

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 30 June 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 30 June 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 30 June 2016.

A9. Segmental Reporting

The segment analysis for the Group's results for the financial quarter ended 30 June 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	701,095	22,347	566,151
Others	1,483	(2,645)	27,175
Total	702,578	19,072	593,326

A10. Valuation of Property, Plant and Equipment

There were no valuation of property, plant and equipment during the current financial quarter ended 30 June 2016.

A11. Material Subsequent Events

There were no material events or transactions subsequent to the end of current financial quarter ended 30 June 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 30 June 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 (“Q4 2016”) and the preceding correspondence quarter (“Q4 2015”)

The Group recorded revenue of RM150.2 million for the current quarter ended 30 June 2016, an increase of 1.4% as compared to RM148.4 million recorded in the previous year corresponding quarter. The increase in revenue was mainly driven by increase of existing customer orders and new box build contracts. Group’s profit before tax for the current quarter was RM4.154 million compared to RM4.091 million recorded in the preceding correspondence quarter which showed an increase of 1.53%. The increase in profit before tax was contributed mainly by the gain on disposal of properties and increase in revenue, offset by the higher operation expenses due to business expansion and provisions made.

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

For the financial year-to-date under review ended 30 June 2016, the Group’s revenue increased by 10.5% to RM702.6 million compared to the last year corresponding period of RM636.1 million. The increase was mainly driven by increased in existing customer orders and new box build contracts.

Group’s profit before tax in the current financial year-to-date has decreased to RM19.702 million from RM23.629 million last year. However, the profit before tax last year was inclusive of RM15.389 million gain on disposal of available-for-sales financial assets. Excluding RM15.389 million one-off gain recognised in last financial year, the Group’s profit before tax last year was RM8.24 million. The profit before tax grew approximately 139% or RM11.462 million in the current financial year-to-date which was mainly due to higher margins generated from new box build products coupled with increased in customer orders, offset by the higher operation expenses due to business expansion and provisions made.

B2. Variation of Results against Preceding Quarter

Description	4 th Quarter 2016 RM'000	3 rd Quarter 2016 RM'000	Increase/ (Decrease)	
			RM'000	%
Revenue	150,252	152,471	(2,219)	(1.46)
Profit before tax	4,154	4,494	(340)	(7.57)

Revenue for the current quarter was approximately RM150.3 million, decreased by RM2.2 million or 1.46% as compared to the immediate preceding quarter. The decrease was mainly due to decrease of existing customer orders from box build segment as a result of seasonal cycle. Correspondingly, Group's profit before tax decreased by 7.57% or RM0.34 million during 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 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 2017 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	
	30/06/2016 RM'000	30/06/2015 RM'000	30/06/2016 RM'000	30/06/2015 RM'000
Current tax expense	400	440	1,400	(2,726)
Deferred tax income	-	(3,517)	-	(3,517)
Tax expenses / (income)	400	(3,077)	1,400	(2,726)

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

During the current financial period ended 30 June 2016, there was a gain of disposal of properties and investment properties amounted to RM4.893 million.

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

During the current financial period ended 30 June 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 SPA 1 was completed on 21 June 2016 and SPA 2 was completed on 30 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 30 June 2016 are as follows:

	As at 30/06/2016 RM'000	As at 31/03/2016 RM'000
(a) Secured:		
Bank Overdrafts	-	-
Term Loan	43,203	19,509
Banker Acceptance	140,173	159,902
Trade Financing	-	-
Trust Receipt	12,901	11,358
Hire Purchase Payable	11,708	13,740
	<hr/> 207,985	<hr/> 204,509
(b) Current	187,695	178,482
Non-current	20,290	26,027
	<hr/> 207,985	<hr/> 204,509
(c) Denominated in Malaysia Ringgit	48,363	67,693
Denominated in US Dollar	109,443	83,579
Denominated in Thai Baht	50,179	53,237
	<hr/> 207,985	<hr/> 204,509

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	
	30/06/2016	30/06/2015	30/06/2016	30/06/2015
Net profit attributable to owners of the Company (RM'000)	3,755	7,291	18,304	26,479
Weighted average number of ordinary shares outstanding	163,572,210	74,821,063	163,572,210	74,821,063
Basic earnings per ordinary share (sen)	2.30	9.74	11.19	35.39

	Individual Quarter Ended		Cumulative Quarter Ended	
	30/06/2016	30/06/2015	30/06/2016	30/06/2015
Net profit attributable to owners of the Company (RM'000)	3,755	7,291	18,304	26,479
Weighted average number of ordinary shares outstanding	163,572,210	74,821,063	163,572,210	74,821,063
Adjusted for:				
Assume exercise of 57,620,696 Warrants	57,620,696	-	57,620,696	-
Adjusted weighted average number of ordinary shares	221,192,906	74,821,063	221,192,906	74,821,063
Diluted earnings per ordinary share (sen)	1.70	9.74	8.28	35.39

B14. Notes to the Statement of Comprehensive Income

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

	Individual Quarter Ended		Cumulative Quarter Ended	
	30/06/2016	30/06/2015	30/06/2016	30/06/2015
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortization	6,046	5,577	24,860	25,184
Interest expense	2,843	1,870	10,856	9,203
Interest income	(186)	(53)	(498)	(125)
Net foreign exchange (gain)/loss	(97)	(997)	1,551	(2,246)
Gain on disposal of plant and equipments	(4,901)	(174)	(4,893)	(174)
Provision for warranties	1,392	667	1,392	667
Provision for inventories	859	-	859	-
Inventories written off	247	-	247	-
Realisation of fair value gain from available-for-sale financial assets to profit or loss	-	129	-	(15,389)

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	
	30/06/2016	30/06/2015
	RM'000	RM'000
Total retained earnings of the Group		
- Realised	70,583	48,960
- Unrealised	2,701	(1,233)
	<hr/>	<hr/>
	73,284	47,727
Less: Consolidation adjustments	1,760	(1,083)
Total retained earnings	<hr/>	<hr/>
	75,044	46,644

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 Nov 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	16,000	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
	<hr/>	<hr/>	
	57,620	32,838	

- (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 30/06/16	Timeframe of Utilisation
	RM ‘000	RM ‘000	(from 3 Dec 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

30 August 2016