

MANGIUM INDUSTRIES BHD

NOTES TO THE REPORT FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2006

EXPLANATORY NOTES AS PER FRS 134 – INTERIM FINANCIAL REPORTING

M1 Basis of Preparation

The interim financial report is unaudited and has been prepared in compliance with the FRS 134 "Interim Financial Reporting" and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Bhd.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2005.

The adoption of the FRS do not have any significant financial impact on the Group.

The following notes explain the events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2005.

M2 Preceding Year's Audit Report

The auditors' report on the financial statements of the Group were not subject to any qualification and did not include any adverse comment made under subsection (3) of Section 174 of the Companies Act, 1965.

M3 Seasonal or Cyclical Factors

The volume of the timber operation of the Group is dependent on availability of logs and price of logs. As log harvesting can only be carried out during favourable dry weather condition, very little log harvesting can be carried out during the rainy season, which results in limited supplies and higher log prices.

M4 Nature and amount of items affecting assets, liabilities, equity, net income or cashflows that are unusual because of their nature, size or incidence

There were no items affecting the assets, liabilities, equity, net income or cashflows that were unusual because of their nature, size or incidence for the quarter ended 30 Jun 2006 except for the revaluation of land and buildings and adoption of IAS41 (refer to M14) in the previous quarter.

M5 Changes in Estimates

There were no material changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial year that have a material effect in the current interim period.

M6 Issuances, cancellations, repurchases, resale and repayment of debt and equity securities

There were no issuance, cancellations, repurchases, resale and repayments of debt and equities securities for the quarter ended 30 Jun 2006.

M7 Dividend Payout

There was no dividend paid during the reporting quarter.

M8 Segmental Reporting

Segmental analysis was prepared as the Company operates in a multi industry segment and its operations are located wholly in Malaysia.

30.06.2006

		Revenue	Profit/(Loss) Before Taxation	Total Assets Employed
		RM	RM	RM
(a)	Analysis by Industries			
	- Timber manufacturing and marketing of timber and timber related products	6,973,352	81,251	81,954,616
	- Provision of printing services	4,537,668	182,934	6,220,213
	- Trading in alcoholic beverages	0	18,838	4,556,816
	- General trading	3,899,486	167,539	268,993
		15,410,506	450,562	93,000,638
(b)	Analysis by Geographical Location			
	- Malaysia	15,410,506	450,562	93,000,638

M9 Valuations of Property, Plant and Equipment

For the quarter ended 30 Jun 2006, no provisions were made for the impairment loss of fixed assets.

The valuation of property, plant and equipment used in the condensed financial statements have been brought forward without any amendment from the previous financial statements.

M10 Material Events Subsequent to the end of the Interim Period

In the opinion of the Directors, the financial statements for the interim period have not been affected by any material event that has occurred between the end of the interim period and the date of this report except as disclosed in note K8.

M11 Contingent Liabilities

There were no contingencies for the quarter ended 30 Jun 2006.

EXPLANATORY NOTES AS PER BURSA MALAYSIA SECURITIES BHD

K1 **Review of Performance**

The Group made a profit of RM1.467million for the current 2nd Quarter and RM0.432 million for financial year to date. The profit for the second quarter of the year was mainly due to interest waivers given by Lenders and reclassification of professional fees for restructuring as compared to the preceding quarter.

K2 **Material Change in Profit/Loss Before Taxation**

Turnover for the current quarter is recorded at RM8.416 million compared to RM6.995 million in the immediate preceding quarter due to higher production from the Timber Division.

The Group's profit before taxation is RM1.496 million in the current quarter compared to the loss before taxation of RM1.045 million for the immediate preceding quarter ended 31.03.2006. The profit was mainly due to interest waiver on borrowings and reclassification of professional fees for restructuring.

K3 **Prospects for 2006**

The prospects for 2006 is not expected to improve until the restructuring is completed and this is targeted to be by November 2006

K4 **Variance on Forecast Profits**

This note is not applicable.

K5 **Taxation**

	Current Quarter RM'000	Current Year to Date RM'000
Current Taxation	-	-
Deferred Taxation	-	3,411

K6 **Profit/(Loss) on Sale of Unquoted Investment and/or Properties**

There were no sale of unquoted investments and/or properties for the quarter

ended 30 Jun 2006.

K7 **Quoted Securities**

- a) There were no purchase or disposal of quoted securities for the quarter ended 30 Jun 2006.
- b) There was no investment in quoted shares as at the period ended 30 Jun 2006.

K8 **A) Status of Corporate Proposals**

The Securities Commission ("SC"), vide its letter dated 4 March 2005, had approved the Proposed Debt Settlement and Proposed Rights Issue of ICULS pursuant to Section 32(5) of the SC Act, 1993, and the Guidelines on the Acquisition of Interests, Mergers and Take-overs by Local and Foreign Interests subject to the following terms and conditions:

Terms

(i)	Debt settlement by MIB and certain of its subsidiaries with its secured and unsecured creditors amounting to RM58.61 million (including accrued interest of RM10.65 million) to be settled by a combination of new MIB
8(ii)	Issuance of nominal value of up to RM16.0 million nominal value 5-year ICULS together with up to 16.0 million free detachable Warrants attached on the basis of RM1.00 nominal value ICULS with one (1) free detachable
(iii)	Issuance for free of up to an additional RM8.0 million nominal value ICULS to the subscribers of the ICULS issued pursuant to the Proposed Rights Issue to serve as an up-front coupon of 10% per annum.
(iv)	Issuance of the RCSLS, ICULS and new MIB Shares pursuant to the Proposed Debt Settlement, issuance of the ICULS and Warrants pursuant to the Proposed Rights Issue, issuance of new MIB Shares pursuant to the
(v)	Listing of and quotation for the new MIB Shares, ICULS and Warrants to be issued pursuant to the Proposed Debt Settlement and Proposed Rights Issue and the new MIB Shares to be issued upon conversion of the RCSLS

Conditions

(i)	OSK is to arrange for underwriting and be an underwriter in the
(ii)	OSK/MIB is to submit the effective equity structure of MIB three (3) years

	of MIB. In this case, further equity condition may be imposed after reviewing MIB's equity structure;
(iii)	OSK/MIB is to obtain SC approval should there be any changes to the terms and conditions of the ICULS and RCSLS;
(iv)	<p>OSK is to submit the following information or documents to the SC prior to the issue date of the ICULS and RCSLS:-</p> <p>(a) Issue date, tenure of the issue and issue size of the ICULS;</p> <p>(b) A copy of the Facility Maintenance File (FMF/JPB) form for the RCSLS;</p> <p>(c) List of names of the underwriters for the ICULS pursuant to the proposed rights issue of ICULS with warrants together with the amount underwritten; and</p> <p>(d) Soft copy (in "PDF" format) of the following documents to be emailed to DS@seccom.com.my:-</p> <p>i. The Information Memorandum in respect of the ICULS and RCSLS deposited or to be deposited pursuant to Sections 38 and/or 39 of the SC Act, 1993;</p> <p>ii. The trust deed for the ICULS and RCSLS; and</p> <p>iii. The principal terms and conditions for the ICULS and RCSLS in the specified format.</p>
(v)	OSK is to remind all relevant parties including MIB and the trustee to the proposed ICULS and RCSLS of the need to observe and fully comply with all statutory requirements, in particular, those set out in Division 4 of Part IV of the SC Act, 1993; and
(vi)	OSK/MIB is to confirm to the SC that MIB has complied with all the terms of approval, the relevant requirements as stipulated in the Issues Guidelines, upon completion of the Proposed Debt Settlement and Proposed Rights Issue.

The terms used herein shall, unless the context otherwise stated, bear the same meaning as those defined in the previous announcements in relation to the Proposals.

On 21 September 2004, the Group via its merchant bank announced a revision to the proposals (announced on 22 December 2003) which involves:

- a) The issuance of additional ICULS to settle the accrued interest for the FYE 31 December 2004 amounting to RM5.17 million in respect of the amount due to certain secured and unsecured lenders. The remaining, had agreed to waive the interest payments due to them for the FYE 31 December 2004;

- b) The proposed employees' share option scheme will be extended to non-executive Directors; and
- c) An amendment to the Articles of Association to enable the non-executive Directors to participate in the Proposed ESOS

The Proposals were submitted to the relevant authorities on 30 September 2004
and is summarised as follows:

- I - **PROPOSED DEBT SETTLEMENT BY MIB AND CERTAIN SUBSIDIARIES OF MIB WITH ITS SECURED AND UNSECURED LENDERS OF AMOUNT OUTSTANDING UP TO 31 DECEMBER 2004 AMOUNTING TO RM58.61 MILLION (INCLUDING ACCRUED INTEREST UP TO 31 DECEMBER 2004 AMOUNTING TO RM10.65 MILLION) TO BE SETTLED BY A COMBINATION OF NEW MIB SHARES, ICULS, RCSLS AND CASH PAYMENT; AND**
- II - **PROPOSED RENOUNCEABLE RIGHTS ISSUE OF RM16.0 MILLION NOMINAL VALUE 5-YEAR ICULS TOGETHER WITH 16.0 MILLION FREE DETACHABLE WARRANTS ATTACHED ON THE BASIS OF RM1.00 NOMINAL VALUE ICULS WITH ONE (1) FREE DETACHABLE WARRANT ATTACHED FOR EVERY TWO (2) EXISTING MIB SHARES**

I Proposed Debt Settlement

The Proposed Debt Settlement will be implemented through an informal scheme of arrangement between MIB and certain subsidiaries, namely MSSB and MPSB, with the Scheme Creditors. The Proposed Debt Settlement serves to address the amounts due to the secured and unsecured financial institutions and lenders of MIB, MSSB and MPSB only. All amounts due to trade and other creditors of these companies will be settled in the ordinary course of operations.

MIB and its subsidiaries, namely MSSB and MPSB, had negotiated with the Scheme Creditors on the Proposed Debt Settlement and has to date received approval in-principle from all the Scheme Creditors.

As at 31 December 2003, MIB and its subsidiaries, namely MSSB and MPSB, have debt owing to the Scheme Creditors amounting to RM47.97 million. MIB and its subsidiaries, namely MSSB and MPSB, have provided for interest payments for the FYE 31 December 2003 and FYE 31 December 2004 amounting to RM5.47 million and RM5.17 million respectively, as set out below. Under the terms of the Proposed Debt Settlement, the interest from 1 January 2005 to 30 June 2005 will be waived.

The Scheme Creditors with total debt owing amounting to RM58.61 million (inclusive of accrued interest up to 31 December 2004 amounting to RM10.65 million) were classified into two classes, namely secured and unsecured creditors, as set out below:

Classes of Scheme Creditors	Borrower	Debt as at 31.12.2003 RM'000	Accrued Interest for the FYE 31.12.2003 RM'000	Total Debt as at 31.12.2003 RM'000	Accrued Interest for the FYE 31.12.2004 RM'000	Total Debt as at 31.12.2004 RM'000
Secured Creditors						
ABMB	MSSB	13,023	986	14,008	1,356	15,364
AmFinance	MSSB	466	291	756	- *	756
AmCredit	MSSB	581	810	1,391	- *	1,391
ABMB	MPSB	2,491	193	2,684	266	2,950
Sub-total		16,561	2,279	18,840	1,622	20,462
Unsecured Creditors						
MAA Credit	MIB	19,839	2,161	22,000	2,557	24,557
SCB	MSSB	9,080	917	9,997	992	10,989
SBB	MSSB	2,489	117	2,606	- *	2,606
Sub-total		31,408	3,195	34,603	3,549	38,152
Grand total		47,969	5,474	53,443	5,171	58,614

Note:- * The creditors had agreed to waive the interest payment for the FYE 31.12. 2004

II Proposed Rights Issue Of ICULS

The Proposed Rights Issue of ICULS will entail:

- the issuance of RM16.0 million nominal value 5-year ICULS together with 16.0 million free detachable Warrants attached on the basis of RM1.00 nominal value ICULS with one (1) free detachable Warrant attached for every two (2) existing MIB Shares held at 100% of its nominal value at the entitlement date; and
- the issuance of an additional RM8.0 million nominal value ICULS to the subscribers of the ICULS issued pursuant to the Proposed Rights Issue to serve as an up-front coupon of 10% per annum. The ICULS that are issued to the shareholders of MIB as up-front coupon payment pursuant to the Proposed Rights Issue, will not carry any further up-front coupon/payments.

The holders of new MIB Shares to be issued pursuant to the Proposed Debt Settlement shall not be entitled to participate in the Proposed Rights Issue of ICULS.

The ICULS and Warrants will be provisionally allotted to the shareholders of

MIB whose names appear in the Register of Members and/or Record of Depositors at the close of books of the Company on a date to be determined and announced later by the Directors of the Company. The conversion price of the ICULS is fixed at RM1.00, while the exercise price of the Warrants shall be determined later.

III Proposed Joint Venture

On 19 December 2003, MIB and TCSB entered into a joint-venture wherein MIB shall be engaged in the production and supply of Acacia Mangium pulp log from its Acacia Mangium concession located in Pitas, Sabah, while TCSB would be involved in the building of and operation of a woodchip mill and subsequently selling the final product on its own behalf. MIB shall exclusively supply the Acacia Mangium pulp logs to TCSB, which shall then manufacture it into wood chips. TCSB, in turn, shall only purchase all its Acacia Mangium pulp logs from MIB. The price of the Acacia Mangium pulp logs shall be based on the market value of the Acacia Mangium pulp logs or such prices as agreed. In addition, MIB is also entitled to 30% of the net profit derived from the sale of wood chips and the balance 70% shall be to the account of TCSB.

The Proposed Joint-Venture shall be valid for a period of five (5) years from the date of the agreement, unless extended by mutual consent between both MIB and TCSB.

IV Proposed ESOS

The MIB Group proposes to establish an employees' share option scheme to motivate, retain and reward eligible executives whose services are vital to the operation and continued growth of the MIB Group. The Proposed ESOS will involve the issue of up to 10% of MIB Group's issued and paid-up share capital at any time during its existence, to be issued pursuant to the options to be granted under the Proposed ESOS to the Executive Directors and eligible executives of the Group.

V Proposed Capital Increase

The Proposed Capital Increase involves the proposed increase of the authorised share capital of MIB from RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each to RM200,000,000 comprising 200,000,000 ordinary shares of RM1.00 each by the creation of an additional 100,000,000 ordinary shares of RM1.00 each.

The **initial announcement** dated 22 December 2003 can be viewed at:

<http://announcements.klse.com.my/linkwebmainpage.nsf/lca.htm>

The announcement is tagged with the reference number **OS-031219-67146**

Refer to K8 for the announcement of status of corporate proposals.

Developments

- a) We have issued a Circular dated 26 January 2006 to all shareholders to vote on the various Proposals at an Extraordinary General Meeting (EGM) held on 17 February 2006. All the resolutions proposed were passed at the EGM.
- b) On 17 February 2006, we have also applied for an extension of time to complete the Proposal for a further six (6) months from 3 March 2006 and this was approved on 20 March 2006.
- c) On 17 May 2006, the authorised share capital of MIB was increased from RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each to RM200,000,000 comprising 200,000,000 ordinary shares of RM1.00 each by the creation of an additional 100,000,000 ordinary shares of RM1.00 each.
- d) On 2 August 2006, the Underwriting Agreement between MIB and OSK Securities Berhad and MIDF Sisma Securities Sdn Bhd were signed. This is to underwrite 13,632,500 ICULS.

B Status of Utilisation of Proceeds Raised

This note is not applicable

K9 Group Borrowings

		As 2nd Quarter ending 30.06.2006 RM	Audited As at 31.12.2005 RM
Secured			
<u>Short term</u>	- Bank overdraft	25,821,201	27,038,390
	- Term loan	2,117,090	2,117,090
	- Bankers acceptance	3,300,000	3,300,000
	- Hire purchases	999,056	1,422,417
		<hr/> 32,237,347	<hr/> 33,877,897
Secured			
<u>Long term</u>	- Term Loan	25,473,139	24,556,472
	- Hire purchases	1,353,287	764,609
		<hr/> 26,826,426	<hr/> 25,321,081
		<hr/> 59,063,773	<hr/> 59,198,978

K10 Off Balance Sheet Financial Instruments

There were no financial instruments with off-balance sheet risk as at 30 June 2006.

K11 Changes in Material Litigation

The following are pending material litigation as at the financial period ended 31 Dec 2005 and to the date of this announcement:

- (i) Claim by Mangium Industries Bhd ("MIB"):
Kuala Lumpur High Court Suit No. S7-22-1551-2004
Mangium Industries Bhd (Plaintiff)
Loi Hien Khong
Loh Hein Hua (Defendants)

Claims is for profit guarantee signed by the two shareholders who guarantee the profit of the company which for 2002 was for RM8.5 Million. A Writ of Summons was filed and extracted on 12.07.2004.

On 22.03.2005, MIB filed for fair judgement and certificate of Non Appearance.

On 12.05.2005, the Defendants were served with a sealed copy of the Judgement in Default.

On 27.07.2005, Defendants filed an affidavit to set aside the Judgement.

On 25.10.2005, Affidavit in Reply to set aside Judgement in Default was filed and the next hearing date which was fixed for 12.01.2006 was postponed to 12.04.2006.

On 21.04.06, the Defendants application to set aside the Judgement in Default was allowed. MIB appealed against the court's decision on this.

On 3.05.06, an Appeal on the Judgement was allowed and the hearing date is set on 23.11.06.

K12 **Dividends**

There was no dividend payable during the quarter.

K13 **Earnings Per Share**

- a) Basic Earnings Per Share – The basic earnings per ordinary share has been calculated by dividing the Groups' net profit / (loss) for the financial year to date of RM432,269 (2005 : RM1,010,634) by the weighted average number of ordinary shares of the Company in issue during the current financial year to date of 32,000,000 shares (2005 : RM32,000,000).
- b) Fully Diluted Earnings Per Share – This note is not applicable.

ADDITIONAL EXPLANATORY NOTE

A1 Minimum Paid-Up Capital Requirement of RM40 Million

The Group noted that the minimum paid-up capital of all Second Board companies is RM40.0 million and has taken the necessary steps to comply with this requirement.

The above extension is granted until 3 March 2006 and subsequently extended to 3 September 2006 which is the timeline granted by the Securities Commission to complete the following Corporate Exercises and as per the approval given by Bursa Malaysia dated 28 April 2005:-

1. Proposed Debt Settlement amounting to RM58.61 million (including accrued interest of RM10.65 million) to be settled by a combination of new MIB shares, irredeemable convertible unsecured loan stocks ("**ICULS**"), Redeemable Convertible Secured Loan Stocks and cash payment *
2. Issuance of up to RM16.0 million nominal value 5-year ICULS together with up to 16.0 million free detachable Warrants attached on the basis of RM1.00 nominal value ICULS with one (1) free detachable Warrant attached for every two (2) existing MIB Shares ("**Proposed Right Issue**"); and
3. Issuance for free, up to an additional RM8.0 million nominal value ICULS to the subscribers of the ICULS issued pursuant to the Proposed Right Issue to serve as an up-front coupon of 10% per annum.

(Kindly refer to announcement bearing reference number OS-031219-67146 dated 22 December 2003).

MIB is currently undertaking the above Corporate Exercises and shareholders have already approved the Corporate Exercises at an EGM held on 17 February 2006. Barring unforeseen circumstances, the Company anticipated that the increase of the paid up share capital to a minimum of RM40 million would be achieved by November 2006.

Kindly refer note K8 A above for more details.

