

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2010

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134, INTERIM FINANCIAL REPORTING

1 Basis of Preparation

The unaudited interim financial report has been prepared in accordance with the requirements of Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and in compliance with Financial Reporting Standard (“FRS”) 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB), and should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2009.

The unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes which provide an explanation of the events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2009. The unaudited condensed consolidated financial statements and explanatory notes thereon do not include all of the information required for full set of financial statements to be prepared in accordance with Financial Reporting Standards (FRSs).

2 Changes in Accounting Policies

The significant accounting policies, methods of computation and basis of consolidation adopted by the Group for the preparation of the unaudited interim financial report are consistent with those adopted in the annual audited financial statements for the year ended 31 December 2009.

The Group has adopted the following FRSs, amendments and interpretations that have been issued by the MASB, except for FRS 4, IC Interpretation 13 and 14 which are not applicable to the Group.

(a) FRS 4	Insurance Contracts
(b) FRS 7	Financial Instruments : Disclosures
(c) FRS 8	Operating Segments
(d) FRS 101	Presentation of Financial Statements (revised)
(e) FRS 123	Borrowing Cost (revised)
(f) FRS 139	Financial Instruments : Recognition and Measurement
(g) Amendments to FRS 1	First-time Adoption of Financial Reporting Standard
(h) Amendments to FRS 2	Share-based Payment: Vesting Conditions and Cancellations
(i) Amendments to FRS 7	Financial Instruments : Disclosures
(j) Amendments to FRS 101	Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
(k) Amendments to FRS 127	Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary Jointly Controlled Entity or Associate
(l) Amendments to FRS 132	Financial Instruments : Presentation - Puttable Financial Instruments and Obligations Arising on Liquidation -Separation of Compound Instruments
(m) Amendments to FRS 139	Financial Instruments : Recognition and Measurement - Reclassification of Financial Assets -Collective Assessment of Impairment for Banking Institutions
(n) Improvements to FRSs (2009)	
(o) IC Interpretation 9	Reassessment of Embedded Derivatives
(p) IC Interpretation 10	Interim Financial Reporting and Impairment
(q) IC Interpretation 11	FRS 2 - Group and Treasury Share Transactions
(r) IC Interpretation 13	Customer Loyalty Programmes
(s) IC Interpretation 14	FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and Their Interaction

The above FRSs, amendments and interpretations did not have any significant impact on the unaudited condensed consolidated financial statements except for the following:-

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FRS which is applicable to the Group effective 1 January 2010

The significant accounting policies adopted for the unaudited condensed consolidated financial statements are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2009 except for the adoption of FRS 139 "Financial Instruments: Recognition and Measurement" that came into effect on 1 January 2010.

FRS 139 " Financial Instruments: Recognition and Measurement"

In accordance with FRS 139, the recognition and measurement requirements are applied prospectively from 1 January 2010. Prior to the adoption of FRS 139, derivative contracts were recognized in the financial statement on the settlement dates. With the adoption of FRS 139, the derivative contracts will be at contract dates as a financial assets or financial liabilities and the measurement of such contracts would be at fair value through profit & loss.

In accordance with the traditional provision of FRS 139, the above changes are applied prospectively and the comparatives as at 31 December 2009 not restated. The fair value adjustments arising from re-measurement of financial instruments are immaterial to the financial position and results of the Group. Thus no adjustment has been made to the opening balances of the balance sheet as at 1 January 2010.

Financial Assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity, available-for-sale ("AFS") financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group's financial assets include cash and short-term deposits, loans and receivables.

(i) Loans and Receivables

The Group's receivables, previously measured at invoiced amount and subject to impairment, are now classified as loans and receivables and measured at fair value plus transaction costs initially and subsequently, at amortised cost using the effective interest method. When loans and receivables are impaired, the carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

The Group has not adopted the following FRSs, amendments and interpretations that have been issued by the MASB but are not yet effective.

- | | |
|-------------------------|---|
| (a) FRS 1 | First-time Adoption of Financial Reporting Standards (revised) |
| (b) FRS 3 | Business Combination (revised) |
| (c) FRS 127 | Consolidated and Separate Financial Statements (revised) |
| (d) Amendments to FRS 1 | First-time Adoption of Financial Reporting Standards
- Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopter |

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(e) Amendments to FRS 2	Share-based Payment
(f) Amendments to FRS 5	Non-current Asstes Held for Sales and Discontinued Operations
(g) Amendments to FRS 7	Financial Instruments : Disclosures - Improving Disclosures about Financial Instruments
(h) Amendments to FRS 138	Intangible Assets
(i) Amendment to IC Interpretation 9	Reassessment of Embedded Derivatives
(j) IC Interpretation 12	Service Concession Arrangements
(k) IC Interpretation 15	Agreements for the Construction of Real Estate
(l) IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
(m) IC Interpretation 17	Distributions of Non-cash Assets to Owners

The FRSs' amendments and interpretations above are expected to have no significant impact on the financial statements of the Group upon their initial application, except for Amendments to FRS 138 and IC Interpretation 12, 15, 16, and 17 which are not applicable to the Group.

3 Seasonal or Cyclical Factors

The cyclical nature of the manufacturing sector is generally correlated to the global economy while seasonally demand will normally peak for the year end festive seasons.

4 Unusual Items Due To Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter and financial year-to-date as a consequence of their nature, size or incidence.

5 Changes in Estimates

There were no material changes in estimates of amount reported in either the prior interim period of the current financial year or prior financial years that have a material effect on the results during the current quarter and financial year-to-date.

6 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 ended 31 December 2010.

7 Dividends Paid

A first and final tax exempt dividend of 4% (4 sen per share) amounting to RM4,208,180 in respect of the financial year ended 31 December 2009 was paid on 18 August 2010.

8 Segment information

Segment information for the quarter ended 31 December 2010 is presented in accordance to Group's operating segment.

	12 months ended 31 December 2010	
	Revenue RM'000	Profit before tax RM'000
Plastic products	460,231	22,261
Food and beverages	23,445	917
Others	4,758	55
	<u>488,434</u>	<u>23,233</u>
Interest expenses	-	(643)
Interest income	-	137
	<u>488,434</u>	<u>22,727</u>

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9 Revaluation 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.

10 Material Events Subsequent to the End of the Financial Period

There were no material events subsequent to the end of the current quarter that have not been reflected in the financial statements as the date of this report.

11 Changes in the Composition of the Group

There were no changes in the composition of the Group for the quarter ended 31 December 2010.

12 Contingent Liabilities

There were no contingent liabilities or assets since the last financial year ended 31 December 2009.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

13 Review of Performance

The Group registered a revenue for the twelve months ended 31 December 2010 of RM488.434 million as compared with RM408.778 million for the twelve months ended 31 December 2009, an increase of 19.49%. The increase in revenues were mainly due to the higher average prices of raw materials which translated to higher selling prices as well as the increase in export volume of the group's products compared to the corresponding period in 2009.

Group profit before taxation for the quarter ended 31 December 2010 was RM22.727 million, an increase of 22.58% over the RM18.541 million registered in the preceding year corresponding quarter in 2009.

For the three months fourth quarter ended 31 December 2010, Group revenue grew by 27.43% from RM109.458 million to RM139.486 million as compared to the corresponding quarter in 2009. The increase in revenues were mainly due to the higher average prices of raw materials which translated to higher selling prices as well as the increase in export volume of the group's products compared to the corresponding period in 2009.

Profit before taxation for the three months fourth quarter increased by 119.42% from RM3.846 million to RM8.439 million as compared to the corresponding quarter in 2009. The increase in profit before taxation was mainly due to the more stable operating environments, higher revenue and better margins compared to the corresponding period in 2009.

14 Comparison with Immediate Preceding Quarter's Results

	Individual Quarter Ended		Variance RM '000	Variance %
	31.12.2010	30.09.2010		
Revenue	139,486	123,787	15,699	12.68%
Profit before tax	8,439	3,550	4,889	137.72%

The revenue for the quarter ended 31 December 2010 increased by RM15.699 million or 12.68% and profit before taxation increased by RM4.889 million or 137.72% as compared to the preceding quarter. The increase in revenue was mainly due to the higher demand for the group's plastic packaging products during the current quarter compared to the preceding quarter. The increase in profit before taxation was mainly due to increase in revenue and the effects of certain provisions made compared to the preceding quarter.

15 Current Year Prospect

The Board of Directors is optimistic that for the financial year ending 2011, the Group will be able to achieve satisfactory performances for both its turnover and profitability.

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16 Variance of Actual Profit from Forecast Profit

Not applicable.

17 Income Tax Expense

	Quarter Ended		Cumulative Period Ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RM'000	RM'000	RM'000	RM'000
Income tax in respect of				
Current period	1,041	(107)	2,650	1,813
(Over)/Under provision in prior year	124	53	192	95
Deferred tax (income)/ expense	141	799	(476)	1,472
	<u>1,306</u>	<u>745</u>	<u>2,366</u>	<u>3,380</u>

The effective tax rates are lower than the statutory tax rates mainly due to the tax incentives available to certain subsidiary companies of the Group.

18 Sale of Unquoted Investments and/or Properties

There were no sale of unquoted investments for the current financial quarter and financial period-to-date.

19 Quoted Securities

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

20 Status of Corporate Proposals Announced

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

21 Group Borrowings and Debt Securities

	31 December 2010
	RM'000
Current	
<u>Secured</u>	
Overdrafts	593
Bankers' acceptances	5,094
Finance lease liability	591
	<u>6,278</u>
<u>Unsecured</u>	
Revolving credit	2,476
Overdrafts	4,221
Bankers' acceptances	-
Onshore foreign currency loans	11,445
	<u>18,142</u>
	<u><u>24,420</u></u>
Non-current	
<u>Secured</u>	
Term loans	4,221
Finance lease liability	670
	<u>4,891</u>

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

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22 Financial Instruments with Off Balance Sheet Risk

The Group did not have any financial instruments with off balance sheet risk as at 18 February 2011, the latest practicable date that shall not be earlier than 7 days from the date of issue of the quarterly report.

23 Changes in Material Litigation

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

24 Dividends

A first and final tax exempt dividend of 5 sen per share in respect of the financial year ended 31 December 2010 (previous corresponding financial year ended 31 December 2009 – 4 sen) had been proposed by the Board of Directors subject to the approvals of the shareholders at the Company's upcoming Annual General Meeting.

25 Earnings Per Ordinary Share

(a) Basic earnings per ordinary share

Basic earnings per ordinary share amounts are calculated by dividing profit attributable to the ordinary equity shareholders by the weighted average number of ordinary shares in issue during the financial period, excluding treasury shares held by the Company.

	Quarter Ended		Cumulative Period Ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Profit attributable to ordinary equity shareholders (RM'000)	7,133	3,101	20,361	15,161
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	<u>6.78</u>	<u>2.95</u>	<u>19.35</u>	<u>14.41</u>

(b) Diluted earnings per ordinary share

There are no diluted earnings per share as the Company does not have any convertible financial instruments as at the end of the current quarter and financial period-to-date.

26 (a) Disclosure of derivatives

Details of derivative financial instruments outstanding as at 31 December 2010 are set out below:

Type of derivatives	Contract/Notional Value RM'000	Fair Value RM'000
Foreign Exchange Contracts		
-Less than 1 year	7,570	7,518
-1 year to 3 years	-	-
-More than 3 years	-	-

Net fair value gains on derivatives as at quarter ended 31 December 2010 was RM52,320.

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(b) Realised and Unrealised Profits Disclosure

	Cumulative Period Ended 31.12.2010 RM'000
Total retained profits of Thong Guan Industries Berhad and its subsidiaries	
- Realised	113,132
- Unrealised	(7,913)
	105,219
Less: Consolidation adjustments as per consolidated accounts	<u>(2,578)</u>
Total Group retained profits	<u>102,641</u>

Note: As per Bursa Malaysia's directive dated 20 December 2010, prior year comparatives are not required in the first year of complying with the Realised and Unrealised Profits/Losses Disclosure.

27 Auditors' Report on Preceding Annual Financial Statements

There were no qualification on the auditors' report of the Group's most recent annual audited financial statements.

By Order of the Board

Lam Voon Kean (MIA 4793)
Company Secretary

DATED THIS 24 February 2011