

DENKO INDUSTRIAL CORPORATION BERHAD
QUARTERLY REPORTS – QUARTER ENDED 31/12/2001

NOTES TO THE ACCOUNTS

- 1- The quarterly financial statements have been prepared under the same accounting policies and method of computation as compared with the most recent annual financial statements.
- 2- There were no exceptional items for the 3rd quarter ended 31st December 2001.
- 3- There were no extraordinary items for the 3rd quarter ended 31st December 2001.

4- Taxation:

	RM'000
Based on results for the year to date (23)	
Under / (over) provision in respect of prior years	Nil
Transfer to / (from) Deferred Taxation	Nil
	<u>(23)</u>

- 5- Denko-HLB Sdn Bhd, a wholly owned subsidiary of Denko Industrial Corporation Berhad, has entered into a conditional Sale and Purchase Agreement with Green Lake Sdn Bhd for the disposal of a freehold land and factory building known as H.S.(D) 1246/91, P.T. No. 3288, Plot 87, Mukim Sungai Seluang, Daerah Kulai, Kedah for a cash consideration of RM880,000.00 on 25 February 2002. The proposed disposal is expected to result in a loss in disposal of RM100,507.00.
- 6- a) Purchase and Sale of Quoted Securities:

Total Purchases	Nil
Total Disposals	Nil
Total Profit / Loss on Disposal	Nil

 b) Investment in quoted shares as at 31/12/2001:

Total investments at cost	Nil
Total investments at carrying value/book value (after provision for diminution in value)	Nil
Total investment at market value as at 31/12/2001	Nil
- 7- On 7th April 2001 Skiva Holdings Sdn Bhd acquired 100 issued and paid up shares of US\$1.00 each representing 100% equity interest in Skiva (UK) Trading Ltd.
- 8 The Securities Commission vide, its letter dated 8 October 2001, has approved Denko's application for an extension of time for a six-month period, up to 15 April 2002 to implement the Corporate Proposals.

In September 2000, Denko Industrial Corporation Berhad submitted the following Corporate Proposals to Securities Commission :-

a)	Proposed acquisition of 99.9% equity interest in Rich Data Gallery Sdn Bhd and Relang Murni Sdn Bhd ("Proposed Xylog acquisitions")
b)	Proposed acquisition of property
c)	Proposed renounceable rights issue of 65,783,723 new ordinary shares of RM1.00 each on the basis of three (3) new ordinary shares for two (2) existing ordinary shares held at an issue price of RM1.00 per Denko share with 65,783,723 free detachable warrants on the basis of one (1) free detachable warrant for each rights issue share
d)	Proposed establishment of an employees' share option scheme
e)	Proposed waiver to Denko from the obligation to extend a mandatory take-over offer for the remaining shares in Relang Murni Sdn Bhd, Rich Data Gallery Sdn Bhd and the Xylog group not already owned by Denko after the proposed Xylog acquisition
f)	Proposed increase in the authorised share capital

On 16 April 2001, items b, c, d and f were approved by the Securities Commission.

- 9 There were no issuance and repayment of debt and equity securities, share buy-back, share cancellation, shares held as treasury shares and resale of treasury shares for the current financial year to date.
- 10 Group borrowings & debt securities as at 31/12/2001:

Type of borrowing	Secured RM'000	Unsecured RM'000	Total RM'000
Bank Overdraft	8,591	0	8,591
Bills Payable & Bankers Acceptance	2,843	0	2,843
Revolving Loans	5,000	7,500	12,500
Term Loan – payable < 12 months	22,441	0	22,441
Long Term – payable > 12 months	4,037	0	4,037
Total	42,912	7,500	50,412

- 11 Details of contingent liabilities:
- Corporate Guarantee of RM 24,000,000.00 given to financial institutions for facilities granted to a subsidiary.
- 12 There were no financial instruments with off balance sheet risk as at the date of issue of quarterly report.
- 13 Details of pending litigation
- Skiva Holdings Sdn Bhd, a wholly owned subsidiary of Denko Industrial Corporation Berhad had been served a writ of summons and statement of claim on 12 December 2001, filed by Kerajaan Malaysia (Lembaga Hasil Dalam Negeri) in the Kuala Lumpur High Court for a sum of RM 1,455,340.68 and continuing interest, allegedly due from default in payment for income tax for year of assessment 1991, 1992, 1993, 1996 and 1997. Several discussions were held with the Officer of the Lembaga Hasil Dalam Negeri to settle the matter amicably. Plaintiff's application for summary judgement is fixed for hearing on 7 March 2002.
 - Trimate Industries Sdn Bhd ("Trimate"), a 80% owned subsidiary of Denko Industrial Corporation Berhad ("Denko") and Denko had been served a writ of summons and statement of claim on 19 November 2001, filed by Arab-Malaysian Finance Bhd in the High Court of Ipoh, suit No. 22-206-2001 for a sum of RM1,657,072.08 and continuing interest, allegedly due from default in payment for hire purchase facilities extended to Trimate and was secured against corporate guarantee by Denko.
 - Denko-HLB Sdn Bhd ("Denko-HLB") a wholly owned subsidiary of Denko had been served a writ of summons and statement of claim on 2 November 2001, filed by Fagerdala Singapore Pte Ltd in the High Court of the Republic of Singapore, Case No. S1241/2001/C for a sum of S\$731,252.49 (RM1,552,734.16 equivalent assuming an exchange rate of RM1.00 : S\$2.123), being the price of goods sold and delivered to Denko-HLB. Denko-HLB filed an Application to stay the proceedings in Singapore on the grounds that the Malaysian Court should hear the matter. Denko-HLB's Application was allowed by the Registrar on 21 January 2002. The plaintiff appealed to the Judge and their appeal was allowed on 20 February 2002. Denko-HLB is currently taking legal advice on an appeal to the Court of Appeal. In the meantime, the plaintiff has filed an Application for Summary Judgement which is fixed for hearing on 26 March 2002. Denko-HLB intends to file a counter-claim against the plaintiff for damages.
 - Skiva Holdings Sdn Bhd, a wholly owned subsidiary of Denko and Denko had been served a writ of summons and statement of claim on 14 September 2001, filed by Arab-Malaysian Bank Bhd in the Kuala Lumpur High Court, Suit No. D6-22-1518-2001 for a sum of RM1,447,473.55 and continuing interest, allegedly due from default in payment for a Term Loan facility extended to Skiva Holdings Sdn Bhd. The facility was secured against a corporate guarantee by Denko.
 - An amended Writ of Summons and Statement of Claims were served at our solicitors' office on 12 March 2001. The summons and claims were filed by HSBC Bank Malaysia Berhad in the Kuala Lumpur High Court, Suite no: D9-22-2259-2000 for a sum of RM5,840,494.38 (i.e. principal outstanding RM4,500,000.00 and interest outstanding of RM1,340,494.38), allegedly due from default in payment for revolving credit facilities granted to Denko. Statement of Defence has been served to the Plaintiff's solicitors.

- On 20 June 2001, Utama Merchant Bank Berhad filed a Writ of Summons and Statement of Claims in the Kuala Lumpur High Court. Suit No. D5-22-904-2001 for a sum of RM3,128,817.65 (i.e principal outstanding RM3,000,000.00 and interest outstanding of RM128,817.65) and continuing interest, allegedly due from default in payment for revolving credit facility extended to Denko.

14 Segmental Reporting

	Turnover RM'000	Profit before tax RM'000	Assets Employed RM'000
Manufacture and sales of consumer and industrial products	35,459	(6,760)	61,366
Investment holding and others	4,437	(2,784)	20,438
Inter Group Sales	(8,000)	0	0
Total	31,896	(9,544)	81,804

- 15 The group registered a loss before tax of RM4,315,029 for the 3rd quarter ended 31/12/2001 compared to a loss before tax of RM2,519,156 for the 2nd quarter ended 30/09/2001. The loss mainly attributable by the global economy downturn for the industrial division and the write down of stock in the garment division, and further compounded by the incident on 11th September 2001.

16 Review of Current Quarter Performance

Packaging Division

Revenue from the packaging division for the 3rd quarter ended 31/12/2001 decreased to RM3,192,829 compared to the immediate preceding quarter which recorded at RM5,280,308. While the Loss after tax for the 3rd quarter ended 31/12/2001 was RM330,981 compared to Profit after tax of RM105,651 in 2nd quarter. The loss mainly due to the dropped in turnover whereby demand for division usually peak at 2nd quarter and slow down toward the end of the year.

Garment Division

Revenue from Garment Division for the 3rd quarter ended 31/12/2001 increased to RM4,962,795 compared to RM3,896,371 in 2nd quarter ended 30/9/2001. While the Loss after tax for the 3rd quarter increased to RM1,235,196 compared to RM485,538 in 2nd quarter due to the write down of stock. The increased in sales mainly due to sales carnival, school holiday and the festive seasons in the 3rd quarter.

Infrastructure Division

Revenue from Infrastructure Division for the 3rd quarter ended 31/12/2001 decreased to RM1,231,616 compared to RM2,173,045 in 2nd quarter ended 30/9/2001. While the Loss after tax increased from RM2,173,045 in 3rd quarter compared to RM1,520,736 in 2nd quarter. Growth remain sluggish despite government effort to revive the construction and infrastructure sector of the economy. We do not expect any positive contribution from this division in the foreseeable future.

- 17 There were no material events subsequent to the end of the 3rd quarter.
- 18 Demand for industrial division usually slowing down towards the end of the year, while demand for garment division increase during festive seasons.
- 19 The corporate restructuring proposal which was submitted to the Securities Commission in September 2000 was approved by the SC on 16 April 2001 but pending implementation resulted from the current stock market which is not conducive. With the implementation of the approved proposals the Group will be well positioned to achieve a complete recovery. Simultaneously, the Group continues to formulate, implement and monitor the progress of operation units and believe that Denko Group will emerge stronger and more resilient upon successful realization of the restructuring scheme.
- 20 Not applicable.

21 The Directors do not recommend any interim dividend.