

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 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 30 June 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 30 June 2014 are as follow:

	<u>Plastic Products</u>	<u>Food, Beverages and Other Consumable Products</u>	<u>Consolidated</u>
<u>2014</u>	RM'000	RM'000	RM'000
Revenue			
Revenue from external customers	351,107	22,627	373,734
Segment profit	16,990	1,948	18,938
Included in the measure of segment profit are:			
-Depreciation and amortisation	8,579	335	8,914
-Non-cash expenses other than depreciation and amortisation	-	1	1
Segment assets	415,395	41,520	456,915
Included in the measure of segment assets is:			
-Capital expenditure	4,329	312	4,641

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

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 30 June 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	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Revenue				
Plastic Products	184,702	169,060	351,107	328,058
Food, Beverages and Other Consumable Products	11,272	9,884	22,627	19,494
Group	<u>195,974</u>	<u>178,944</u>	<u>373,734</u>	<u>347,552</u>
Profit before tax				
Plastic Products	7,960	6,245	16,990	12,938
Food, Beverages and Other Consumable Products	1,040	334	1,948	1,064
Group	<u>9,000</u>	<u>6,579</u>	<u>18,938</u>	<u>14,002</u>
Group				

Group revenue for the six months ended 30 June 2014 was RM373.734 million compared with RM347.552 million for the six months ended 30 June 2013, an increase of 7.53%. The increase in revenue was mainly due to higher average prices of raw materials which translated to higher selling prices compared to the corresponding period in 2013. Group profit before tax for the period ended 30 June 2014 was RM18.938 million, an increase of 35.25% over the RM14.002 million registered in the corresponding period in 2013. The increase in profit before tax was mainly due to higher profit contribution from plastic products as the group continue to align its focus to marketing value added products.

For the three months second quarter ended 30 June 2014, Group revenue grew by 9.52% from RM178.944 million to RM195.974 million while profit before taxation increased by 36.80% from RM6.579 million to RM9.000 million as compared to the corresponding quarter in 2013. The increase in revenue was mainly due to higher average prices of raw materials which translated to higher selling prices compared to the corresponding period in 2013. The increase in profit before tax was mainly due to higher profit contribution from plastic products as the group continue to align its focus to marketing value added products.

Plastic Products

For the six months ended 30 June 2014, revenue increased by 7.03% from RM328.058 million to RM351.107 million while profit before tax increased by 31.32% from RM12.938 million to RM16.990 million as compared to the preceding year corresponding period 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 period in 2013. The increase in profit before tax was mainly due to higher contribution from stretch film and PVC food wrap divisions compared to the corresponding period in 2013.

For the three months second quarter ended 30 June 2014, revenue grew by 9.25% from RM169.060 million to RM184.702 million while profit before taxation increased by 27.46% from RM6.245 million to RM7.960 million as compared to the corresponding quarter in 2013. The increase in revenue was mainly due to higher average prices of raw materials which translated to higher selling prices compared to the corresponding period in 2013. The increase in profit before tax was mainly due to the profit contribution from stretch film and PVC food wrap divisions compared to the corresponding period in 2013.

Food, Beverages and Other Consumable Products

For the six months ended 30 June 2014, revenue increased by 16.07% from RM19.494 million to RM22.627 million while profit before tax increased by 83.08% from RM1.064 million to RM1.948 million as compared to the corresponding period in 2013.

The increase in revenue was mainly due to higher demand of tea, instant beverages products, curry powder and snack food compared to the corresponding period in 2013. The increase in profit before tax was mainly due to higher margin from the tea, coffee and instant beverages products compared to the corresponding period in 2013.

For the three months second quarter ended 30 June 2014, revenue increased by 14.04% from RM9.884 million to RM11.272 million while profit before taxation increased by 211.38% from RM0.334 million to RM1.040 million as compared to the corresponding quarter in 2013. The increase in revenue was mainly due higher demand of tea, instant beverages products and snack food compared to the corresponding period in 2013. The increase in profit before taxation was mainly due to higher margin from the tea and instant beverages products compared to the corresponding period in 2013.

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14 Comparison with immediate preceding quarter's results

	<u>Individual quarter ended</u>		<u>Variance</u> <u>RM'000</u>	<u>Variance</u> <u>%</u>
	<u>30.06.2014</u> <u>RM'000</u>	<u>31.03.2014</u> <u>RM'000</u>		
Revenue	195,974	177,760	18,214	10.25
Profit before tax	9,000	9,938	(938)	(9.44)

The revenue for the quarter ended 30 June 2014 increased by RM18.214 million or 10.25% and profit before taxation decreased by RM0.938 million or 9.44% as compared to the preceding quarter. 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 price during the current quarter. The decrease in profit before tax was mainly due to lower profit contributions from china subsidiary companies in the current quarter.

15 Current year prospect

The Group's conventional stretch film 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. Its investment in new nano-layer & thin film machines and on a research and development (R&D) centre will further boost this effort.

The Group is currently running four lines for the PVC food wrap division , with a production capacity of 6,000 tonnes annually. Its fifth and sixth lines is expected to commence operation by the third quarter of 2014 and will further boost its profitability.

The Group is working to produce higher-value added compounds with its recent new investment for this division. This is expected to further boost its profit margin.

The Group will continue to invest and improve on its garbage bags and industrial films divisions. The margins of these divisions will further improve with investment on more sophisticated machines in the pipeline.

The food, beverage and other consumable business unit has continued to grow and is expected to continue its steady progress in 2014 and 2015 with more effort on marketing and promotional activities.

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:

	<u>Individual quarter</u>		<u>Cumulative period</u>	
	<u>30.06.2014</u> <u>RM'000</u>	<u>30.06.2013</u> <u>RM'000</u>	<u>30.06.2014</u> <u>RM'000</u>	<u>30.06.2013</u> <u>RM'000</u>
After charging:				
Bad debts written off	-	4	1	4
Depreciation of property, plant and equipment	4,493	4,266	8,783	8,492
Amortisation of prepaid lease payments	65	65	131	130
Property, plant and equipment written off	-	-	-	1
Impairment loss on other investments	340	59	340	245
Loss on foreign exchange				
- realised	116	99	28	206
and crediting:				
Gain on foreign exchange				
- unrealised	476	401	333	1,077
Reversal of impairment loss on receivables	-	8	-	8
Unrealised gain on derivatives	57	5	195	50

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18 Income tax expense

	Individual quarter		Cumulative period	
	30.06.2014 RM'000	30.06.2013 RM'000	30.06.2014 RM'000	30.06.2013 RM'000
Income tax in respect of				
- Current period	1,678	942	2,752	2,890
- Prior year	(104)	15	(104)	30
Deferred tax expense	(1,004)	68	(1,134)	(61)
	<u>570</u>	<u>1,025</u>	<u>1,514</u>	<u>2,859</u>

The Group's effective tax rate was lower than the statutory corporate tax rate due to the availability of certain tax incentives 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 has, 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.

The Group had on 13 June 2014 announced that the Securities Commission Malaysia ("SC") has, vide its letter dated 12 June 2014 approved its corporate proposals under subsection 214(1) of the Capital Market & Services Act 2007.

The Group had on 21 August 2014 announced that the date of announcement of the Entitlement Date in relation to the Right Issue of ICULS with Warrants is expected to be in the month of September 2014. The revision of the timeline for the implementation of the Right Issue of ICULS with Warrants is to facilitate the preparation of the necessary documents in relation to the implementation of the Right Issue of ICULS with Warrants.

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22 Group borrowings and debt securities

	30.06.2014
	RM'000
Current	
<i>Secured</i>	
Term loans	1,066
Bankers' acceptances	584
Finance lease liability	619
	2,269
<i>Unsecured</i>	
Term loans	2,248
Revolving credit	3,000
Overdrafts	3,326
Bankers' acceptances	3,696
Onshore foreign currency loans	35,164
	47,434
	49,703
Non-current	
<i>Secured</i>	
Term loans	33
Finance lease liability	999
	1,032
<i>Unsecured</i>	
Term loans	12,393
	13,425

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 2014 are set out below:

Type of derivatives	Contract/ Notional Value RM'000	Fair Value RM'000
Foreign Exchange Contracts		
- Less than 1 year	9,541	9,346
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	9,541	9,346

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24 Realised and unrealised retained earnings

	As at 30.06.2014 RM'000	As at 31.12.2013 RM'000
Total retained earnings of Thong Guan Industries Berhad and its subsidiaries		
- Realised	198,046	183,690
- Unrealised	(4,686)	(7,613)
	193,360	176,077
Less: Consolidation adjustments	(9,595)	(9,050)
Total group retained earnings	183,765	167,027

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) was approved at the Company's 19th Annual General Meeting on 26 June 2014 and was paid on 8 August 2014 to depositors registered in the Record of Depositor on 18 July 2014.

The Board of Directors of the Company had declared a tax exempt interim dividend of 3% (3 sen per share) in respect of the financial year ending 31 December 2014. The entitlement date is fixed on 7 November 2014 and payment will be made on 18 November 2014.

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	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Profit attributable to ordinary equity owners of the Company (RM'000)	8,025	5,311	16,738	10,796
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	7.63	5.05	15.91	10.26

(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 21 AUGUST 2014