

**THONG GUAN INDUSTRIES BERHAD ( COMPANY NO. : 324203-K )**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**FOR THE SECOND QUARTER ENDED 30 JUNE 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 30 June 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 30 June 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
<b>Revenue</b>			
Revenue from external customers	279,485	18,142	297,627
<b>Segment profit</b>	12,694	1,682	14,376
Included in the measure of segment profit are:			
-Depreciation and amortisation	8,481	328	8,809
-Non-cash expenses other than depreciation and amortisation	3	3	6
<b>Segment assets</b>	342,348	34,373	376,721
Included in the measure of segment assets is:			
-Capital expenditure	2,866	339	3,205

Segment information for the year ended 30 June 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
<b>Revenue</b>			
Revenue from external customers	239,035	16,791	255,826
<b>Segment profit</b>	14,053	1,438	15,491
Included in the measure of segment profit are:			
-Depreciation and amortisation	7,461	359	7,820
-Non-cash expenses other than depreciation and amortisation	-	6	6
<b>Segment assets</b>	295,006	29,813	324,819
Included in the measure of segment assets is:			
-Capital expenditure	7,334	251	7,585

**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 30 June 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	
	30.06.2012 RM'000	30.06.2011 RM'000	30.06.2012 RM'000	30.06.2011 RM'000
<b>Revenue</b>				
Plastic Products	143,322	121,871	279,485	239,035
Food, Beverages and Other Consumable Products	8,949	9,328	18,142	16,791
<b>Group</b>	<u>152,271</u>	<u>131,199</u>	<u>297,627</u>	<u>255,826</u>
<b>Profit before tax</b>				
Plastic Products	6,910	7,089	12,694	14,053
Food, Beverages and Other Consumable Products	720	1,215	1,682	1,438
<b>Group</b>	<u>7,630</u>	<u>8,304</u>	<u>14,376</u>	<u>15,491</u>

**Group**

Group revenue for the six months ended 30 June 2012 was RM297.627 million compared with RM255.826 million for the six months ended 30 June 2011, an increase of 16.34%. 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 tax for the period ended 30 June 2012 was 14.376 million, a decrease of 7.20% over the RM15.491 million registered in the corresponding period in 2011. The decrease in profit before tax was mainly due to the lower margin in the plastic products segment compared to the corresponding period in 2011.

For the three months second quarter ended 30 June 2012, Group revenue grew by 16.06% from RM131.199 million to RM152.271 million while profit before taxation decreased by 8.12% from RM8.304 million to RM7.630 million as compared to the corresponding quarter in 2011. 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. The decrease in profit before tax was mainly due to the lower margin in the plastic products segment and also lower profit contribution from food, beverages and other consumable products compared to the corresponding period in 2011.

**Plastic Products**

For the six months ended 30 June 2012, revenue increased by 16.92% from 239.035 million to RM279.485 million while profit before tax decreased by 9.67% from 14.053 million to 12.694 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 two new subsidiary companies compared to the corresponding period in 2011. The decrease in profit before tax was mainly due to lower margin of the stretch film and garbage bag divisions in Malaysia compared to the corresponding period in 2011.

For the three months second quarter ended 30 June 2012, revenue grew by 17.60% from RM121.871 million to RM143.322 million while profit before taxation decreased by 2.53% from RM7.089 million to RM6.910 million as compared to the corresponding quarter in 2011. The increase in revenue was mainly due to the increase in export compared to the corresponding period in 2011. The decrease in profit before tax was mainly due to the lower margin of the stretch film and garbage bag divisions in Malaysia compared to the corresponding period in 2011.

**Food, Beverages and Other Consumable Products**

For the six months ended 30 June 2012, revenue increased by 8.05% from 16.791 million to RM18.142 million while profit before tax increased by 16.97% from 1.438 million to 1.682 million as compared to the preceding year corresponding period in 2011.

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

For the three months second quarter ended 30 June 2012, revenue decreased by 4.06% from RM9.328 million to RM8.949 million while profit before taxation decreased by 40.74% from RM1.215 million to RM0.720 million as compared to the corresponding quarter in 2011. The decrease in revenue and profit before tax was mainly due to lower demand of tea, coffee and instant beverages products as promotional activities was reduced compared to the corresponding period in 2011.

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

	<b>Individual quarter ended</b>		<b>Variance RM'000</b>	<b>Variance %</b>
	<b>30.06.2012 RM'000</b>	<b>31.03.2012 RM'000</b>		
Revenue	152,271	145,356	6,915	4.76
Profit before tax	7,630	6,746	884	13.10

The revenue for the quarter ended 30 June 2012 increased by RM6.915 million or 4.76% and profit before taxation increased by RM0.884 million or 13.10% for the current quarter as compared to the preceding quarter. The increase in revenue and profit before tax was mainly due to the higher sales of stretch film products in the current quarter 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. New machines will be installed in the third quarter to further expand its capacity to meet increasing orders.

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 events in Greece and Eurozone. The Group expects demand to be temporarily impacted by the softening of prices but is confident that steady increase in prices of plastic resins in the second half of the year will yield better sales as customers buy more in expectation of increasing prices.

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

Not applicable.

**17 Results from operating activities**

Results from operating activities are arrived at

	<b>Individual quarter</b>		<b>Cumulative period</b>	
	<b>30.06.2012 RM'000</b>	<b>30.06.2011 RM'000</b>	<b>30.06.2012 RM'000</b>	<b>30.06.2011 RM'000</b>
After charging:				
Bad debts written off	3	-	16	6
Depreciation of property, plant and equipment	4,327	3,902	8,679	7,718
Amortisation of prepaid lease payments	65	51	130	102
Property, plant and equipment written off	-	-	20	-
Impairment loss on receivables	-	3	-	-
Impairment loss on other investments	143	-	124	-
Unrealised loss on derivatives	69	-	308	-
and crediting:				
Gain on foreign exchange				
- realised	503	5	1,659	136
- unrealised	759	436	733	182
Reversal of impairment loss on receivables	-	-	10	16
Reversal of impairment loss on other investments	-	26	-	86
Unrealised gain on derivatives	-	216	-	304

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**18 Income tax expense**

	<b>Individual quarter</b>		<b>Cumulative period</b>	
	<b>30.06.2012</b>	<b>30.06.2011</b>	<b>30.06.2012</b>	<b>30.06.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Income tax in respect of				
- Current period	290	1,215	1,155	2,226
- Prior year	115	(667)	116	(667)
Deferred tax expense	(167)	82	173	(89)
	<u>238</u>	<u>630</u>	<u>1,444</u>	<u>1,470</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**

	<b>30.06.2012</b>
	<b>RM'000</b>
<b>Current</b>	
<i><u>Secured</u></i>	
Term loans	879
Overdrafts	555
Bankers' acceptances	1,651
Finance lease liability	224
	3,309
<i><u>Unsecured</u></i>	
Term loans	1,125
Overdrafts	1,805
Bankers' acceptances	1,880
Onshore foreign currency loans	30,373
	35,183
	38,492
<b>Non-current</b>	
<i><u>Secured</u></i>	
Term loans	1,669
Finance lease liability	492
	2,161
<i><u>Unsecured</u></i>	
Term loans	3,375
	5,536

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 30 June 2012 are set out below

<b>Type of derivatives</b>	<b>Contract/ Notional Value RM'000</b>	<b>Fair Value RM'000</b>
<b>Foreign Exchange Contracts</b>		
- Less than 1 year	21,620	21,928
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	21,620	21,928

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**24 Realised and unrealised retained earnings**

	<b>As at 30.06.2012 RM'000</b>	<b>As at 31.12.2011 RM'000 (Restated)</b>
Total retained profits of Thong Guan Industries Berhad and its subsidiaries		
- Realised	150,768	137,768
- Unrealised	(7,285)	(6,929)
	143,483	130,839
Less: Consolidation adjustments	(5,306)	(5,533)
Total group retained profits as per consolidated accounts	138,177	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) was approved at the Company's 17th Annual General Meeting on 21 June 2012 and was paid on 8 August 2012 to depositors registered in the Record of Depositor on 18 July 2012. No interim dividend has been declared for the financial period ended 30 June 2012.

**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.

	<b>Individual quarter</b>		<b>Cumulative period</b>	
	<b>30.06.2012</b>	<b>30.06.2011</b>	<b>30.06.2012</b>	<b>30.06.2011</b>
Profit attributable to ordinary equity owners of the Company (RM'000)	7,325	7,674	12,871	14,021
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	6.96	7.29	12.23	13.33

*(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 27 AUGUST 2012**