledged to the bank for banking facilities granted to the Group.

15. SHARE CAPITAL

	2006 RM	2005 RM
Ordinary shares of RM0.50 Authorised :	150,000,000	150,000,000
Issued and fully paid :		
At beginning of the year	79,933,488	66,611,240
Issued during the year : Bonus issue	0	13,322,248
At end of the year	79,933,488	79,933,488

16. REVALUATION RESERVE

	2006 RM	2005 RM
At beginning of the year	1,618,849	1,677,397
Transfer within reserves on realisation	(58,548)	(58,548)
At end of the year	1,560,301	1,618,849

This reserve relates to surpluses on revaluation of freehold land and buildings and investment in subsidiaries of the Group and of the Company. This reserve is not available for distribution by way of dividend.

17. SHARE PREMIUM

	2006 RM	2005 RM
At beginning of the year	10,601	2,714,587
Less :		
Bonus issue through capitalisation of share premium	0	(2,564,587)
Expenses for shares issued	0	(139,399)
	0	2,703,986
At end of the year	10,601	10,601

This reserve is not available for distribution by way of dividend.

18. RESERVE ON CONSOLIDATION

	Group 2006 RM	2005 RM
At beginning of the year	0	2,265,207
Write back to income statement	0	(2,265,207)
At end of the year	0	0

19. UNSECURED LOAN

Unsecured loan carries interest at 3.3% (2005 - 3.3%) per annum and has a repayment term of 36 months.

20. BANK BORROWINGS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Long term borrowings				
Secured - Term loan	29,212,782	23,635,376	0	0
Unsecured - Term loans	3,703,041	0	0	0
	32,915,823	23,635,376	0	0
Less				
Due within 12 months	4,360,501	2,971,337	0	0
Due after 12 months	28,555,322	20,664,039	0	0
Short term borrowings				
Secured - Term loans due within 12 months	4,150,660	2,971,337	0	0
Trade finance	8,464,288	19,570,716	8,464,288	9,148,542
Bank overdrafts	1,739,762	27,744	1,705,016	27,744
	14,354,710	22,569,797	10,169,304	9,176,286
Unsecured - Term loans due within 12 months	209,841	0	0	0
Trade finance	81,743,085	41,010,498	3,614,939	3,614,792
Bank overdraft	2,744,234	1,484,043	483,401	493,433
	84,697,160	42,494,541	4,098,340	4,108,225
	99,051,870	65,064,338	14,267,644	13,284,511

Secured borrowings are secured as follows : -

- i) certain properties of the Group;
- ii) certain plant and machinery of the Group;
- iii) guarantee by holding company.

The portion of term loans payables after twelve months of the Balance Sheet date has been included under Long Term Liabilities.

Term loans, and bank overdrafts carry interest ranging from 0.5% to 1.25% above the banks' base lending rates per annum. Banker acceptance and revolving credit facilities carry interest ranging from 0.3% to 1.5% above the prevailing interbank rate per annum. Export credit refinancing facility carries interest at 1% above the Export-Import Bank of Malaysia Berhad's funding rate per annum. Foreign currency trade finance carries interest at 0.8% above the banks' cost of funds.

21. HIRE PURCHASE LIABILITIES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Future minimum payment are as follows : -				
Payable within one year	9,987,852	4,542,386	1,949,407	2,000,601
Payable between one and five year	14,775,029	3,495,254	1,007,024	2,142,286
	24,762,881	8,037,640	2,956,431	4,142,887
Less				
Finance charges	2,028,357	456,689	140,013	263,669
	22,734,524	7,580,951	2,816,418	3,879,218
Represented by hire purchase liabilities : -				
Due within 12 months	8,903,659	4,240,622	1,839,089	1,823,997
Due after 12 months	13,830,865	3,340,329	977,329	2,055,221
	22,734,524	7,580,951	2,816,418	3,879,218

Hire purchase liabilities carry interest with flat rates of 1.88% to 4.50% (2005 - 1.88% to 5.00%) per annum.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Trade payables	52,378,331	36,218,270	4,824,226	6,794,053
Due to subsidiary	0	0	31,038	555,407
Due to related companies	730,694	0	4,147	2,244
Due to holding company	253,263	8,543	0	0
Sundry payables	18,224,604	11,706,580	2,499,520	2,297,215
	71,586,892	47,933,393	7,358,931	9,648,919

Included in trade payables of the Group are payables arising from trade with related companies amounting to RM80,987 (2005 – RM158,833)

The credit terms granted to the Group range from 30 to 90 days.

The amounts due to the subsidiaries, related companies and holding company are unsecured, interest free and have no fixed terms of repayment.

The holding company is KOSSAN HOLDINGS (M) SDN. BHD., a company incorporated in Malaysia, which owns 50.36% (2005 - 53.49%) of the Company's issued equities.

23. REVENUE

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Sales of goods	571,263,351	381,265,545	76,993,296	71,264,191
Interest income	56,077	16,529	30,279	5,956
Dividend income	0	0	15,765,061	3,545,012
Services rendered	19,180	47,310	0	0
	571,338,608	381,329,384	92,788,636	74,815,159

24. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging : -

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Directors' fees	112,000	96,000	112,000	96,000
Directors' salaries and allowance	4,190,489	4,425,632	1,447,040	1,319,472
Auditors' remuneration	139,550	119,450	48,000	42,000
Rental of premises	2,099,082	1,885,778	698,316	501,008
Overdraft interest	175,151	187,778	53,336	77,992
Hire purchase interest	1,379,769	581,465	227,447	237,289
Term loan interest	1,659,572	963,084	0	16,508
Depreciation	19,125,637	15,773,043	3,953,264	4,038,613
Property, plant and equipment written off	20,952	21,493	20,952	12,626
Bad debts written off	26,531	264,085	13,881	0
Hire of equipment	20,210	12,7832	1,400	1,790
Unsecured loan interest	7,826	2,275	0	0
Trade finance interest	3,749,009	1,968,907	569,508	460,639
Amortisation of goodwill on consolidation	0	880,982	0	0
AND CREDITING : -				
Dividend income	0	0	15,765,061	3,545,012
Fixed deposit interest receivable	56,077	16,529	30,279	5,956
Profit on disposal of property, plant and equipment	316,778	193,101	110,640	97,371
Rental income	150,500	288,000	216,500	354,000
Gain on foreign exchange differences	2,108,989	1,436,401	0	0
Write back of reserve on consolidation	0	2,265,207	0	0

25. TAXATION

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Income tax -				
Malaysian	(2,828,384)	(2,367,873)	(2,258,216)	(924,677)
(Under)/over provision in prior year	91,038	(40,932)	(19,307)	(141,639)
	(2,737,346)	(2,408,805)	(2,277,523)	(1,066,316)
Deferred tax : -				
Origination	(6,493,992)	(4,542,031)	(98,842)	(315,576)
Over/(under) provision in prior years	341,628	(205,008)	100,357	140,078
	(6,152,364)	(4,747,039)	1,515	(175,498)
Tax expense for the year	(8,889,710)	(7,155,844)	(2,276,008)	(1,241,814)

A reconciliation of income tax expense applicable to profit before taxation at statutory income tax rate to income tax expense at the effective income tax rate of the company is as follows : -

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Taxation at Malaysian statutory tax rate	(13,566,929)	(10,130,719)	(6,329,451)	(2,784,808)
Expenses not deductible for tax purposes	(204,464)	(159,482)	(52,388)	(63,353)
Tax incentives	4,667,142	2,994,402	708,298	787,689
Utilisation of previously unrecognised tax losses and unabsorbed capital allowances	0	406,988	0	0
Depreciation of non-qualifying property, plant and equipment	(251,125)	(278,799)	(90,949)	(126,552)
Income not subject to tax	16,377	0	3,384,664	924,0030
Deferred tax asset not recognised during the year (Under)/over provision in prior year	(81,313)	(69,078)	0	0
- income tax expense	91,038	(40,932)	(19,307)	(141,639)
- deferred tax expense	341,628	(205,008)	100,357	140,078
Others	97,936	326,784	22,768	22,768
Tax expense for the year	(8,889,710)	(7,155,844)	(2,276,008)	(1,241,814)
Unutilised tax losses carried forward	5,175,009	5,171,814	0	0
Unabsorbed capital allowance carried forward	9,995,278	8,728,996	0	0

The effective rate of taxation of the Group is lower than the statutory rate due to the availability of reinvestment allowance from capital expenditure incurred by the Company and certain subsidiaries.

As at 31 December 2006, the Company has sufficient tax credit to frank the payment of dividend amounting to approximately RM7,612,000 (2005 – RM7,923,000) without incurring additional tax liabilities

As at 31 December 2006, the Group has unutilised reinvestment allowances amounting to RM45,235,076 (2005 – RM28,915,270) which, subject to approval by the tax authorities, can be used to offset against future business income.

As at 31 December 2006, the Company has tax-exempt income of RM21,262,256 (2005 – RM18,827,230) arising from incentive of reinvestment allowance which is subject to confirmation by the Inland Revenue Board and tax exempt accounts arising from waiver of tax on chargeable income under Income Tax (Amendment) Act, 1999 and tax exempt dividend income of RM49,609,673 (2005 – RM37,549,613). Dividends declared out of such profits will also be exempted from income tax in the hands of the shareholders.

26. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit for the year attributable to the equity holders of the Company of RM39,632,185 (2005 – RM28,946,390) by the weighted average number of 159,866,976 (2005 - 159,866,976) ordinary shares in issue during the financial year.

There is no dilution in earnings per share.

27. CASH FLOWS FROM FINANCING ACTIVITIES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Repayment of hire purchase liabilities	(11,351,628)	(7,209,538)	(2,131,637)	(2,215,847)
Term loan received	12,897,065	13,818,409	0	0
Repayment of term loans	(3,588,260)	(3,856,977)	0	(534,191)
Repayment of unsecured loan	(239,430)	(225,009)	0	0
Share issue expenses	0	(139,399)	0	(139,399)
	(2,282,253)	2,387,486	(2,131,637)	(2,889,437)

28. SEGMENTAL ANALYSIS - GROUP

	Technical rubber products		Gloves		Others		Total	
	2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM
ANALYSIS BY ACTIVITIES								
REVENUE AND EXPENSES								
Revenue - External sales	91,075,748	83,131,215	480,243,680	298,150,859	19,180	47,310	571,338,608	381,329,384
Result - Segment results	7,651,272	9,358,182	47,935,968	30,641,695	(185,804)	(162,806)	55,401,436	39,837,071
Finance cost, net							(6,971,327)	(3,723,509)
Share of results of associate	0	0	0	0	23,210	67,579	23,210	67,579
Taxation							(8,889,710)	(7,155,844)
Profit for the year							39,563,609	29,025,297
ASSETS AND LIABILITIES								
Segment assets	98,161,173	114,839,439	326,717,691	188,010,871	6,314,649	12,359,622	431,193,513	315,209,932
Investment in equity of associate	0	0	0	0	129,373	105,777	129,373	105,777
Consolidated total assets							431,322,886	315,315,709
Segment liabilities	35,919,275	37,769,463	202,003,227	114,886,420	2,147,831	1,801,361	240,070,333	154,457,244
OTHER INFORMATION								
Capital expenditure	6,412,232	8,198,595	75,399,766	46,703,292	0	0	81,811,998	54,901,887
Depreciation	5,408,437	5,369,102	13,717,200	10,403,941	0	0	19,125,637	15,773,043
Non-cash expenses other than depreciation	0	880,982	0	0	0	0	0	880,982

Analysis by geographical location has not been presented as operation of Group outside Malaysia is not material.

29. CONTINGENT LIABILITIES - UNSECURED

As at 31 December 2006, the Company has outstanding unsecured contingent liabilities amounting to RM132,511,814 (2005 – RM73,231,461) being corporate guarantees given to banks for banking facilities granted to certain subsidiaries.

30. CAPITAL COMMITMENT

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Capital expenditure :				
Contracted but not provided for	21,645,177	16,920,849	1,577,877	584,419

31. RELATED PARTY TRANSACTIONS

Related party	Type of Transaction	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
a) Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries					
Kossan Chemical Industries (M) Sdn. Bhd.	Rental payable	(737,120)	(474,480)	(359,520)	(186,480)
Kossan Japan Rollers Sdn. Bhd.	Sales	10,438	0	10,438	0
	Rental receivable	25,000	150,000	25,000	150,000
Pleasure Latex Products Sdn. Bhd.	Sales	1,425	0	1,425	0
	Rental receivable	120,000	120,000	120,000	120,000
Kossan Paint (M) Sdn. Bhd.	Sales	301,382	285,713	297,846	269,177
	Purchase of consumables	(729,009)	(481,696)	(16,719)	(8,676)
	Purchase of raw materials	(109,700)	(89,067)	0	0
	Services rendered receivables	500	1,500	0	0
Pan Asian Corporation Sdn. Bhd.	Rental payable	(535,080)	(535,080)	(297,960)	(297,960)
b) Transactions with corporation in which Directors have financial interest					
HT Ceramics (M) Sdn. Bhd.	Purchase of property, plant and equipment	(6,463,570)	(3,730,084)	0	0
	Sales	3,247	4,432	3,247	4,432
Kossan F.R.P. Industries (M) Sdn. Bhd.	Purchase of consumables	(787,879)	(4,135)	(27,491)	(4,135)
	Sales	6,422	2,000	6,422	2,000
	Services rendered payable	(266,440)	(62,350)	0	0
	Purchase of property, plant and equipment	(2,072,452)	(3,749,954)	0	0
Chemtube (M) Sdn. Bhd.	Security and storage handling charges	0	5,173	0	0
	Sales	28,300	27,301	28,300	27,301
	Purchase of consumable	(150)	0	(150)	0

Kossan Holdings (M) Sdn. Bhd. is the holding Company.

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

32. FINANCIAL INSTRUMENTS

- a) Foreign currency forward contracts are entered into to limit the exposure of the Group to fluctuations in foreign currency exchange rates on foreign currency receipts and payments.

As at 31 December 2006, the Group had contracted the following amounts under forward contracts : -

	2006 RM	2005 RM	Average Exchange Rate per unit of Ringgit Malaysia	
			2006 RM	2005 RM
United State Dollars (to sell)	63,078,081	108,037,263	3.555	3.746

All of these contracts mature within six months from the balance sheet date.

- b) Credit Risk

The Group is exposed to credit risk with respect to foreign currency forward contracts in the event of non-performance by the counterparties to these financial instruments which are major financial institutions. The directors are of the opinion that the risk of incurring material losses related to this credit risk is remote.

- c) Fair Values of Financial Instruments

- i) The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair values because of the short term nature of these instruments.

- ii) Foreign currency forward contracts

	2006 RM	2005 RM
Off Balance Sheet item : Carrying amount	63,078,081	108,037,263
Fair value	63,078,081	108,037,263

The fair value of forward foreign currency exchange contracts is calculated by reference to the current rate for contracts with similar maturity profiles.

- iii) The carrying amounts and estimated fair values of the other financial instruments of the Group as at 31 December 2006 are as follows : -

	Carrying Amount		Fair Value	
	2006 RM	2005 RM	2006 RM	2005 RM
Financial Assets				
Other investments	116,000	116,000	116,000	116,000
Financial Liabilities				
Borrowings	127,607,192	85,693,878	127,607,192	85,693,878
Hire purchases liabilities	22,734,524	7,580,951	22,734,524	7,580,951
Unsecured loan	0	239,431	0	239,431

The fair value of other investments are estimated based on market prices.

The carrying amount of short term borrowings approximate fair value because of the short period to maturity of those instruments. The fair value of long term borrowings is estimated based on the market prices for the same or similar issues or on the current rates available for borrowings with the same maturity profile.

- iv) The nominal/notional amount and net fair value of contingent liabilities (as disclosed in Note 29) are not recognised in the balance sheet as at 31 December 2006 as it is not practicable to make a reliable estimate due to the uncertainties of timing, costs and eventual outcome.

33. SIGNIFICANT EVENTS

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 consideration of RM2,586,456 with the acquisition, HCSB is now wholly owned subsidiary of the Company.

34. FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group operates within guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows : -

a) Foreign currency risk

The Group enters into derivative instruments, principally forward foreign currency exchange contracts to reduce exposure to fluctuations in foreign exchange rates. While the risk of market rates may change subsequent to acquisition, such changes are generally offset by the opposite effects on items being hedged. The Group do not trade in derivative instruments. The notional amounts of derivatives summarised in the notes to the Financial Statements do not represent amount exchanged by the parties and thus are not a measurement of the Group's exposure for its use of derivative financial instruments.

Derivative financial instruments are not recognised in the Financial Statements on inception. The purpose of entering into these derivatives is to minimise losses and to preserve the value of confirmed contracts.

b) Interest rate risk

The Group's policy is to borrow principally on the floating rate basis but to retain a proportion of fixed rate debt. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall.

c) Liquidity and cash flow risk

The Group actively manages its operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

d) Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored on an ongoing basis via the Group management reporting procedures. The Group does not have any major concentration of credit risk related to any financial instruments.

REPORT OF THE AUDITORS TO THE MEMBERS OF KOSSAN RUBBER INDUSTRIES BHD

FINANCIAL STATEMENTS – 31 DECEMBER 2006

We have audited the Financial Statements set out on pages 30 to 60. These Financial Statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Statements and to report our opinion to you, as a body, in accordance with section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Financial Statements are free of material misstatement. Our audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the Financial Statements. Our audit also includes an assessment of the accounting principles used and significant estimates made by directors, as well as an evaluation of the overall presentation of the Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion : -

- a) the Financial Statements are properly drawn up in accordance with the applicable approved accounting standards so as to give a true and fair view of : -
 - (i) the state of affairs of the Group and of the Company as at 31 December 2006 and of their results and cash flows for the year then ended and comply with the provisions of the Companies Act, 1965; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the Financial Statements of the Group and of the Company.
- b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the Financial Statements of the subsidiaries that have been consolidated with the Company's Financial Statements are in form and content appropriate and proper for the purpose of the preparation of the consolidated Financial Statements and we have received satisfactory information and explanations required by us for those purpose.

As for Normandin Pacific Holdings Corp. which is incorporated in the United States of America, its Financial Statements are not required to be audited in its country of incorporation, but we have considered its Financial Statements.

Our audit reports on the Financial Statements of the subsidiaries were not subject to any qualifications and did not include any comment made under subsection (3) of section 174 of the Act.

KHOO TENG KEAT & CO.
CHARTERED ACCOUNTANTS
NO. AF 0033

YET KIONG SIANG
PROPRIETOR
NO. 1382/5/07 (J)

16 April 2007
Klang

We, LIM KUANG SIA and LIM KUANG YONG, being two of the Directors of KOSSAN RUBBER INDUSTRIES BHD., do hereby state that, in the opinion of the Directors, the Financial Statements set out on pages 30 to 60 are drawn up in accordance with the applicable approved accounting standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and of the results and cash flows for the year then ended.

On behalf of the Board,

LIM KUANG SIA
Director

LIM KUANG YONG
Director

16 April 2007
Klang

STATUTORY DECLARATION

I, LEE HON CHEE, the officer primarily responsible for the accounting records and financial management of KOSSAN RUBBER INDUSTRIES BHD., do solemnly and sincerely declare that the Financial Statements set out on pages 30 to 60 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed LEE HON CHEE,)
at Klang, in the State of Selangor, this)
16 April 2007)

Before me,

Commissioner for Oaths,
Klang

LIST OF PROPERTIES

AS AT 31 DECEMBER 2006

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KOSSAN RUBBER INDUSTRIES BHD (48166-W)
ANNUAL REPORT 2006

Location	Description	Date of Acquisition Valuation	Age of Building	Land Area	Tenure	Existing Use	Net Book Value RM
No 14 Lorong Sungai Puloh Tmn Klang Utama 42100 Klang	1 unit double storey link house	3/24/95	13 yrs	990 sq.ft	Freehold	Staff quarters	83,237
No 16 Lorong Sungai Puloh Tmn Klang Utama 42100 Klang	1 unit double storey link house	3/24/95	13 yrs	990 sq.ft	Freehold	Staff quarters	83,237
Lot 754 Jalan Hj Sirat 42100 Klang	Factory	3/24/95	12 yrs	246,550 sq.ft	Freehold	Factory	10,520,224
Lot 782 Jalan Hj Sirat 42100 Klang	Factory and office Office-12 yrs	3/24/95	Factory - 19 yrs	47,480 sq.ft	Freehold	Factory and office	2,817,679
Lot 16632 Batu 5 1/4 Jalan Meru 41050 Klang	Single storey detached factory	3/24/95	17 yrs	65,175 sq.ft	Freehold	Factory and office	2,649,341
Lot 2401 Batu 17 Jln Sungai Sembilang 45800 Jeram	Factory	1/31/95	8 yrs	106,177 sq.ft	Freehold	Factory	3,070,904
GM 554 Lot 2796 Mukim of Jeram District of Kuala Selangor	Factory	1/31/95	4 yrs	213,916 sq.ft	Freehold	Factory	4,924,079
Lot 1365 Batu 17 Jln Sungai Sembilang 45800 Jeram	Factory	1/3/95	8 yrs	217,800 sq.ft	Freehold	Factory and office	6,588,103
HS (M) 15410 & 15405 PT 21715 & 15708 24 Jln Pengasah 4 Off Jln Kapar 42100 Klang	1 unit 1 1/2 Storey light industrial building	4/3/03	13 yrs sq.mtr	174	Freehold	Store	242,234
HS (M) 1168 PT 476 Batu 15 1/4 Jalan Kapar Mukim Jeram	Staff quarters	2/27/03	3 yrs	5,527 sq.mtr	Freehold	Staff quarters	1,038,634
Lot 1366 Batu 17 Jalan Kapar Mukim Jeram	Factory	8/28/03	3 yrs	152,460 sq.ft	Freehold	Factory	7,816,932
Geran 40417, Lot 4761 Mukim Jeram Kuala Selangor	Factory	5/19/04	2 yr	7 acres 1 rood 14.67 poles	Freehold	Factory	3,334,470
Lot 6129, 5 1/4 Miles Jln Hj Abdul Manan, Jln Meru 41050 Klang	Factory	28/01/2005	Factory completed in 2006	434,145 sq.ft	Freehold	Factory and office	28,255,223
HS (D) 116842 PT 54925 Mukim Kapar Daerah Klang	Vacant land	5/30/05	nil	10.77 acres	Freehold	Vacant	4,645,841
HS (D) 116841 PT 54924 Mukim Kapar Daerah Klang	Vacant land	5/30/05	nil	11.25 acres	Freehold	Vacant	4,854,077
Lot PT 13726 Jln Hj Abdul Manan, Jln Meru 41050 Klang	Factory	9/26/05	Factory under construction	5.392 acres	Freehold	Vacant	8,095,481
							89,019,696

STATISTICS ON SHAREHOLDINGS

AS AT 30 APRIL 2007

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KOSSAN RUBBER INDUSTRIES BHD (48166-W)
ANNUAL REPORT 2006

Authorised Share Capital	: RM150,000,000
Issued and Fully Paid Up	: RM79,933,488
Class of Shares	: Ordinary Shares of RM0.50 each
Voting Rights	: 1 vote Per Ordinary Share

DISTRIBUTION OF SHAREHOLDINGS

AS AT 30 APRIL 2007

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	182	8.44	11,242	0.01
100 – 1,000	398	18.46	304,070	0.19
1,001 – 10,000	1,083	50.23	5,030,096	3.15
10,001 – 100,000	390	18.09	11,464,236	7.17
100,001 to less than 5% of issued shares	100	4.64	68,658,912	42.95
5% and above of issued shares	3	0.14	74,398,420	46.53
	2,156	100.00	159,866,976	100.00

SUBSTANTIAL SHAREHOLDERS

AS AT 30 APRIL 2007

Name of Shareholders	No. of Shares Held	% of Issued Share Capital
1. Kossan Holdings (M) Sdn Bhd	80,511,520	50.36
– 56,996,784 Shares Held through own name		
– 8,538,736 Shares Held through own name		
– 7,776,000 Shares Held through Malaysia Nominees (Tempatan) Sdn Bhd		
– 7,200,000 Shares Held through EB Nominees (Tempatan) Sdn Bhd		
2. Investors Bank And Trust Company for Asian Small Companies Portfolio	8,862,900	5.54
– 8,862,900 Shares Held through Cartaban Nominees (Asing) Sdn Bhd		

DIRECTORS' SHAREHOLDINGS

AS AT 30 APRIL 2007

Name of Directors	No. of Shares Held	
	Direct Holdings	%
1. Y. Bhg. Dato' Haji Mokhtar Bin Hj. Samad	-	-
2. Lim Kuang Sia	190,944	0.12
3. Lim Kuang Yong	-	-
4. Lim Kuang Wang	359,424	0.22
5. Lim Kwan Hwa	-	-
6. Heng Bak Tan	-	-
7. Y. B. Dato' Tai Chang Eng @ Teh Chang Ying	149,760	0.09
8. Tong Siew Choo	14,976	0.01
9. Lim Leng Bung	-	-

THIRTY (30) LARGEST SHAREHOLDERS
AS AT 30 APRIL 2007

Name of Shareholders	No. of Shares Held	% of Issued Share Capital
1. Kossan Holdings (M) Sdn Bhd	56,996,784	35.65
2. Cartaban Nominees (Asing) Sdn Bhd Investors Bank And Trust Company for Asian Small Companies Portfolio	8,862,900	5.54
3. Kossan Holdings (M) Sdn Bhd	8,538,736	5.34
4. Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Kossan Holdings (M) Sdn Bhd (05-00042-000)	7,776,000	4.86
5. EB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Kossan Holdings (M) Sdn Bhd (PKG)	7,200,000	4.50
6. Citigroup Nominees (Asing) Sdn Bhd Exempt AN for Merrill Lynch International (Prime Broker)	3,389,100	2.12
7. Ruby Technique Sdn Bhd	3,143,520	1.97
8. Cartaban Nominees (Asing) Sdn Bhd SSBT Fund KG33 for AIM Asia Pacific Growth Fund	3,016,300	1.89
9. Amanah Raya Nominees (Tempatan) Sdn Bhd Public Far-East Dividend Fund	2,649,200	1.66
10. Citigroup Nominees (Asing) Sdn Bhd UBS AG for Hidden Jewels Fund	2,606,400	1.63
11. Lembaga Tabung Haji	2,325,000	1.45
12. Amanah Raya Nominees (Tempatan) Sdn Bhd Public Index Fund	1,836,500	1.15
13. HSBC Nominees (Asing) Sdn Bhd Exempt AN for Morgan Stanley & Co. International PLC	1,698,400	1.06
14. Ruby Technique Sdn Bhd	1,582,080	0.99
15. Chia Fei Kung	1,391,000	0.87
16. RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Susy Ding (CEB)	1,390,080	0.87
17. Amanah Raya Nominees (Tempatan) Sdn Bhd Public Islamic Opportunities Fund	1,251,000	0.78
18. Malaysia National Insurance Berhad	1,171,600	0.73
19. Yee Chek Mun	887,000	0.55

THIRTY (30) LARGEST SHAREHOLDERS (continued)

AS AT 30 APRIL 2007

Name of Shareholders	No. of Shares Held	% of Issued Share Capital
20. Universal Trustee (Malaysia) Berhad SBB Emerging Companies Growth Fund	863,900	0.54
21. Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Public Industry Fund (N14011930270)	851,200	0.53
22. Amanah Raya Berhad SBB Double Growth Fund	825,200	0.52
23. Amanah Raya Nominees (Tempatan) Sdn Bhd Public Islamic Balanced Fund	748,100	0.47
24. Citigroup Nominees (Asing) Sdn Bhd GSCO for Wexford Spectrum Trading Ltd	707,300	0.44
25. BHLB Trustee Berhad Prugrowth Fund	697,900	0.44
26. Malaysian Trustees Berhad Pacificmas Asset Management Sdn Bhd for Great Eastern Life Assurance (Malaysia) Berhad (PAR1)	685,040	0.43
27. HSBC Nominees (Asing) Sdn Bhd BBH And Co Boston for GMO Emerging Illiquid Fund, L.P.	659,300	0.41
28. Teng Choon Kwang	633,792	0.40
29. Universal Trustee (Malaysia) Berhad SBB Dana Al-Ihsan 2	614,700	0.38
30. Citigroup Nominees (Asing) Sdn Bhd Exempt AN for Mellon Bank (Mellon)	600,000	0.38

NOTICE IS HEREBY GIVEN that the Twenty Seventh (27th) Annual General Meeting of the Company will be held at Concorde III, Level 2, Concorde Hotel Shah Alam, 3, Jalan Tengku Ampuan Zabedah C 9/C, 40100 Shah Alam on Monday, 18 June 2007 at 10.30 a.m. for the following purposes:

AGENDA

1. To receive and consider the audited financial statements for the year ended 31 December 2006 and the Reports of the Directors' and the Auditors thereon.
(Ordinary Resolution 1)
2. To approve the payment of a first and final dividend of 5% gross less 27% income tax and 8% tax exempt for the financial year ended 31 December 2006.
(Ordinary Resolution 2)
3. To approve the payment of directors' fee of RM 112,000 for the financial year ended 31 December 2006. (2005: RM96,000)
(Ordinary Resolution 3)
4. To re-elect the following Directors retiring by rotation pursuant to Article 108 of the Articles of Association, and being eligible, offers themselves for re-election:
 - (i) Lim Kuang Wang
(Ordinary Resolution 4)
 - (ii) Heng Bak Tan
(Ordinary Resolution 5)
 - (iii) Dato' Haji Mokhtar Bin Haji Samad
(Ordinary Resolution 6)
5. To appoint the Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. Notice of Nomination from a shareholder (Annexure A) pursuant to Section 172(11) of the Companies Act, 1965 has been received by the Company for the nomination of Messrs KPMG, who have given their consent to act, for appointment as Auditors and of the intention to propose the following Ordinary Resolution:

“THAT Messrs KPMG be and are hereby appointed as Auditors of the Company in place of the retiring auditors Messrs Khoo Teng Keat & Co. and to hold office until the conclusion of the next Annual General Meeting and that authority be and is hereby given to the Directors to fix their remuneration.”

(Ordinary Resolution 7)
6. SPECIAL BUSINESS
To consider and if thought fit, to pass the following as Ordinary and Special resolutions respectively:
 - (a) Authority for Directors to allot and issue shares in general pursuant to Section 132D of the Companies Act 1965 – ESOS Allotment

“That pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised with full powers to issue shares in the Company from time to time under the existing Executive Share Option Scheme of the Company (“the Scheme”) provided that the aggregate number of the shares to be issued pursuant to this resolution does not exceed the amount approved under the Scheme and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued”

(Ordinary Resolution 8)

- (b) Authority for Directors to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965-General allotment.

Ordinary (Resolution 9)

“That subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental/ regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, to allot and issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the directors may in their absolute discretion deem fit and expedient in the interest of the Company provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued and paid up capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued.”

- (c) Proposed renewal of shareholders’ mandate for recurrent related party transactions of a revenue or trading nature (“Proposed Shareholders’ Mandate”).

“That, subject always to the Listing Requirements of Bursa Malaysia Securities Berhad, the Company and its subsidiaries shall be mandated to enter into the categories of recurrent related party transactions of a revenue or trading nature specified in Section 2.4 of the Circular A to Shareholders dated 25 May 2007 with the following related parties:-

- (1) Kossan Holdings (M) Sdn. Bhd. and its subsidiaries
(Ordinary Resolution 10)
- (2) Kossan FRP Industries (M) Sdn. Bhd.
(Ordinary Resolution 11)
- (3) HT Ceramics (M) Sdn. Bhd.
(Ordinary Resolution 12)

Subject further to the following:

- i) the transactions are in the ordinary course of business and are on terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and
- ii) the Proposed Shareholders’ Mandate will take effect from the date of the passing of the Ordinary Resolution proposed at the Annual General Meeting (“AGM”) until the next AGM of the Company and shall apply in respect of the recurrent related party transactions to be entered into from the date of the forthcoming AGM until the next AGM of the Company. The proposed shareholders’ mandate is subject to annual renewal. Any authority conferred by the mandate shall only continue to be in force until:-
 - (a) the conclusion of the first annual general meeting of the Company following the general meeting at which such mandate was passed, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;
 - (b) the expiration of the period within which the next annual general meeting is required to be held pursuant to section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to section 143 (2) of the Act); or
 - (c) revoked or varied by resolution passed by the shareholders in general meeting, whichever is earlier; and

- iii) disclosure is made in the annual report of the breakdown of aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year and in the annual reports for the subsequent financial year during which the shareholders' mandate is in force based on the type of recurrent transactions made and the names of the related parties involved in each type of the recurrent transactions made and their relationship with the Company, provided that such transactions are made on normal commercial terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company and at an arm's length basis; and
- iv) the Directors and/or any of them be and are hereby authorised to complete and do such acts and things (including executing such document as may be required) to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution."
- (d) Proposed Amendments to the Articles of Association of the Company
(Special Resolution 1)

That, the Articles of Association of the Company be and are hereby amended in the manner as set out in Circular B to shareholders dated 25 May 2007 and that the Directors and the Company be and are hereby authorised to take all steps as they may consider necessary or expedient in order to implement, finalise and give full effect to the proposed amendments to the Articles of Association of the Company in compliance with the amendments to the Listing Requirements pursuant to Bursa Securities' letter dated 14 December 2006

- 7 To transact any other business of which due notice shall have been given.

NOTICE OF DIVIDEND PAYMENT

NOTICE IS ALSO HEREBY GIVEN that the final dividend of 5% less income tax at 27% and the tax exempt dividend of 8% in respect of the financial year ended 31 December 2006, if approved by members at the Annual General Meeting to be held on 18 June 2007 will be paid on 10 August 2007. The entitlement date for the dividend will be 6 July 2007.

A depositor shall qualify for entitlement only in respect of:

- (a) Shares transferred to the depositor's securities account before 4.00 p.m. on 6 July 2007 in respect of ordinary transfer; and
- (b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD
KOSSAN RUBBER INDUSTRIES BHD.

CHIA ONG LEONG
CHIA YEW NGO
Company Secretaries

25 May 2007
Klang

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company, a qualified legal practitioner, an approved company auditor or a person approved by the Registrar of Companies in a particular case. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 ³/₄, Jalan Kapar, 42100 Klang not less than forty-eight hours before the time for holding the meeting.
3. If the appointer is a corporation, the proxy form must be executed under its Common Seal or under the hand of its attorney.
4. Authority to directors to issue shares pursuant to Section 132D
 - (a) Ordinary Resolution 8
The purpose of this Resolution is to enable the Directors of the Company to allot shares to those executives who have exercised their option under the Executive Share Option Scheme.
 - (b) Ordinary Resolution 9
In line with the Company's plan for expansion/diversification, the Company is actively looking into prospective areas so as to broaden its operation base and earnings potential. As the expansion/diversification may involve the issue of new shares, the Directors, under present circumstances, would have to call for a general meeting to approve the issue of new shares even though the number involved is less than 10% of the issued and paid up capital. In order to avoid any delay and cost involved in convening a general meeting to approve such issue of shares, it is thus considered appropriate that the Directors be empowered to issue shares in the Company up to an amount not exceeding in total 10% of the issued and paid up capital of the Company for the time being for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting will expire at the next Annual General Meeting of the Company.
5. Proposed amendments to the Articles of Association of the Company
The proposed special resolution, if passed, will empower the Directors and the Company Secretaries to take all the steps as they may consider necessary or expedient in order to implement, finalise and give full effect to the proposed amendments to the Articles of Association of the Company in compliance with the amendments to the Listing Requirements pursuant to Bursa Securities' Letter dated 14 December 2006.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1. Directors who are standing for re-election at the Twenty Seventh Annual General Meeting of the Company are:-

- (i) Lim Kuang Wang
- (ii) Heng Bak Tan
- (iii) Dato Haji Mokhtar Bin Haji Samad

The profile of the Directors standing for re-election are on pages 11 to 13.

2. Details of Attendance of Directors at Board Meetings.

Five (5) Board Meetings were held during the financial year ended 31 December 2006. Details of attendance of Directors at the Board Meetings are as follows:-

Name of Director	No. of meeting attended
Mr. Lim Kuang Sia	5/5
Mr. Lim Kuang Yong	4/5
Mr. Lim Kuang Wang	5/5
Mr. Lim Kwan Hwa	4/5
Mr. Heng Bak Tan	5/5
Dato Haji Mokhtar Bin Haji Samad	3/5
Dato' Tai Chang Eng @ Teh Chang Ying	5/5
Mdm Tong Siew Choo	5/5

3. Place, date and time of the Board of Directors' Meeting

All the Board Meetings, were held at Wisma Kossan, Lot 782 Jalan Sungai Putus, Off Batu 3³/₄, Jalan Kapar, 42100 Klang.

Date	Time
23.02.2006	4.00 p.m.
19.04.2006	4.00 p.m.
18.05.2006	4.00 p.m.
17.08.2006	4.00 p.m.
16.11.2006	4.00 p.m.

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ANNEXURE "A"

LIM KUANG SIA
81, Jalan Sungai Nibong 7
Rantau Panjang
42100 Klang
Selangor D.E.

12 April 2007

The Board of Directors
Kossan Rubber Industries Bhd
Wisma Kossan
Lot 782 Jalan Sungai Putus
Off Batu 3-3/4, Jalan Kapar
42100 Klang
Selangor Darul Ehsan

Dear Sirs,

Pursuant to Section 172(11) of the Companies Act, I, Lim Kuang Sia, being a shareholder of the Company, hereby give notice of my intention to nominate Messrs KPMG for appointment as Auditors of the Company in place of the retiring Auditors, Messrs Khoo Teng Keat & Co, and propose that the following resolution to be tabled at the forthcoming Annual General Meeting of the Company:-

"That Messrs KPMG be and are hereby appointed as Auditors of the Company in place of the retiring Auditors, Messrs Khoo Teng Keat & Co and to hold office until the conclusion of the next Annual General Meeting and that authority be and is hereby given to the Directors to fix their remuneration."

Yours faithfully,

SIGNED

LIM KUANG SIA

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PROXY FORM



KOSSAN RUBBER INDUSTRIES BHD (48166-W)
ANNUAL REPORT 2006

I/We _____
of _____
being a member of KOSSAN RUBBER INDUSTRIES BHD, hereby appoint _____
of _____
or _____
failing him, _____
or _____
as my/our proxy to vote for me/us and on my/our behalf at the Twenty Seventh (27th) Annual General Meeting of the Company to be held at Concorde III, Level 2, Concorde Hotel Shah Alam, 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam on Monday, 18 June 2007 at 10.30 a.m. or at any adjournment thereof.

ORDINARY BUSINESS		FOR	AGAINST
Adoption of Financial Statements and Reports	Ordinary Resolution 1		
Declaration of Dividend	Ordinary Resolution 2		
Approval of Directors' fee	Ordinary Resolution 3		
Re-election of directors under Article 108 (i) Lim Kuang Wang (ii) Heng Bak Tan (iii) Dato Haji Mokhtar Bin Haji Samad	Ordinary Resolution 4 Ordinary Resolution 5 Ordinary Resolution 6		
Appointment of Messrs KPMG as the Company's Auditor for the ensuing year.	Ordinary Resolution 7		
SPECIAL BUSINESS			
Authority for Directors to allot and issue shares pursuant to Section 132D of the Companies Act, 1965 - ESOS Allotment	Ordinary Resolution 8		
Authority for Directors to allot and issue shares pursuant to Section 132D of the Companies Act. 1965-General allotment	Ordinary Resolution 9		
Mandate for renewal of Recurrent Related Party Transactions of a Revenue or Trading Nature with:- (i) Kossan Holdings (M) Sdn. Bhd. and its subsidiaries (ii) Kossan FRP Industries (M) Sdn. Bhd. (iii) HT Ceramics (M) Sdn. Bhd.	Ordinary Resolution 10 Ordinary Resolution 11 Ordinary Resolution 12		
Proposed Amendments to the Articles of Association of the Company	Special Resolution 1		

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. If you do not do so, the proxy will vote or abstain from voting at his discretion.

As witness my hand this _____ day of _____ 2007

NO. OF SHARES HELD

Signature(s) of Shareholders(s)

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company, a qualified legal practitioner, an approved company auditor or a person approved by the Registrar of Companies in a particular case. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Wisma Kossan, Lot 782, Jalan Sungai Putus, Off Batu 3 ^{3/4}, Jalan Kapar, 42100 Klang not less than forty-eight hours before the time for holding the meeting.
3. If the appointer is a corporation, this form must be executed under its Common Seal or under the hand of its attorney.

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STAMP

The Secretary
KOSSAN RUBBER INDUSTRIES BHD (48166-W)

Wisma Kossan
Lot 782, Jalan Sg. Putus
Off Batu 3 ³/₄, Jalan Kapar
42100 Klang, Selangor Darul Ehsan
Malaysia

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