

THONG GUAN INDUSTRIES BERHAD (COMPANY NO. : 324203-K)
QUARTERLY REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2015

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 2014 and the accompanying explanatory notes.

The accounting policies and presentation adopted by the Group for the quarterly financial statements are consistent with those adopted in the Group's consolidated audited financial statements for the financial year ended 31 December 2014, except for the adoption of the following:

Description	Effective date
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Amendments to MFRS 2 Share Based Payment (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendments to MFRS 3 Business Combinations (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendments to MFRS 3 Business Combinations (Annual Improvements to MFRSs 2011-2013 Cycle)	1 July 2014
Amendments to MFRS 8 Operating Segments (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendments to MFRS 13 Fair Value Measurement (Annual Improvements to MFRSs 2011-2013 Cycle)	1 July 2014
Amendments to MFRS 116 Property, Plant & Equipment	1 July 2014
Amendments to MFRS 138 Intangible Assets (Annual Improvements to MFRSs 2010-2013 Cycle)	1 July 2014
Amendments to MFRS 124 Related Party Disclosures (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendments to MFRS 140 Investment Property (Annual Improvements to MFRSs 2011-2013 Cycle)	1 July 2014

The adoption of the above Amendments and Annual Improvements to standard did not have any material financial impact to the Group.

2 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.

3 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.

4 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.

5 Debt and equity securities

Other than as disclosed under note 21(a), 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 2015.

6 Dividends paid

There were no dividend paid in the quarter under review.

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7 Segment information

The Group's operations can be divided into two products based operating segments.

Segment information for the year ended 31 March 2015 are as follow:

	<u>Plastic Products</u>	<u>Food, Beverages and Other Consumable Products</u>	<u>Consolidated</u>
<u>2015</u>	RM'000	RM'000	RM'000
Revenue			
Revenue from external customers	149,849	10,939	160,788
Segment profit	2,432	1,336	3,768
Included in the measure of segment profit are:			
-Depreciation and amortisation	4,719	157	4,876
Segment assets	434,366	85,187	519,553
Included in the measure of segment assets is:			
-Capital expenditure	1,421	63	1,484

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>
<u>2014</u>	RM'000	RM'000	RM'000
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
Segment assets	403,978	35,137	439,115
Included in the measure of segment assets is:			
-Capital expenditure	2,409	132	2,541

8 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.

9 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.

10 Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter ended 31 March 2015.

11 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

12 Review of performance

	Individual quarter		Cumulative period	
	31.03.2015	31.03.2014	31.03.2015	31.03.2014
	RM'000	RM'000	RM'000	RM'000
Revenue				
Plastic Products	149,849	166,405	149,849	166,405
Food, Beverages and Other Consumable Products	10,939	11,355	10,939	11,355
Group	<u>160,788</u>	<u>177,760</u>	<u>160,788</u>	<u>177,760</u>
Profit before tax				
Plastic Products	2,432	9,030	2,432	9,030
Food, Beverages and Other Consumable Products	1,336	908	1,336	908
Group	<u>3,768</u>	<u>9,938</u>	<u>3,768</u>	<u>9,938</u>

Group

For the three month ended 31 March 2015, Group revenue decreased by 9.55% from RM177.760 million to RM160.788 million while profit before taxation decreased by 62.08% from 9.938 million to RM3.768 million as compared to the corresponding quarter in 2014 . The decrease in revenue was mainly due to lower average prices of raw materials which translated to lower selling prices and a drop of sales to the Japanese market due to the increase in the rate of VAT from 5% to 8% on 1 April 2014 as compared to the corresponding period in 2014. The decrease in profit before tax was mainly due to higher realised and unrealised foreign exchange losses and also losses suffered at the group's China based operations.

Plastic Products

For the three month ended 31 March 2015, revenue decreased by 9.95% from RM166.405 million to RM149.849 million as compared to the corresponding quarter in 2014 while the profit before tax decreased by 73.07% from RM9.030 million to RM2.432 million as compared to the corresponding quarter in 2014. The decrease in revenue was mainly due to lower average prices of raw materials which translated to lower selling prices and a drop of sales to the Japanese market due to the increase in the rate of VAT from 5% to 8% on 1 April 2014 as compared to the corresponding period in 2014. The decrease in profit before tax was mainly due to the decrease in export volume, losses suffered at the group's China based operation, realised and unrealised foreign exchange losses.

Food, Beverages and Other Consumable Products

For the three month ended 31 March 2015, revenue decreased by 3.66% from RM11.355 million to RM10.939 million while profit before taxation increased by 47.14% from RM0.908 million to RM1.336 million as compared to the corresponding quarter in 2014. The decrease in revenue was mainly due to lower contribution from the group's Sabah based subsidiary company and instant beverage products compared to the corresponding period in 2014. The increase in profit before taxation was mainly due to higher margin recorded by tea products.

13 Comparison with immediate preceding quarter's results

	Individual quarter ended		Variance	Variance
	31.03.2015	31.12.2014		
	RM'000	RM'000	RM'000	%
Revenue	160,788	166,981	(6,193)	(3.71)
Profit/ (loss) before tax	3,768	(4,513)	8,281	183.49

The revenue for the quarter ended 31 March 2015 decreased by RM6.193 million or 3.71% as compared to the preceding quarter. Profit before tax for the current quarter was recorded at 3.768 million as compared to the loss before tax of RM4.513 million for the preceeding quarter . The decrease in revenue was mainly due to lower average prices of raw materials which translated to lower selling prices during the current quarter. The increase in profit before tax was mainly due to the higher provision for doubtful debts for the preceding quarter and higher contribution from stretch film for the current quarter.

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14 Prospect

In 2015, the Group will install the 33-layer nano-technology stretch film line and a state of art blown film line as well as the setting up of its research & development centre. Upon completion of this, the Group expect to differentiate its products and services to its customers and move further up the value chain to achieve better profit margin.

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

On the impact of external factor, the Group is of the view that the decreased in crude oil price which had led to lower raw material cost and lower selling prices for its products will auger well in terms of increased demand. The depreciation of the Malaysian Ringgit will also benefit the Group in terms of lower labour, electricity and other input costs as the Group's sales are mostly denominated in USD.

Barring any unforeseen circumstances, the Group is confident of the continuous progressive contributions from its business units and has chartered further growth prospects.

15 Variance of actual profit from forecast profit

Not applicable.

16 Results from operating activities

Results from operating activities are arrived at:

	Individual quarter		Cumulative period	
	31.03.2015 RM'000	31.03.2014 RM'000	31.03.2015 RM'000	31.03.2014 RM'000
After charging:				
Bad debt written off	-	1	-	1
Depreciation of property, plant and equipment	4,802	4,290	4,802	4,290
Amortisation of prepaid lease payments	74	66	74	66
Property, plant and equipment written off	-	1	-	1
Loss on foreign exchange				
- realised	3,425	-	3,425	-
- unrealised	778	143	778	143
Unrealised loss on derivatives	179	-	179	-
and crediting:				
Gain on disposal of plant and equipment	72	-	72	-
Gain on foreign exchange				
- realised	-	88	-	88
Reversal of impairment loss on receivables	4	-	4	-
Unrealised gain on derivatives	-	138	-	138

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17 Income tax expense

	Individual quarter		Cumulative period	
	31.03.2015	31.03.2014	31.03.2015	31.03.2014
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Income tax in respect of				
- Current period	445	1,074	445	1,074
Deferred tax expense	(1,018)	(130)	(1,018)	(130)
	<u>(573)</u>	<u>944</u>	<u>(573)</u>	<u>944</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.

18 Sale of unquoted investments and/or properties

There were no sale of unquoted investments for the current financial quarter and financial period-to-date.

19 Quoted securities

There were no purchases or disposals of quoted securities for the current financial quarter and financial period-to-date.

20 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:-

	Purpose of utilisation	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	(18,788)	14,212
ii.	Working capital	12 months	18,002	(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	(800)	-

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21 Group borrowings and debt securities

	31.03.2015
	RM'000
Current	
<i><u>Secured</u></i>	
Term loans	366
Overdrafts	209
Bankers' acceptances	1,022
Finance lease liability	507
	2,104
<i><u>Unsecured</u></i>	
Term loans	2,794
Overdrafts	618
Discounted bills	3,018
Bankers' acceptances	2,299
Onshore foreign currency loans	64,797
Liability component of ICULS	2,543
	76,069
	78,173
Non-current	
<i><u>Secured</u></i>	
Finance lease liability	732
<i><u>Unsecured</u></i>	
Term loans	10,666
Liability component of ICULS	9,102
	20,500

The above borrowings are denominated in Ringgit Malaysia except for discounted bills, onshore foreign currency loans and unsecured term loans which are denominated in US Dollar.

22 Disclosure of derivatives

Details of derivative financial instruments outstanding as at 31 March 2015 are set out below:

Type of derivatives	Contract/ Notional Value RM'000	Fair Value RM'000
Foreign Exchange Contracts		
- Less than 1 year	6,375	6,554
- 1 year to 3 years	-	-
- More than 3 years	-	-
Total	6,375	6,554

23 Realised and unrealised retained earnings

	As at 31.03.2015 RM'000	As at 31.12.2014 RM'000
Total retained earnings of Thong Guan Industries Berhad and its subsidiaries		
- Realised	188,532	187,112
- Unrealised	(1,132)	(3,880)
	187,400	183,232
Less: Consolidation adjustments	(9,834)	(10,295)
Total group retained earnings	177,566	172,937

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24 Changes in material litigation

There was no material litigation pending as at the date of this quarterly report.

25 Dividends

The Board of Directors has proposed to recommend for shareholders' approval at the forthcoming Annual General Meeting a final single tier dividend of 4 sen per ordinary share in respect of the financial year ended 31 December 2014, to be paid on a date to be determined later.

Should it be approved by the shareholders, the total dividends for the financial year ended 31 December 2014 is 7 sen (2013: 8 sen) per ordinary share.

26 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	
	31.03.2015	31.03.2014	31.03.2015	31.03.2014
Profit attributable to ordinary equity owners of the Company (RM'000)	4,629	8,713	4,629	8,713
Weighted average number of ordinary share in issue (units'000)	105,212	105,205	105,212	105,205
Basic earnings per ordinary share (sen)	4.40	8.28	4.40	8.28

(b) Diluted earnings per ordinary share

	Individual quarter		Cumulative period	
	31.03.2015	31.03.2014	31.03.2015	31.03.2014
Profit attributable to ordinary equity owners of the Company (RM'000)	4,629	8,713	4,629	8,713
Weighted average number of ordinary share in issue (units'000)	111,980	105,205	111,980	105,205
Diluted earnings per ordinary share (sen)	4.13	8.28	4.13	8.28

The ICULS can only be converted into new TGIB Shares in the second (2nd) anniversary (15 October 2016) of the date of issue of the ICULS.

27 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 MAY 2015