

DENKO INDUSTRIAL CORPORATION BERHAD
(Company No: 190155-M)
(Incorporated In Malaysia)
QUARTERLY REPORTS ON CONSOLIDATED RESULTS FOR THE QUARTER ENDED
31 MARCH 2006
NOTES TO CONDENSED ACCOUNTS

(A) SELECTED EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (FRS) 134 (FORMERLY KNOWN AS MASB 26), INTERIM FINANCIAL REPORTING

(a) Accounting Policies

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standards (FRS) 134 (formerly known as MASB 26), Interim Financial Reporting and Chapter 9 Part K paragraph 22 of the Bursa Securities Malaysia Berhad ("BMSB"). The same accounting policies and methods of computation are followed in the interim financial statements as compared with the audited financial statements of the Group for the year ended 31 March 2005.

(b) Qualification on the Financial Statements

The auditors' report on the financial statements for the year ended 31 March 2005 was not qualified.

(c) Seasonal or Cyclical Factors

Demand for precision plastic parts usually slows down towards the end of the year, while demand for trading of foodstuffs increases towards festive period.

(d) Nature and Amount of Extraordinary or Exceptional Items

There were no extraordinary or exceptional items for the financial quarter under review, other than the gain on disposal of subsidiary companies amounting to RM407,594 as disclosed in note Part (B), no.11 of explanatory notes and gain on deconsolidation of subsidiary companies amounting to RM10,875,669 as disclosed in note Part (B), no.12 of explanatory notes.

(e) Nature and Amount of Changes in Estimates

There were no significant changes in estimates of amounts reported in prior interim periods of the current financial year or in prior financial year.

(f) Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial year.

(g) Dividend Paid

There was no dividend paid for the 4th quarter ended 31st March 2006.

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(h) **Segmental Reporting** – 12 months ended 31 March 2006:

	Continuing Operations RM'000	Discontinuing Operations RM'000	Total Operations RM'000
<u>Segment – Revenue</u>			
Manufacture and sales of consumer and industrial products	118,128	(31)	118,097
Investment holding and others	2,105	0	2,105
Inter Group elimination	(3,296)	0	(3,296)
Total – Segment Revenue	116,937	(31)	116,906
<u>Segment – Profit/(Loss) Before Tax</u>			
Manufacture and sales of consumer and industrial products	(4,244)	(393)	(4,637)
Investment holding and others	6,419	0	6,419
Inter Group elimination	0	0	0
Total – Segment Results	2,175	(393)	1,782
<u>Segment – Assets</u>			
Manufacture and sales of consumer and industrial products	57,239	708	57,947
Investment holding and others	68,155	0	68,155
Inter Group elimination	0	0	0
Total – Segment Assets	125,394	708	126,102

(i) **Valuations of Property, Plant and Equipment**

The valuations of freehold and leasehold land and buildings of the Group were valued for the financial year ended 31 March 2006 which were carried out by the independent professional valuers on open market value basis.

(j) **Material Subsequent Events**

On 25th April 2006, a subsidiary of the Group, Winsheng Plastic Industry Sdn. Bhd. (“WSP”) has acquired a 30% interest in EMC Dinamik Sdn. Bhd. (“EMC”), a Company incorporated in Malaysia whose principal activities are in marketing of automotive plastic parts and complete assembly products. With this acquisition, EMC becomes an associated company of WSP.

Other than above mentioned, there was no material events subsequent to the end of the current quarter that have not been reflected in the financial report for the financial quarter ended 31st March 2006.

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(k) Changes in the Composition of the Group

There was no change in the composition of the group during the current quarter, except for those disclose in note Part (B), no.11 and no.12 of the explanatory notes.

(l) Changes in Contingent liabilities and Contingent assets

There were no contingent liabilities or assets of the Group since the last audited financial statements to the date of this announcement.

(m) Capital Commitments

Capital commitments not provided for in the financial statements as at 31 March 2006 are as follows:

	RM'000
Approved by the Directors and contracted for	719
Authorised by the Directors but not contracted	11,767
	<u>12,486</u>

(n) Significant Related Parties Transactions

	12 Months ended 31 March 2006
Sub contractor fees paid/payables to:	<u>RM</u>
Brandplus Sdn. Bhd. (*)	2,633,117
Brandplus Precision Plastic Sdn. Bhd. (*)	702,690
Mirror Plastic Sdn. Bhd. (*)	332,447
Concordmould Technology Sdn. Bhd.	1,145,805
Professional fees paid/payables to:	
C.L. Boo & Associates	38,080
Moore Stephens Associates & Co	19,500
MSA Tax Services Sdn. Bhd.	48,000
Rental paid to Yong Boon Leong	108,000

(*) Note: These companies have ceased to be related parties since the end of January 2006.

The terms, conditions and prices of the above transactions are not materially different from those obtainable in transactions with unrelated parties.

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(B) EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

(1) Review of Current Quarter Performance

Packaging Division

In the 4th quarter ended 31 March 2006, revenue for packaging division increased to RM3,188,615 as compared to the previous quarter ended 31 March 2005 which recorded RM1,312,385, an increase of 143%. This was due to increase in demand for packaging materials and vacuum foam products towards festive seasons.

However, the packaging division's registered a loss before tax for the current quarter of RM1,107,244 which was reduced compared to loss before tax of RM2,381,001 recorded in the previous quarter ended 31 March 2005. The decrease in loss was due to the continuous efforts made by the management to streamline the current overhead cost of operations and additional contribution earned from the surge in revenues.

Garment Division

There was no revenue from the garment division as it has ceased operation since February 2005. In the same quarter of the preceding year, the revenue for this division was RM1,781,621.

In the current quarter, the garment division registered loss before tax of RM345,123 which was reduced as compared to a loss before tax of RM1,633,477 incurred in the quarter ended 31 March 2005. The reduction in loss was due to minimum overheads incurred.

Trading Division

In the 4th quarter ended 31 March 2006, the revenue for trading division was RM6,007,672 which was 29% lower as compared to RM8,440,777 in the quarter ended 31 March 2005. The decline in revenue was due to increased competition.

For the current quarter, the trading division posted a loss before tax of RM644,199 compared to a profit of RM2,195,070 in the same quarter of previous year's. The loss was caused by declining revenues and increasing overhead costs.

Moulding Division

Revenue from moulding division for the 4th quarter ended 31 March 2006 decreased to RM17,696,659 as compared to the same quarter of the previous year which recorded RM25,329,249. The decrease was due to drop in demand from customers.

In the current quarter, moulding division's registered net loss before tax of RM7,552,281 as compared to the net loss of RM406,374 recorded in the quarter ended 31 March 2005. The sluggish performance was due to various provisions and impairments that have been accounted for in this quarter besides the declining sales which had further increased the losses.

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(1) Review of Current Quarter Performance (Con't)

Investment Holdings & Others

There was no revenue from the investment holdings and other divisions for the 4th quarter ended 31 March 2006. In the same quarter of the previous year, the revenue for this division was RM117,000.

In the current quarter, the investment holdings and other divisions registered a net profit before tax of RM7,292,137 as compared to a net profit of RM495,833 in the previous quarter ended 31 March 2005. The substantial increase in profit was due to gain on disposal of subsidiary companies amounting to RM407,594 as disclosed in note Part (B), no.11 of explanatory notes and gain on deconsolidation of subsidiary companies amounting to RM10,875,669 as disclosed in note Part (B), no.12 of explanatory notes.

(2) Comparison with Immediate Preceding Quarter's Results

Packaging Division

In the current quarter, the revenue increased to RM3,188,615 as compared to the preceding quarter which recorded RM3,754,631. The revenue decreased by 15% which was mainly due to seasonal demand.

The packaging division's recorded a net loss before tax amounting to RM1,107,244 as compared with a net profit registered in the preceding quarter of RM137,065. The reduction in profit was due to various provisions and impairments that have been accounted for in this quarter besides the slight drop in sales.

Garment Division

In the preceding quarter, no revenue was generated. This was due to the disposal of Skiva brand and stocks and thereon this division has ceased operation.

This division registered a net loss of RM345,123 for this current quarter as compared to the preceding quarter when it registered a profit of RM325,976. The decrease in profit was due to fixed overheads incurred in the current quarter

Trading Division

The revenue decreased slightly to M6,007,672 from RM6,599,327 recorded in the preceding quarter. This was mainly due to the fact that the festival season has passed.

As compared to the preceding quarter which registered a net profit RM507,649, the trading division registered a net loss before tax of RM644,199 in the current quarter. This was due to significant increase in overheads and various provisions made in this quarter.

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(2) Comparison with Immediate Preceding Quarter's Results (Con't)

Moulding Division

The revenue decreased to RM17,696,660 from RM25,166,334 achieved in the previous quarter. This was due to seasonal demand.

The moulding division registered a higher net loss of RM7,552,281 as compared to the preceding quarter's net profit of RM3,585,456. It was mainly due to various provisions and impairments that were accounted for beside the drop in sales had further pushed down its losses in this quarter.

Investment Holdings and Others

In the current quarter, there was no revenue from the investment holdings & others division.

The division recorded a net profit of RM7,292,136 as compared to the preceding quarter when it registered a net loss of RM567,543. The substantial increase in profit for this division for the current quarter was due to gain on disposal of subsidiary companies amounting to RM407,594 as disclosed in note Part (B), no.11 of explanatory notes and gain on deconsolidation of subsidiary companies amounting to RM10,875,669 as disclosed in note Part (B), no.12 of explanatory notes.

(3) Current Year Prospects

The Group's business activities remain challenging with the current uncertain global market conditions. The Group has to further improve its core businesses by implementing cost cutting measures to further enhance productivity, efficiency, integrate product design and innovation.

(4) Profit Forecast and profit guarantee

The profit forecast is not applicable for the current quarter under review.

The shortfall in profit guaranteed for the financial year ended 31 March 2005 by the vendors of a subsidiary company, Lean Teik Soon Sdn. Bhd. amounting to RM137,055 was received during the quarter ended 31st March 2006.

(5) Taxation:

	<u>INDIVIDUAL QUARTER</u>		<u>CUMULATIVE QUARTER</u>	
	3 months ended 31.03.2006 (Unaudited) RM'000	3 months ended 31.03.2005 (Unaudited) RM'000	12 months ended 31.03.2006 (Unaudited) RM'000	12 months ended 31.03.2005 (Audited) RM'000
Income tax:				
Malaysia income tax	2,339	(1,256)	1,410	(1,256)
Deferred tax	(1,506)	300	(1,910)	(103)
	<u>833</u>	<u>(956)</u>	<u>(500)</u>	<u>(1,359)</u>

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There is a tax charge at Group level, despite losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries, as group tax relief is not available and certain expenses are not deductible for tax purposes.

(6) Sale of Unquoted Investments and/or Properties

There were no sales of unquoted investments and properties in the current quarter under review.

(7) Quoted Securities

	RM
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 31/03/2006:	
Total investments at cost	2,800
Total investments at carrying value/book value (After provision for diminution in value)	2,800
Total investment at market value as at 31/03/2006	3,630

(8) Status of Corporate Proposals

There were no corporate proposals announced or not completed as at the date of this announcement.

(9) Group borrowings and debt securities as at 31/03/2006:

Type of borrowings	Secured RM'000	Unsecured RM'000	Total RM'000
Bank Overdrafts	7,210	0	7,210
Bills Payable and Bankers Acceptance	12,798	0	12,798
Short Term – payable < 12 months	7,060	0	7,060
Hire Purchase – payable < 12 months	3,008	0	3,008
Long Term – payable > 12 months	15,379	0	15,379
Hire Purchase – payable > 12 months	4,425	0	4,425
Total	49,880	0	49,880

Included in the group borrowings are 5,443,033 5% 5-year Redeemable Convertible Secured Loan Stocks 2004/2009 at a nominal value of RM1 each and interest accrued of RM516,381, with a carrying value of RM5,222,449 (RM1,905,062 - short term and RM3,317,387 - long term).

(10) Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at the date of this announcement.

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(11) Disposal of Subsidiary Companies

The effects of disposal of the dormant subsidiary companies during the quarter, on the financial position of the Group are as follows:

	At the date of disposal 28 February 2006
	<u>RM</u>
Assets	17,615
Liabilities	<u>(425,209)</u>
Net Liabilities disposed	(407,594)
Gain on disposal of subsidiary companies	<u><u>407,594</u></u>

(12) Deconsolidation of Subsidiary Companies

The effects of deconsolidation of subsidiary companies during the quarter, on the financial position of the Group are as follows:

	At the date of deconsolidation 5 July 2005
	<u>RM</u>
Assets	807,526
Liabilities	<u>(11,683,195)</u>
Net Liabilities deconsolidation	(10,875,669)
Gain on deconsolidation of subsidiary companies	<u><u>10,875,669</u></u>

(13) Material litigation

There was no additional material litigation reported in the current quarter. The potential liabilities from material litigations have been accounted for accordingly in the Company and its Subsidiaries accounts except for incidental costs that may arise thereon.

(14) Dividend Payable

The Directors do not recommend any interim dividend in the current quarter.

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(15) (Loss)/Earnings Per Ordinary Share

The basic (loss)/earnings per ordinary share of the Group are calculated by dividing the net profit/(loss) for the current quarter by the weighted average number of ordinary shares of RM1.00 as follows:

		<u>INDIVIDUAL</u> <u>QUARTER</u>		<u>CUMULATIVE</u> <u>QUARTER</u>	
		3 months ended 31.03.2006 (Unaudited) RM'000	3 months ended 31.03..2005 (Unaudited) RM'000	12 months ended 31.03.2006 (Unaudited) RM'000	12 months ended 31.03..2005 (Audited) RM'000
Net profit/(loss) for the quarter/year	(A)	(1,522)	(3,089)	1,282	(4,065)
Weighted average number of ordinary shares in issue ('000)	(B)	95,325	73,269	95,325	73,269
Basic (loss)/earnings per share (sen)	(A/B)	(1.60)	(4.22)	1.34	(5.55)

(16) Diluted (Loss)/Earnings Per Ordinary Share

The diluted (loss)/earnings per ordinary share of the Group is calculated by dividing the net profit/(loss) for the current quarter by the weighted average number of ordinary shares, ICPS, ICULS, RCSLS and Warrants in issue. Fully diluted (loss)/earnings per ordinary share for the current quarter was not presented as there was an anti-dilutive effect on the conversion of ICPS, ICULS and RCSLS to ordinary shares.