



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



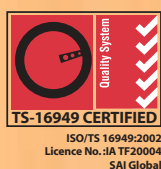
ANNUAL REPORT
2005





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Business Stability
with Long Term
Sustainable Growth



Corporate Mission

- K** Keeping a healthy growth through teamwork
- O** Opting to be competitive through the provision of good services and quality products
- S** Striving to reduce Malaysia's dependence on imported rubber goods
- S** Stepping up the welfare and professionalism of our employees
- A** Aspiring to develop more high technology products
- N** Navigating towards Malaysia's vision 2020



A n n u a l R e p o r t 2 0 0 5

Our products to more than 50 countries

Rubber Gloves



Medical Gloves



Food Handling Gloves



General Purposes Gloves



Surgical Gloves

"We are a major OEM
supplier of medical
application gloves in
the World"



Laboratory Gloves

are exported tries around the World

Technical Rubber Products



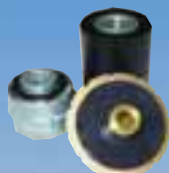
Rubber rollers for printing and general industries

Rubber Roller for General Industries



Bushing

Automotive Parts



Electrical Components

General Application



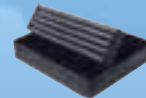
Pipe Seals



Gaskets



Water stop



Laminated Bearing Pad



Anti-Vibration Pad



Bridge Expansion Joint

Construction and Civil Engineering



Cell Fender



Arch (V) Fender

Rubber Fenders for Marine Application



Solid & Sponge Profiles



Pressure Sensor Profiles

Extruded Rubber Products

"We are the largest manufacturer of technical rubber products in Malaysia"

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.
(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.my

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

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
Website : www.symphony.com.my

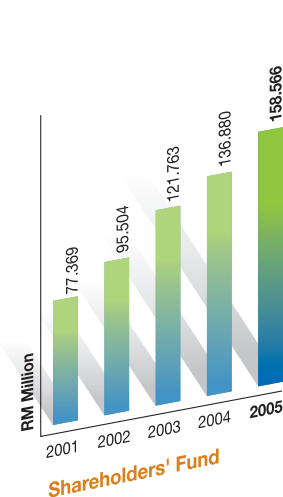
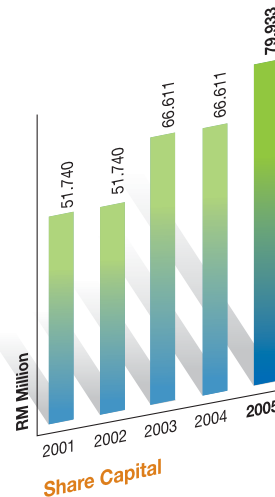
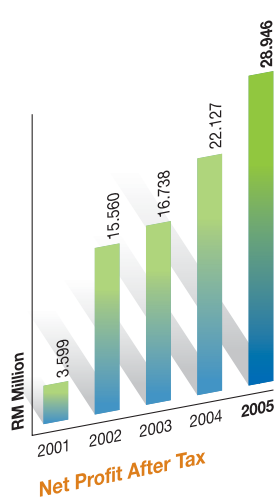
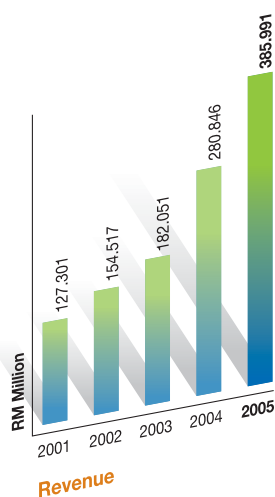
Stock Exchange Listing

BURSA MALAYSIA SECURITIES BERHAD
– Main Board

Financial Highlights

OPERATIONS (RM Million) for the years ended 31 December	2001	2002	2003	2004	2005
Revenue	127.301	154.517	182.051	280.846	385.991
Net Profit Before Tax	4.533	16.284	18.669	29.303	36.181
Net Profit After Tax	3.599	15.560	16.738	22.127	28.946
Dividend (%)	2.0	3.0	10.0	10.0	12.0
BALANCE SHEET (RM Million) as at 31 December	2001	2002	2003	2004	2005
Share Capital	51.740	51.740	66.611	66.611	79.933
Shareholders' Fund	77.369	95.504	121.763	136.880	158.566
NTA (per share) (RM)	1.50	1.85	1.83	2.05	0.99*

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



Chairman's Statement

On behalf of the Board of Directors, I am pleased to present 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 2005.



PERFORMANCE REVIEW

The year 2005 continued to be a challenging year for the Kossan Group given the highly competitive market amidst swelling raw materials and crude oil prices. I am, however, most delighted to report that the Kossan Group was able to brave through the challenges and achieved record-breaking performance, registering significant growth in both revenue and profit.

For the financial year under review, the Kossan Group achieved an impressive revenue growth of 37.46% to RM386.0 million compared to RM280.8 million in 2004. The Group's pretax profit registered a significant milestone increase of 23.5% to RM36.2 million from RM29.3 million recorded in 2004. Both the examination gloves and technical rubber products businesses contributed to the strong growth with the bulk of the revenue and pretax profit came from the subsidiaries manufacturing examination gloves, which contributed for 78.7% and 77.5% of revenue and pretax profit respectively.

The Kossan Group's impressive growth in pretax profit bears testimony to the Group's resilience. The Group's significant increase in net profit after tax by 30.76% to RM28.9 million from RM22.1 million in 2004, reflects a net return to shareholders fund of 18.3% and earnings per share of 43.63 sen. The earnings per share in 2005 after taken into account the change in the par value of each share to RM0.50 and the one for five bonus issue is adjusted to 18.11 sen.

**"KOSSAN,
The Name You Can Trust"**

"The Group's pretax profit registered a significant milestone increased of 23.5% to RM36.2 million from RM29.3 million recorded in 2004."

It is also gratifying to note that the significant increase in the Group's revenue and pretax profit was mainly attributed to the enlarged production capacity of the examination gloves. During the year, 9 additional flexible production lines were added to the existing 40 production lines which provided a better product mix. The bulk of the total output were in powder-free gloves.

The Group's balance sheet as at 31 December 2005 continued to remain strong with total assets of RM315.3 million, a notable increase of 26.9% from RM248.5 million in 2004. The Group's net gearing position remained healthy at 0.51 times, which offers ample of room for future business expansion.

The Group has been effective in its financial management and business policy to enhance long-term and sustainable shareholder value as reflected in the substantial increase in the Group's shareholders fund by 15.9% to RM158.6 million from RM136.9 million.

ACTIVITIES AND PROSPECTS OF THE GROUP

The business activities of the Group continued to expand and 2005 marked the tenth consecutive year of impressive growth. Going forward, the main growth driver will be contributed by the examination gloves business supported by a series of expansion programs in the pipeline to 2008. Our technical rubber products division too has the potential to contribute equally compelling growth on the back of higher demand for our rubber products by overseas buyers. As a substantial portion of the Group's products are exported, the continuing world wide economic growth augurs well for the Group.

Technical ability and capability to produce quality rubber products at reasonable prices, together with the Group's strong positioning in the world market will continue to provide the Group with competitive edge in the global market, and underpin more inspiring future growth and prospects.

CORPORATE DEVELOPMENT

During the fiscal year under review, the Group announced and completed a subdivision of each ordinary shares of RM1.00 per share into two ordinary shares of RM0.50 each and a bonus issue of one bonus share for every five existing shares held after the subdivision. This marked our effort in rewarding our loyal shareholders and making the shares more affordable to investors. In addition, it also improves the liquidity and marketability of the shares of the Company.

The entire issued and paid-up capital of RM79,933,488 comprising of 159,866,976 ordinary shares of RM0.50 each after the subdivision and bonus issue was listed on Bursa Securities on 22 July 2005.

The Company also approved an Executives Share Option Scheme ("ESOS") in the fiscal year to reward executives and executive directors of the Group. To date, no option has been offered to the eligible executives and directors.

DIVIDEND

I am very pleased to announce the Board's recommendation of a final dividend of 10% per share (less 28% income tax) and a special dividend of 2% tax exempt for the financial year ended 31 December 2005. The Company's total dividend pay out will be RM7,353,881, compared to the 10% (less 28% income tax) or RM4,796,009 paid for the fiscal year of 2004. This higher dividend pay out reflects the Company's strong commitment to deliver excellent shareholders' return.

ACKNOWLEDGEMENT

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

On behalf of the Board, I would like to record the Board's appreciation and thanks to all our valued customers, shareholders, government authorities, business associates, fund managers and investment analysts who have contributed positively to our growth and success as well as for their unwavering confidence and endorsement. I look forward to your continuous support of the Group.

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 2006



Managing Director's Statement



Dear Shareholders,

In 2005, we again delivered on our revenue and profit commitments with a sparkling year-on-year growth rate of more than 30% in spite of the challenging business environment attributed to intense price hikes in bulk latex. Nevertheless, I am glad to note that this is our fifth consecutive year of double-digit growth in both revenue and profit before tax, fulfilling our commitment to achieve long term sustainable growth to our shareholders. At Kossan our purpose is very clear: To achieve Business Stability with Long Term and Sustainable Growth; and this has given us and will continue to give us the confidence and zeal to excel at all times for our shareholders.

OVERVIEW

The unprecedented price hikes in latex and crude oil in the fiscal year have affected the performance of many industries, in particular the rubber gloves industry. In spite of operating with a much higher cost component within our two reporting segments, our two businesses – Examination Gloves and Technical Rubber Products, continue to deliver notable growth year after year. The Examination Gloves Division contributed close to 80% to the Group's total revenue and operating earnings while the Technical Rubber Products Division accounts for the remaining of 20%.

Our purpose at Kossan
is very clear :

“Business Stability
with Long Term
Sustainable Growth”



a) Examination Gloves Division

In early March 2006, 13 new production lines were added to the existing 49 lines. Our installed capacity per annum increased to 5.0 billion pieces, from the previous 3.9 billion pieces. Due to the overwhelming demand, this additional capacity has already been fully booked. Riding on this strong demand momentum, a further 13 lines would be installed progressively by August 2006.

In 2005, we experienced full utilization in our installed capacity with high quality medical gloves making up more than 95% of the total output and Kossan is one of the largest medical gloves manufacturers in the world. The demand for our leading products, our high-end powder-free medical glove, by the multinational companies in some developed nations such as USA, Canada, Germany, Britain and Japan was strong and unabated during the year; and it contributed 60% of our total medical gloves output. Going forward, we expect this amount to increase gradually to around 75% in the next 2 years. Indeed, I am very pleased to note that our market leadership position in this market segment continues to strengthen further.

b) Technical Rubber Products Division

The performance of our Technical Rubber Products ("TRPs") Division is equally compelling. In 2005, we posted yet another year of solid revenue performance, with turnover rising almost 22% compared to the previous year. Demand for our TRPs from overseas buyers is strong, riding on the increased outsourcing trend globally. Being the largest manufacturer for TRPs in Malaysia with a strong and proven track record in product quality, Kossan will be in the most robust position to tap on even bigger market share in TRPs going forward.

The year under review also saw the Group's continuing efforts in R&D, computerization, automation and upgrading of production and operation systems resulted in improved products quality, production stability and higher productivity with minimum wastage or rejects. Notably, our own-fabricated production lines are highly flexible and capable of producing gloves using both synthetic and natural rubber.

HUMAN RESOURCE DEVELOPMENT

Our employees are the driving force of the Group's success. Our strength lies in having a group of highly competent staff united by a strong spirit of teamwork. This offers us a great competitive advantage in executing our business strategies to achieve the intended results and performance. Being a progressive employer, we have developed a comprehensive human capital management programme to attract and retain the right people, nurture talents and groom future leaders.

To maintain and foster this spirit of excellence and unity of purpose, the Group provides extensive training for our personnel to help them keep abreast of current trends and developments in their professional fields, technical skills and personal development.

INVESTORS RELATIONS AND SHAREHOLDERS COMMUNICATIONS

Our Corporate Affairs Department continues to structure programs to promote the value of the Group to the investing public. In keeping with its objective of promoting greater level of transparency and good corporate governance, the Department is committed to hold half-yearly briefings for analysts and fund managers with the aim of providing them with up-to-date information of the Company as well as keeping them informed of key developments. We value feedbacks from our shareholders. Views and comments obtained from shareholders at general meetings as well as meetings and conferences with analysts and fund managers are channeled to senior management and the Board in a timely manner to help shape action plans.

Managing Director's Statement

CUSTOMERS' SATISFACTION

Maintaining excellent customer service and practicing professionalism in our business undertakings are part of our success factors. This is inline with our Corporate Vision. Over the years, significant measures and efforts had been made to ensure that all our customers are satisfied with our products and services rendered, such as adopting the shortest response time to customers' feedbacks, timely delivery and good quality assurance. Our efforts had won us good 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.

FUTURE PROSPECTS

The year ahead looks set to be another exciting one for the Group. On the back of increasing global latex gloves consumption, which is expected to grow at the rate of approximately 10% annually due to greater awareness and concern over hygiene standard, global improved health consciousness among consumers and the increasing usage by non-medical sectors; Kossan, being the market leader in premier quality medical gloves, is well placed to benefit from such growth. Internally, we are targeting to double our world market share from the current 5% to 10% through aggressive capacity expansion. To achieve this, we plan to install and commission another 39 highly flexible new production lines from the second half of 2006 to 2008.

Our Technical Rubber Products division, which currently contributed about 20% to the Group's overall revenue, is expected to continue to expand in the coming years. Currently, our TRP Division is running at close to 90% of its total production capacity and fresh capacity will soon be needed in the very near future to cater for the increasing demand. Being the largest manufacturer of TRPs in Malaysia and well-equipped with cutting-edge manufacturing



technologies, we are well positioned 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. We will also continue to identify strategic partnerships overseas and work together to create value for our business.

We are excited with the bright prospect and our strong positioning in our business. For greater success in the future, we will explore the growth opportunities overseas.

To continue staying ahead of others, we will continue to strengthen our ability to manufacture good quality and value-added products through continuous investments in R&D and manufacturing technologies. Producing top quality products and ensuring customers' satisfaction will be given top most priority in our strategic business plans. Our ultimate goal is to satisfy our customers and create an unrivalled trust in our products.

To replicate the 30% growth rate registered in 2005, we 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 in Kossan believe, is vital to stay competitive in the industry. We are confident that the overall performance for 2006 will be better barring any unforeseen changes in the operating environment, both locally and globally.

ACKNOWLEDGEMENT

I would like to put on record my deepest appreciation to all our customers, shareholders, government authorities, business associates, fund managers and investment analysts who have supported and believed in us over the years.

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

Lim Kuang Sia
Managing Director
25 May 2006

Directors' Profile

► Y.BHG DATO' HAJI MOKHTAR BIN HAJI SAMAD

Y. Bhg Dato' Haji Mokhtar Bin Haji Samad, a Malaysian aged 58, 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 and the ESOS 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 and members of the Jawatan Kuasa Agong, Persatuan Kontraktor Melayu Malaysia and 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, a Malaysian aged 53, was appointed the Managing Director/Chief Executive Officer of Kossan on 22 February 2002. He is a founder director of Kossan. Mr. 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.

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

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

Mr. 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. Lim is the younger brother of Messrs Lim Kuang Yong, Lim Kuang Wang and Lim Kwan Hwa, the elder brother of 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, a Malaysian aged 59, 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. Lim is an indirect substantial shareholder by virtue of his substantial shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan.

Mr. 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.

Directors' Profile

► LIM KUANG WANG

Mr. Lim Kuang Wang, a Malaysian aged 57, 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. 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. 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, a Malaysian aged 55, 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. Lim is an indirect substantial shareholder by virtue of his substantial shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan.

Mr. 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, a Malaysian aged 42, 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. Lim is an indirect substantial shareholder by virtue of his substantial shareholdings in Kossan Holdings (M) Sdn. Bhd., a substantial shareholder of Kossan.

Mr. 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 56, 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 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 60, was appointed to the Board of Kossan on 12 August 1996. He is an Independent Non Executive Director. He is a councillor in the Klang Municipal Council. He is the Chairman of the Nomination and Remuneration Committees and a member of the Audit Committee and the ESOS Committee.

Other than Kossan, he has no directorship in other public company. 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 45, 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 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 (“CODE”)

THE BOARD OF DIRECTORS OF KOSSAN RUBBER INDUSTRIES BHD. 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 VALUES.

THE BOARD IS PLEASED TO REPORT TO SHAREHOLDERS ON THE MANNER THE GROUP HAS APPLIED THE PRINCIPLES, AND THE EXTENT OF COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE, AS SET OUT IN PART 1 AND PART 2 RESPECTIVELY OF THE CODE PURSUANT TO PARAGRAPH 15.26 OF THE LISTING REQUIREMENTS OF THE BURSA MALAYSIA SECURITIES BERHAD (“THE LISTING REQUIREMENTS”) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005.

THE BOARD OF DIRECTORS

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 present in 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.

COMPOSITION AND ATTENDANCE

The composition of the Board and the individual Director's attendance of meeting during the financial year ended 31 December 2005 were as follows:

DIRECTORS	POSITION	ATTENDANCE
Y. Bhg Dato' Haji Mokhtar Bin Haji Samad	Independent Non-Executive Chairman	7/7
Lim Kuang Sia	Managing Director/ Chief Executive Officer	7/7
Y. Bhg Dato' Tai Chang Eng @ Teh Chang Ying	Independent Non-Executive Director	7/7
Lim Kuang Yong	Executive Director	7/7
Lim Kuang Wang	Executive Director	6/7
Lim Kwan Hwa	Executive Director	7/7
Heng Bak Tan	Non-Independent Non-Executive Director	7/7
Tong Siew Choo	Independent Non-Executive Director	7/7

Collectively, the Directors have a wide range of business, financial and technical experience. Their diversified mix of skills, expertise and experience are vital for the successful oversight of the Group. A brief profile of each Director is presented on pages 11 to 13.

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 judgment 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.

SUPPLY OF INFORMATION

All 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. 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.

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:

Y. Bhg Dato' Tai Chang Eng @ Teh Chang Ying
(Chairman, Independent Non-Executive)

Y. Bhg 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.

All 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.

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.

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.

In accordance with the Company's Articles of Association, all Directors who are appointed by the Board 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.

One meeting was held during the financial year under review.

REMUNERATION COMMITTEE

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

Y. Bhg Dato' Tai Chang Eng @ Teh Chang Ying
(Chairman, Independent Non-Executive)

Y. Bhg Dato' Haji Mokhtar Bin Haji Samad
(Independent Non-Executive)

Lim Kuang Sia
(Non-Independent Executive)

The Remuneration Committee is responsible for making recommendation on the remuneration of Executive Directors. The determination of remuneration packages of Non-Executive Directors is the responsibility of the Board as a whole.

The remuneration package of an Executive Director comprises a fixed salary and allowances, a bonus and such benefits in kind approved by the Board, which is linked to the Group's performance. The individuals concerned abstain from discussion of their own remuneration. Non-Executive Directors are paid an annual fee and attendance allowance for each Board or Committee Meeting they attend.

Corporate Governance Statement

The Directors' remuneration during the financial year ended 31 December 2005 were as follow:

	Executive Directors	Non-Executive Directors
Salaries	1,854,000	-
Fees	-	96,000
Other Emoluments	974,000	-
Total	2,828,000	96,000

Directors' Remuneration	
Non-Executive Directors	
Below RM50,000	4
Non-Executive Directors	
RM500,001-RM550,000	1
RM550,001-RM600,000	3
RM750,001-RM800,000	1

None of the Non-Executive Directors received Directors' remuneration of more than RM50,000 each. The aggregate total of Directors' fees are subject to shareholders' approval at the Annual General Meeting. The Board is of the opinion that the non disclosure of the individual remuneration of each Director will not significantly affect the understanding and evaluation of the Group's governance.

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

One meeting was held during the year under review.

AUDIT COMMITTEE

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

The report of the Audit Committee for the year ended 31 December 2005 is set out on pages 21 to 22.

Five meetings were held during the financial year under review.

EXECUTIVES' SHARE 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's Executives' Share 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-Law of the ESOS.

The members of the ESOS Committee are:

Y. Bhg Dato' Haji Mokhtar Bin Haji Samad
- Chairman

**Y. Bhg Dato' Tai Chang Eng @
Teh Chang Ying**

Mr. Lim Kuang Sia

During the financial year ended 31 December 2005, no ESOS options were offered.

SHAREHOLDERS

Dialogue between the Company 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.

The Board has identified Dato' Haji Mokhtar Bin Haji Samad, a senior Independent Non-Executive Director to whom any queries or concerns regarding the Group may be conveyed.

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 misstatement or loss.

The Risk Management Committee assists the Board in identifying and assessing risks and oversees the various control measures taken to minimise risks.

The Group's Statement on Internal Control for the year ended 31 December 2005 is set out on pages 19 to 20 of this Annual Report.

Relationship with Auditors

The role of the Audit Committee in relation to the auditors is described on pages 21 to 22.

Directors' Responsibility Statement and Other Information

THE BOARD OF DIRECTORS IS REQUIRED UNDER PARAGRAPH 15.27(A) OF THE LISTING REQUIREMENTS OF BURSA SECURITIES TO ISSUE A STATEMENT ON ITS RESPONSIBILITY IN THE PREPARATION OF THE ANNUAL AUDITED FINANCIAL STATEMENTS.

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year and to give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows and statement of changes in equity in accordance with applicable approved accounting standards in Malaysia for the financial year.

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 taking 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) **Executives' Share Option Scheme (ESOS)**
Shareholders approved an Executive Share Option Scheme on 16 June 2005. 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 has not issued any options, warrants or convertible securities.

- (e) **American Depositary Receipt ("ADR") or Global Depositary Receipt ("GDR")**
The Company has 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 does 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 RM42,948.00.

- (j) **Variation in Results**
There is no material variance between the result for the financial year and the audited 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 19 April 2006.

Statement on Internal Control

INTRODUCTION

THIS STATEMENT ON INTERNAL CONTROL IS MADE IN ACCORDANCE WITH PARA 15.27(B) OF BURSA SECURITIES LISTING REQUIREMENTS, WHICH REQUIRES MALAYSIAN PUBLIC LISTED COMPANIES TO MAKE A STATEMENT ABOUT THEIR STATE OF INTERNAL CONTROL, AS A GROUP, IN THEIR ANNUAL REPORT.

RESPONSIBILITY

The Board of Directors ('the Board') of Kossan Rubber Industries Bhd. ("Kossan" or "Group") 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 or loss.

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 17. 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 AS/NZS ISO 9001:2000 and 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.

Statement on Internal Control

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 21 to 22 of the Annual Report.

Additionally, as part of the requirements of the ISO 9001 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, will put in place appropriate measures, when necessary, to further enhance the Group's system of internal control.

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 2005.

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.

Report of the Audit Committee

Members

The Audit Committee comprises three Independent, Non-Executive Directors and one Non-Independent Executive Director, as follows:

Y. Bhg Dato' Haji Mokhtar Bin Haji Samad

(Chairman, Independent Non-Executive)

Y. Bhg Dato' Tai Chang Eng @ Teh Chang Ying

(Independent Non-Executive)

Tong Siew Choo

(Independent Non-Executive)

Lim Kuang Sia

(Non-Independent Executive)

Meetings

The Audit Committee held a total of 5 meetings during the year ended 31 December 2005. Details of attendance are as follows:-

MEMBERS	ATTENDANCE
Y. Bhg Dato' Haji Mokhtar Bin Haji Samad	5/5
Y. Bhg Dato' Tai Chang Eng @ Teh Chang Ying	5/5
Tong Siew Choo	5/5
Lim Kuang Sia	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:-

- reviewed the quarterly financial statements and Annual Report of the Group prior to presentation for the Board's approval;
- 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.
- reviewed the audit fees and remuneration payable to external and internal auditors;

- reviewed with external auditors their audit plan prior to commencement of audit;
- 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;
- reviewed and discussed with internal auditors their evaluation of the system of internal control of the Group;
- 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
- 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.

Report of the Directors

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 31st December 2005.

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 5 to the Financial Statements. There were no significant changes in the nature of their activities during the financial year.

2. FINANCIAL RESULTS

	Group	Company
(a) Net profit for the year	RM28,946,390	RM8,703,929
(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. DIVIDENDS

During the year, the Company paid a final dividend of 10% less income tax, amounting to RM4,796,010 in respect of the year ended 31st December 2004.

The Board now proposes a final dividend of 10% less income tax and a special tax exempt dividend of 2% for the year ended 31st December 2005 subject to the approval of the members at the forthcoming Annual General Meeting.

4. SHARE CAPITAL

During the year, the Company undertook the following :-

- (i) Subdivision of the issued and paid up share capital of 66,611,240 ordinary shares of RM1.00 each into 133,222,480 new ordinary shares of RM0.50 each on the basis of two (2) new ordinary shares of RM0.50 for every one (1) ordinary share of RM1.00 each.
- (ii) Bonus issue of 26,644,496 new ordinary shares of RM0.50 each on the basis of two (2) new ordinary shares of RM0.50 each for every ten (10) existing ordinary shares held of which RM10,757,661 were capitalised from the Accumulated Profits Account and RM2,564,587 from Share Premium Account of the Company. These new shares rank pari passu in all respects with the existing shares in issue of the Company.

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)

Report of the Directors

6. DIRECTORS (continued)

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

Name	Shares of RM1.00 each	Shares of RM0.50 each			Balance 31.12.2005
	Balance 1.1.2005	Share split	Bonus issue	Bought/ (sold)	
LIM KUANG SIA					
- direct	79,560	79,560	31,824	0	190,944
- indirect	35,779,560	35,779,560	14,311,824	0	85,870,944
LIM KUANG YONG					
- direct	0	0	0	0	0
- indirect	35,629,800	35,629,800	14,251,920	0	85,511,520
HENG BAK TAN					
- direct	0	0	0	0	0
- indirect	6,020	6,020	2,408	0	14,448
LIM KUANG WANG					
- direct	149,760	149,760	59,904	0	359,424
- indirect	35,629,800	35,629,800	14,251,920	0	85,511,520
LIM KWAN HWA					
- direct	0	0	0	0	0
- indirect	35,629,800	35,629,800	14,251,920	0	85,511,520
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	0
LIM LENG BUNG					
- direct	0	0	0	0	0
- indirect	35,629,800	35,629,800	14,251,920	0	85,511,520
Y. BHG. DATO' TAI CHANG ENG @ TEH CHANG YING, D.S.S.A., A.M.S., P.J.K.					
- direct	62,400	62,400	24,960	0	149,760
TONG SIEW CHOO					
- direct	6,240	6,240	2,496	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 RM1.00 each			Balance 31.12.2005
		Balance 1.1.2005	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

		Shares of RM1.00 each			
Name		Balance 1.1.2005	Bought	Sold	Balance 31.12.2005
KOSSAN CHEMICAL INDUSTRIES (M) SDN. BHD.					
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 16th 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 29 to the Financial Statements.
- (f) In accordance with Article 108 of the Articles of Association, MESSRS. LIM KUANG YONG and LIM KWAN HWA and MDM. TONG SIEW CHOO retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Report of the Directors

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 except for unsecured contingent liabilities amounting to RM15,530,000 being corporate guarantee given to a bank for banking facilities granted to certain subsidiaries.
- 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.

8. AUDITORS

The Auditors, MESSRS. KHOO TENG KEAT & CO., have indicated their willingness to continue in office.

On behalf of the Board,

LIM KUANG SIA
(Director)

19 April 2006
Klang.

LIM KUANG YONG
(Director)

Balance Sheets

as at 31 December 2005

		Group		Company	
	Note	2005 RM	2004 RM	2005 RM	2004 RM
NON CURRENT ASSETS					
Property, plant and equipment	4	168,684,932	129,616,740	36,942,227	34,936,842
Subsidiaries	5	0	0	14,841,429	14,841,429
Associate	6	105,777	97,664	0	0
Other investments	7	116,000	116,000	116,000	116,000
Deferred tax assets	8	1,700,214	1,854,109	0	0
Goodwill on consolidation	9	0	880,982	0	0
		170,606,923	132,565,495	51,899,656	49,894,271
CURRENT ASSETS					
Inventories	10	46,187,692	38,029,341	13,932,812	12,020,134
Trade and other receivables	11	93,210,494	72,958,753	59,049,244	52,548,777
Fixed deposits with licensed bank	12	440,099	437,106	0	0
Cash and bank balances		4,870,501	4,488,576	456,005	1,188,704
		144,708,786	115,913,776	73,438,061	65,757,615
CURRENT LIABILITIES					
Trade and other payables	13	47,933,393	38,725,802	9,648,919	6,502,938
Hire purchase liabilities	14	4,240,622	6,024,768	1,823,997	1,436,921
Unsecured loan	15	239,431	225,009	0	0
Taxation		819,009	71,805	0	0
Bank borrowings	16	65,064,338	42,438,006	13,284,511	11,595,859
		118,296,793	87,485,390	24,757,427	19,535,718
NET CURRENT ASSETS					
		26,411,993	28,428,386	48,680,634	46,221,897
		197,018,916	160,993,881	100,580,290	96,116,168
REPRESENTING : -					
SHARE CAPITAL	17	79,933,488	66,611,240	79,933,488	66,611,240
ACCUMULATED PROFITS		69,621,825	58,728,429	4,964,310	14,313,375
REVALUATION RESERVE	18	1,618,849	1,677,397	1,618,849	1,677,397
SHARE PREMIUM	19	10,601	2,714,587	10,601	2,714,587
RESERVE ON CONSOLIDATION	20	0	2,265,207	0	0
CURRENCY TRANSLATION RESERVE		27,191	86,657	0	0
DIVIDENDS PAYABLE		7,353,881	4,796,010	7,353,881	4,796,010
TOTAL CAPITAL AND RESERVES		158,565,835	136,879,527	93,881,129	90,112,609
MINORITY SHAREHOLDERS' INTEREST		2,292,630	2,213,723	0	0
DEFERRED AND LONG TERM LIABILITIES					
Unsecured loan	15	0	239,430	0	0
Bank borrowings	16	20,664,039	10,107,968	0	0
Deferred tax liabilities	8	12,156,083	7,562,940	4,643,940	4,468,443
Hire purchase liabilities	14	3,340,329	3,990,293	2,055,221	1,535,116
		36,160,451	21,900,631	6,699,161	6,003,559
		197,018,916	160,993,881	100,580,290	96,116,168

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

Income Statements

for the year ended 31 December 2005

		Group		Company	
		2005	2004	2005	2004
	Note	RM	RM	RM	RM
REVENUE	21	381,318,811	277,803,290	74,815,159	58,718,937
OTHER OPERATING INCOME		4,672,051	3,043,206	603,572	518,092
		385,990,862	280,846,496	75,418,731	59,237,029
Less					
CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK-IN-PROGRESS		(1,442,494)	15,496,990	5,875,875	1,830,858
RAW MATERIAL AND CONSUMABLE USED		(235,007,571)	(175,726,936)	(36,480,905)	(27,709,575)
GOODS PURCHASED FOR RESALE		(786,860)	(2,448,468)	0	0
STAFF COST		(50,124,277)	(39,660,846)	(15,082,248)	(12,400,885)
DEPRECIATION		(15,773,043)	(12,697,725)	(4,038,613)	(3,618,380)
OTHER OPERATING EXPENSES		(43,019,546)	(33,502,547)	(14,954,669)	(8,094,790)
TOTAL OPERATING EXPENSES		(346,153,791)	(248,539,532)	(64,680,560)	(49,992,772)
PROFIT FROM OPERATIONS		39,837,071	32,306,964	10,738,171	9,244,257
Less					
FINANCE COST		(3,723,509)	(2,934,134)	(792,428)	(749,772)
		36,113,562	29,372,830	9,945,743	8,494,485
Less					
SHARE OF PROFIT/(LOSS) OF ASSOCIATE		67,579	(69,345)	0	0
PROFIT BEFORE TAXATION	22	36,181,141	29,303,485	9,945,743	8,494,485
Less					
TAXATION	23	(7,155,844)	(7,259,579)	(1,241,814)	(1,240,990)
PROFIT AFTER TAXATION		29,025,297	22,043,906	8,703,929	7,253,495
Add					
MINORITY INTEREST SHARE OF (PROFIT)/LOSS		(78,907)	82,986	0	0
NET PROFIT FOR THE YEAR		28,946,390	22,126,892	8,703,929	7,253,495
BASIC EARNINGS PER SHARE (SEN)	24	18.11	13.84		

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2005

	Non-Distributable					Accumulated Profits RM	Dividends Payable RM	Total RM
	Share Capital RM	Revaluation Reserve RM	Share Premium RM	Reserve on Consolidation RM	Currency Translation Reserve RM			
At 1st January 2004	66,611,240	1,735,945	2,714,587	4,530,414	36,199	41,338,999	4,796,010	121,763,394
Transfers within reserves on realisation	0	(58,548)	0	0	0	58,548	0	0
Write back of reserve on consolidation	0	0	0	(2,265,207)	0	0	0	(2,265,207)
Currency translation differences, representing net profits not recognised in income statement	0	0	0	0	50,458	0	0	50,458
Net profit for the year	0	0	0	0	0	22,126,892	0	22,126,892
Interim dividend - 5% less income tax (31st December 2003)	0	0	0	0	0	0	(2,398,005)	(2,398,005)
Final dividend - 5% less income tax (31st December 2003)	0	0	0	0	0	0	(2,398,005)	(2,398,005)
Final dividend - 10% less income tax (31st December 2004)	0	0	0	0	0	(4,796,010)	4,796,010	0
At 31st December 2004	66,611,240	1,677,397	2,714,587	2,265,207	86,657	58,728,429	4,796,010	136,879,527
At 1st 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
Transfers within reserves on realisation	0	(58,548)	0	0	0	58,548	0	0
Write back of reserves on consolidation	0	0	0	(2,265,207)	0	0	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
Expenses for share split, bonus issue and ESOS	0	0	(139,399)	0	0	0	0	(139,399)
Currency translation differences, representing net profits not recognised in income statement	0	0	0	0	(59,466)	0	0	(59,466)
Net profit for the year	0	0	0	0	0	28,946,390	0	28,946,390
Final dividend - 10% less income tax (31st December 2004)	0	0	0	0	0	0	(4,796,010)	(4,796,010)
Final dividend - 10% less income tax (31st December 2005)	0	0	0	0	0	(5,755,211)	5,755,211	0
Special dividend - 2% tax exempt (31st December 2005)	0	0	0	0	0	(1,598,670)	1,598,670	0
At 31st December 2005	79,933,488	1,618,849	10,601	0	27,191	69,621,825	7,353,881	158,565,835

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

Company Statement of Changes in Equity

for the year ended 31 December 2005

		Non-Distributable				
	Share Capital RM	Revaluation Reserve RM	Share Premium RM	Accumulated Profits RM	Dividends Payable RM	Total RM
At 1st January 2004	66,611,240	1,735,945	2,714,587	11,797,342	4,796,010	87,655,124
Transfers within reserves on realisation	0	(58,548)	0	58,548	0	0
Net profit for the year	0	0	0	7,253,495	0	7,253,495
Interim dividend - 5% less income tax (31st December 2003)	0	0	0	0	(2,398,005)	(2,398,005)
Final dividend - 5% less income tax (31st December 2003)	0	0	0	0	(2,398,005)	(2,398,005)
Final dividend - 10% less income tax (31st December 2004)	0	0	0	(4,796,010)	4,796,010	0
At 31st December 2004	66,611,240	1,677,397	2,714,587	14,313,375	4,796,010	90,112,609
At 1st 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 (31st 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 (31st December 2005)	0	0	0	(5,755,211)	5,755,211	0
Special dividend - 2% tax exempt (31st December 2005)	0	0	0	(1,598,670)	1,598,670	0
At 31st 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 2005

	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	36,181,141	29,303,485	9,945,743	8,494,485
Adjustments for : -				
Depreciation	15,773,043	12,697,725	4,038,613	3,618,380
Profit on disposal of property, plant and equipment	(193,101)	(170,822)	(97,371)	(4,492)
Share of (profit)/loss of associate	(67,579)	69,345		
Interest income	(16,529)	(3,854)	(5,956)	(2,548)
Bad and doubtful debts	384,773	0		
Property, plant and equipment written off	21,493	0	12,626	0
Interest expenses	3,723,509	2,934,134	792,428	749,772
Amortisation of goodwill on consolidation	880,982	880,982	0	0
Write back of reserve on consolidation	(2,265,207)	(2,265,207)	0	0
	18,241,384	14,142,303	4,740,340	4,361,112
Operating profit before working capital changes	54,422,525	43,445,788	14,686,083	12,855,597
Increase in fixed deposit pledged to bank	0	(87,106)	0	0
Increase in inventories	(8,158,351)	(14,320,432)	(1,912,678)	(5,607,803)
Increase in receivables	(20,879,087)	(9,395,348)	(7,048,183)	(1,642,745)
Increase in payables	31,913,663	25,283,764	5,334,052	3,443,504
	2,876,225	1,480,878	(3,626,809)	(3,807,044)
Cash generated from operations	57,298,750	44,926,666	11,059,274	9,048,553
Interest received	13,536	3,854	5,956	2,548
Interest paid	(3,803,136)	(2,811,009)	(792,428)	(749,772)
Income tax paid	(1,260,194)	(1,844,427)	(518,600)	(1,025,000)
Dividend paid	(4,796,010)	(4,796,010)	(4,796,010)	(4,796,010)
	(9,845,804)	(9,447,592)	(6,101,082)	(6,568,234)
Net cash from operating activities	47,452,946	35,479,074	4,958,192	2,480,319
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	232,260	270,392	99,460	18,750
Purchase of property, plant and equipment	(50,126,459)	(34,776,279)	(2,935,685)	(2,244,422)
	(49,894,199)	(34,505,887)	(2,836,225)	(2,225,672)
	(2,441,253)	973,187	2,121,967	254,647
CASH FLOWS FROM FINANCING ACTIVITIES (Note 25)	2,387,486	(64,430)	(2,889,437)	(2,726,450)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(53,767)	908,757	(767,470)	(2,471,803)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	3,412,481	2,503,724	702,298	3,174,101
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3,358,714	3,412,481	(65,172)	702,298
CASH AND CASH EQUIVALENTS				
Cash and bank balances	4,870,501	4,488,576	456,005	1,188,704
Bank overdrafts	(1,511,787)	(1,076,095)	(521,177)	(486,406)
	3,358,714	3,412,481	(65,172)	702,298

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

Notes to the Financial Statements

31 December 2005

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 5 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 665 (2004 - 457) 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 ³/₄, 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 19th April 2006.

2. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

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 and comply with the provisions of the Companies Act 1965 and applicable approved accounting standards in Malaysia.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Consolidated Financial Statements include the Financial Statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits therefrom. Companies acquired or disposed are included in the Consolidated Financial Statements from the date of acquisition or to the date of disposal. Subsidiaries are consolidated using the acquisition method of accounting.

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.

Goodwill/(reserve) on consolidation represents the excess/(deficit) of the purchase consideration over the fair values of the net assets of the subsidiaries at the date of acquisition. Goodwill/(reserve) on consolidation is amortised/(credited) on a systematic basis following an assessment of the remaining weighted average economic useful life of the acquired depreciable assets of the respective subsidiary company, subject to a maximum of 2 years.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount. The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the Consolidated Income Statement.

d) Associates

The Group treats as associates those companies in which the Group has a long term equity interest and where it exercises significant influence over the financial and operating policies.

Investments in associates are accounted for in the Consolidated Financial Statements by the equity method of accounting based on the management financial statements of the associates.

The Group's share of post-acquisition profits less losses of associates is included in the Consolidated Income Statement and the Group's interest in associates is stated at cost plus the Group's share of post-acquisition retained profits or accumulated losses and reserves.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated unless cost cannot be recovered.

The difference between the purchase consideration and the fair value of net assets acquired is reflected as goodwill or reserve on acquisition. Goodwill on consolidation is reviewed at each balance sheet date and will be written down for impairment where it is considered necessary.

e) Investments

Investments in subsidiaries, associates and other non-current investments are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) 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 : -

	2005 RM	2004 RM
Pound Sterling	6.418	7.246
Singapore Dollar	2.200	2.200
United States Dollar	3.750	3.775
Swiss Franc	2.831	3.907
Australian Dollar	2.699	2.907
Euro	4.420	5.095
New Zealand Dollar	2.537	2.700

g) Property, Plant and Equipment and Depreciation

Property, plant and equipment were initially stated at cost. Certain land and buildings were subsequently shown at market value, based on valuations by external valuers, less subsequent accumulated depreciation and impairment losses. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

The directors have applied the transitional provisions of IAS 16 (Revised): Property, Plant and Equipment, as adopted by the Malaysian Accounting Standards Board, where certain land and buildings are stated at their 1995 valuation less accumulated depreciation. Accordingly, this valuation has not been updated.

Freehold land is not amortised. 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%

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Impairment of Assets

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

i) 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.

j) 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.

k) 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(g).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) 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.

m) 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.

n) 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.

o) 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.

p) 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.

q) 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.

r) 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.

s) 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. PROPERTY, PLANT AND EQUIPMENT

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	639,777	0	0	3,514,058
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/ Deletions 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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Group - 2004	Cost/Valuation at 1.1.2004 RM	Additions RM	Disposals RM	Transfers RM	Cost/Valuation at 31.12.2004 RM
At valuation -					
Freehold land and buildings	17,490,000	0	0	0	17,490,000
At cost -					
Freehold land and buildings	18,276,012	1,304,446	0	1,240,607	20,821,065
Plant and machinery	115,291,395	17,503,757	178,626	45,483	132,662,009
Motor vehicles	6,440,315	2,046,306	548,702	0	7,937,919
Factory renovation	2,214,807	656,016	0	3,458	2,874,281
Office furniture and equipment	5,617,136	486,183	405,250	0	5,698,069
Factory furniture and equipment	1,211,594	210,260	0	0	1,421,854
Electrical installation	1,278,306	144,753	0	0	1,423,059
Plant and machinery under construction	0	9,912,335	0	0	9,912,335
Office renovation	25,032	81,001	0	0	106,033
Buildings under construction	1,289,548	6,708,880	0	(1,289,548)	6,708,880
	169,134,145	39,053,937	1,132,578	0	207,055,504
	Accumulated depreciation at 1.1.2004 RM	Depreciation charge for the year RM	Disposals RM	Accumulated depreciation at 31.12.2004 RM	Net book value at 31.12.2004 RM
Freehold land and buildings	3,133,741	557,107	0	3,690,848	34,620,217
Plant and machinery	52,750,018	10,517,188	160,659	63,106,547	69,555,462
Motor vehicles	4,697,878	709,288	489,786	4,917,380	3,020,539
Factory renovation	984,990	215,514	0	1,200,504	1,673,777
Office furniture and equipment	2,771,434	479,160	382,564	2,868,030	2,830,039
Factory furniture and equipment	740,301	99,857	0	840,158	581,696
Electrical installation	693,618	112,033	0	805,651	617,408
Plant and machinery under construction	0	0	0	0	9,912,335
Office renovation	2,068	7,578	0	9,646	96,387
Buildings under construction	0	0	0	0	6,708,880
	65,774,048	12,697,725	1,033,009	77,438,764	129,616,740

4. PROPERTY, PLANT AND EQUIPMENT (continued)

		Cost/Valuation at 1.1.2005 RM	Additions RM	Disposals RM	Transfers RM	Cost/Valuation at 31.12.2005 RM
Company - 2005						
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	M6,058,713	549,030	0	65,286,696
	Accumulated depreciation at 1.1.2005 RM	Depreciation charge for the year RM	Disposals/ Deletions RM	Transfers 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	159,014	18,347	0	1,466,957	775,664
	24,840,171	4,038,613	534,315	0	28,344,469	36,942,227
		Cost/Valuation at 1.1.2004 RM		Disposals RM	Transfers RM	Cost/Valuation at 31.12.2004 RM
Company - 2004						
At valuation -						
Freehold land and buildings		14,437,000		0	0	14,437,000
At cost -						
Freehold land and buildings		4,712,254		21,049	0	4,733,303
Plant and machinery		30,642,218		3,915,971	0	34,558,189
Motor vehicles		2,797,210		956,238	0	3,753,448
Factory renovation		133,158		0	0	133,158
Office furniture and equipment		2,112,981		70,434	21,500	2,161,915
		54,834,821		4,963,692	21,500	59,777,013
	Accumulated depreciation at 1.1.2004 RM	Depreciation charge for the year RM		Disposals RM	Accumulated depreciation at 31.12.2004 RM	Net book value at 31.12.2004 RM
Freehold land and buildings	2,035,723	273,624		0	2,309,347	16,860,956
Plant and machinery	15,876,229	2,781,604		0	18,657,833	15,900,356
Motor vehicles	2,060,674	369,654		0	2,430,328	1,323,120
Factory renovation	111,202	5,171		0	116,373	16,785
Office furniture and equipment	1,145,205	188,327		7,242	1,326,290	835,625
	21,229,033	3,618,380		7,242	24,840,171	34,936,842

4. 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 24th 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	
	2005	2004	2005	2004
	RM	RM	RM	RM
Freehold land and buildings	8,610,741	8,723,344	6,692,098	6,786,421

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

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Plant and machinery	19,198,165	19,088,927	4,888,392	3,994,398
Motor vehicles	3,061,181	2,346,160	982,325	995,161
	22,259,346	21,435,087	5,870,717	4,989,559

During the year, the Group and the Company acquired property, plant and equipment with aggregate cost of RM45,349,514 (2004 - RM39,053,937) and RM6,058,713 (2004 - RM4,963,692) respectively of which RM4,775,428 (2004 - RM4,277,658) and RM3,123,028 (2004 - RM2,719,269) 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 16 :-

	Group		Net Book Value	Company	
	2005	2004	2005	2004	
	RM	RM	RM	RM	
Freehold land and buildings	14,667,210	17,601,962	12,532,944	12,729,667	
Plant and machinery	691,605	2,177,852	0	941,810	
	15,358,815	19,779,814	12,532,944	13,671,477	

Included in property, plant and equipment of the Group and the Company are fully depreciated assets which are still in use and cost RM26,628,913 (2004 - RM20,549,732) and RM10,182,631 (2004 - RM7,672,645) respectively.

5. SUBSIDIARIES

	Company	
	2005 RM	2004 RM
Unquoted shares, at valuation	9,691,425	9,691,425
Unquoted shares, at cost	5,150,004	5,150,004
	14,841,429	14,841,429

a) The subsidiaries are as follows : -

Name	Principal activities	Country of incorporation	Effective equity interest	
			2005	2004
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	70%	70%
+xi) Wear Safe (Malaysia) Sdn. Bhd.	Manufacturing of surgical, procedure and examination gloves	Malaysia	100%	100%

+ 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.

Notes to the Financial Statements
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6. ASSOCIATE

	Group 2005 RM	2004 RM
Unquoted shares, at cost	112,272	112,272
Add		
Group share of post acquisition loss	(33,686)	(101,265)
	78,586	11,007
Add		
Exchange adjustments	27,191	86,657
	105,777	97,664
Represented by :-		
Share of net tangible assets	122,771	114,658
Reserve on acquisition	(16,994)	(16,994)
	105,777	97,664

The associate is Kossan Europa AG, a company incorporated in Switzerland in which the Group holds 48% (2004 - 48%) of its issued equities. The associate is principally involved in trading of industrial rubber products.

7. OTHER INVESTMENTS

	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
Investment in club membership, at cost	116,000	116,000	116,000	116,000

8. DEFERRED TAX (ASSETS)/LIABILITIES

	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
At beginning of the year	5,708,831	271,262	4,468,443	4,207,216
Transfer to income statement	4,401,952	5,413,679	175,497	261,227
Underprovision in prior years	345,086	23,890	0	0
At end of the year	10,455,869	5,708,831	4,643,940	4,468,443
Presented after appropriate offsetting as follows :-				
Deferred tax assets	(1,700,214)	(1,854,109)	0	0
Deferred tax liabilities	12,156,083	7,562,940	4,643,940	4,468,443
	10,455,869	5,708,831	4,643,940	4,468,443

8. 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 :-

	Accelerated capital allowances RM	Revaluation of properties RM	Total RM
Group - 2005			
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	4,270,583	(16,121)	4,254,462
Underprovision in prior years	338,681	0	338,681
At end of the year	11,164,761	991,322	12,156,083

	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)

	Accelerated capital allowances RM	Revaluation of properties RM	Total RM
Group - 2004			
Deferred tax liabilities of the Group :			
At beginning of the year	4,201,245	1,030,211	5,231,456
Transfer to/(from) income statement	2,330,362	(22,768)	2,307,594
Underprovision in prior years	23,890	0	23,890
At end of the year	6,555,497	1,007,443	7,562,940

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

	Decelerated capital allowances RM	Tax losses and unabsorbed capital allowances RM	Total RM	
Deferred tax assets of the Group :				
At beginning of the year	(700,675)	(4,259,519)	(4,960,194)	
Transfer to income statement	700,675	2,405,410	3,106,085	
At end of the year	0	(1,854,109)	(1,854,109)	
	Accelerated capital allowances RM	Revaluation of properties RM	Total RM	
Company - 2005				
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	
	Accelerated capital allowances RM	Revaluation of properties RM	Total RM	
Company - 2004				
Deferred tax liabilities of the Company :				
At beginning of the year	3,177,005	1,030,211	4,207,216	
Transfer to/(from) income statement	283,995	(22,768)	261,227	
At end of the year	3,461,000	1,007,443	4,468,443	
Deferred tax assets have not been recognised in respect of the following items : -				
	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
Unabsorbed tax losses	203,907	563,889	0	0
Unabsorbed capital allowances	383,725	253,758	0	0
	587,632	817,647	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.

9. GOODWILL ON CONSOLIDATION

	Group 2005 RM	2004 RM
At beginning of the year	880,982	1,761,964
Amortisation during the year	(880,982)	(880,982)
At end of the year	0	880,982

10. INVENTORIES

	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
At cost -				
Raw material	19,144,632	8,270,160	8,257,399	7,287,892
Finished goods	23,754,295	20,736,852	3,324,694	3,358,073
Work-in-progress	3,288,765	9,022,329	2,350,719	1,374,169
	46,187,692	38,029,341	13,932,812	12,020,134

11. TRADE AND OTHER RECEIVABLES

	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
Gross receivables	84,357,319	62,354,697	21,748,329	19,799,037
Less				
Allowance for doubtful debts	416,028	586,903	411,628	411,628
	83,941,291	61,767,794	21,336,701	19,387,409
Due from holding company	3,646	162	3,646	161
Due from subsidiaries	0	0	31,180,755	25,706,405
Due from related companies	0	636,462	566,211	269,608
Sundry receivables and deposits	5,655,125	6,542,498	3,035,438	3,710,986
Tax recoverable	3,610,432	4,011,837	2,926,493	3,474,208
	93,210,494	72,958,753	59,049,244	52,548,777

Included in trade receivables of the Group are receivables arising from trade with related companies amounting to RM225,105 (2004 - RM787,109).

Included in trade receivables of the Company are receivables arising from trade with subsidiaries and related companies amounting to RM NIL (2004 - RM5,097,924) and RM225,105 (2004 - RM93,185) respectively.

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

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

Notes to the Financial Statements
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12. FIXED DEPOSIT WITH LICENSED BANK

Included in deposits with licensed banks of the Group are amounts of RM440,099 (2004 - RM437,106) pledged to the bank for banking facilities granted to the Group.

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Trade payables	36,218,270	27,744,692	6,792,303	4,026,695
Due to subsidiary	0	0	555,407	264,905
Due to related companies	0	524,694	3,994	0
Due to holding company	8,543	19,504	0	0
Sundry payables	11,706,580	10,436,912	2,297,215	2,211,338
	47,933,393	38,725,802	9,648,919	6,502,938

Included in trade payables of the Group are payables arising from trade with related companies amounting to RM158,833 (2004 - RM57,658).

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 53.49% (2004 - 53.49%) of the Company's issued equities.

14. HIRE PURCHASE LIABILITIES

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Future minimum payment are as follows : -				
Payable within one year	4,542,386	6,468,785	2,000,601	1,577,897
Payable between one and five years	3,495,254	4,172,154	2,142,286	1,629,198
	8,037,640	10,640,939	4,142,887	3,207,095
Less				
Finance charges	456,689	625,878	263,669	235,058
	7,580,951	10,015,061	3,879,218	2,972,037
Represented by hire purchase liabilities : -				
Due within 12 months	4,240,622	6,024,768	1,823,997	1,436,921
Due after 12 months	3,340,329	3,990,293	2,055,221	1,535,116
	7,580,951	10,015,061	3,879,218	2,972,037

Hire purchase liabilities carry interest with flat rates of 1.88% to 5.00% (2004 - 1.88% to 5.10%) per annum.

15. UNSECURED LOAN

Unsecured loan carries interest at 3.3% (2004 - 3.3%) per annum and has a repayment term of 36 months.

16. BANK BORROWINGS

	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
Long term borrowings				
Secured -				
Term loans	23,635,376	13,695,084	0	534,191
Less				
Due within 12 months	2,971,337	3,587,116	0	534,191
Due after 12 months	20,664,039	10,107,968	0	0
Short term borrowings				
Secured -				
Term loans due within 12 months	2,971,337	3,587,116	0	534,191
Trade finance	19,570,716	10,140,875	9,148,542	6,961,875
Bank overdrafts	27,744	153,610	27,744	0
	22,569,797	13,881,601	9,176,286	7,496,066
Unsecured -				
Trade finance	41,010,498	27,633,920	3,614,792	3,613,387
Bank overdrafts	1,484,043	922,485	493,433	486,406
	42,494,541	28,556,405	4,108,225	4,099,793
	65,064,338	42,438,006	13,284,511	11,595,859

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 1.0% 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.

Notes to the Financial Statements
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17. SHARE CAPITAL

	2005 RM	2004 RM
Ordinary shares of RM0.50# (2004 - RM1.00) each :		
Authorised	150,000,000	150,000,000
Issued and fully paid		
At beginning of the year	66,611,240	66,611,240
Issued during the year :		
Bonus issue	13,322,248	0
At end of the year	79,933,488	66,611,240

During the year, the Company had a bonus issue of 26,644,496 new ordinary shares of RM0.50 each on the basis of two (2) new ordinary shares of RM0.50 each for every ten (10) sub-divided ordinary shares held.

The ordinary shares of RM1.00 each were sub-divided into RM0.50 per ordinary share each during the financial year.

18. REVALUATION RESERVE

	2005 RM	2004 RM
At beginning of the year	1,677,397	1,735,945
Transfer within reserves on realisation	(58,548)	(58,548)
At end of the year	1,618,849	1,677,397

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.

19. SHARE PREMIUM

	2005 RM	2004 RM
At beginning of the year	2,714,587	2,714,587
Less :		
Bonus issue through capitalisation of share premium	2,564,587	0
Expenses for shares issued	139,399	0
	2,703,986	0
At end of the year	10,601	2,714,587

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

20. RESERVE ON CONSOLIDATION

	Group 2005 RM	2004 RM
At beginning of the year	2,265,207	4,530,414
Write back to income statement	(2,265,207)	(2,265,207)
At end of the year	0	2,265,207

21. REVENUE

	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
Sales of goods	381,265,545	277,489,421	71,264,191	56,116,377
Interest income	5,956	2,548	5,956	2,548
Dividend income	0	0	3,545,012	2,600,012
Services rendered	47,310	311,321	0	
	381,318,811	277,803,290	74,815,159	58,718,937

22. PROFIT BEFORE TAXATION

Profit before taxation is arrived at :-

	Group 2005 RM	2004 RM	Company 2005 RM	2004 RM
AFTER CHARGING :-				
Directors' fees	96,000	126,000	96,000	96,000
Directors' salaries and allowance	4,425,632	4,253,544	1,319,472	1,243,200
Auditors' remuneration				
- current year	119,450	98,150	42,000	35,000
- under/(over) provision in previous year	0	500	0	0
Rental of premises	1,885,778	2,131,436	501,008	354,006
Overdraft interest	187,778	230,416	77,992	125,200
Hire purchase interest	581,465	821,705	237,289	174,193
Term loan interest	963,084	652,453	16,508	80,102
Depreciation	15,773,043	12,697,725	4,038,613	3,618,380
Property, plant and equipment written off	21,493	0	12,626	0
Bad debts written off	264,085	0	0	0
Hire of equipment	12,783	4,216	1,790	0
Unsecured loan interest	22,275	36,724	0	0
Trade finance interest	1,968,907	1,192,836	460,639	370,277
Amortisation of goodwill on consolidation	880,982	880,982	0	0

22. PROFIT BEFORE TAXATION (continued)

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
AND CREDITING :-				
Dividend income	0	0	3,545,012	2,600,012
Fixed deposit interest receivable	16,529	3,854	5,956	2,548
Profit on disposal of property, plant and equipment	193,101	170,822	97,371	4,492
Rental income	288,000	344,000	354,000	354,000
Gain on foreign exchange differences	1,436,401	623,502	0	0
Write back of reserve on consolidation	2,265,207	2,265,207	0	0

23. TAXATION

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Income tax -				
Malaysian	(2,367,873)	(1,894,511)	(924,677)	(1,023,760)
(Under)/over provision in prior year	(40,932)	72,501	(141,639)	43,997
	(2,408,805)	(1,822,010)	(1,066,316)	(979,763)
Deferred tax :-				
Origination	(4,542,031)	(5,295,255)	(315,576)	(142,803)
Over/(under) provision in prior years	(205,008)	(142,314)	140,078	(118,424)
	(4,747,039)	(5,437,569)	(175,498)	(261,227)
Tax expense for the year	(7,155,844)	(7,259,579)	(1,241,814)	(1,240,990)

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	
	2005	2004	2005	2004
	RM	RM	RM	RM
Taxation at Malaysian statutory tax rate	(10,130,719)	(8,204,976)	(2,784,808)	(2,378,456)
Expenses not deductible for tax purposes	(159,482)	(222,263)	(63,353)	(38,611)
Tax incentives	2,994,402	911,359	787,689	610,032
Utilisation of previously unrecognised tax losses and unabsorbed capital allowances	406,988	0	0	0
Depreciation of non-qualifying property, plant and equipment	(278,799)	(209,249)	(126,552)	(110,299)
Income not subject to tax	0	728,003	924,003	728,003
Deferred tax asset not recognised during the year	(69,078)	(135,360)	0	0
(Under)/over provision in prior year				
- income tax expense	(40,932)	72,501	(141,639)	43,997
- deferred tax expense	(205,008)	(142,314)	140,078	(118,424)
Others	326,784	(57,280)	22,768	22,768
Tax expense for the year	(7,155,844)	(7,259,579)	(1,241,814)	(1,240,990)

23. TAXATION (continued)

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Unutilised tax losses carried forward	5,171,814	6,250,946	0	0
Unabsorbed capital allowance carried forward	8,728,996	9,720,645	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 31st December 2005, there are sufficient Section 108 tax credit to frank in full the accumulated profits of the Company if distributed as dividends.

As at 31st December 2005, the Group has unutilised reinvestment allowances amounting to RM28,915,270 (2004 - RM14,733,553) which, subject to approval by the tax authorities, can be used to offset against future business income.

As at 31st December 2005, the Company has tax-exempt income of RM18,827,230 (2004 - RM16,252,772) 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 RM37,549,613 (2004 - RM34,249,601). Dividends declared out of such profits will also be exempted from income tax in the hands of the shareholders.

24. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the Group net profit for the year of RM28,946,390 (2004 - RM22,126,892) by the weighted average number of 159,866,976 (2004 - adjusted for share split and bonus issue : 159,866,976) ordinary shares in issue during the financial year.

No diluted earnings per share were presented for current year as there were no potential dilutive ordinary shares outstanding as at 31st December 2005.

25. CASH FLOWS FROM FINANCING ACTIVITIES

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Repayment of hire purchase liabilities	(7,209,538)	(6,468,814)	(2,215,847)	(1,558,971)
Term loan received	13,818,409	9,300,000	0	0
Repayment of term loans	(3,856,977)	(3,360,056)	(534,191)	(1,167,479)
Unsecured loan received	0	675,000	0	0
Repayment of unsecured loan	(225,009)	(210,560)	0	0
Share issue expenses	(139,399)	0	(139,399)	0
	2,387,486	(64,430)	(2,889,437)	(2,726,450)

26. SEGMENTAL ANALYSIS - GROUP

	Rubber Products		Others		Total	
	2005	2004	2005	2004	2005	2004
	RM	RM	RM	RM	RM	RM
ANALYSIS BY ACTIVITIES						
REVENUE AND EXPENSES						
Revenue -						
External sales	381,271,501	277,491,969	47,310	311,321	381,318,811	277,803,290
Result -						
Segment results	39,999,877	32,026,266	(162,806)	280,698	39,837,071	32,306,964
Finance cost, net					(3,723,509)	(2,934,134)
Share of results of associate	0	0	67,579	(69,345)	67,579	(69,345)
Taxation					(7,155,844)	(7,259,579)
Profit after taxation					29,025,297	22,043,906
ASSETS AND LIABILITIES						
Segment assets	302,850,310	248,214,552	12,359,622	167,055	315,209,932	248,381,607
Investment in equity of associate	0	0	105,777	97,664	105,777	97,664
Consolidated total assets					315,315,709	248,479,271
Segment liabilities	152,655,883	108,737,699	1,801,361	2,862,045	154,457,244	111,599,744
OTHER INFORMATION						
Capital expenditure	54,901,887	39,053,937	0	0	54,901,887	39,053,937
Depreciation	15,773,043	12,697,725	0	0	15,773,043	12,697,725
Non-cash expenses other than depreciation	880,982	880,982	0	0	880,982	880,982

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

27. CONTINGENT LIABILITIES - UNSECURED

As at 31st December 2005, the Company has outstanding unsecured contingent liabilities amounting to RM73,231,461 (2004 - RM45,762,161) being corporate guarantees given to banks for banking facilities granted to certain subsidiaries.

28. CAPITAL COMMITMENT

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Capital expenditure :				
Contracted but not provided for	16,920,849	2,196,295	584,419	1,570,012

29. RELATED PARTY TRANSACTIONS

Name	Type of Transaction	Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
a) Transactions with Kossan Holdings (M) Sdn. Bhd. and its subsidiaries					
Kossan Chemical Industries (M) Sdn. Bhd.	Rental payable	(474,480)	(367,360)	(186,480)	(40,320)
Kossan Japan Rollers Sdn. Bhd.	Rental receivable	150,000	150,000	150,000	150,000
Pleasure Latex Products Sdn. Bhd.	Rental receivable	120,000	176,000	120,000	120,000
Kossan Paint (M) Sdn. Bhd.	Sales	285,713	361,784	269,177	361,584
	Purchase of consumables	(481,696)	(537,614)	(8,676)	(18,154)
	Purchase of raw materials	(89,067)	0	0	0
	Services rendered receivables	1,500	75,220	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	(3,730,084)	(2,520,217)	0	0
	Sales	4,432	912	4,432	912
Kossan F.R.P. Industries (M) Sdn. Bhd.	Purchase of consumables	(4,135)	(52,519)	(4,135)	(12,169)
	Sales	2,000	4,149	2,000	4,149
	Services rendered payable	(62,350)	(12,500)	0	0
	Purchase of property, plant and equipment	(3,749,954)	0	0	0
Chemtube (M) Sdn. Bhd.	Security and storage handling charges	5,173	0	0	0
	Sales	27,301	6,076	27,301	6,076

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.

30. SUBSEQUENT EVENT

At 30th March 2006, the Company acquired the remaining 720,000 ordinary shares of RM1 each representing 30% equity interest in Hibon Corporation Sdn. Bhd. ("HCSB"), a 70% subsidiary of the Company, for a total cash consideration of RM2,586,456 or approximately RM3.59 per share. With the acquisition, HCSB will be a wholly-owned subsidiary of the Company.

31. 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 31st December 2005, the Group had contracted the following amounts under forward contracts : -

	2005 RM	2004 RM	Average Exchange Rate per unit of Ringgit Malaysia 2005 RM	2004 RM
United States Dollars (to sell)	108,037,263	127,506,493	3.746	3.80

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

	2005 RM	2004 RM
Off Balance Sheet item : Carrying amount	108,037,263	127,506,493
Fair value	108,037,263	127,506,493

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

31. FINANCIAL INSTRUMENTS (continued)

- iii) The carrying amounts and estimated fair values of the other financial instruments of the Group as at 31st December 2005 are as follows :-

	Carrying Amount		Fair Value	
	2005 RM	2004 RM	2005 RM	2004 RM
<u>Financial Assets</u>				
Other investments	116,000	116,000	116,000	116,000
<u>Financial Liabilities</u>				
Borrowings	85,693,878	52,545,974	85,693,878	52,545,974
Hire purchases liabilities	7,580,951	10,015,061	7,580,951	10,015,061
Unsecured loan	239,431	464,439	239,431	464,439

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 27) are not recognised in the balance sheet as at 31st December 2005 as it is not practicable to make a reliable estimate due to the uncertainties of timing, costs and eventual outcome.

Report of the Auditors

To the Members of Kossan Rubber Industries Bhd

Financial Statements
31 December 2005

We have audited the Financial Statements set out on pages 27 to 55. 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 31st December 2005 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)

19 April 2006

Klang.

Statement by Directors

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 27 to 55 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 2005 and of the results and cash flows for the year then ended.

On behalf of the Board,

LIM KUANG SIA
(Director)

19 April 2006
Klang.

LIM KUANG YONG
(Director)

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 27 to 55 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)
19 April 2006)

Before me,

Commissioner for Oaths,
Klang.

List of Properties

as at 31 December 2005

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	24/3/95*	12 yrs	990 sq.ft	Freehold	Staff quarters	85,555
No. 16, Lorong Sungai Puloh, Tmn Klang Utama, 42100 Klang.	1 unit double storey link house	24/3/95*	12 yrs	990 sq.ft	Freehold	Staff quarters	85,555
Lot 754, Jalan Hj Sirat, 42100 Klang.	Factory	24/3/95*	11 yrs	246,550 sq.ft	Freehold	Factory	10,695,602
Lot 782, Jalan Hj Sirat, 42100 Klang.	Factory and office	24/3/95*	Factory-18 yrs Office-11 yrs	47,480 sq.ft	Freehold	Factory and office	2,605,024
Lot 16632, Batu 5 1/4, Jalan Meru 41050 Klang.	Single storey detached factory	24/3/95*	16 yrs	65,175 sq.ft	Freehold	Factory and office	2,693,686
Lot 2401, Batu 17, Jln Sungai Sembilang, 45800 Jeram.	Factory	31/1/95	7 yrs	106,177 sq.ft	Freehold	Factory	3,126,110
GM 554, Lot 2796, Mukim of Jeram, Kuala Selangor.	Factory	31/1/95	3 yrs	213,916 sq.ft	Freehold	Factory	5,011,024
Lot 1365, Batu 17, Jln Sungai Sembilang, 45800 Jeram.	Factory	31/1/95	7 yrs	217,800 sq.ft	Freehold	Factory and office	6,704,343
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	12 yrs	174 sq.mtr	Freehold	Store	247,433
HS (M) 1168, PT 476, Batu 15 1/4, Jalan Kapar, Mukim Jeram, Kuala Selangor.	Staff quarters	27/2/03	2 yrs	5,527 sq.mtr	Freehold	Staff quarters	1,050,624
Lot 1366, Batu 17, Jalan Kapar, Mukim Jeram, Kuala Selangor.	Factory	28/8/03	2 yrs	152,460 sq.ft	Freehold	Factory	7,943,446
Geran 40417, Lot 4761, Mukim Jeram, Kuala Selangor.	Factory	19/5/04	1 yr	7 acres 1 rood 14.67 poles	Freehold	Factory	3,126,699
Lot 6129, 5 1/4 Miles, Jln Hj Abdul Manan, 41050 Klang.	Factory	28/1/05	Factory under construction	434,145 sq.ft	Freehold	Factory and office	16,890,597
							<u>60,265,698</u>

Statistics on Shareholdings

as at 28 April 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 28 April 2006

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	132	5.23	8,009	0.01
100 - 1,000	351	13.91	254,147	0.16
1,001 - 10,000	1,406	55.73	6,787,844	4.24
10,001 - 100,000	533	21.13	13,972,620	8.74
100,001 to less than 5% of issued shares	99	3.92	68,308,836	42.73
5% and above of issued shares	2	0.08	70,535,520	44.12
	2,523	100.00	159,866,976	100.00

SUBSTANTIAL SHAREHOLDERS

as at 28 April 2006

Name of Shareholders	No. of Shares Held	% of Issued Share Capital
1. Kossan Holdings (M) Sdn Bhd	85,511,520	53.49
- 70,535,520 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. Prudential Unit Trusts Berhad	8,911,600	5.57
- 4,225,040 Shares held through BHLB Trustee Bhd		
- 4,686,560 Shares held through HSBS (M) Trustee Bhd		

DIRECTORS' SHAREHOLDINGS

as at 28 April 2006

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. Bhg. Dato' Tai Chang Eng @ Teh Chang Ying	149,760	0.09
8. Tong Siew Choo	14,976	0.01
9. Lim Leng Bung	-	-

Statistics on Shareholdings

THIRTY (30) LARGEST SHAREHOLDERS

as at 28 April 2006

Name of Shareholders	No. of Shares Held	% of Issued Share Capital
1. Kossan Holdings (M) Sdn Bhd	56,996,784	35.65
2. Kossan Holdings (M) Sdn Bhd	13,538,736	8.47
3. Malaysia Nominees (Tempatan) Sendirian Berhad (A/C for Kossan Holdings (M) Sdn Bhd 05-00042-000)	7,776,000	4.86
4. EB Nominees (Tempatan) Sendirian Berhad (A/C for Kossan Holdings (M) Sdn Bhd (PKG))	7,200,000	4.50
5. Ruby Technique Sdn Bhd	3,143,520	1.97
6. HSBC Nominees (Tempatan) Sdn Bhd (HSBC (M) Trustee for Prudential Dana Dinamik (4546))	2,734,500	1.71
7. BHLB Trustee Berhad (Prugrowth Fund)	2,505,000	1.57
8. HSBC Nominees (Tempatan) Sdn Bhd (HSBC (M) Trustee Bhd for Prudential Dynamic Fund (4496))	1,952,060	1.22
9. AMMB Nominees (Tempatan) Sdn Bhd (AmTrustee Berhad for Pacific Pearl Fund (5/1-9))	1,591,920	1.00
10. Ruby Technique Sdn Bhd	1,582,080	0.99
11. BHLB Trustee Berhad (TA Small Cap Fund)	1,501,100	0.94
12. Amanah Raya Nominees (Tempatan) Sdn Bhd (Public Islamic Opportunities Fund)	1,456,800	0.91
13. Citigroup Nominees (Asing) Sdn Bhd UBS AG for Hidden Jewels Fund	1,450,800	0.91
14. Amanah Raya Nominees (Tempatan) Sdn Bhd (Public Islamic Balanced Fund)	1,404,200	0.88
15. RHB Capital Nominees (Tempatan) Sdn Bhd (A/C for Susy Ding (CEB))	1,400,080	0.88
16. Chia Fei Kung	1,380,000	0.86
17. Lim Hui Guan	1,362,000	0.85
18. Universal Trustee (Malaysia) Berhad (SBB Dana Al-Azam)	1,319,300	0.83
19. AMMB Nominees (Tempatan) Sdn Bhd (AmTrustee Berhad for Pacific Dividend Fund (5/27-2))	1,258,540	0.79
20. BHLB Trustee Berhad (Prusmall-Cap Fund)	1,029,440	0.64
21. Amanah Raya Nominees (Tempatan) Sdn Bhd (Kumpulan Wang Am)	1,000,000	0.63

THIRTY (30) LARGEST SHAREHOLDERS (continued)

as at 28 April 2006

Name of Shareholders	No. of Shares Held	% of Issued Share Capital
22. Malaysian Trustees Berhad (PacificMas Asset Management Sdn Bhd for The Pacific Insurance Berhad)	957,140	0.60
23. Yee Chek Mun	936,000	0.59
24. Universal Trustee (Malaysia) Berhad (Pacific Premier Fund)	883,820	0.55
25. Lembaga Tabung Haji	807,600	0.51
26. BHLB Trustee Berhad (TA Growth Fund)	785,700	0.49
27. Nin Koi Yong @ Lim Koi Yong	773,952	0.48
28. Malaysian Trustees Berhad (PacificMas Asset Management Sdn Bhd for Great Eastern Life Assurance (Malaysia) Berhad (PAR 1))	725,040	0.45
29. Teng Choon Kwang	633,792	0.40
30. Mayban Nominees (Tempatan) Sdn Bhd (Malaysian Trustees Berhad for Mayban Smallcap Trust Fund (240165))	628,020	0.39

Notice of Annual General Meeting



KOSSAN RUBBER INDUSTRIES BHD

(Company No.: 48166-W)
(Incorporated in Malaysia)

NOTICE IS HEREBY GIVEN THAT THE TWENTY SIXTH (26TH) ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD AT CONCORDE II, LEVEL 2, CONCORDE HOTEL SHAH ALAM, 3, JALAN TENGKU AMPUAN ZABEDAH C 9/C, 40100 SHAH ALAM ON FRIDAY 16 JUNE 2006 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 2005 and the Reports of the Directors' and the Auditors thereon.
(Resolution 1)
2. To approve payment of a final dividend of 10% less 28% income tax and a special tax exempt dividend of 2% for the financial year ended 31 December 2005.
(Resolution 2)
3. To approve the payment of directors' fee of RM 96,000 for the financial year ended 31 December 2005. (2004 : RM96,000).
(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 Yong **(Resolution 4)**
 - (ii) Lim Kwan Hwa **(Resolution 5)**
 - (iii) Tong Siew Choo **(Resolution 6)**
5. To re-appoint Messrs Khoo Teng Keat & Co. as Auditors and to authorise the Board of Directors to fix their remuneration.
(Resolution 7)
6. **SPECIAL BUSINESS**
To consider and if thought fit, to pass the following as ordinary resolutions:
 - (a) Authority 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 Executives 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.”
(Resolution 8)
 - (b) Authority to allot and issue shares in general pursuant to Section 132D of the Companies Act. 1965- General Allotment.
(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.”



KOSSAN RUBBER INDUSTRIES BHD

(Company No.: 48166-W)
(Incorporated in Malaysia)

Notice of Annual General Meeting

- (c) Proposed renewal and further 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 to Shareholders dated 25 May 2006 with the following related parties:-

- (1) Kossan Holdings (M) Sdn. Bhd. and its subsidiaries
(Resolution 10)

- (2) Kossan FRP Industries (M) Sdn. Bhd.
(Resolution 11)

- (3) HT Ceramics (M) Sdn. Bhd.
(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 these ordinary resolutions."

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



KOSSAN RUBBER INDUSTRIES BHD

(Company No.: 48166-W)
(Incorporated in Malaysia)

Notice of Annual General Meeting

NOTICE OF DIVIDEND PAYMENT

NOTICE IS ALSO HEREBY GIVEN that the final dividend of 10% less income tax at 28% and the special tax exempt dividend of 2% in respect of the financial year ended 31 December 2005, if approved by members at the Annual General Meeting to be held on 16 June 2006 will be paid on 10 August 2006. The entitlement date for the dividend will be 6 July 2006.

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 4 July 2006 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 2006

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) 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 Executives Share Option Scheme.
 - (b) 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.

Statement Accompanying Notice of Annual General Meeting

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

- (i) Lim Kuang Yong
- (ii) Lim Kwan Hwa
- (iii) Tong Siew Choo

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

2. Details of Attendance of Directors at Board Meetings.

Seven (7) Board Meetings were held during the financial year ended 31 December 2005. Details of attendance of Directors at the Board Meetings are as follows:-

Name of Director	No. of meeting attended
Mr. Lim Kuang Sia	7/7
Mr. Lim Kuang Yong	7/7
Mr. Lim Kuang Wang	6/7
Mr. Lim Kwan Hwa	7/7
Mr. Heng Bak Tan	7/7
Y. Bhg Dato Haji Mokhtar Bin Haji Samad	7/7
Y. Bhg Dato' Tai Chang Eng @ Teh Chang Ying	7/7
Mdm Tong Siew Choo	7/7

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 3 ³/₄ , Jalan Kapar, 42100 Klang.

Date	Time
13 January 2005	4.00 p.m.
24 February 2005	4.00 p.m.
19 March 2005	11.00 a.m.
15 April 2005	4.00 p.m.
19 May 2005	4.00 p.m.
19 August 2005	4.00 p.m.
17 November 2005	4.00 p.m.

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Proxy Form



KOSSAN RUBBER INDUSTRIES BHD

(Company No.: 48166-W)
(Incorporated in Malaysia)

I/We _____

of _____

being a member of KOSSAN RUBBER INDUSTRIES BHD, hereby appoint

of _____

failing him, _____

of _____

as my/our proxy to vote for me/us and on my/our behalf at the Twenty Sixth (26th) Annual General Meeting of the Company to be held at Concorde II, Level 2, Concorde Hotel Shah Alam, 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam on Friday 16 June 2006 at 10.30 a.m. or at any adjournment thereof.

RESOLUTIONS		FOR	AGAINST
Adoption of accounts and reports	- Resolution 1		
Approval for payment of dividend	- Resolution 2		
Approval of directors' fee	- Resolution 3		
Election of directors: (i) Lim Kuang Yong (ii) Lim Kwan Hwa (iii) Tong Siew Choo	- Resolution 4 - Resolution 5 - Resolution 6		
Appointment of auditors and authorizing directors to fix their remuneration	- Resolution 7		
Authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965 - ESOS Allotment	- Resolution 8		
Authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965 - General allotment	- Resolution 9		
Mandate and Ratification of Recurrent Related Party Transactions of a Revenue or Trading Nature (i) Kossan Holdings (M) Sdn. Bhd. and its subsidiaries (ii) Kossan FRP Industries (M) Sdn. Bhd. (iii) HT Ceramics (M) Sdn. Bhd.	- Resolution 10 - Resolution 11 - Resolution 12		

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 _____ 2006

NO. OF SHARES HELD

Signature(s) of Shareholder(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.

Please fold here

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.

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Visit Our Website :
www.kossan.com.my



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

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

Tel - 603 3291 2657 | Fax - 603 391 2903 | Email - kossan@kossan.po.my