

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
QUARTERLY REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2014

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 2013 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 2013.

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 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
- Amendments to MFRS 136, Impairment of Asset - Recoverable Amount Disclosures for Non -Financial Assets
- Amendments to MFRS 139, Financial Instruments : Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21, Levies*

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

- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
- Amendments to MFRS 2, Share-based Payment (Annual Improvements 2010-2012 Cycle)#
- Amendments to MFRS 3, Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, Operating Segments (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 13, Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 119, Employee Benefits - Defined Benefit Plans: Employee Contributions
- Amendments to MFRS 124, Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 138, Intangible Assets (Annual Improvements 2010-2012 Cycle)#
- Amendments to MFRS 140, Investment Properties (Annual Improvements 2011-2013 Cycle)#

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- MFRS 9, Financial Instruments - Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139#
- Amendments to MFRS 7, Financial Instruments: Disclosures - Mandatory Effective Date of MFRS 9 and Transition Disclosures

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- 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 and the Company.
- 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 July 2014, except for those marked "#" which are not applicable to the Group and the Company.

The initial application of the standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and of the Company except as mentioned below :

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

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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 March 2014.

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 March 2014 are as follow:

	<u>Plastic Products</u>	<u>Food, Beverages and Other Consumable Products</u>	<u>Consolidated</u>
	RM'000	RM'000	RM'000
2014			
Revenue			
Revenue from external customers	166,405	11,355	177,760
Segment profit	9,030	908	9,938
Included in the measure of segment profit are:			
-Depreciation and amortisation	4,193	163	4,356
-Non-cash expenses other than depreciation and amortisation	-	1	1
Segment assets	403,978	35,137	439,115
Included in the measure of segment assets is:			
-Capital expenditure	2,409	132	2,541

Segment information for the year ended 31 March 2013 are as follow:

	<u>Plastic Products</u>	<u>Food, Beverages and Other Consumable Products</u>	<u>Consolidated</u>
	RM'000	RM'000	RM'000
2013			
Revenue			
Revenue from external customers	158,998	9,610	168,608
Segment profit	6,693	730	7,423
Included in the measure of segment profit are:			
-Depreciation and amortisation	4,101	190	4,291
-Non-cash expenses other than depreciation and amortisation	(4)	(3)	(7)
Segment assets	360,520	28,862	389,382
Included in the measure of segment assets is:			
-Capital expenditure	2,284	19	2,303

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 March 2014.

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	
	31.03.2014 RM'000	31.03.2013 RM'000	31.03.2014 RM'000	31.03.2013 RM'000
Revenue				
Plastic Products	166,405	158,998	166,405	158,998
Food, Beverages and Other Consumable Products	11,355	9,610	11,355	9,610
Group	<u>177,760</u>	<u>168,608</u>	<u>177,760</u>	<u>168,608</u>
Profit before tax				
Plastic Products	9,030	6,693	9,030	6,693
Food, Beverages and Other Consumable Products	908	730	908	730
Group	<u>9,938</u>	<u>7,423</u>	<u>9,938</u>	<u>7,423</u>
Group				

For the three months ended 31 March 2014, Group revenue grew by 5.43% from RM 168.608 million to RM177.760 million while profit before taxation increased by 33.88% from 7.423 million to RM9.938 million as compared to the corresponding quarter in 2013. The increase in revenue was mainly due to the higher average prices of raw materials which translated to higher selling prices in the current quarter compared to the corresponding quarter in 2013. The increase in profit before tax was mainly due to the group's effort to focus on selling more valuable products that returned better margins as compared to the corresponding quarter in 2013.

Plastic Products

For the three months ended 31 March 2014, revenue grew by 4.66% from RM158.998 million to RM166.405 million while profit before taxation increased by 34.92% from RM6.693 million to RM9.030 million as compared to the corresponding quarter in 2013. 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 quarter in 2013. The increase in profit before tax was mainly due to the higher contribution from stretch film, PVC food wrap and garbage bag compared to the corresponding quarter in 2013.

Food, Beverages and Other Consumable Products

For the three months ended 31 March 2014, revenue increased by 18.16% from RM9.610 million to RM11.355 million while profit before taxation increased by 24.38% from RM0.730 million to RM0.908 million as compared to the corresponding quarter in 2013. The increase in revenue was mainly due to higher demand for tea, curry powder and snack food compared to the corresponding quarter in 2013. The increase in profit before taxation was mainly due to higher margin of tea and coffee compared to the corresponding quarter in 2013.

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14 Comparison with immediate preceding quarter's results

	Individual quarter ended		Variance RM'000	Variance %
	31.03.2014 RM'000	31.12.2013 RM'000		
Revenue	177,760	184,586	(6,826)	(3.70)
Profit before tax	9,938	4,372	5,566	127.31

The revenue for the quarter ended 31 March 2014 decreased by RM6.826 million or 3.70% and profit before taxation increased by RM5.566 million or 127.31% as compared to the preceding quarter. The decrease in revenue was mainly due to the lower export sales and fewer working days during the current quarter and the seasonal peak of sales during the fourth quarters. The increase in profit before tax was mainly due to higher margins of plastic products in the current quarter and lower provision of unrealised foreign exchange losses during the current quarter.

15 Current year prospect

The Group's stretch film division has continued to face stiff competition in the market. However, the Group has managed to substantially differentiate its products and services to its customers and move further up the value chain to achieve better profit margin. This effort to focus on value will be intensified in the current and future years..

The Group has successfully commissioned 2 additional new lines for the PVC food wrap division and 3 additional lines for the compounding division during the first quarter of 2014. The new lines have started contributing to the profitability of the group and is expected to reach optimum contributions during the year.

The Group will continue to invest and improve on its garbage bags and industrial films divisions. Plans are under way to further equip these units with better machineries and modernise its processes.

The food, beverage and other consumable business unit has continued to grow and is expected to continue its steady progress in 2014.

The Group is confident of the continuous increased contributions from its business units and has chartered further investments and growth with the expected completion of its fund raising exercise during the current year.

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	
	31.03.2014 RM'000	31.03.2013 RM'000	31.03.2014 RM'000	31.03.2013 RM'000
After charging:				
Bad debts written off	1	-	1	-
Depreciation of property, plant and equipment	4,290	4,226	4,290	4,226
Amortisation of prepaid lease payments	66	65	66	65
Property, plant and equipment written off	1	1	1	1
Impairment loss on other investments	-	186	-	186
Loss on foreign exchange				
- realised	-	107	-	107
- unrealised	143	-	143	-
and crediting:				
Gain on foreign exchange				
- realised	88	-	88	-
- unrealised	-	676	-	676
Reversal of impairment loss on receivables	-	8	-	8
Unrealised gain on derivatives	138	45	138	45

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18 Income tax expense

	Individual quarter		Cumulative period	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
Income tax in respect of				
- Current period	1,074	1,948	1,074	1,948
- Prior year	-	15	-	15
Deferred tax expense	(130)	(129)	(130)	(129)
	<u>944</u>	<u>1,834</u>	<u>944</u>	<u>1,834</u>

The Group's effective tax rates for the current period ended 31 March 2014 was 9.50%. This is lower than the corporate tax rate due to certain tax incentives available to certain subsidiary companies within 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

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 two (2) ICULS subscribed.

The Group had on 22 April 2014 announced that Bursa Securities had vide its letter dated 21 April 2014, resolved to approve the admission of the ICULS and Warrants to the official list of Bursa Securities as well as the listing of and quotation for the ICULS, Warrants, and the new TGIB Shares to be issued arising from the conversion of the ICULS and the exercise of the Warrants on the Main Market of Bursa Securities.

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22 Group borrowings and debt securities

	31.03.2014	RM'000
Current		
<u>Secured</u>		
Term loans	972	
Overdrafts	100	
Bankers' acceptances	695	
Finance lease liability	582	
		2,349
<u>Unsecured</u>		
Term loans	2,783	
Revolving credit	3,000	
Overdrafts	2,600	
Bankers' acceptances	3,864	
Onshore foreign currency loans	18,660	
		30,907
		33,256
Non-current		
<u>Secured</u>		
Term loans	368	
Finance lease liability	956	
		1,324
<u>Unsecured</u>		
Term loans	5,115	
		6,439

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 March 2014 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	11,416	11,278
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	11,416	11,278

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24 Realised and unrealised retained earnings

	As at 31.03.2014 RM'000	As at 31.12.2013 RM'000
Total retained earnings of Thong Guan Industries Berhad and its subsidiaries		
- Realised	191,153	183,690
- Unrealised	(6,223)	(7,613)
	184,930	176,077
Less: Consolidation adjustments	(9,191)	(9,051)
Total group retained earnings	175,739	167,026

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 forthcoming 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	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Profit attributable to ordinary equity owners of the Company (RM'000)	8,713	5,485	8,713	5,485
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	8.28	5.21	8.28	5.21

(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 28 MAY 2014