

**THONG GUAN INDUSTRIES BERHAD ( COMPANY NO. : 324203-K )**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2011**

**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 2010.

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 2010. 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 2010.

The Group and the Company have not applied the following new/revised accounting standards (including its consequential amendments) and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective :

**Amendments effective for annual periods beginning on or after 1 March 2010**

- Amendments to FRS 132, Financial Instruments: Presentation - Classification of Rights Issues \*

**FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010**

- FRS 1, First-time Adoption of Financial Reporting Standards (revised)
- FRS 3, Business Combinations (revised)
- FRS 127, Consolidated and Separate Financial Statements (revised)
- Amendments to FRS 2, Share-based Payment
- Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations \*
- Amendments to FRS 138, Intangible Assets \*
- IC Interpretation 12, Service Concession Agreements \*
- IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation \*
- IC Interpretation 17, Distribution of Non-cash Assets to Owners \*
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

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**FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011**

- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
  - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
  - Addition Exemption for First-time Adopters
- Amendments to FRS 2, Group Cash-settled Share Based Payment Transactions \*
- Amendments to FRS 7, Financial Instruments : Disclosures - Improving Disclosures about Financial Instruments
- IC Interpretation 4, Determining whether an arrangement contains a Lease
- IC Interpretation 18, Transfers of Assets from Customers \*
- Improvements to FRSs (2010)

**FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 July 2011**

- IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IC Interpretation 14, Prepayments of a Minimum Funding Requirement #

**FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 January 2012**

- FRS 124, Related Party Disclosures (revised)
- IC Interpretation 15, Agreements for the Construction of Real Estate #

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011, except for those marked “ \* ” which are not applicable to the Group and the Company; and
- from the annual period beginning 1 January 2012 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012, except for those marked “ # ” which are not applicable to the Group and the Company.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures is not expected to have any financial impacts to the current and prior periods financial statements upon their first adoption.

The initial application of the remaining standards, improvements and amendments is not expected to have any significant impact on the Group's and the Company's financial statements.

Following the announcement by the MASB on 1 August 2008, the Group's and the Company' financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS) framework for annual periods beginning on 1 January 2012. The change of the financial reporting framework is not expected to have any significant impact on the financial position and performance of the Group and the Company.

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**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 30 September 2011.

**7 Dividends paid**

There were no dividend paid in the quarter under review.

**8 Segment information**

Segment information for the quarter ended 30 September 2011 is presented in accordance to Group's operating segment.

|                    | <b>9 months ended 30 September 2011</b> |                   |
|--------------------|---|-------------------|
|                    | <b>Revenue</b>                          | <b>Profit</b>     |
|                    | <b>RM'000</b>                           | <b>before tax</b> |
|                    | <b>RM'000</b>                           | <b>RM'000</b>     |
| Plastic products   | 370,808                                 | 19,957            |
| Food and beverages | 20,908                                  | 1,590             |
| Others             | 3,438                                   | 469               |
|                    | <u>395,154</u>                          | <u>22,016</u>     |
| Interest expenses  | -                                       | (535)             |
| Interest income    | -                                       | 307               |
|                    | <u>395,154</u>                          | <u>21,788</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**

The Company subscribed to 70% of the enlarged share capital of TGSH Plastic Industries Sdn. Bhd. ( formerly known as Yuanley Sdn. Bhd.) on 26 August 2011, thus making TGSH effectively a new subsidiary company of the Company.

**12 Contingent liabilities**

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

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

**13 Review of performance**

Group revenue for the nine months ended 30 September 2011 was RM395.154 million compared with RM348.948 million for the nine months ended 30 September 2010, an increase of 13.24%. The increase in revenue was mainly due to the increase in export volume of the group's products compared to the corresponding period in 2010. Group profit before taxation for the period ended 30 September 2011 was RM21.788 million, an increase of 52.49% over the RM14.288 million registered in the corresponding period in 2010. The increase in profit before tax was mainly due to the increase in revenue and better margin compared to the corresponding period in 2010.

For the three months third quarter ended 30 September 2011, Group revenue grew by 14.98% from RM123.787 million to RM142.325 million while profit before taxation increased by 77.38% from RM3.550 million to RM6.297 million as compared to the corresponding quarter in 2010. The increase in revenue was mainly due to the increase in export volume of the group's products compared to the corresponding period in 2010. The increase in profit before tax was mainly due to the increase in revenue and better margin compared to the corresponding period in 2010.

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**14 Comparison with immediate preceding quarter's results**

|                   | <u>Individual quarter ended</u> |                   | <u>Variance</u> | <u>Variance</u> |
|-------------------|---------------------------------|-------------------|-----------------|-----------------|
|                   | <u>30.09.2011</u>               | <u>30.06.2011</u> |                 |                 |
|                   | <u>RM'000</u>                   | <u>RM'000</u>     | <u>RM'000</u>   | <u>%</u>        |
| Revenue           | 142,325                         | 128,202           | 14,123          | 11.02           |
| Profit before tax | 6,297                           | 8,304             | (2,007)         | (24.17)         |

The revenue for the quarter ended 30 September 2011 increased by RM14.123 million or 11.02% and profit before taxation decreased by RM2.007 million or 24.17% for the current quarter 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 decrease in profit before taxation was mainly due to the unrealised loss on derivatives contracts with a negative impact of RM1.43 million from the Group's hedging activities as the USD and JPY strengthen unexpectedly against the RM.

**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.

**16 Variance of actual profit from forecast profit**

Not applicable.

**17 Income tax expense**

|                          | <u>Individual quarter</u> |                   | <u>Cumulative quarter</u> |                   |
|--------------------------|---------------------------|-------------------|---------------------------|-------------------|
|                          | <u>30.09.2011</u>         | <u>30.09.2010</u> | <u>30.09.2011</u>         | <u>30.09.2010</u> |
|                          | <u>RM'000</u>             | <u>RM'000</u>     | <u>RM'000</u>             | <u>RM'000</u>     |
| Income tax in respect of |                           |                   |                           |                   |
| - Current period         | 1,191                     | 404               | 3,417                     | 1,609             |
| - Prior year             | 6                         | -                 | (661)                     | 68                |
| Deferred tax expense     | (341)                     | (261)             | (430)                     | (617)             |
|                          | <u>856</u>                | <u>143</u>        | <u>2,326</u>              | <u>1,060</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.

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**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**

|                                | <b>30.09.2011</b> |
|--------------------------------|-------------------|
|                                | <b>RM'000</b>     |
| <b>Current</b>                 |                   |
| <i><b><u>Secured</u></b></i>   |                   |
| Term loans                     | 851               |
| Overdrafts                     | 413               |
| Bankers' acceptances           | 2,048             |
| Finance lease liability        | 377               |
|                                | 3,689             |
| <i><b><u>Unsecured</u></b></i> |                   |
| Overdrafts                     | 2,170             |
| Bankers' acceptances           | 2,842             |
| Onshore foreign currency loans | 15,529            |
|                                | 20,541            |
|                                | 24,230            |
| <br><b>Non-current</b>         |                   |
| <i><b><u>Secured</u></b></i>   |                   |
| Term loans                     | 2,739             |
| Finance lease liability        | 578               |
|                                | 3,317             |

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 Disclosure of derivatives**

Details of derivative financial instruments outstanding as at 30 September 2011 are set out below:

| <u>Type of derivatives</u>        | <u>Contract/<br/>Notional Value<br/>RM'000</u> | <u>Fair Value<br/>RM'000</u> |
|-----------------------------------|--|------------------------------|
| <b>Foreign Exchange Contracts</b> |  |                              |
| - Less than 1 year                | 32,798   | 33,952                       |
| - 1 year to 3 years               | -  | -                            |
| - More than 3 years               | -  | -                            |
| <br>Total                         | <br><u>32,798</u>                              | <br><u>33,952</u>            |

**23 Realised and unrealised retained earnings**

|   | <u>Unaudited<br/>As at<br/>30.09.2011<br/>RM'000</u> | <u>Audited<br/>As at<br/>31.12.2010<br/>RM'000</u> |
|---|--|--|
| Total retained profits of Thong Guan Industries Berhad and its subsidiaries |  |  |
| - Realised  | 124,140  | 112,173  |
| - Unrealised  | (6,265)  | (7,900)  |
|   | <u>117,875</u>                                       | <u>104,273</u>                                     |
| Less: Consolidation adjustments   | (1,560)  | (2,198)  |
| Total group retained profits as per consolidated accounts                   | <u>116,315</u>                                       | <u>102,075</u>                                     |

**24 Changes in material litigation**

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

**25 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) was approved at the Company's Sixteenth Annual General Meeting on 23 June 2011 and was paid on 18 August 2011 to depositors registered in the Record of Depositor on 28 July 2011. No interim dividend has been declared for the financial period ended 30 September 2011.

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**26 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.

|   | <b>Individual quarter</b> |                    | <b>Cumulative quarter</b> |                     |
|---|---------------------------|--------------------|---------------------------|---------------------|
|   | <u>30.09.2011</u>         | <u>30.09.2010</u>  | <u>30.09.2011</u>         | <u>30.09.2010</u>   |
| Profit attributable to ordinary equity owners of the Company (RM'000) | <u>5,479</u>              | <u>3,407</u>       | <u>19,500</u>             | <u>13,228</u>       |
| Weighted average number of ordinary share in issue (units'000)        | <u>105,205</u>            | <u>105,205</u>     | <u>105,205</u>            | <u>105,205</u>      |
| Basic earnings per ordinary share (sen)                               | <u><u>5.21</u></u>        | <u><u>3.24</u></u> | <u><u>18.54</u></u>       | <u><u>12.57</u></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.

**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 November 2011**