

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

**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016**

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 2015.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2015. 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 2015. The audited financial statements of the Group as at and for the year ended 30 June 2015 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 2015 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 2015 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

As of 31 March 2016, the number of outstanding ordinary shares of RM0.50 each in issue is 211,563,992. The Company held 294,000 of its shares as of 31 March 2016. The number of outstanding ordinary shares of RM0.50 each in issue after the set-off is 211,269,992.

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 current quarter ended 31 March 2016.

A9. Segmental Reporting

The segment analysis for the Group's results for the financial quarter ended 31 March 2016 is as follows:

Current Year-to-date Segment for the Group	Turnover RM'000	Profit before Taxation RM'000	Total Assets RM'000
Electronic Manufacturing Services	552,100	20,447	511,263
Others	226	(4,899)	37,924
Total	552,326	15,548	549,187

A10. Valuation of Property, Plant and Equipment

There were no valuation of property, plant and equipment during the current financial quarter ended 31 March 2016.

A11. Material Subsequent Events

There were no material events or transactions subsequent to the end of current financial quarter ended 31 March 2016.

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 2016, the Group has no material capital commitment in respect of property, plant and equipment.

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

B1. Review of Performance

Comparison between the current quarter (“Q3 2016”) and the preceding correspondence quarter (“Q3 2015”)

The Group recorded revenue of RM152 million for the current quarter ended 31 March 2016, an increase of 16% as compared to RM131 million recorded in the previous year corresponding quarter. The increase was mainly driven by increase of existing customer orders and new box build contracts. Group’s profit before tax increased from RM1.5 million to RM4.5 million in the current quarter mainly attributable to higher margins generated from new box build products and increased in revenue.

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

In the financial year-to-date under review, the Group’s revenue increased by 13% to RM552.3 million compared to the last year corresponding period of RM487.7 million. The increase was mainly driven by increase of existing customer orders and new box build contracts.

Despite the increased in revenue, the profit before tax in the current financial year-to-date decreased from RM19.5 million to RM15.6 million as there was a gain on disposal of available-for-sales financial assets of RM15.5 million recognised in preceding correspondence financial year-to-date and one-off expenses in relation to the recent corporate exercises of RM2.5 million recognised in the current financial year-to-date.

Excluding RM15.5 million fair value gain on sales of financial assets recognised in last financial period and corporate exercises of RM2.5 million recognised in the current financial period, the Group’s profit before tax grew approximately 353% or RM14.1 million in the current financial year-to-date which was mainly due to higher margins generated from new box build products and increase in revenue.

B2. Variation of Results against Preceding Quarter

Description	3 rd Quarter 2016 RM'000	2 nd Quarter 2016 RM'000	Increase/ (Decrease)	
			RM'000	%
Revenue	152,471	208,978	(56,507)	(27.04)
Profit before tax	4,494	5,716	(1,222)	(21.38)

Revenue for the current quarter registered at approximately RM152.5 million, decreased by RM56.5 million or 27% as compared to the immediate preceding quarter. The decrease was mainly due to decrease of existing customer orders from PCBA segment as a result of seasonal cycle. Correspondingly, Group's profit before tax has decreased 21.4% or RM1.2 million in the current quarter.

B3. Prospect

The Group is re-strategizing to enhance its bottom-line margin by changing its product mix to have more revenue from the box-build segment to complement the current printed circuit board assembly operations. The Group will also continue to focus its efforts in the exploring of new market opportunities, engaging new customers; and improve its design and development capabilities to offer one stop Electronic Manufacturing Services (EMS) solution to its customers.

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 2016 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	
	31/03/2016 RM'000	31/03/2015 RM'000	31/03/2016 RM'000	31/03/2015 RM'000
Current tax expense	300	151	1,000	351
	<u>300</u>	<u>151</u>	<u>1,000</u>	<u>351</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 was no sale 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 2016, there was no purchase or disposal of quoted securities.

B8. Status of Uncompleted Corporate Announcement

(i) Acquisition of subsidiary

On 21 April 2015, the Company entered into a Conditional Sale and Purchase Agreement (“CSPA”) to acquire 95.81% equity interests comprising 10,750,000 ordinary shares of S\$1.00 each in Singyasin Holdings Pte. Ltd. for a total cash consideration of S\$3,832,400 (equivalent to approximately RM12,715,000) of which, the Company paid 10% of the total purchase consideration as deposits during the financial year.

On 17 March 2016, the Company and the Vendors have reached the consensus for mutual termination of the CSPA.

(ii) Rights Issue with Warrants

On 11 November 2015, an announcement was made by M&A Securities Sdn. Bhd. that the Rights Issue with Warrants has been completed following the listing of and quotation for 115,241,392 Rights Shares and 57,620,696 Warrants on the Main Market of Bursa Malaysia Securities Berhad on even date.

(iii) Private Placement

On 3 December 2015, an announcement was made by M&A Securities Sdn. Bhd. that the Private Placement has been completed following the listing of and quotation for 19,206,000 Placement Shares on the Main Market of Bursa Malaysia Securities Berhad.

(iv) Disposal of Leasehold Lands

On 9 December 2015, the Company had entered into a conditional sale and purchase agreement (“SPA 1”) with Schaefer Kalk (Malaysia) Sdn. Bhd. (“SKM”) to dispose the unexpired leases of the vacant land held under H.S.(D) 3766, 3767, 3769, 3774, PT Nos. 5334, 5335, 5337 and 5342, Bandar Kuala Ketil, Daerah Baling, Negeri Kedah for a cash consideration of RM2,700,000.00 (excluding GST).

On 9 December 2015, SMT Technologies Sdn Bhd, a wholly-owned subsidiary of the Company had entered into a conditional sale and purchase agreement (“SPA 2”) with SKM to dispose the unexpired leases of the land held under H.S.(D) 3768, 3775, PT Nos. 5336 and 5343, Bandar Kuala Ketil, Daerah Baling, Negeri Kedah for a cash consideration of RM5,800,000.00 (excluding GST)

The SPAs are expected to be completed by end of June 2016.

(v) Proposed Listing of SMT Industries Co., Ltd (“SMTI”)

On 25 March 2016, an announcement was made by M&A Securities Sdn. Bhd. that the Company proposes to undertake the listing of SMTI, a wholly owned subsidiary of EGIB on the Market for Alternative Investment (“Mai Market”) of the Stock Exchange of Thailand (“Proposed Listing”). The Company will engage several advisers to undertake the Proposed Listing and announcement will be made upon finalization of appointment at a later date.

The Proposed Listing is still in progress.

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 2016 are as follows:

	As at 31/03/2016 RM'000	As at 31/12/2015 RM'000
(a) Secured:		
Bank Overdrafts	-	-
Term Loan	19,509	50,200
Banker Acceptance	159,902	148,278
Trade Financing	-	-
Trust Receipt	11,358	-
Hire Purchase Payable	13,740	13,126
	<hr/> 204,509	<hr/> 211,604
(b) Current	178,482	184,492
Non-current	26,027	27,112
	<hr/> 204,509	<hr/> 211,604
(c) Denominated in Malaysia Ringgit	67,693	42,162
Denominated in US Dollar	83,579	121,552
Denominated in Thai Baht	53,237	47,890
	<hr/> 204,509	<hr/> 211,604

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 Ordinary 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	
	31/03/2016	31/03/2015	31/03/2016	31/03/2015
Net profit attributable to owners of the Company (RM'000)	4,194	1,342	14,549	19,188
Weighted average number of ordinary shares outstanding	147,788,016	74,837,948	147,788,016	74,837,948
Basic earnings per ordinary share (sen)	2.84	1.79	9.84	25.64
Net profit attributable to owners of the Company (RM'000)	4,194	1,342	14,549	19,188
Weighted average number of ordinary shares outstanding	147,788,016	74,837,948	147,788,016	74,837,948
Adjusted for:				
Assume exercise of 57,620,696 Warrants	57,620,696	-	57,620,696	-
Adjusted weighted average number of ordinary shares	205,408,712	74,837,948	205,408,712	74,837,948
Diluted earnings per ordinary share (sen)	2.04	1.79	7.08	25.64

B14. Notes to the Statement of Comprehensive Income

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

	Individual Quarter Ended		Cumulative Quarter Ended	
	31/03/2016	31/03/2015	31/03/2016	31/03/2015
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortization	6,145	7,306	18,814	19,607
Interest expense	2,882	2,206	8,013	7,333
Interest income	(174)	(17)	(312)	(72)
Net foreign exchange (gain)/loss	56	(643)	1,648	(1,249)
Loss on disposal of plant and equipments	8	-	8	-
Realisation of fair value gain from available-for-sale financial assets to profit or loss	-	-	-	(15,518)

B15. Realised or Unrealised Profits of the Group

The following analysis of realised and unrealised profit of the Group is prepared in accordance with Guidance on Special Matter No. 1. Determination of Realised and Unrealised Profits in the Context of Disclosure pursuant to Bursa Malaysia Securities Berhad's Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the Group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

	Cumulative Quarter Ended	
	31/03/2016	31/03/2015
	RM'000	RM'000
Total retained earnings of the Group		
- Realised	70,004	39,312
- Unrealised	1,743	(1,394)
	<u>71,747</u>	<u>37,918</u>
Less: Consolidation adjustments	(862)	(2,265)
Total retained earnings	<u>70,885</u>	<u>35,653</u>

The disclosure of realised and unrealised retained earnings above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purposes.

B16. Utilisation of Proceeds raised from Rights Issue and Private Placement

- (i) On 11 November 2015, the Company has completed the renounceable Rights Issue of 115,241,392 new ordinary shares of RM0.50 each in EG Industries Berhad ("EG") (Rights Shares) together with 57,620,696 free detachable warrants (Warrants) on the basis of three (3) Rights Shares for every two (2) existing ordinary shares of RM0.50 each held on 12 October 2015 together with one (1) Warrant for every two (2) Rights Shares subscribed at an issue price of RM0.50 per Rights Share ("Rights Issue with Warrants").

The details and status of the utilisation of proceeds of RM57.62 million from the Rights Issue with Warrants are as follows:

Details	Proposed	Actual	Intended Timeframe of Utilisation (from 11/11/2015 - the listing date)
	Utilisation	Utilisation	
	RM	RM	
	'000	'000	
Repayment of bank borrowings	2,960	2,960	Within 6 months
Purchase and upgrade of machinery	16,000	3,206	Within 24 months
Expansion and upgrade of factory	20,000	3,218	Within 12 months
Purchase of inventory such as electronic component, printed circuit board and plastic resin	5,000	5,000	Within 12 months
Acquisition of new businesses or assets	8,000	-	Within 24 months
Working capital	3,660	3,660	Within 12 months
Expenses relating to the Proposals	2,000	2,000	Immediately
	<u>57,620</u>	<u>20,044</u>	

- (ii) On 3 December 2015, the Company has completed the Private Placement of 19,206,000 ordinary shares of RM0.50 each in EG Industries Berhad (Placement Shares) at an issue price of RM0.80 per Placement Share (“Private Placement”).

The details and status of the utilisation of proceeds of RM15.365 million from the Private Placement are as follows:

Details	Proposed Utilisation	Actual Utilisation 31/03/16	Timeframe of Utilisation
	RM '000	RM '000	(from 03/12/2015 - the listing date)
Repayment of bank borrowings	14,865	14,865	Within 3 months
Estimated expenses in relation to the Private Placement	500	500	Within 1 month
	<u>15,365</u>	<u>15,365</u>	

BY ORDER OF THE BOARD

Kang Pang Kiang
Group Chief Executive Officer/ Executive Director

31 May 2016