

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

**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017**

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 2016.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2016. 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 2016. The audited financial statements of the Group as at and for the year ended 30 June 2016 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 2016 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 2017

- Amendments to MFRS 107, *Statement of Cash Flows - Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- Amendments to MFRS 2, *Classification and Measurement of Share-based Payment Transaction*
- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*

The Directors anticipate that the abovementioned Standards will be adopted in the annual financial statements of the Company when they become effective and that the adoption of these Standards will have no material impact on the financial statements of the Group in the period of initial application.

A3. Audit Report

The auditors’ report of the Group’s financial statements for the year ended 30 June 2016 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 September 2016, the number of outstanding ordinary shares of RM0.50 each in issue is 211,563,992. The Company held 299,000 of its shares as of 30 September 2016. The number of outstanding ordinary shares of RM0.50 each in issue after the set-off is 211,264,992.

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 September 2016.

A9. Segmental Reporting

The segment analysis for the Group's results for the financial quarter ended 30 September 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	234,706	8,284	622,360
Others	-	(737)	25,704
Total	234,706	7,547	648,064

A10. Valuation of Property, Plant and Equipment

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

A11. Material Subsequent Events

There were no material events or transactions subsequent to the end of current financial quarter ended 30 September 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 September 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 (“Q1 2017”) and the preceding correspondence quarter (“Q1 2016”)

The Group recorded revenue of RM234.7 million for the current quarter ended 30 September 2016, an increase of 22.9% as compared to RM190.9 million recorded in the previous year corresponding quarter. The increase in revenue was mainly driven by the increased of business volumes from Group’s existing customer and contributions for new box build contracts. Group’s profit before tax for the current quarter was RM7.55 million, an increase of 41.4% as compared to RM5.34 million recorded in the previous year corresponding quarter. Overall, the better performance was achieved on back of higher sales and better margins generated from the Group’s box-build and consumer electronics segment, offset by the increased of labour cost due to revision of minimum wage rate on 1 July 2016.

B2. Variation of Results against Preceding Quarter

Description	1 st Quarter 2017 RM’000	4 th Quarter 2016 RM’000	Increase/ (Decrease)	
			RM’000	%
Revenue	234,706	160,543	74,163	46.2
Profit before tax	7,547	5,676	1,871	33.0

Revenue for the current quarter was approximately RM234.7 million, increased by RM74.2 million or 46.2% as compared to the immediate preceding quarter. The increase was mainly driven by the increased of business volumes from Group’s existing customer and contributions for new box build contracts. Correspondingly, Group’s profit before tax increased by RM1.9 million or 33.0% during the current quarter on the back of higher sales and better margins generated from the Group’s box-build and consumer electronics segment, offset by the increased of labour cost due to revision of minimum wage rate on 1 July 2016.

B3. Prospect

Moving into financial year 2017, the Group expects to face increasing challenges due to the prevailing economic uncertainties resulting in greater degree of volatility in the overall customer orders.

In light of these challenges, the Group will continue its focus on moving up the value-chain by offering one-stop electronic manufacturing services (EMS) solutions including design and development services to strengthen its position as a one-stop vertically-integrated EMS provider.

During the last financial year 2016, the Group invested approximately RM30 million in capital expenditure to enhance the plant capacity and capabilities. Moving forward, the Group intends to embark on its next growth phase as a vertically-integrated EMS provider by further strengthening the product mix to have more revenue contribution from the box-build segment and at the same time widen its overall revenue base aimed at achieving greater economies of scale and improve efficiency of its capital resources to enhance its competitive edge.

In addition, the Group will strive to enhance its operational and cost efficiencies by taking prudent measures to achieve satisfactory results.

Barring any unforeseen circumstances and adverse external economic factors, the Board of Directors is of the view that the Group's financial performance for the financial year ending 30 June 2017 will 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	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
Current tax expense	400	300	400	300
Tax expenses	400	300	400	300

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 30 September 2016, there was no purchase or disposal of quoted securities.

B8. Status of Uncompleted Corporate Announcement

(i) 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 September 2016 are as follows:

	As at 30/09/2016 RM'000	As at 30/06/2016 RM'000
(a) Secured:		
Bank Overdrafts	-	-
Term Loan	10,761	43,203
Banker Acceptance	186,683	140,173
Trust Receipt	14,315	12,901
Hire Purchase Payable	10,333	11,708
	<hr/> 222,092	<hr/> 207,985
(b) Current	204,867	187,695
Non-current	17,225	20,290
	<hr/> 222,092	<hr/> 207,985
(c) Denominated in Malaysia Ringgit	46,484	48,363
Denominated in US Dollar	118,031	109,443
Denominated in Thai Baht	57,577	50,179
	<hr/> 222,092	<hr/> 207,985

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	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Net profit attributable to owners of the Company (RM'000)	7,148	5,039	7,148	5,039
Weighted average number of ordinary shares outstanding ('000)	211,268	76,831	211,268	76,831
Basic earnings per ordinary share (sen)	3.38	6.56	3.38	6.56

	Individual Quarter Ended		Cumulative Quarter Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Net profit attributable to owners of the Company (RM'000)	7,148	5,039	7,148	5,039
Weighted average number of ordinary shares outstanding	211,268	76,831	211,268	76,831
Adjusted for:				
Full exercise of warrants	57,621	-	57,621	-
Adjusted weighted average number of ordinary shares	268,889	76,831	268,889	76,831
Diluted earnings per ordinary share (sen)	2.66	6.56	2.66	6.56

B14. Notes to the Statement of Comprehensive Income

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

	Individual Quarter Ended		Cumulative Quarter Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortization	7,388	7,980	7,388	7,980
Interest expense	2,855	2,468	2,855	2,468
Interest income	(51)	(17)	(51)	(17)
Net foreign exchange loss	476	401	476	401

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	
	30/09/2016	30/09/2015
	RM'000	RM'000
Total retained earnings of the Group		
- Realised	78,869	60,234
- Unrealised	1,469	2,234
	<hr/>	<hr/>
	80,338	62,468
Less: Consolidation adjustments	582	(1,093)
Total retained earnings	<hr/>	<hr/>
	80,920	61,375

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 Utilisation	Actual Utilisation 30/09/16	Intended Timeframe of Utilisation (from 11 Nov 2015)
	RM'000	RM'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	8,457	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
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	57,620	38,077	

BY ORDER OF THE BOARD

Kang Pang Kiang
Group Chief Executive Officer/ Executive Director

30 November 2016