

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE FIRST QUARTER ENDED 31 MARCH 2012

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

1 Basis of preparation

This interim financial report is unaudited and is prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") No 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read together with the Group's Audited Financial Statement for the year ended 31 December 2011. For the periods up and including the financial year ended 31 December 2011, the Group prepared its financial statements in accordance with the Financial Reporting Standards ("FRS").

The group has adopted the MFRS framework issued by Malaysian Accounting Standards Board ("MASB") with effect from 1 January 2012. This MFRS framework was introduced by the MASB in order to fully converge the Malaysian's existing FRS framework with the International Financial Reporting Standards ("IFRS") framework issued by the International Accounting Standards Board.

The group has applied MFRS 1 First Time Adoption of MFRS in the preparation of this interim financial report. In preparing the opening MFRS Statement of Financial Positions as at 1 January 2011, the Group has adjusted the amounts previously reported in its financial statements prepared in accordance with FRS.

There has been no material impact to the Group's financial statements upon the adoption of the MFRS.

2 Changes in accounting policies

The Group has adopted all the new and revised MFRSs and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1 January 2012. The adoption of these new and revised MFRSs and IC Interpretations did not result in any changes to the significant accounting policies adopted by the Group except for the foreign currency translation reserve.

Under FRS, the Group recognised translation differences on foreign operations as a separate component of equity. Cumulative foreign currency translation differences for all foreign operations are deemed to be nil as at the date of transition to MFRS. Accordingly, at the date of transition to MFRS, the cumulative foreign currency translation differences as at 1 January 2011 amounting to RM1,351,000 was adjusted to retained earnings as at that date as well as 31 December 2011.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by Group and the Company :

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to MFRS 101, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interests in Other Entities
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits (2011)
- MFRS 127, Separated Financial Statements
- MFRS 128, Investments in Associates and Joint Ventures
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine
- Amendments to MFRS 7, Financial Instruments :Disclosures - Offsetting Financial Assets and Financial Liabilities

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 132, Financial Instruments : Presentation - Offsetting Financial Assets and Financial Liabilities

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- Amendments to MFRS 7, Financial Instruments : Disclosures - Mandatory Date of MFRS 9 and Transition Disclosures

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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 31 March 2012.

7 Dividends paid

There were no dividend paid in the quarter under review.

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8 Segment information

The Group's operations can be divided into two products based operating segments.

Segment information for the year ended 31 March 2012 are as follow

	<u>Plastic Products</u>	<u>Food, Beverages and Other Consumable Products</u>	<u>Consolidated</u>
<u>2012</u>	RM'000	RM'000	RM'000
Revenue			
Revenue from external customers	136,163	9,193	145,356
Segment profit	5,784	962	6,746
Included in the measure of segment profit are:			
-Depreciation and amortisation	4,247	170	4,417
-Non-cash expenses other than depreciation and amortisation	-	3	3
Segment assets	333,099	26,069	359,168
Included in the measure of segment assets is:			
-Capital expenditure	1,368	131	1,499

Segment information for the year ended 31 March 2011 are as follow

	<u>Plastic Products</u>	<u>Food, Beverages and Other Consumable Products</u>	<u>Consolidated</u>
<u>2011</u>	RM'000	RM'000	RM'000
Revenue			
Revenue from external customers	117,164	7,463	124,627
Segment profit	6,964	223	7,187
Included in the measure of segment profit are:			
-Depreciation and amortisation	3,689	178	3,867
-Non-cash expenses other than depreciation and amortisation	2	1	3
Segment assets	285,745	23,998	309,743
Included in the measure of segment assets is:			
-Capital expenditure	2,502	623	3,125

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 March 2012.

12 Contingent liabilities

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

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

13 Review of performance

	Individual quarter		Cumulative period	
	31.03.2012 RM'000	31.03.2011 RM'000	31.03.2012 RM'000	31.03.2011 RM'000
Revenue				
Plastic Products	136,163	117,164	136,163	117,164
Food, Beverages and Other Consumable Products	9,193	7,463	9,193	7,463
Group	<u>145,356</u>	<u>124,627</u>	<u>145,356</u>	<u>124,627</u>
Profit before tax				
Plastic Products	5,784	6,964	5,784	6,964
Food, Beverages and Other Consumable Products	962	223	962	223
Group	<u>6,746</u>	<u>7,187</u>	<u>6,746</u>	<u>7,187</u>

Group revenue for the three months ended 31 March 2012 was RM145.356 million compared with RM124.627 million for the three months ended 31 March 2011, an increase of 16.63%. The increase in revenue was mainly due to the increase in export and contribution from two new subsidiary companies compared to the corresponding period in 2011. Group profit before taxation for the period ended 31 March 2012 was 6.746 million, a decrease of 6.14% over the RM7.187 million registered in the corresponding period in 2011. The decrease in profit before tax was mainly due to the lower margin compared to the corresponding period in 2011.

Plastic Products

For the three months ended 31 March 2012, revenue increased by 16.22% from 117.164 million to RM136.163 million while profit before tax decreased by 16.94% from 6.964 million to 5.784 million as compared to the preceding year corresponding period in 2011.

The increase in revenue was mainly due to the increase in export mainly from its China based subsidiary companies and two new subsidiary companies compared to the corresponding period in 2011. The decrease in profit before tax was due to lower margin compared to the corresponding period in 2011.

Food, Beverages and Other Consumable Products

For the three months ended 31 March 2012, revenue increased by 23.18% from 7.463 million to RM9.193 million while profit before tax increased by 331.39% from 0.223 million to 0.962 million as compared to the preceding year corresponding period in 2011.

The increase in revenue and profit before tax was mainly due to the increase of selling prices and higher demand of tea, curry powder and instant beverages products compared to the corresponding period in 2011.

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14 Comparison with immediate preceding quarter's results

	Individual quarter ended		Variance RM'000	Variance %
	31.03.2012	31.12.2011		
	RM'000	RM'000		
Revenue	145,356	143,806	1,550	1.08
Profit before tax	6,746	6,328	418	6.61

The revenue for the quarter ended 31 March 2012 increased by RM1.550 million or 1.08% and profit before taxation increased by RM0.418 million or 6.61% for the current quarter as compared to the preceding quarter. The increase in profit before tax was mainly due to the contributions from its China based operations compared to the preceding quarter.

15 Current year prospect

The Group's stretch film division which was boosted by the installation of two new European cast stretch film lines has seen increasing orders in recent months after below par performance in the first quarter.

Its PVC food wrap division had also experienced improved sales after similar subpar results in the first quarter.

The Group's new subsidiary company, TGS Plastic Industries Sdn Bhd is still in the red. However the Group is installing new machineries to increase its operating capacity to achieve the desired economies of scale.

The Group's newly installed third production line for its compounding division is bearing fruits with robust orders. Plans to further expand its operations are in the pipeline.

The Group's food, beverage and other consumable business unit has experienced continued growth and is expected to continue its steady progress.

The prices of plastic resins which has moved up slightly during the first quarter of 2012 has plummeted in the second quarter due to the softening of crude oil price, slowdown in the economy of China and Europe and the lower levels of confidence with the happenings in Greece and Eurozone. The Group expects demand to be temporarily impacted by the softening of prices but is confident that the lower prices will increase demand for its products in the medium term.

16 Variance of actual profit from forecast profit

Not applicable.

17 Results from operating activities

Results from operating activities are arrived at:

	Individual quarter		Cumulative period	
	31.03.2012	31.03.2011	31.03.2012	31.03.2011
	RM'000	RM'000	RM'000	RM'000
After charging:				
Bad debts written off	13	6	13	6
Depreciation of property, plant and equipment	4,352	3,816	4,352	3,816
Amortisation of prepaid lease payments	65	51	65	51
Loss on foreign exchange				
- unrealised	26	254	26	254
and crediting:				
Gain on foreign exchange				
- realised	1,156	131	1,156	131
Reversal of impairment loss on receivables	10	3	10	3
Reversal of impairment loss on property, plant and equipment	-	16	-	16
Reversal of impairment loss on other investments	19	60	19	60
Unrealised gain on derivatives	377	88	377	88

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18 Income tax expense

	Individual quarter		Cumulative period	
	31.03.2012	31.03.2011	31.03.2012	31.03.2011
	RM'000	RM'000	RM'000	RM'000
Income tax in respect of				
- Current period	865	1,011	865	1,011
- Prior year	1	-	1	-
Deferred tax expense	340	(171)	340	(171)
	<u>1,206</u>	<u>840</u>	<u>1,206</u>	<u>840</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.

19 Sale of unquoted investments and/or properties

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

20 Quoted securities

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

21 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.

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22 Group borrowings and debt securities

	31.03.2012
	RM'000
Current	
<i><u>Secured</u></i>	
Term loans	879
Overdrafts	624
Bankers' acceptances	1,677
Finance lease liability	335
	3,515
<i><u>Unsecured</u></i>	
Term loans	1,125
Overdrafts	2,024
Bankers' acceptances	2,901
Onshore foreign currency loans	25,326
	31,376
	34,891
Non-current	
<i><u>Secured</u></i>	
Term loans	2,281
Finance lease liability	351
	2,632
<i><u>Unsecured</u></i>	
Term loans	3,375
	6,007

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

23 Disclosure of derivatives

Details of derivative financial instruments outstanding as at 31 March 2012 are set out below:

Type of derivatives	Contract/ Notional Value RM'000	Fair Value RM'000
Foreign Exchange Contracts		
- Less than 1 year	21,839	21,462
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	21,839	21,462

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24 Realised and unrealised retained earnings

	As at 31.03.2012 RM'000	As at 31.12.2011 RM'000 (Restated)
Total retained profits of Thong Guan Industries Berhad and its subsidiaries		
- Realised	143,618	137,768
- Unrealised	(7,526)	(6,929)
	136,092	130,839
Less: Consolidation adjustments	(5,240)	(5,533)
Total group retained profits as per consolidated accounts	130,852	125,306

The retained earnings as at 31 December 2011 has been restated upon the adoption of MFRS.

25 Changes in material litigation

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

26 Dividends

A first and final tax exempt dividend of 6 sen per share in respect of the financial year ended 31 December 2011 (previous corresponding financial year ended 31 December 2010 : 5 sen) has been proposed by the Board of Directors subject to the approvals of the shareholders at the Company's upcoming Annual General Meeting.

27 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.

	Individual quarter		Cumulative period	
	31.03.2012	31.03.2011	31.03.2012	31.03.2011
Profit attributable to ordinary equity owners of the Company (RM'000)	5,546	6,347	5,546	6,347
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	5.27	6.03	5.27	6.03

(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.

28 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

Dato' Ang Poon Chuan
Managing Director

DATED THIS 24 May 2012