

EG INDUSTRIES BERHAD

(Company No : 222897-W)

(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2014

A. FRS134 – Interim Financial Reporting

A1. **Basis Preparation**

This interim financial 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 Statement for the year ended 30 June 2014.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2014. These explanatory notes, attached to the condensed consolidated interim financial statements, provide an explanation of the events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2014. The audited financial statements of the Group as at and for the year ended 30 June 2014 were prepared under Malaysian Financial Reporting Standards (MFRSs).

A2. **Significant Accounting policies**

The accounting policies and methods of computations used in the preparation of the financial statements are consistent with those adopted in the audited financial statements for the year ended 30 June 2014 except for the adoption of the following new and revised MFRSs (if applicable) :

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, Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to MFRS 139, 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 January 2016

- MFRS 14, Regulatory Deferral Accounts
- Amendments to MFRS 116 and MFRS 138, Clarification Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 11, Accounting for Acquisitions of Interests in Joint Operations

MFRSs, Interpretations and amendments, effective 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 Date of MFRS 9 and Transition Disclosures

A3. Audit Report

The auditors' report of the Group's financial statements for the year ended 30 June 2013 was not subject to any qualification.

A4. Seasonal or Cyclical Factors

The business operations of the Group are subject to seasonal or cyclical factors that are common in the industry in which the Group operates in.

A5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were exceptional items that occurred during the current financial quarter under review which affect the assets, liabilities, equity, net income or cash flows of the Group except for those disclosed in Note B14.

A6. Material changes in Estimates

There were no material changes in estimates used in the preparation of the financial statements in the current financial quarter as compared to the preceding corresponding financial quarter.

A7. Debt and Equity Securities

During the current financial year ended 30 June 2014, the Company repurchased 10,000 of its issued share capital from the open market. The average price paid for the shares repurchased was RM0.36 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act 1965. As of 30 June 2014, of the total of 75,016,600 issued and paid up capital, 106,000 shares are being held as treasury shares. The total consideration paid for the repurchased including transaction costs was amounted to RM28,778.

Other than the above, there were no issuance and repayment of equity and debts securities, share cancellations and resale of treasury sales for the financial year ended 30 June 2014.

A8. Dividend Paid

There was no dividend paid for the current financial quarter ended 30 June 2014.

A9. Segmental Reporting

The segment analysis for the Group's results for the financial year ended 30 June 2014 is as follows:

Current Year to Date	Turnover	Profit/(Loss) before
Segment for the Group	RM'000	Taxation
		RM'000
EMS	993,275	8,020
2-Layer Parquet Flooring	-	(1,494)
Others	425	(842)
Total	<u>993,700</u>	<u>5,684</u>

A10. Valuation of Property, Plant and Equipment

The valuations of land and buildings have been brought forward without amendment as there was no valuation of property, plant and equipment during the current financial quarter under review.

A11. Material Subsequent Events

There were no material events subsequent to 30 June 2014 to the date of this Interim Financial Report.

A12. Effect of Changes in Composition of the Group

There were no changes in composition of the group for the current financial quarter.

A13. Contingent Liabilities

There were no material contingent liabilities as at the date of the interim financial report.

B. ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

Quarter-on-Quarter basis:

For the current quarter ended 30 June 2014, the Group's revenue increased by 21% or RM40.6 million to RM233.7 million from RM193.1 million recorded in the same quarter last year due to higher revenue contributed by the EMS Division. The growth for EMS division was mainly driven by volume progression of EMS services from existing customers and several new customer projects were launched in the current financial quarter.

Profit before tax increased to RM2 million from RM0.04 million recorded in the same quarter last year mainly due to higher revenue as mentioned above. The increased was partially offset by the one-off impairment loss on machineries of RM1.16 million during the current quarter as they are no longer in use and increased in finance costs. Finance costs increased by 19% in line with the increased in sales resulting from the higher utilization of trade facilities netting off with the reduced in interest rates.

However, the Group has registered loss after tax of RM1.2 million, marginally decreased of RM0.6 million as compared to RM1.8 million loss after tax in the corresponding quarter last year primarily due to higher revenue netting off higher tax expenses recorded; which the higher tax expenses was resulted from the reversal of deferred tax assets of RM1.9 million recognised previously and deferred tax liabilities of RM1.4 million.

Year-on-Year basis:

For the current financial year ended 30 June 2014, the Group revenue increased by 24% or RM193 million to RM993.7 million from RM800.2 million recorded in the preceding year corresponding period mainly contributed by volume progression of EMS services from existing customers and several new customer projects were launched in the current financial year. Correspondingly, profit before tax increased by 52% to RM5.7 million from RM3.8 million recorded in the preceding year corresponding period.

Profit after tax increased by 48% to RM2.1 million as compared to RM1.4 million recorded in the preceding year corresponding period mainly due to higher revenue as mentioned above. Despite the higher revenue, there was no significant improvement in the profit after tax due to the one-off impairment loss on machineries of RM1.16 million, higher tax expenses and increased in finance costs. Tax expenses increased to RM3.6 million from RM2.3 million recorded in the preceding year corresponding period which was due to the reversal of deferred tax assets of RM1.9 million recognised previously.

B2. Variation of results Against Preceding Quarter

	Current Quarter 30/06/2014 RM'000	Immediate Preceding Quarter 31/03/2013 RM'000	Variance (decreased) %
- Revenue	233,713	250,612	(6.7)
- Profit Before Tax	2,014	1,964	2.5

For the quarter under review, the Group registered revenue of RM233.7 million for the current quarter as compared to RM250.6 million reported in the immediate preceding quarter, representing a slight decrease in sales of RM17 million or 6.7% mainly due to lower customer demand. Despite the decrease in revenue in the current quarter, the Group recorded a pre-tax profit of RM2.014 million as compared to RM1.964 million recorded in the immediate preceding quarter. This was mainly due to favorable currency exchange rate of US Dollar against Malaysia Ringgit as the Group revenue are denominated in US Dollar.

B3. Prospect

The Group will strive to ensure that it achieve satisfactory result by taking prudent measures and improving operational efficiency.

B4. Variance on Forecast Profit / Shortfall in Profit Guarantee

Not applicable.

B5. Taxation

	Current Year Quarter 30/06/2014 RM'000	Preceding Year Quarter 30/06/2013 RM'000	Current Year To Date 30/06/2014 RM'000	Preceding Year To Date 30/06/2013 RM'000
Current Taxation	(116)	(70)	234	430
Deferred Taxation	3,344	1,900	3,344	1,900
	3,228	1,830	3,578	2,330

The effective tax rate of the Group for the current quarter and year to date is lower than the statutory income tax rate mainly due to the availability of reinvestment allowance by a subsidiary and a foreign subsidiary was granted promotional privileges under the Investment Promotional Act B.E. 2520 for a period of 8 years.

B6. Profit/ (Loss) on Sale of Unquoted Investment and /or Property

There were no sales of unquoted investments or properties during the current financial year under review.

B7. Purchase or Disposal of Quoted Securities Other Than Securities in Existing Subsidiaries and Associated Company

There was no gain from disposal of quoted securities during the current financial year under review.

B8. Status of Uncompleted Corporate Announcement

There is no uncompleted corporate announcement at the date of issuance of this quarterly report.

B9. Group Borrowings and Debt Securities

Total Group borrowings as at 30 June 2014 were as follows:

	RM'000
(a) Secured:	
Term Loan	# 18,181
Revolving Credit	# 1,500
Banker Acceptance	# 136,103
Bank Overdraft	# 1,445
Hire Purchase Payable	# 15,273
Trust receipt	# 5,171
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	# 177,673
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(b) Repayment within 12 months	150,373
Repayment after 12 months	27,300
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	177,673
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The borrowings of RM42 million denominated in Thai Baht.

B10 Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at 30 June 2014.

B11. Changes in Material Litigation

There was no material litigation as at 22nd August 2014, a date not earlier than 7 days from the date of issue of this quarterly report.

B12. Dividend

The Board of Directors does not recommend any dividend for the current financial quarter and current financial year ended 30 June 2014.

B13. Earnings Per Share

i) Basic Earning Per Share – For current year to date

Earning per share of 2.47 sen for the current year to date has been computed based on the Group's net profit attributable to shareholders of the Company for the current year to date of RM1.852 million divided by the weighted average number of ordinary shares outstanding during the current year to date of 74,914,956 as at 30 June 2014.

ii) Basic Earning Per Share – For preceding year corresponding period

Earning per share of 2.44 sen for the preceding year corresponding period has been computed based on the Group's net profit attributable to shareholders of the Company for the preceding year corresponding period of RM1.827 million divided by the weighted average number of ordinary shares outstanding during preceding year corresponding period of 74,928,436 as at 30 June 2013.

B14. Notes to the Statement of Comprehensive Income

Profit before tax is stated after charging / (crediting):

	Quarter ended 30/06/2014 RM'000	Year ended 30/06/2014 RM'000	Quarter ended 30/06/2013 RM'000	Year ended 30/06/2013 RM'000
Interest income	(130)	(302)	(418)	(451)
Interest expense	2,256	9,339	1,892	8,188
Depreciation and amortization	5,809	22,068	4,387	18,026
Net foreign exchange (gain) or loss	(435)	1,231	(435)	(59)
Inventories written down	250	250	3,910	3,910
Impairment of fixed asset	1,162	1,162	-	-
Impairment loss on trade and other receivables	-	-	245	245

B15. Realised or Unrealised Profit and Loss of the Group

	Current Quarter 30/06.2014 RM'000
Realised profit	20,464
Unrealised profit	(1,287)
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	19,177
Less: Consolidation adjustments	(2,890)
Total retained earnings	<hr/>
	16,287

BY ORDER OF THE BOARD

Kang Pang Kiang
Group CEO / ED
Date : 29th August 2014