

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
QUARTERLY REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 September 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 September 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	506,639	29,036	535,675
Segment profit	26,035	1,461	27,496
Included in the measure of segment profit are:			
-Depreciation and amortisation	12,470	536	13,006
-Non-cash expenses other than depreciation and amortisation	-	4	4
Segment assets	373,456	37,760	411,216
Included in the measure of segment assets is:			
-Capital expenditure	5,775	291	6,066

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

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 Group had on 6 September 2013 incorporated a new wholly owned subsidiary company 888 Food Industries Sdn Bhd to assume the manufacturing operations of Syarikat Thong Guan Trading Sdn Bhd. An announcement was made to the Bursa Malaysia on 10 September 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	
	30.09.2013 RM'000	30.09.2012 RM'000	30.09.2013 RM'000	30.09.2012 RM'000
Revenue				
Plastic Products	178,581	146,790	506,639	426,275
Food, Beverages and Other Consumable Products	9,542	8,560	29,036	26,702
Group	<u>188,123</u>	<u>155,350</u>	<u>535,675</u>	<u>452,977</u>
Profit before tax				
Plastic Products	13,097	6,036	26,035	18,730
Food, Beverages and Other Consumable Products	397	377	1,461	2,059
Group	<u>13,494</u>	<u>6,413</u>	<u>27,496</u>	<u>20,789</u>

Group

Group revenue for the nine months ended 30 September 2013 was RM535.675 million compared with RM452.977 million for the nine months ended 30 September 2012, an increase of 18.26%. 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 September 2013 was RM27.496 million, an increase of 32.26% over the RM20.789 million registered in the corresponding period in 2012. The increase in profit before tax was mainly due to higher profit contribution from export of plastic products especially during the current quarter under review compared to the corresponding period in 2012.

For the three months third quarter ended 30 September 2013, Group revenue grew by 21.10% from RM155.350 million to RM188.123 million while profit before taxation increased by 110.42% from RM6.413 million to RM13.494 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 increase in profit before tax was mainly due to higher contribution from the stretch film division as well as other smaller divisions compared to the corresponding period in 2012. The higher contribution was also due to the appreciation of the USD vis a vis the Ringgit which resulted in higher foreign exchange gains for the Group.

Plastic Products

For the nine months ended 30 September 2013, revenue increased by 18.85% from RM426.275 million to RM506.639 million while profit before tax increased by 39.00% from RM18.730 million to RM26.035 million as compared to the preceding year corresponding period 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 increase in profit before tax was mainly due to higher contribution from stretch film and other smaller divisions especially during the third quarter compared to the corresponding period in 2012.

For the three months third quarter ended 30 September 2013, revenue grew by 21.66% from RM146.790 million to RM178.581 million while profit before taxation increased by 116.98% from RM6.036 million to RM13.097 million as compared to the corresponding quarter in 2012. The increase in revenue was mainly due to increase in export volume and selling prices. The increase in profit before tax was mainly due to the higher margin of stretch film and other plastic products as well as the appreciation of the USD vis a vis the Ringgit compared to the corresponding period in 2012 which resulted in higher foreign exchange gains.

Food, Beverages and Other Consumable Products

For the nine months ended 30 September 2013, revenue increased by 8.74% from RM26.702 million to RM29.036 million while profit before tax decreased by 29.04% from RM2.059 million to RM1.461 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 increase of raw tea prices, higher sales returns and higher operating cost compared to the corresponding period in 2012.

For the three months third quarter ended 30 September 2013, revenue increased by 11.47% from RM8.560 million to RM9.542 million while profit before taxation increased by 5.31% from RM0.377 million to RM0.397 million as compared to the corresponding quarter in 2012. The increase in revenue was mainly due to higher demand of tea, instant beverages products and curry powder compared to the corresponding period in 2012. The increase in profit before taxation was mainly due to the higher revenue and higher contributions from Chinese Tea and instant beverages products compared to the corresponding quarter in 2012.

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14 Comparison with immediate preceding quarter's results

	Individual quarter ended		Variance RM'000	Variance %
	30.09.2013 RM'000	30.06.2013 RM'000		
Revenue	188,123	178,944	9,179	5.13
Profit before tax	13,494	6,579	6,915	105.11

The revenue for the quarter ended 30 September 2013 increased by RM9.179 million or 5.13% and profit before taxation increased by RM6.915 million or 105.11% for the current quarter as compared to the preceding quarter. The increase in revenue was mainly due to the higher average prices of raw materials which translated to higher selling prices compared to the corresponding period in 2012. The increase in profit before tax was mainly due to higher contribution from stretch films, industrial bags, compounding and other smaller divisions due to better selling prices. There is also a significant gains on foreign exchange as the USD appreciated markedly against the RM 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, margin has also improved especially in the third quarter due to the group's efforts to focus on more value added products.

The PVC food wrap division had seen continuous improvements in profitability since the full operations of the second line last year. The group is expanding its operations further with the installation of 2 new lines which is expected to be commission in the first quarter of 2014.

The Group's new subsidiary company, TGS 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 witnessed marked improvements in the third quarter. There are plans to further expand the operation of this division.

The Group's compounding division which was expanded last year has continued to be consistent, contributor to profitability. New machineries will be installed before the year end and early next year to further increase its production output.

The Group's operations in Sabah has also been profitable as well.

The food, beverage and other consumable business unit has continued to grow and is expected to continue its steady progress despite suffering a drop in profitability this year.

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	
	30.09.2013 RM'000	30.09.2012 RM'000	30.09.2013 RM'000	30.09.2012 RM'000
After charging:				
Bad debts written off	-	-	4	8
Depreciation of property, plant and equipment	4,317	3,920	12,809	12,599
Amortisation of prepaid lease payments	67	62	197	192
Property, plant and equipment written off	-	-	1	20
Impairment loss on other investments	180	-	425	77
Loss on foreign exchange				
- unrealised	214	1,236	-	503
Unrealised loss on derivatives	150	-	100	-
and crediting:				
Gain on foreign exchange				
- realised	1,831	566	1,625	2,225
- unrealised	-	-	863	-
Reversal of impairment loss on receivables	4	8	12	-
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	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
	RM'000	RM'000	RM'000	RM'000
Income tax in respect of				
- Current period	2,793	141	5,683	1,296
- Prior year	(282)	15	(252)	131
Deferred tax expense	(379)	73	(440)	246
	<u>2,132</u>	<u>229</u>	<u>4,991</u>	<u>1,673</u>

The Group's effective tax rates for the financial period ended 30 September 2013 was 18.15%.

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

	30.09.2013
	RM'000
Current	
<u>Secured</u>	
Term loans	953
Overdrafts	188
Bankers' acceptances	1,277
Finance lease liability	556
	2,974
<u>Unsecured</u>	
Term loans	2,765
Revolving credit	3,000
Overdrafts	2,676
Bankers' acceptances	2,081
Onshore foreign currency loans	17,968
	28,490
	31,464
Non-current	
<u>Secured</u>	
Term loans	858
Finance lease liability	1,133
	1,991
<u>Unsecured</u>	
Term loans	6,575
	8,566

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 2013 are set out below:

<u>Type of derivatives</u>	<u>Contract/ Notional Value RM'000</u>	<u>Fair Value RM'000</u>
Foreign Exchange Contracts		
- Less than 1 year	8,483	8,583
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	8,483	8,583

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24 Realised and unrealised retained earnings

	As at 30.09.2013 RM'000	As at 31.12.2012 RM'000
Total retained earnings of Thong Guan Industries Berhad and its subsidiaries		
- Realised	174,948	160,295
- Unrealised	(5,034)	(6,431)
	169,914	153,864
Less: Consolidation adjustments	(9,214)	(7,654)
Total group retained earnings	160,700	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 September 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	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
Profit attributable to ordinary equity owners of the Company (RM'000)	11,058	5,949	21,854	18,820
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	10.51	5.65	20.77	17.89

(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 26 NOVEMBER 2013