

EG INDUSTRIES BERHAD
(Company No: 222897-W)
(Incorporated in Malaysia)

**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2015**

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:

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 of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to MFRS 116 and 141, *Agriculture : Bearer Plants*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- MFRS 15, *Revenue from Contracts with Customers*

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*

A3. Audit Report

The auditors’ report of the Group’s financial statements for the year ended 30 June 2014 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 no 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 was 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. **Issuance of Equity or Debt Securities**

During the current quarter, the Company repurchased 5,000 of its issued share capital from the open market. The average price paid for the shares repurchased was RM0.80 per share. The total consideration paid for the shares repurchase was amounted to RM4,017.20 including transaction costs of RM17.20. The repurchase was financed by internally generated funds. The shares repurchased are held as treasury shares in accordance with the provision of Section 67A of the Companies Act 1965.

As of 31 March 2015, the Company held 284,000 of its shares. The number of outstanding ordinary shares of RM1 each in issue after the set-off is 74,732,600.

Other than the above, there were no issuance and repayment of equity and debts securities, share cancellations and resale of treasury sales during the current financial quarter.

A8. **Dividend Paid**

No dividend has been paid for the nine months ended 31 March 2015.

A9. **Segmental Reporting**

The segment analysis for the Group's results for the financial quarter ended 31 March 2015 is as follows:

| Current Year-to-date | Turnover | Profit before |
|------------------------------|-----------------|----------------------|
| Segment for the Group | RM'000 | Taxation |
| | | RM'000 |
| EMS | 642,540 | 5,957 |
| Others | 56 | 13,581 |
| Total | <u>642,596</u> | <u>19,538</u> |

A10. **Valuation of Property, Plant and Equipment**

There were no valuation of property, plant and equipment during the current financial quarter ended 31 March 2015.

A11. **Material Subsequent Events**

There were no material events or transactions subsequent to the end of current financial quarter ended 31 March 2015, save as disclosed below:

- (i) On 14 April 2015, Glisten Knight Sdn Bhd, a wholly-owned subsidiary of the Company has entered into a Sale and Purchase Agreement with Jupax Capital Sdn Bhd to dispose three parcels of agricultural land known as Lot 2 held under GRN 35863, Locality of Puncak Chabai, Mukim of Merbuk; and Lots 8 & 16 held under GRN 35852 & GM 1276 respectively, Locality of Pondok

Chabai, Mukim of Bujang, all within District of Kuala Muda, State of Kedah for a cash consideration of RM4,500,000. The disposal is expected to be completed by the end of July 2015; and

- (ii) On 21 April 2015, the Company has entered into a Sale and Purchase Agreement with Terence Tea Yeok Kian and Kim Chye Huat @ Bobby Lim Chye Huat for the purchase of 10,750,000 ordinary shares of SGD1.00 each in Singyasin Holdings Pte Ltd representing 95.81% equity interest in SYS for a total cash consideration of SGD3,832,400 (equivalent to RM10,309,539 translated at an exchange rate of RM2.6901 : SGD1.00). The acquisition is pending approval of the Company's shareholders.

A12. Changes in the Composition of the Group

There were no changes in the composition of the group for the current financial quarter and financial period to date.

A13. Changes in Contingent Liabilities or Contingent Assets

There were no material changes in contingent liabilities or contingent assets as at the end of the current financial quarter.

A14. Capital Commitments

As at 31 March 2015, the Group has no material capital commitment in respect of property, plant and equipment except for those disclosed in note A11.

B. ADDITIONAL INFORMATION AS REQUIRED BY APPENDIX 9B OF BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

Comparison between the current quarter ("Q3 2015") and the preceding correspondence quarter ("Q3 2014")

The Group achieved revenue of RM180 million for the current quarter ended 31 March 2015, a decreased of 28% as compared to RM251 million recorded in the previous year corresponding quarter. The decrease was mainly due to change of product sales mix to focus on high margin products and reduce in sales for low margin products. Consequently, the net operating margins increased from 4.4% in Q3 2014 to 4.9% for the current quarter. However, pre-tax profit decreased from RM1.96 million in the preceding correspondence quarter to RM1.49 million in the current quarter mainly due to decreased in sales as mentioned above and increased in depreciation due to investment in capital expenditures for expansion and upgrading of plant and machineries to cope with existing and future customer orders. Despite the decrease in pre-tax profit, the pre-tax profit margin has increased from 0.78% to 0.83% in the current quarter. This is a transition period witnessing lower revenue but higher margin generated which is the Group initiative to focus on high margin products for stronger future developments.

Comparison between the current financial period-to-date and the preceding correspondence financial period-to-date

In the current financial period-to-date under review, the Group's revenue decreased by 15.4% to RM642.6 million compared to the last year corresponding period of RM760.0 million. The Group recorded a pre-tax profit of RM19.54 million in the current financial period-to-date as compared to RM3.67 million in preceding correspondence financial period-to-date. The improvement in pre-tax profit was mainly due to the high margin sales mix and fair value gain on the realisation of available-for-sale financial assets totalling of RM15.5 million. Netting off the fair value gain, pre-tax profit margin increased from 0.4% to 0.6% in the current financial year-to-date.

B2. Variation of Results against Preceding Quarter

| Description | 3 rd Quarter 2015 RM'000 | 2 nd Quarter 2015 RM'000 | Increase/ (Decrease) | |
|-------------------|--|--|----------------------|------|
| | | | RM'000 | % |
| Revenue | 179,884 | 219,076 | (39,192) | -18% |
| Profit before tax | 1,493 | 10,286 | (8,793) | -85% |

Revenue for the current quarter registered at approximately RM180 million, decreased by RM39 million or 18% as compared to the immediate preceding quarter of approximately RM219 million. The decrease in revenue for the current quarter was mainly due to change of product sales mix to focus on high margin products and slower customer demand.

The Group's pre-tax profit decreased by RM8.79 million or 85% compared to the immediate quarter as there was a fair value gain on the realisation of available-for-sale financial assets of RM9.08 million in the 2nd Quarter 2015. Netting off the fair value gain, the pre-tax profit for the current quarter has slightly increased by RM0.3 million.

B3. Prospect

The Group will continue to focus its efforts in the exploring of new market opportunities, maintaining good customer relationships with high quality products; and improve its design and development capabilities to offer better solutions to customers. The Group is also actively seeking potential merger and acquisition ("M&A") opportunities within the Electronic Manufacturing Services and its related sectors, establishing a comprehensive one stop electrical and electronics solution to leverage on organic growth and opportunities for further expansion. Besides, the Group is able to extend the products and service offerings beyond its current networks through integration with Jubilee Industries Holdings Limited, a Company listed in Singapore Exchange Catalist which principally engaged in design, fabrication and sale of precision plastic injection moulds, precision plastic injection moulding for customers' electronics, computer peripherals, automotive and household appliances.

In addition, the Group will strive to enhance its operational and cost efficiencies by taking prudent measures to achieve satisfactory results. The results of the Group for the financial year 2015 are expected to remain positive.

B4. Variance on Forecast Profit / Shortfall in Profit Guarantee

The Group did not issue any profit forecast/profit guarantee for the current financial quarter.

B5. Taxation

| | Individual Quarter Ended | | Cumulative Quarter Ended | |
|---------------------|--------------------------|----------------------|--------------------------|----------------------|
| | 31/03/2015 RM'000 | 31/03/2014 RM'000 | 31/03/2015 RM'000 | 31/03/2014 RM'000 |
| Current tax expense | 151 | 200 | 351 | 350 |
| | <u>151</u> | <u>200</u> | <u>351</u> | <u>350</u> |

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 period under review.

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

During the current financial period ended 31 March 2015, the Group has disposed its investment in available-for-sale financial assets and the disposal gave rise to a total gain of RM15.5 million.

The Group had purchased RM1,345,300 quoted securities during the current financial period ended 31 March 2015.

B8. Status of Uncompleted Corporate Announcement

On 28 November 2014, the Company announced to undertake the following proposals:

- (i) Proposed reduction of its existing issued and paid-up share capital from RM75,016,600 comprising 75,016,600 ordinary shares of RM1.00 each in EG Industries Berhad (“EGIB”) to RM37,508,300 comprising 75,016,600 ordinary shares of RM0.50 each in EGIB via the cancellation of RM0.50 from the par value of each existing ordinary shares of RM1.00 each in EGIB pursuant to Section 64 of the Companies Act, 1965 (“Proposed Par Value Reduction”);
- (ii) Proposed private placement of up to 9,168,700 new ordinary shares of RM0.50 each in EGIB (“EGIB Shares” or “Shares”) upon completion of the Proposed Par Value Reduction to independent third party investor(s) to be identified at a later date;
- (iii) Proposed renounceable rights issue of up to 151,283,482 new EGIB Shares (“Rights Shares”) together with up to 75,641,741 free detachable warrants (“Warrants”) at an indicative issue price of RM0.50 per Rights Share on the basis of three (3) Rights Shares for every two (2) EGIB Shares held together with one (1) free Warrant for every two (2) Rights Shares subscribed at an entitlement date to be determined later (after the Proposed Par Value Reduction);
- (iv) Proposed establishment of an employees’ share grant scheme (“ESGS”) of up to 15% of the issued and paid-up share capital of EGIB (excluding treasury shares, if any) for eligible Directors (including Non-Executive Directors) and employees of EGIB and its subsidiaries which are not dormant; and
- (v) Proposed amendment to relevant clauses of the Memorandum and/or Articles of Association of the Company to facilitate the Proposed Par Value Reduction.

(collectively referred to as the “Proposals”)

Barring any unforeseen circumstances, the Proposals are expected to be completed in the second half of 2015.

Save as disclosed above, there were no other corporate proposals announced but not completed during the quarter under review.

B9. Group Borrowings and Debt Securities

Total Group borrowings as at 31 March 2015 are as follows:

| | 31/03/2015 RM’000 |
|-----------------------|------------------------------------|
| (a) Secured: | |
| Term Loan | 73,754 |
| Revolving Credit | 500 |
| Banker Acceptance | 111,248 |
| Bank Overdraft | - |
| Hire Purchase Payable | 15,911 |
| | <hr/> 201,413 <hr/> |

| | |
|-------------------------------------|----------------|
| (b) Current | 175,245 |
| Non-current | <u>26,168</u> |
| | <u>201,413</u> |
| (c) Denominated in Malaysia Ringgit | 155,691 |
| Denominated in Thai Baht | <u>45,722</u> |
| | <u>201,413</u> |

B10. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at date of this report.

B11. Changes in Material Litigation

The Group is not engaged in any material litigation either as plaintiff or defendant and the Board does not have any knowledge of any proceedings pending or threatened against the Group as at the date of this report.

B12. Dividend

No dividend has been recommended or declared for current quarter and current financial period under review.

B13. Earnings Per Share

The basic earnings per share for the current financial quarter and financial period have been calculated by dividing the net profit attributable to owners of the Company for the financial quarter and financial period by weighted average number of ordinary shares in issue during the financial quarter and financial period.

| | Individual Quarter Ended | | Cumulative Quarter Ended | |
|---|---------------------------------|-------------------|---------------------------------|-------------------|
| | 31/03/2015 | 31/03/2014 | 31/03/2015 | 31/03/2014 |
| Net profit attributable to owners of the Company (RM'000) | 1,342 | 1,770 | 19,188 | 3,058 |
| Weighted average number of ordinary shares outstanding | 74,804,458 | 74,916,403 | 74,804,458 | 74,916,403 |
| Basic earnings per share (Sen) | <u>1.79</u> | <u>2.36</u> | <u>25.65</u> | <u>4.08</u> |

B14. Notes to the Statement of Comprehensive Income

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

| | Current quarter ended 31/03/2015 RM'000 | Current year-to-date 31/03/2015 RM'000 |
|---|--|---|
| Depreciation and amortization | 7,330 | 19,607 |
| Interest expense | 2,206 | 7,333 |
| Interest income | (17) | (72) |
| Net foreign exchange gain | (643) | (1,249) |
| Realisation of fair value gain from available-for-sale financial assets to profit or loss | - | (15,517) |

B15. Realised or Unrealised Profit of the Group

| | Current quarter ended 31/03/2015 RM'000 |
|--------------------------------------|--|
| Total retained earnings of the Group | |
| - Realised | 39,312 |
| - Unrealised | (1,394) |
| | <hr/> 37,918 |
| Less: Consolidation adjustments | (2,265) |
| Total retained earnings | <hr/> 35,653 <hr/> |

BY ORDER OF THE BOARD

Kang Pang Kiang
Group CEO / ED
Date : 29 May 2015