

THONG GUAN INDUSTRIES BERHAD

Registration No. 199401038519 (324203-K)
(Incorporated in Malaysia)

Extract on key discussion matters from the Minutes of the Twenty Sixth Annual General Meeting (“**26th AGM**”) of Thong Guan Industries Berhad (“**TGI**” or “**the Company**”) conducted through live streaming and online remote participation by using Remote Participation and Voting Facilities (“**RPV**”) from the Broadcast Venue at Newton Research & Development Centre Sdn Bhd, Conference Room 1st Floor, Plot 96, Jalan PKNK 1/6, Kawasan Perusahaan Sungai Petani, 08000 Sungai Petani, Kedah on Thursday, 27 May 2021 at 11:00 am

The following are the Questions & Answers session extracted from Minutes of 26th AGM of TGI.

9.1 Chairman then proceeded to the Q&A session. He recapped that questions of similar nature would be grouped together for a more structured response from the Board. Questions were edited for clarity.

- (1) What is the investment budgeted for the expansion of 3 factories for production of premium stretch film and courier bags?
- (2) When would the new factories be completed?
- (3) Can you please elaborate on schedule and plan for the 3 new factories in Sungai Petani?
- (4) Could you also share more details about your current expansion plans up north? Has it been able to proceed as planned as there has been a resurgence in COVID-19 cases?

(Questions 1, 2, 3 and 4 are grouped for response)

TGIB's response:

The Group had completed the construction of the first factory building for premium stretch film in 2020. The production line was installed in November 2020 and had started to contribute revenue during the final quarter of 2020 and first quarter of 2021. The second and third production lines are in progress and would be in production soon.

Management is completing the second factory building slated for courier bags whilst the construction of the third factory building for premium blown film would commence next month.

Capital investment of RM20M to RM25M is budgeted for building construction works. Land was purchased in 2017 for RM7.75M. The capital expenditure for machineries for the next three (3) years is estimated at RM100M; RM55M for premium stretch film, RM10M for courier bags and RM35M for premium blown film.

- (5) How much capacity would be added with the new factories?

TGIB's response:

Once on stream, management expected to have additional capacity of 5K MT per month for stretch film.

As for courier bags, management expected to add 1K MT per month for this year whilst 1K MT per month for premium blown film by end of the year or early next year. Most of the production lines have been running on full capacity and hence management is looking forward for expansion.

- (6) How was the increase in raw materials price? Was it fully passed on to customers?
- (7) Can you also share your thoughts on the cost pressures going forward - resin prices have increased earlier in the year and have come down - what is your strategy to keep costs controlled?

(Questions 6 and 7 are grouped for response)

TGIB's response:

The cost of raw materials has increased by about 30% to 50% depending on types of materials. Material price had gone up compared to last year but management is able to pass the cost increases to customers. Customers are quite understandable with the increase as there is a drastic price increase on industry-wide basis. There was also the increase in commodity prices as well.

- (8) Production utilisation rate last year and Q1 FY2021?

TGIB's response:

The Group has consistently run the production capacity at the average of 75% to 80% for all business units except PVC food wrap segment which run at 50% capacity only due to no-dine-in restrictions imposed on F&B (Food & Beverage) outlets and hospitality industry.

- (9) Sales of new products such as Nano Arctic, PV stretch and bio-based plastic products?

TGIB's response:

The Nano Arctic (cold chain wrapping film to protect goods in icy environment), PV Stretch and bio-based plastic products are among new products offering in the pipeline. The purpose is to create value to customers as management is cognisant that most of customers would like to realise their sustainability goal to reduce CO2 (carbon dioxide). There were enquiries and management is confident that sales would be picking up with all these new products.

- (10) What is the revenue of F&B and any plan for listing?

TGIB's response:

The F&B segment has been contributing revenue of about RM55M per annum with profit of RM5M to RM6M per annum which is very encouraging. There is no plan to spin off this segment presently. The Board thanked for the suggestion.

- (11) What is the Group's revenue target and the timeline to achieve?

TGIB's response:

The Group targeted to achieve more than RM1M now and RM2M within the next 6 to 7 years based on concrete expansion plans and business models.

- (12) What is the expansion plan in Myanmar and the plans to minimise impact based on the situation in Myanmar Thilawa Special Economic Zone ("Myanmar") now?
- (13) I would like to hear your thoughts and views on the current developments in Myanmar seeing as it was part of your growth strategy to have it as an export-based factory. Will there be a change in strategy seeing as the political instability may be hanging over the situation for years to come?
- (14) If sanctions were imposed on Myanmar, how would it affect our operations?
(Questions 12, 13 and 14 are grouped for response)

TGIB's response:

The Group has adopted a very cautious approach presently. The local authority has liaised with management lately to kick off the project but management is reluctant to commence the construction now due to the volatile political situation. Building plans for construction had been submitted to authority.

Myanmar is an attractive place for investment except for its political instability. There is availability of affordable labour force and growth potential with attractive 7-year tax incentive followed by 50% tax relief for subsequent 5 years.

The proposed investment in Myanmar was to support growth demand in Europe, Myanmar, Japan as well as South-East Asian and other Asian countries. Importers do not need to pay any duty for the goods bought from Myanmar. Whereas, if the goods are produced in Malaysia and they headed off to the United States, the importers over there would need to pay a 4.9% tariff. European importers, on the other hand, would need to pay a 6.5% tariff for Malaysian-made plastic packaging products.

- (15) In view of the increase in cash flow, expect higher dividend for loyal shareholders?

TGIB's response:

The Company paid dividends to its shareholders every year. The quantum of dividend would very much depend on its profitability. Management would consider higher dividend pay-out to shareholders when profits continued to grow.

- (16) In the flexible film packaging business, we are also competing with MFCB and Scientex amongst others? What differentiate our products from theirs? What are our competitive advantages over them?

TGIB's response:

This was in reference to the announcement two days ago by Mega First Corporation Berhad ("MFCB"). MFCB's subsidiary has offered to acquire Stenta Films (Malaysia) Sendirian Berhad ("Stenta"), the leading flexible packaging film manufacturer of Biaxially Oriented Polypropylene Film (BOPP) and Linear Low Density Polyethylene films (LLDPE) in Malaysia. Stenta produces a wide range of quality BOPP films and LLDPE films to converters.

In comparison, the Group does not produce laminated film in Malaysia. This was a differentiating point but would not pose a threat to the laminating film converters such as the Group.

TGIB has not entered into proliferative film which is a commodity product as its prospect is highly competitive. There is not much differentiation that could be made.

- (17) Could you share more details on the volume of exports of your high margin Nano film to Europe and any pressures from the recent freight price increase and outlook on the freight constraints.

TGIB's response:

It is true that suppliers and customers are facing the same cost pressures. The Group had managed to deliver and meet the expectation of customers. The Group sells premium products in Europe and not commodity products.

As value add to customers and a counter measure on freight cost hike, we utilises Newton laboratory to conduct virtual trainings and dynamic testing for customers.

The Group also focused on educating customers on the various applications relating to film, share on the high speed machineries in use, promote sustainability initiatives as well as provide pallet safety, lower cost of wrapping and using mobile testing lab.

- (18) TGIB planned for 5 lines of premium stretch films and 10 lines of premium blown films and premium courier bags in the new manufacturing complex. May I know how many lines are commissioned so far?

TGIB's response:

The Group had commissioned 1 production line for premium stretch film. Management expected to commission more production lines this year, next year and would continue for a rapid expansion for the next few years.

- (19) Please elaborate on the plan on the noodle business in 2021.

TGIB's response:

We will continue to grow the noodle business. Due to the resurgence in Covid-19 cases and restrictions on travelling, new customers outreach efforts is slowed down. Having say that, we would continue our efforts to grow the noodle business.

- (20) Apart from Myanmar, there is also another subsidiary set up for the Vietnam market. What will be TGI's plans for Vietnam? Has the Board approved the investment for Vietnam? If yes, please provide details.

TGIB's response:

The Vietnam company was set up 11 years ago. Currently, the said company owned a piece of vacant industrial land at VSIP II. The company has yet to commence operations and management currently has no concrete plan for the company.

- (21) The Sustainability Statement of the Company on pages 14 to 23 of the Annual Report is information. However, it can be further improved by providing more comparative figures which can be measured against previous years' achievement as well as other companies in the same industry. For e.g. (1) The Group has converted 422 MT into recycle resin but no comparative figures were provided for previous years. (2) Total Energy Yield of 4,758,977 kWh was not compared over total energy consumption of Thong Guan. Hopefully we can be better disclosure in next year's AR in view of the concern investors have over ESG in particular the business TGIB is involved in. Thank you.

TGIB's response:

Noted and thanks for constructive comments. Management would improve on it.

- (22) Need to change the auditor as they are linked to 1MDB.

TGIB's response:

Noted your comments.

- 9.2 Upon completion of the question-and-answer session, Chairman thanked the participants for their queries and constructive comments.