

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 September 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 September 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	426,275	26,702	452,977
Segment profit	18,730	2,059	20,789
Included in the measure of segment profit are:			
-Depreciation and amortisation	12,297	494	12,791
-Non-cash expenses other than depreciation and amortisation	4	4	8
Segment assets	350,408	27,923	378,331
Included in the measure of segment assets is:			
-Capital expenditure	5,716	869	6,585

Segment information for the year ended 30 September 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	375,262	24,347	399,609
Segment profit	19,634	2,154	21,788
Included in the measure of segment profit are:			
-Depreciation and amortisation	11,474	532	12,006
-Non-cash expenses other than depreciation and amortisation	2	6	8
Segment assets	316,348	25,186	341,534
Included in the measure of segment assets is:			
-Capital expenditure	14,820	936	15,756

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 September 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	
	30.09.2012 RM'000	30.09.2011 RM'000	30.09.2012 RM'000	30.09.2011 RM'000
Revenue				
Plastic Products	146,790	136,227	426,275	375,262
Food, Beverages and Other Consumable Products	8,560	7,556	26,702	24,347
Group	<u>155,350</u>	<u>143,783</u>	<u>452,977</u>	<u>399,609</u>
Profit before tax				
Plastic Products	6,036	5,581	18,730	19,634
Food, Beverages and Other Consumable Products	377	716	2,059	2,154
Group	<u>6,413</u>	<u>6,297</u>	<u>20,789</u>	<u>21,788</u>

Group

Group revenue for the nine months ended 30 September 2012 was RM452.977 million compared with RM399.609 million for the nine months ended 30 September 2011, an increase of 13.36%. 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 September 2012 was 20.789 million, a decrease of 4.59% over the RM21.788 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 third quarter ended 30 September 2012, Group revenue grew by 8.04% from RM143.783 million to RM155.350 million while profit before taxation increased by 1.84% from RM6.297 million to RM6.413 million as compared to the corresponding quarter in 2011. The increase in revenue and profit before tax were mainly due to the increase in export and contribution from two new subsidiary companies compared to the corresponding period in 2011.

Plastic Products

For the nine months ended 30 September 2012, revenue increased by 13.59% from 375.262 million to RM426.275 million while profit before tax decreased by 4.60% from 19.634 million to 18.730 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 third quarter ended 30 September 2012, revenue grew by 7.75% from RM136.227 million to RM146.790 million while profit before taxation increased by 8.15% from RM5.581 million to RM6.036 million as compared to the corresponding quarter in 2011. The increase in revenue and profit before tax were mainly due to the increase in export compared to the corresponding period in 2011.

Food, Beverages and Other Consumable Products

For the nine months ended 30 September 2012, revenue increased by 9.67% from 24.347 million to RM26.702 million while profit before tax decreased by 4.41% from 2.154 million to 2.059 million as compared to the preceding year corresponding period in 2011.

The increase in revenue was mainly due to higher demand of ceylon tea, curry powder and instant product compared to the corresponding period in 2011. The decrease in profit before tax was mainly due to lower margin of food, beverages and other consumable products as compared to the preceding year corresponding period in 2011.

For the three months third quarter ended 30 September 2012, revenue increased by 13.29% from RM7.556 million to RM8.560 million while profit before taxation decreased by 47.35% from RM 0.716 million to RM 0.377 million as compared to the corresponding quarter in 2011. The increase in revenue was mainly due to higher demand of ceylon tea and instant product compared to the corresponding period in 2011. The decrease in profit before tax was mainly due to lower margin of food, beverages and other consumable products as compared to the preceding year corresponding period in 2011.

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14 Comparison with immediate preceding quarter's results

	Individual quarter ended		Variance	Variance
	30.09.2012	30.06.2012		
	RM'000	RM'000	RM'000	%
Revenue	155,350	152,271	3,079	2.02
Profit before tax	6,413	7,630	(1,217)	(15.95)

The revenue for the quarter ended 30 September 2012 increased by RM3.079 million or 2.02 % and profit before taxation decreased by RM1.217 million or 15.95% for the current quarter as compared to the preceding quarter. The increase in revenue was mainly due to higher average prices of raw materials which translated to higher selling prices in the current quarter compared to the preceding quarter. The decrease in profit before tax was mainly due to lower margin compared to the corresponding period in 2011.

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 not been performing as expected due to stiff competition and price pressure.

Its PVC food wrap division had seen much improvements in profitability since the full operations of the second line.

The Group's new subsidiary company, TGSB Plastic Industries Sdn Bhd has turned the corner to record significant improvements to bottom line with its more aggressive pricing strategy. The installations of new machineries which are expected to contribute in the final quarter of 2012 is expected to further boost TGSB's contribution to the Group.

The Group has installed its fourth and fifth production lines for its compounding division which is expected to further boost the division's contributions to Group results.

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 has continued to be subdued due to the low demand in China and Eurozone. The bearish price outlook has caused the Group to experience low demand and thus price pressure as customer delayed purchases and kept low level of stock in expectation of further price drop.

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	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
	RM'000	RM'000	RM'000	RM'000
After charging:				
Bad debts written off	-	2	8	8
Depreciation of property, plant and equipment	3,920	4,133	12,599	11,851
Amortisation of prepaid lease payments	62	53	192	155
Property, plant and equipment written off	-	-	20	-
Impairment loss on receivables	-	13	-	-
Impairment loss on other investments	-	162	77	76
Loss on foreign exchange				
- unrealised	1,236	-	503	-
Unrealised loss on derivatives	-	1,435	-	1,131
and crediting:				
Gain on foreign exchange				
- realised	566	344	2,225	480
- unrealised	-	2,310	-	2,492
Reversal of impairment loss on receivables	8	-	-	3
Reversal of impairment loss on other investments	47	-	-	-
Unrealised gain on derivatives	659	-	351	-

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18 Income tax expense

	Individual quarter		Cumulative period	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
	RM'000	RM'000	RM'000	RM'000
Income tax in respect of				
- Current period	141	1,191	1,296	3,417
- Prior year	15	6	131	(661)
Deferred tax expense	73	(341)	246	(430)
	<u>229</u>	<u>856</u>	<u>1,673</u>	<u>2,326</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

	<u>30.09.2012</u> <u>RM'000</u>
Current	
<i><u>Secured</u></i>	
Term loans	879
Overdrafts	880
Bankers' acceptances	1,607
Finance lease liability	238
	3,604
<i><u>Unsecured</u></i>	
Term loans	1,125
Overdrafts	665
Bankers' acceptances	2,303
Onshore foreign currency loans	28,520
	32,613
	36,217
Non-current	
<i><u>Secured</u></i>	
Term loans	1,842
Finance lease liability	750
	2,592
<i><u>Unsecured</u></i>	
Term loans	10,147
	12,739

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 September 2012 are set out below:

Type of derivatives	Contract/ Notional Value RM'000	Fair Value RM'000
Foreign Exchange Contracts		
- Less than 1 year	20,342	19,991
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	20,342	19,991

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24 Realised and unrealised retained earnings

	As at 30.09.2012 RM'000	As at 31.12.2011 RM'000 (Restated)
Total retained profits of Thong Guan Industries Berhad and its subsidiaries		
- Realised	151,295	137,768
- Unrealised	(7,935)	(6,929)
	143,360	130,839
Less: Consolidation adjustments	(5,547)	(5,533)
Total group retained profits as per consolidated accounts	137,813	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 September 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.

	Individual quarter		Cumulative period	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Profit attributable to ordinary equity owners of the Company (RM'000)	5,949	5,479	18,820	19,500
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	5.65	5.21	17.89	18.54

(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 22 NOVEMBER 2012