

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
QUARTERLY REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 periods.

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 2014.

7 Dividends paid

A first and final tax exempt dividend of 8 sen per share in respect of the financial year ended 31 December 2013 amounting to RM8,416,360 was paid on 8 August 2014 to depositors registered in the Record of Depositor on 18 July 2014.

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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 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	533,046	32,563	565,609
Segment profit	21,082	2,254	23,336
Included in the measure of segment profit are:			
-Depreciation and amortisation	13,040	436	13,476
-Non-cash expenses other than depreciation and amortisation	-	1	1
Segment assets	414,485	47,547	462,032
Included in the measure of segment assets is:			
-Capital expenditure	5,434	689	6,123

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

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 September 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	
	30.09.2014 RM'000	30.09.2013 RM'000	30.09.2014 RM'000	30.09.2013 RM'000
Revenue				
Plastic Products	181,939	178,581	533,046	506,639
Food, Beverages and Other Consumable Products	9,936	9,542	32,563	29,036
Group	<u>191,875</u>	<u>188,123</u>	<u>565,609</u>	<u>535,675</u>
Profit before tax				
Plastic Products	4,092	13,097	21,082	26,035
Food, Beverages and Other Consumable Products	306	397	2,254	1,461
Group	<u>4,398</u>	<u>13,494</u>	<u>23,336</u>	<u>27,496</u>
Group				

Group revenue for the nine months ended 30 September 2014 was RM565.609 million compared with RM535.675 million for the nine months ended 30 September 2013, an increase of 5.59%. 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 September 2014 was RM23.336 million, a decrease of 15.13% over the RM27.496 million registered in the corresponding period in 2013. The decrease in profit before tax was mainly due to lower profit contribution from the group's China based operations, its stretch film and compounding divisions, higher impairment loss at its Thailand investment and higher operating expenses.

For the three months third quarter ended 30 September 2014, Group revenue grew by 1.99% from RM188.123 million to RM191.875 million while profit before taxation decreased by 67.41% from RM13.494 million to RM4.398 million as compared to the corresponding quarter in 2013. The increase in revenue was mainly due higher average prices of raw materials which translated to higher selling prices compared to the corresponding period in 2013. The decrease in profit before tax was mainly due to lower profit contribution from the Group's China and Sabah based operations, its stretch film division, and higher operating and corporate exercise expenses.

Plastic Products

For the nine months ended 30 September 2014, revenue increased by 5.21% from RM506.639 million to RM533.046 million while profit before tax decreased by 19.02% from RM26.035 million to RM21.082 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 decrease in profit before tax was mainly due to the lower profit contribution from the group's China based operations, its stretch film and compounding divisions and higher operating expenses compared to the corresponding period in 2013.

For the three months third quarter ended 30 September 2014, revenue grew by 1.88% from RM178.581 million to RM181.939 million while profit before taxation decreased by 68.76% from RM13.097 million to RM4.092 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 decrease in profit before tax was mainly due to the lower profit contribution from the group's China and Sabah based operations, its stretch film division and the higher operating costs compared to the corresponding period in 2013.

Food, Beverages and Other Consumable Products

For the nine months ended 30 September 2014, revenue increased by 12.15% from RM29.036 million to RM32.563 million while profit before tax increased by 54.28% from RM1.461 million to RM2.254 million as compared to the corresponding period in 2013.

The increase in revenue was mainly due to higher demand of tea 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 and instant beverages products compared to the corresponding period in 2013.

For the three months third quarter ended 30 September 2014, revenue increased by 4.13% from RM9.542 million to RM9.936 million while profit before taxation decreased by 22.92% from RM0.397 million to RM0.306 million as compared to the corresponding quarter in 2013. The increase in revenue was mainly due to higher demand of snack food and coffee compared to the corresponding period in 2013. The decrease in profit before taxation was mainly due to lower margin from the tea and coffee 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>Variance</u>
	<u>30.09.2014</u>	<u>30.06.2014</u>		
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>%</u>
Revenue	191,875	195,974	(4,099)	(2.09)
Profit before tax	4,398	9,000	(4,602)	(51.13)

The revenue for the quarter ended 30 September 2014 decreased by RM4.099 million or 2.09% and profit before taxation decreased by RM4.602 million or 51.13% as compared to the preceding quarter. The decrease in revenue was mainly due to lower demand of garbage bags during the current quarter. The decrease in profit before tax was mainly due to lower profit contributions from its China and Sabah based operations, higher unrealised foreign exchange loss, and lower volume rebates recorded in the current quarter compared to the preceding 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. Its fifth and sixth lines is expected to commence operation by the end of 2014 and will further boost its revenue and profitability.

The Group effort to introduce higher-value added compounds with its recent new investment into its compounding division is bearing some fruits. This is expected to further boost contributions from this division.

The Group will continue to invest and improve on its garbage bags and industrial films divisions. The margins from these divisions is expected to further improve with further expansion and investments on technology breakthrough machinery to be commissioned in 2015.

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.

Efforts will be made to improve the contributions from its China and Sabah based operations which has experienced dwindling profits.

The Group is confident of the continuous increased contributions from its business units and has chartered further investments and growth with the completion of its fund raising exercise in October 2014.

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>30.09.2014</u>	<u>30.09.2013</u>	<u>30.09.2014</u>	<u>30.09.2013</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
After charging:				
Bad debts written off	-	-	1	4
Depreciation of property, plant and equipment	4,515	4,317	13,298	12,809
Amortisation of prepaid lease payments	47	67	178	197
Property, plant and equipment written off	-	-	-	1
Impairment loss on other investments	187	180	527	425
Loss on foreign exchange				
- unrealised	550	214	217	-
Unrealised loss on derivatives	142	150	-	100
and crediting:				
Gain on foreign exchange				
- realised	437	1,831	409	1,625
- unrealised	-	-	-	863
Reversal of impairment loss on receivables	25	4	25	12
Unrealised gain on derivatives	-	-	53	-

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18 Income tax expense

	Individual quarter		Cumulative period	
	30.09.2014 RM'000	30.09.2013 RM'000	30.09.2014 RM'000	30.09.2013 RM'000
Income tax in respect of				
- Current period	(363)	2,793	2,389	5,683
- Prior year	(5)	(282)	(109)	(252)
Deferred tax expense	(432)	(379)	(1,566)	(440)
	<u>(800)</u>	<u>2,132</u>	<u>714</u>	<u>4,991</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

(a) The Group had completed its Rights Issue of ICULS with Warrants on 15 October 2014, following the listing of and quotation for 52,602,250 ICULS and 26,301,106 Warrants on the Main Market of Bursa Malaysia Securities Berhad.

(b) Status of utilisation of Proceeds
As at the date of this report, the utilisation of the proceeds raised from the Rights Issue is as follow:-

	Estimated timeframe for utilisation from date of listing	Proposed utilisation RM'000	Actual utilisation RM'000	Deviation RM'000
i.	Purchase of machineries and other ancillary facilities	12 months	33,000	-
ii.	Working capital	12 months	18,002	-
iii.	Renovation and refurbishment of existing factory building	12 months	800	(800)
iv.	Estimated expenses in relation to the Rights Issue	6 months	800	(467)
			333	

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22 Group borrowings and debt securities

	<u>30.09.2014</u> <u>RM'000</u>
Current	
<i><u>Secured</u></i>	
Term loans	859
Overdrafts	305
Bankers' acceptances	1,457
Finance lease liability	578
	3,199
<i><u>Unsecured</u></i>	
Term loans	1,854
Revolving credit	3,000
Overdrafts	2,762
Bankers' acceptances	2,982
Onshore foreign currency loans	34,128
	44,726
	47,925
Non-current	
<i><u>Secured</u></i>	
Finance lease liability	884
<i><u>Unsecured</u></i>	
Term loans	11,925
	12,809

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 2014 are set out below:

Type of derivatives	Contract/ Notional Value RM'000	Fair Value RM'000
Foreign Exchange Contracts		
- Less than 1 year	4,208	4,155
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	4,208	4,155

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24 Realised and unrealised retained earnings

	As at 30.09.2014 RM'000	As at 31.12.2013 RM'000
Total retained earnings of Thong Guan Industries Berhad and its subsidiaries		
- Realised	194,829	183,690
- Unrealised	(4,946)	(7,613)
	189,883	176,077
Less: Consolidation adjustments	(9,619)	(9,050)
Total group retained earnings	180,264	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 was fixed on 7 November 2014 and payment was 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	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
Profit attributable to ordinary equity owners of the Company (RM'000)	4,915	11,058	21,653	21,854
Weighted average number of ordinary share in issue (units'000)	105,205	105,205	105,205	105,205
Basic earnings per ordinary share (sen)	4.67	10.51	20.58	20.77

(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 20 NOVEMBER 2014