

THONG GUAN INDUSTRIES BERHAD

(Company No. 324203-K)

(Incorporated in Malaysia)

NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2001

1. Group's Accounting Policies

There are no changes in the Group's accounting policies and methods of computations used in this quarterly financial statement as compared with the most recent annual financial statements.

2. Exceptional Items

There were no exceptional items for the financial periods under review

3. Extraordinary Items

There were no extraordinary items for the financial periods under review.

4. Taxation

The tax charge provided for the current quarter is in respect of current taxation and is lower than statutory tax rate due to tax incentives available to certain subsidiary companies of the Group.

5. Pre-acquisition Profit

There were no pre-acquisition profits for the current financial year.

6. Profit on sale of investments and/or properties

There were no profits on sale of investments and/or properties for the current financial year.

7. Quoted Shares

There were no purchases or disposals of quoted shares for the financial year.

8. Changes in Composition of the Group

There were no changes in the composition of the Group for the current quarter. For the current financial year to date, the Company had acquired 2 wholly owned subsidiaries, namely Ebontech Sdn Bhd and Magna Reliance Sdn Bhd.

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NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2001 (Cont'd)

9. Status of Corporate Proposals

On 29 January 2001, the Company obtained conditional approval from the Securities Commission in relation to its following proposals:-

- Proposed Bonus Issue of up to 14,850,000 new ordinary shares of RM 1.00 each to be credited as fully paid to the existing shareholder of the Company, on the basis of one (1) new ordinary share of RM 1.00 for every two (2) existing shares held in the Company;
- Proposed Renounceable Rights Issue of up to 29,700,000 new ordinary shares of RM 1.00 each on the basis of one (1) new share for every one (1) existing share held prior to the Proposed Bonus Issue;
- Proposed Amendments to the Bye-Laws of the Thong Guan Industries Berhad Employee Share Option Scheme (ESOS);
- Proposed Transfer of the listing of and quotation for the entire issued and paid-up share capital of the Company from the Second Board to the Main Board of the Kuala Lumpur Stock Exchange (KLSE); and
- The listing of and quotation for all the new shares issued pursuant to the above proposals on the Main Board of the KLSE

On 9 March 2001, the shareholders through an Extraordinary General Meeting approved the first three proposals above and

- The increase in the Authorised Share Capital of the Company from RM 50,000,000 divided into 50,000,000 ordinary shares of RM 1.00 each to RM 500,000,000 divided into 500,000,000 ordinary shares of RM 1.00 each.

On 6 July 2001, Arab-Malaysian Merchant Bank Berhad on behalf of the company announced that the company intended to revise its proposed Bonus and Rights Issues to the following:-

- Bonus Issue of up to 22,275,000 new ordinary shares of RM1.00 each on the basis of three (3) new ordinary shares for every four (4) existing ordinary shares held
- Rights Issue of up to 14,850,000 new ordinary shares of RM1.00 each with up to 14,850,000 free detachable warrants 2001/2006 at an issue price of RM1.00 per ordinary share on the basis of one (1) Rights Share for every two (2) existing ordinary shares held

Other than the above, there were no material corporate proposals that have been announced but not completed as at the date of this announcement.

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NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2001 (Cont'd)

10. Seasonal or Cyclical Factors

The Group has traditionally performed better during the second half of the financial year as sales will pick up for the year end festive season

11. Equity Structure

For the current financial year-to-date, 144,000 new shares were issued pursuant to the Company's Employee Share Option Scheme (ESOS).

Other than the above, there were no issuance and repayment of debt and equity stocks, stock buy-backs, stock cancellations, stocks held as treasury stocks and resale of treasury stocks for the current financial year.

12. Group Borrowings

30 June 2001

RM'000

Long term borrowings, secured	
<i>Analysis of repayment</i>	
Between 1 - 2 years	4,536
Between 2 - 5 years	8,602
Above 5 years	233
	<hr/>
	13,371
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Short term borrowings	
<i>Secured</i>	
Bank overdrafts	3,429
Short term loans	4,526
Other borrowings	2,079
	<hr/>
	10,034
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<i>Unsecured</i>	
Bank overdrafts	75
Short term loans	-
Other borrowings	2,714
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	2,789
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NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2001 (Cont'd)

13. Contingent Liabilities

	<u>RM'000</u>
Bills discounted	1,133

The bills discounted are secured by fixed charges over all the fixed assets of the subsidiary company for which facility is granted.

The Company has also issued corporate guarantee for banking facilities to its subsidiary companies and to its trade suppliers for the purchase of raw materials by its subsidiary companies amounting to RM 78.9 million and RM 9.5 million respectively.

Other than the above, there were no contingent liabilities pending at the date of this report.

14. Off Balance Sheet Financial Instruments

The group does not envisage any material financial instruments with off balance sheet risk as at 17 August 2001, the latest practicable date which is not earlier than 7 days from the date of the issuance of his quarterly report.

15. Material Litigation

Neither Thong Guan Industries Berhad nor any of its subsidiary companies are engaged in any material litigation, either as plaintiff or defendant and the Director are not aware of any proceedings pending or threatened against the company or any of its subsidiary companies or of any facts likely to give rise to any proceedings which might materially affect the position or business of the company or any of its subsidiary companies, financially or otherwise.

16. Segmental Reporting

*Financial data by industry segment
for the Group*

	Turnover RM'000	Profit Before Taxation RM'000	Gross Assets Employed RM'000
Manufacturing	46,299	3,630	98,271
Trading	19,848	1,747	28,820
Investment Holding	-	127	2,994
	<u>66,147</u>	<u>5,404</u>	<u>130,085</u>

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17. Material Change in the Profit Before Taxation compared to the results of the preceding quarter

The Group registered a lower turnover of RM 33.8 million during the current quarter compared to the preceding quarter of RM 34.7 million whilst pre-tax profit was also lower at RM 2.2 million compared to the preceding quarter of RM 4.4 million. The lower turnover and pre-tax profit was attributable to higher competition experienced in the market, lower demand due to the global economic slowdown and higher operating cost.

18. Review of Performance of the Company and its Principal Subsidiaries

The Group's pre-tax profit decreased by 33.6% to RM 5.5 million while turnover slide by 1.2% to RM 66.2 million for the first half ended 30 June 2001 as compares to the corresponding period in 2000. The substantial decrease in profit compares to the corresponding period in 2000 is mainly due to the depreciation of the currency in which the Group export to such as the Japanese Yen, Australian Dollar, Singapore Dollar, Thai Baht, etc., the higher competition experienced, lower demand due to the global economic slowdown and higher operating cost.

19. Prospects for the Current Financial Year

The Group has grown to be the largest producer of pallet stretch film in South East Asia and a leader in the plastic packaging industry in the region. The Board of Directors believe that the Group has considerable trend and experience to propel it through the current challenging period and continue to generate profit for the rest of the current financial year.

20. Variance of Actual Profit from Forecast Profit

Not relevant

21. Dividend

No interim dividend is proposed for the quarter ended 30 June 2001 (2000 : 5% tax exempt).

By Order of the Board

**Lam Voon Kean (MIA 4793)
Company Secretary**

DATED THIS 23 AUGUST 2001