

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
QUARTERLY REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 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 31 December 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 31 December 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	680,738	39,523	720,261
Segment profit	30,110	1,758	31,868
Included in the measure of segment profit are:			
-Depreciation and amortisation	16,701	702	17,403
-Non-cash expenses other than depreciation and amortisation	9	21	30
Segment assets	410,476	37,697	448,173
Included in the measure of segment assets is:			
-Capital expenditure	16,740	224	16,964

Segment information for the year ended 31 December 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	595,103	36,090	631,193
Segment profit	27,087	2,211	29,298
Included in the measure of segment profit are:			
-Depreciation and amortisation	16,394	719	17,113
-Non-cash expenses other than depreciation and amortisation	4	(11)	(7)
Segment assets	364,334	29,701	394,035
Included in the measure of segment assets is:			
-Capital expenditure	8,586	970	9,556

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 current quarter ended 31 December 2013.

12 Contingent liabilities

The Company has provided financial support to certain subsidiaries to enable them to continue operating as a going concern.

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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	
	31.12.2013 RM'000	31.12.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000
Revenue				
Plastic Products	174,099	168,874	680,738	595,103
Food, Beverages and Other Consumable Products	10,487	9,302	39,523	36,090
Group	<u>184,586</u>	<u>178,176</u>	<u>720,261</u>	<u>631,193</u>
Profit before tax				
Plastic Products	4,075	8,218	30,110	27,087
Food, Beverages and Other Consumable Products	297	321	1,758	2,211
Group	<u>4,372</u>	<u>8,539</u>	<u>31,868</u>	<u>29,298</u>

Group

Group revenue for the twelve months ended 31 December 2013 was RM720.261 million compared with RM631.193 million for the twelve months ended 31 December 2012, an increase of 14.11%. The increase in revenue was mainly due to increase in export volume and the higher 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 31 December 2013 was RM31.868 million, an increase of 8.77% over the RM29.298 million registered in the corresponding period in 2012. The increase in profit before tax was mainly due to higher contribution from export of plastic products compared to the corresponding period in 2012.

For the three months fourth quarter ended 31 December 2013, Group revenue grew by 3.60% from RM 178.176 million to RM184.586 million while profit before taxation decreased by 48.80% from RM8.539 million to RM4.372 million as compared to the corresponding quarter in 2012. 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 decrease in profit before tax was mainly due to the higher provision for unrealised foreign exchange loss and lower profit margin in the fourth quarter of 2013 as compared to the corresponding quarter in 2012.

Plastic Products

For the twelve months ended 31 December 2013, revenue increased by 14.39% from RM595.103 million to RM680.738 million while profit before tax increased by 11.16% from RM27.087 million to RM30.110 million as compared to the preceding year corresponding period in 2012.

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. The increase in profit before tax was mainly due higher contribution from PVC food wrap as well as other smaller divisions compared to the corresponding period in 2012.

For the three months fourth quarter ended 31 December 2013, revenue grew by 3.09% from RM168.874 million to RM174.099 million while profit before taxation decreased by 50.41% from RM8.218 million to RM4.075 million as compared to the corresponding quarter in 2012. The increase in revenue was mainly due to the higher average prices of raw materials which translated to higher selling prices. The decrease in profit before tax was mainly due to the effects of higher provision for unrealised foreign exchange loss and lower profit margin from its China based subsidiary companies compared to the corresponding period in 2012.

Food, Beverages and Other Consumable Products

For the twelve months ended 31 December 2013, revenue increased by 9.51% from RM36.090 million to RM39.523 million while profit before tax decreased by 20.49% from RM2.211 million to RM1.758 million as compared to the corresponding period in 2012.

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

For the three months fourth quarter ended 31 December 2013, revenue increased by 12.74% from RM9.302 million to RM10.487 million while profit before taxation decreased by 7.48% from RM0.321 million to RM0.297 million as compared to the corresponding quarter in 2012. The increase in revenue was mainly due to higher demand of tea and curry powder compared to the corresponding period in 2012. The decrease in profit before taxation was mainly due to the lower margin of tea 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 %
	31.12.2013 RM'000	30.09.2013 RM'000		
Revenue	184,586	188,123	(3,537)	(1.88)
Profit before tax	4,372	13,494	(9,122)	(67.60)

The revenue for the current quarter ended 31 December 2013 decreased by RM3.537 million or 1.88% and profit before taxation decreased by RM9.122 million or 67.60% as compared to the preceding quarter. The decrease in revenue and profit before tax was mainly due to the higher realised and higher provision of for unrealised foreign exchange losses, lower contribution from the stretch film division and the China based subsidiary companies.

15 Current year prospect

The Group's stretch film division has continued to face stiff competition during the year just ended. The Group plans to further modernise its machinery and processes to differentiate itself and move further up the value chain to achieve better profitability in 2014.

The Group has successfully commissioned 2 new additional lines for the PVC food wrap division and 3 additional lines for the compounding division. It is bullish that the new lines will contribute positively to Group profitability in 2014.

The Group will continue to invest and improve on its garbage bag and industrial films divisions and is confident that the divisions will see further improvement in profitability in 2014.

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 in 2013.

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	
	31.12.2013 RM'000	31.12.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000
After charging:				
Bad debts written off	-	11	4	16
Depreciation of property, plant and equipment	4,331	4,259	17,140	16,709
Amortisation of prepaid lease payments	66	64	263	257
Property, plant and equipment written off	-	3	1	20
Impairment loss on receivables	26	189	26	189
Impairment loss on other investments	210	139	635	216
Loss on foreign exchange				
- realised	269	-	-	-
- unrealised	2,007	-	1,144	243
Unrealised loss on derivatives	19	305	119	-
and crediting:				
Gain on foreign exchange				
- realised	-	327	1,356	2,552
- unrealised	-	233	-	-
Reversal of impairment loss on receivables	5	-	17	24
Unrealised gain on derivatives	-	-	-	46

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18 Income tax expense

	Individual quarter		Cumulative period	
	31.12.2013 RM'000	31.12.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000
Income tax in respect of				
- Current period	(2,475)	1,187	3,208	2,498
- Prior year	22	(30)	(230)	101
Deferred tax expense	546	(1,562)	106	(1,299)
	<u>(1,907)</u>	<u>(405)</u>	<u>3,084</u>	<u>1,300</u>

The Group's effective tax rates for the financial period ended 31 December 2013 was 9.68%.

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

The Group had on 6 February 2014 announced its intention to undertake a proposed renounceable rights issue of up to RM52,602,250 nominal value of 5-year 5.00% irredeemable convertible unsecured loan stock ("ICULS") at 100% of its nominal value of RM1.00 each on the basis of one (1) RM1.00 nominal value of ICULS for every two (2) ordinary shares of RM1.00 each in TGIB held on an entitlement date to be determined later, together with up to 26,301,125 free new warrants ("Warrants") on the basis of one (1) Warrant for every one (2) ICULS subscribed ("Proposed Rights Issue of ICULS with Warrants").

The Group intends to submit the necessary applications to the various authorities in the coming months.

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22 Group borrowings and debt securities

	<u>31.12.2013</u> <u>RM'000</u>
Current	
<i><u>Secured</u></i>	
Term loans	964
Overdrafts	504
Bankers' acceptances	421
Finance lease liability	580
	2,469
<i><u>Unsecured</u></i>	
Term loans	2,947
Revolving credit	3,000
Overdrafts	3,444
Bankers' acceptances	3,522
Onshore foreign currency loans	26,851
	39,764
	42,233
Non-current	
<i><u>Secured</u></i>	
Term loans	613
Finance lease liability	1,102
	1,715
<i><u>Unsecured</u></i>	
Term loans	5,708
	7,423

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 December 2013 are set out below:

Type of derivatives	Contract/ Notional Value RM'000	Fair Value RM'000
Foreign Exchange Contracts		
- Less than 1 year	8,419	8,538
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	8,419	8,538

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24 Realised and unrealised retained earnings

	As at 31.12.2013 RM'000	As at 31.12.2012 RM'000
Total retained earnings of Thong Guan Industries Berhad and its subsidiaries		
- Realised	183,939	160,295
- Unrealised	(7,606)	(6,431)
	176,333	153,864
Less: Consolidation adjustments	(9,363)	(7,654)
Total group retained earnings	166,970	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 8 sen per share in respect of the financial year ended 31 December 2013 (previous corresponding financial year ended 31 December 2012 – 7 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	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Profit attributable to ordinary equity owners of the Company (RM'000)	6,270	8,458	28,124	27,216
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	5.96	8.04	26.73	25.87

(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 FEBRUARY 2014