

THONG GUAN INDUSTRIES BERHAD

(Company No. 324203-K)

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2006

NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of preparation

This interim financial report is unaudited and has been prepared in compliance with FRS 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB) and Paragraph 9.22 of Bursa Malaysia Securities Berhad's Listing Requirements.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2006.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with the most recent annual audited financial statements for the year ended 31 December 2006, except for the adoption of the new/revised Financial Reporting Standards (FRS) effective for financial period beginning 1 January 2006:

FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant & Equipment
FRS 117	Lease
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of FRS 3, 5, 102, 108, 110, 116, 121, 128, 132, 133, 136, 138 & 140 does not have any significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed in Note 2 below.

2. Changes in accounting policies

The MASB has issued a number of new and revised FRS that are effective for accounting periods beginning on or after 1 January 2006. The adoption of these FRS does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the new/revised FRS are summarised below:-

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(a) *Changes in presentation (FRS 101, Presentation of Financial Statements and FRS 127, Consolidated and Separate Financial Statements) – Minority Interests*

In prior years, the minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2006, in order to comply with FRS 101 and FRS 127, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

(b) *Leasehold land held for own use (FRS 117, Lease)*

In prior years, the leasehold interest in land held for own use classified as property, plant and equipment, were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

With the adoption of FRS 117 as from 1 January 2006, the leasehold interest in the land held for own use is accounted for as being held under an operating lease. Such leasehold land will no longer be revalued. Where the leasehold land had been previously revalued, the Group retained the unamortized revalued amount as the surrogate carrying amount of prepaid lease payments as allowed by FRS 117.67A. Such prepaid lease payments are amortised on a straight line basis over remaining lease term of the land.

In 2006, the MASB issued another revised FRS i.e. FRS 117, Lease. The Board of Directors has determined that the early adoption of this FRS is relevant to the preparation of this interim financial report and has reflected this accordingly.

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3. Audit qualification

The audit report of the Group in respect of the annual financial statements for the year ended 31 December 2006 was not subject to audit qualification.

4. 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.

5. Unusual items affecting the assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the current quarter and financial year-to-date.

6. Changes in estimates

There were no changes in estimates of amount reported in prior financial quarters of the current financial year or in prior financial year which have a material effect in the current financial quarter.

7. Debt and equity securities

There were no issuance or repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current quarter.

8. Dividends paid

A final dividend of 5% tax exempt amounting to RM5,260,225/= for the year ended 31 December 2005 was paid on 8 September 2006.

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9. Segment information

Segment information is presented in respect of the Group's business segment.

	12 months ended 31 December 2006	
	Revenue RM'000	Profit before tax RM'000
Plastic products	552,444	26,689
Food and beverages	17,569	722
Others	6,069	2,478
	<u>576,082</u>	<u>29,889</u>
Inter-segment elimination	<u>(106,568)</u>	<u>-</u>
	469,514	29,889
Interest expenses		(3,167)
Interest income		190
Share of profit of associate		(8)
	<u>469,514</u>	<u>26,904</u>

10. Valuation of property, plant and equipment

Land and buildings of the Group have not been revalued since certain properties were first revalued in 1995. The Directors have not adopted a policy of regular revaluation of such assets. As permitted under the transitional provisions of International Accounting Standard No. 16 (Revised): Property, Plant and Equipment adopted by the Malaysian Accounting Standard Board, these assets are stated at their respective valuation less accumulated depreciation.

11. Material events subsequent to the balance sheet date

There were no material events subsequent to the end of the financial period ended 31 December 2006 that have not been reflected in the financial statements as at the date of this report.

12. Changes in the composition of the Group

There were no changes in the composition of the Group for the current financial quarter.

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13. Changes in contingent liabilities or contingent assets

There were no contingent liabilities or assets as at the end of the current financial quarter.

14. Review of performance

Group revenue for the twelve months ended 31 December 2006 was RM469.514 million compared with RM380.374 million for the twelve months ended 31 December 2005, an increase of 23.43%. Group profit before taxation for the period ended 31 December 2006 was RM26.904 million, an increase of 1.94% over the RM26.391 million registered in the corresponding period in 2005.

Revenue increases was mainly due to the increase of sales from its expansion programs in China and Malaysia, increase in the price of plastic raw material which translate to higher selling price. The marginal increase in profit, as compare to the big leap in turnover, was mainly due to the higher cost of raw materials, higher freight cost, increased interest expense, increased in other cost such as electricity, higher provision for doubtful debts and an initial operation loss suffered by a newly established subsidiary company in China.

15. Variation of results against preceding quarter

The Group registered a profit before tax of RM6.377 million in the current quarter, a decrease of 14.46% as compared to the preceding quarter of RM7.455 million. The lower profit was mainly due to higher operating cost during the current quarter and higher provision for doubtful debts.

16. Prospects for the current financial year

With the continued strong demand for its products and further plant expansions in Malaysia and China, the Board of Directors is optimistic that for the financial year ending 31 December 2007, the Group will be able to achieve satisfactory improvements in both its turnover and profitability.

17. Variance of actual profit from profit forecast

Not applicable

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18. Taxation

	Current Quarter 3 months ended 31 Dec 2006 RM'000	Year-to-date 12 months ended 31 Dec 2006 RM'000
Current tax expense		
Malaysian - current	3,384	4,223
- prior year	-	-
Overseas - current	302	1,109
- prior year	-	-
	<u>3,686</u>	<u>5,332</u>
Deferred tax	-	-
	<u>3,686</u>	<u>5,332</u>

The Group's effective tax rates for the current quarter and cumulative year-to-date are lower than the statutory tax rate due to the availability of tax incentives to certain subsidiary companies.

19. Unquoted investments and/or properties

There were no purchases or disposal of unquoted investments and/or properties for the current financial quarter and financial year-to-date.

20. Quoted investments

There were no purchases or disposal of quoted securities for the current financial quarter and financial year-to-date.

21. Status on corporate proposals

There were no material corporate proposals that have been announced by the Company but not completed as at the date of this announcement.

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22. Group borrowings

	31 December 2006 RM'000
Current	
<u>Secured</u>	
Term loans	-
Overdrafts	1,391
Bankers' acceptances	4,082
Others	255
	5,728
<u>Unsecured</u>	
Term loans	4,784
Revolving credit	5,104
Overdrafts	3,101
Bankers' acceptances	-
Export credit refinancing	-
Onshore foreign currency loans	40,463
	53,452
	<u>59,180</u>
Non-current	
<u>Secured</u>	
Others	149
<u>Unsecured</u>	
Term loans	11,413
	<u>11,562</u>

The above borrowings are denominated in Ringgit Malaysia except for Revolving Credit, Onshore Foreign Currency Loans and unsecured term loan which are denominated in US Dollar.

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23. Off balance sheet financial instruments

As at 12 February 2007, the Group had entered into the following forward foreign currency contracts to hedge its committed sales in foreign currencies (FC) :-

Foreign Currency	Contract	Outstanding Contract		Maturity Date
	Amount FC '000	Amount FC '000	RM'000	
Japanese Yen	50,000	43,694	1,361	18/12/06 – 02/02/07
Singaporean Dollar	2,000	1,907	4,453	05/01/07 – 22/03/07
US Dollar	6,500	4,843	17,433	01/10/06 – 20/04/07
Australian Dollar	820	393	697	06/12/06 – 31/01/07

Foreign currency contracts are entered into to hedge the Group's confirmed sales and purchases in foreign currencies. The contracted rates will be used to convert the foreign currency amounts into Ringgit Malaysia and US Dollar. The maturity period for each contract depends on the terms of receipts or payments agreed with trade customers and suppliers. The purpose of hedging is to preserve the values of trade receivables and payables against market risk.

The contracts are short-term in nature, as such the difference between the contracted rates and the spot rates are not taken up in the income statement.

The Group does not foresee any significant credit and market risks associated with the above forward foreign exchange contracts as these contracts are entered into with credit worthy financial institutions.

Besides a small fee, there are no other cash outlay requirements for the above forward foreign exchange contracts.

24. Material litigation

There were no material litigation pending as at the date of this quarterly report.

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25. Earnings per share

a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders and weighted average number of shares outstanding as follows:-

	Current Quarter 3 months ended 31 Dec 2006	Year-to-date 12 months ended 31 Dec 2006
	RM'000	RM'000
Group's profit after taxation attributable to ordinary shareholders	2,691	21,572
	'000	'000
Weighted average number of ordinary shares	105,205	105,205

b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit attributable to ordinary shareholders and weighted average number of shares outstanding as follows:-

	Current Quarter 3 months ended 31 Dec 2006	Year-to-date 12 months ended 31 Dec 2006
	RM'000	RM'000
Group's profit after taxation attributable to ordinary shareholders	2,691	21,572
Weighted average number of ordinary shares (diluted) :-	'000	'000
Weighted average number of ordinary shares	105,205	105,205
Effect of share options	115	115
	<u>105,320</u>	<u>105,320</u>

By Order of the Board

Lam Voon Kean (MIA 4793)
Company Secretary

DATED THIS 28 FEBRUARY 2007