

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2013

PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134

1 Basis of preparation

This quarterly 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 statements for the financial year ended 31 December 2012 and the accompanying explanatory notes.

The significant accounting policies and methods adopted by the Group in this quarterly report are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2012.

2 Changes in accounting policies

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

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 (2011)**
- MFRS 128, *Investments in Associates and Joint Ventures (2011)*
- 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*

- Amendments to MFRS 1, *First-time Adoption of Financial Reporting Standards - Government Loans**
- Amendments to MFRS 1, *First-time Adoption of Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*
- Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

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

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities#*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities#*
- 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 Effective Date of MFRS 9 and Transition Disclosures*

The Group plans to apply the abovementioned standards, amendments and interpretations

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2012 and 1 January 2013, except for those marked "*" which are not applicable to the Group.
- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014, except for those marked "#" which are not applicable to the Group.
- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

The initial application of the other standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of the Company upon their first adoption.

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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 2013.

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 2013 are as follow

	<u>Plastic Products</u>	<u>Food, Beverages and Other Consumable Products</u>	<u>Consolidated</u>
<u>2013</u>	RM'000	RM'000	RM'000
Revenue			
Revenue from external customers	328,058	19,494	347,552
Segment profit	12,938	1,064	14,002
Included in the measure of segment profit are:			
-Depreciation and amortisation	8,243	379	8,622
-Non-cash expenses other than depreciation and amortisation	-	3	3
Segment assets	377,518	27,145	404,663
Included in the measure of segment assets is:			
-Capital expenditure	3,693	28	3,721

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
Revenue			
Revenue from external customers	279,485	18,142	297,627
Segment profit	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
Segment assets	342,348	34,373	376,721
Included in the measure of segment assets is:			
-Capital expenditure	2,866	339	3,205

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 2013.

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	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
Revenue				
Plastic Products	169,060	143,322	328,058	279,485
Food, Beverages and Other Consumable Products	9,884	8,949	19,494	18,142
Group	<u>178,944</u>	<u>152,271</u>	<u>347,552</u>	<u>297,627</u>
Profit before tax				
Plastic Products	6,245	6,910	12,938	12,694
Food, Beverages and Other Consumable Products	334	720	1,064	1,682
Group	<u>6,579</u>	<u>7,630</u>	<u>14,002</u>	<u>14,376</u>
Group				

Group revenue for the six months ended 30 June 2013 was RM347.552 million compared with RM297.627 million for the six months ended 30 June 2012, an increase of 16.77%. The increase in revenue was mainly due to increase in export volume and the higher average prices of raw materials which translated to higher selling prices compared to the corresponding period in 2012. Group profit before tax for the period ended 30 June 2013 was RM14.002 million, a decrease of 2.60% over the RM14.376 million registered in the corresponding period in 2012. The decrease in profit before tax was mainly due to lower profit contribution from food, beverages and other consumable products compared to the corresponding period in 2012.

For the three months second quarter ended 30 June 2013, Group revenue grew by 17.52% from RM152.271 million to RM178.944 million while profit before taxation decreased by 13.77% from RM7.630 million to RM6.579 million as compared to the corresponding quarter in 2012. The increase in revenue was mainly due to the increase in export volume and the higher average prices of raw materials which translated to higher selling prices compared to the corresponding period in 2012. The decrease in profit before tax was mainly due to lower contributions from its China based subsidiary companies compared to the corresponding period in 2012. The lower contribution was partially due to the drastic depreciation of the Japanese Yen vis a vis the Renminbi.

Plastic Products

For the six months ended 30 June 2013, revenue increased by 17.38% from RM279.485 million to RM328.058 million while profit before tax increased by 1.92% from RM12.694 million to RM12.938 million as compared to the preceding year corresponding period in 2012.

The increase in revenue was mainly due to the increase in export of stretch film compared to the corresponding period in 2012. The increase in profit before tax was mainly due to higher revenue compared to the corresponding period in 2012.

For the three months second quarter ended 30 June 2013, revenue grew by 17.96% from RM143.322 million to RM169.060 million while profit before taxation decreased by 9.62% from RM6.910 million to RM6.245 million as compared to the corresponding quarter in 2012. The increase in revenue was mainly due to increase in export compared to the corresponding period in 2012. The decrease in profit before tax was mainly due to the lower margin from the Group's China based subsidiary companies compared to the corresponding period in 2012.

Food, Beverages and Other Consumable Products

For the six months ended 30 June 2013, revenue increased by 7.45% from RM18.142 million to RM19.494 million while profit before tax decreased by 36.74% from RM1.682 million to RM1.064 million as compared to the corresponding period in 2012.

The increase in revenue was mainly due to higher demand of tea, coffee and biscuits compared to the corresponding period in 2012. The decrease in profit before tax was mainly due to the lower margin of the tea and instant beverages products compared to the corresponding period in 2012.

For the three months second quarter ended 30 June 2013, revenue increased by 10.45% from RM8.949 million to RM9.884 million while profit before taxation decreased by 53.61% from RM0.720 million to RM0.334 million as compared to the corresponding quarter in 2012. The increase in revenue was mainly due to higher demand of biscuits and coffee compared to the corresponding period in 2012. The decrease in profit before taxation was mainly due to the lower profit contribution from tea compared to the corresponding period in 2012. The lower contribution was due to higher input cost as the price of raw tea at the international market increased as well as the depreciation of the Ringgit against the USD.

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14 Comparison with immediate preceding quarter's results

	Individual quarter ended		Variance RM'000	Variance %
	30.06.2013 RM'000	31.03.2013 RM'000		
Revenue	178,944	168,608	10,336	6.13
Profit before tax	6,579	7,423	(844)	(11.37)

The revenue for the quarter ended 30 June 2013 increased by RM10.336 million or 6.13% and profit before taxation decreased by RM0.844 million or 11.37% for the current quarter as compared to the preceding quarter. The increase in revenue was mainly due to higher export in the current quarter compared to the preceding quarter. The decrease in profit before tax was mainly due to lower contributions from its China based subsidiary companies partially due to the depreciation of the Japanese Yen against the Renminbi in the current quarter compared to the preceding quarter.

15 Current year prospect

The Group's stretch film division which was boosted by the full production of two new European cast stretch film lines last year has seen the increase in production volume, however margin continue to be subdued due to stiff competition in the market. Efforts has been made to focus on more value added products to optimise its contribution.

The PVC food wrap division had seen continuous improvements in profitability since the full operations of the second line last year. The group is planning to expand its operation further.

The Group's new subsidiary company, TGSH Plastic Industries Sdn Bhd has continued to improve on its bottom line with its more aggressive pricing strategy and contributions from newly installed machineries. Its operations will be further expanded as well.

Its garbage bag divisions in both Malaysia and China has continued to be profitable while the industrial bags division in Malaysia has continued to contribute as well.

The Group's compounding division which was expanded last year has continued to be consistent. Plans are also under way to expand its operations.

The Group's operations in Sabah has also been profitable for the first half year of 2013.

The food, beverage and other consumable business unit has continued to grow and is expected to continue its steady progress.

The Group is confident of the continuous progressive contributions from its business units and has chartered further growth prospects.

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	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
After charging:				
Bad debts written off	4	3	4	16
Depreciation of property, plant and equipment	4,266	4,327	8,492	8,679
Amortisation of prepaid lease payments	65	65	130	130
Property, plant and equipment written off	-	-	1	20
Impairment loss on other investments	59	143	245	124
Loss on foreign exchange				
- realised	99	-	206	-
Unrealised loss on derivatives	-	69	-	308
and crediting:				
Gain on foreign exchange				
- realised	-	503	-	1,659
- unrealised	401	759	1,077	733
Reversal of impairment loss on receivables	8	-	8	10
Unrealised gain on derivatives	5	-	50	-

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18 Income tax expense

	Individual quarter		Cumulative period	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
Income tax in respect of				
- Current period	942	290	2,890	1,155
- Prior year	15	115	30	116
Deferred tax expense	68	(167)	(61)	173
	<u>1,025</u>	<u>238</u>	<u>2,859</u>	<u>1,444</u>

The Group's effective tax rates for the financial period ended 30 June 2013 was 20.42%.

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

	30.06.2013
	RM'000
Current	
<i><u>Secured</u></i>	
Term loans	942
Overdrafts	373
Bankers' acceptances	1,558
Finance lease liability	607
	3,480
<i><u>Unsecured</u></i>	
Term loans	2,765
Overdrafts	2,268
Bankers' acceptances	5,114
Onshore foreign currency loans	13,270
	23,417
	26,897
Non-current	
<i><u>Secured</u></i>	
Term loans	1,100
Finance lease liability	1,260
	2,360
<i><u>Unsecured</u></i>	
Term loans	7,077
	9,437

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 2013 are set out below:

Type of derivatives	Contract/ Notional Value RM'000	Fair Value RM'000
Foreign Exchange Contracts		
- Less than 1 year	1,412	1,362
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	1,412	1,362

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24 Realised and unrealised retained earnings

	As at 30.06.2013 RM'000	As at 31.12.2012 RM'000
Total retained earnings of Thong Guan Industries Berhad and its subsidiaries		
- Realised	170,966	160,295
- Unrealised	(5,050)	(6,431)
	165,916	153,864
Less: Consolidation adjustments	(8,910)	(7,654)
Total group retained earnings	157,006	146,210

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 7 sen per share in respect of the financial year ended 31 December 2012 (previous corresponding financial year ended 31 December 2011 : 6 sen) was approved at the Company's 18th Annual General Meeting on 27 June 2013 and was paid on 7 August 2013 to depositors registered in the Record of Depositor on 18 July 2013. No interim dividend has been declared for the financial period ended 30 June 2013.

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	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
Profit attributable to ordinary equity owners of the Company (RM'000)	5,311	7,325	10,796	12,871
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	5.05	6.96	10.26	12.23

(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 AUGUST 2013