

Response to Queries posed at the Twenty Seventh Annual General Meeting (“**27<sup>th</sup> AGM**”) of Thong Guan Industries Berhad (“**TGI**” or “**the Company**”) conducted through live streaming and Remote Participation and Voting (“**RPV**”) Facilities from the online meeting platform at [www.agriteum.com.my](http://www.agriteum.com.my) on Friday, 27 May 2022 at 10:00 am

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**Q1 Lim Wei Siang**  
**What is the plan of the Company in view of very high oil price that would impact the Company’s profit?**

Answer:

Oil prices continued to climb high post pandemic and the slump in year 2021. Russian and Ukraine war had pushed the oil price higher to more than USD100 per barrel. In tandem with that, raw materials prices also increased as some suppliers took advantage of the situation. This is a global phenomenon. Management has no choice but to pass the high selling prices to the customers.

In term of impact on the profit, the Group’s year-end results as well as the 1<sup>st</sup> quarterly results that was announced yesterday had shown higher margin on certain products despite some divisions not performing that well.

The Management managed to pass on the increase in raw materials prices in terms of higher average selling prices to customers.

**Q2 Lim Wah Soon**  
**Is the rise in raw materials cause freight and fuel costs affect the profit margin of TGS significantly? What is the approach taken to resolve the issue?**

Answer:

The Management had passed on the increase of prices in raw materials, freight and fuel costs as higher selling prices. This is not a new phenomenon as it has happened last year and now this year.

**Q3 Lee Cheng Lim**  
**(a) Is the Company able to pass on the price high to customers?**

Answer:

Yes, please refer to answers in Q1 and Q2.

**What is the current status of Myanmar operation? Any plan to relocate to other country due to political reason? Any provision was made due to these?**

Answer:

The current situation in Myanmar is not very encouraging after the Junta took over the Government last year. There were a lot of restrictions and sanctions. There was major shortage of US Dollars in the market.

Myanmar had re-opened again. Management intends to assess the situation and there is a likelihood that the Management would resume the investment in Myanmar. Management is also exploring the possibility of setting up operation in Vietnam. The Group had acquired a piece of land in Ho Chi Minh City 10 years ago. Hence, management would revisit the plan again.

Management needs to look for other countries that could provide sufficient manpower. Malaysia is currently facing shortage of manpower that caused a major problem as machineries were not able to run due to shortage of labour. Situation is acute at the moment.

No provision is required as the investment in Myanmar is mainly on the acquisition of a piece of land so far.

**Q4 Ang Yu Wei, Loh Ah Wei, Lim Wan Choon, Tan Saik Kuen, Kow Lih Shi, Lau Chuan Hooi requested for e-vouchers/door gifts**

Answer:

Yes, Management had arranged some rewards for shareholders who attended today's meeting. You would receive it through email.

**Q5 Neoh Seong Seng  
The full capacity of new plan aligns with demand or order in the near future?**

Answer:

Management is currently increasing the production capacity to double up revenue in the next 7 to 10 years to achieve RM2 billion in revenue and RM200 million in terms of profitability. The prospect of growth is there.

**Q6 Leong Chong Beng  
Can we know how much capacity in plastic output (mt) 2021?**

Answer:

The Group is running at an ideal optimum of 80% of total capacity and intends to maintain it. For year 2021, the output was 150,000 metric tons. For year 2022, the Group increased its production capacity by 50,000 metric tons.

The Group would definitely grow by double digit if able to translate its capacity to sales.

**Q7 Lew Tuck Wai  
There was an increase in on shore foreign currency loan in FY2021 amounting to RM82.56 million versus RM59.34 million in FY2020. What is the rationale for having on shore foreign currency loan? What are the range of interest rate for term loan?**

Answer:

Onshore foreign currency loan is a short-term financing which offers lower interest rate. The increase was due to expansion in terms of raw materials being financed and increase in financing debtors. All financing were for working capital purposes. The interest was at average of 2%.

**Q8 Ng Kim Long**

**What is the impact of China lock down on polyethylene market? China is building its own petrol chemicals capacity aggressively and will it cause over supply in the market that cause the price down? Resin price outlook going forward.**

Answer:

Polystyrene market had experienced some slow down due to China lock down. Raw materials prices are expected to go down. China is a major importer of polyethylene and whatever happen in China would have an impact on the world market. Management expects there would be some softening in the polyethylene price in the coming few months. China had been building petrol chemical plants aggressively for the past 20 years and they are still the net importers at this moment. Moving forward with the continuous high growth in China, China will remain as net importers for polyethylene for the next five to ten years.

As for resin prices outlook, in the medium term, the price of resin is heading south as there is no shortage of polyethylene in the world market. Thus, there are more capacity coming out from the shield gas source in the US in the next 1 to 2 years. Management expects the growth in the US would not be very high. As such, the capacity is not able to be absorbed and would result in over supply in polyethylene market that could cause the price to move down in the coming future, barring any unforeseen circumstances, especially in the political scene.

**Q9 Kow Lih Shi**

**Does Thong Guan continue only on plastic segment? Upgrade to bio medicals materials?**

Answer:

Management had no plans to go into bio medicals. In the case for biodegradable products, the Group works with polymer suppliers of biomaterials to meet the needs of the customers.

**Q10 Lau Chuan Hooi**

**May I know what is the Company future outlook?**

Answer:

The Group plans to double up its revenue and profitability in the next 5 to 10 years.

**Q11 Yap Yoon Kong**

**TGIB's earnings growth in the next 3 years. Will the raw materials cost increase squeeze the margin of your products significantly?**

Answer:

The cost of raw materials have been fluctuating. In February 2020, the Group was able to pass on the costs during the spike in raw materials prices. It happened again in year 2021 and now 2022. The Group has been able to go through these difficult times.

**Q12 Ho Shi Wen**

**Congratulations on the Q1 results.**

**(a) In your quarterly reports, both the volume and the SP of the products increase in tandem for the revenue and profit, can you share with us how Thong Guan is able to consistently increase the ASP despite all the external challenges?**

Answer:

Since 2016, the Group had shifted its focus from a volume-based proposition to value-based proposition whereby the Group focused more on selling value-added goods and higher margin products. TGIB is differentiated from other players in the industry whereby TGIB is the only packaging company in the field with a research and development ("R&D") centre that focused on increasing the value proposition.

The Group's investment on nano technology with the European technology, which is the best technology in the world, has helped to enhance its value-based proposition over the years. It is further aided by the Group's investment on human capital, training as well as the supply of talent and provision of training through the R&D centre. The Group would continue to stay abreast of the market to assess new developments and to see what is happening in developed countries especially Europe and US and adopt technology that is available.

**(b) I noticed that BP plastic margin has dropped in the latest quarter but Thong Guan still performing very well. Can you share how do you deal with increase in prices?**

Answer:

We would not comment on the competition as the Group is selling value-based proposition and not sure whether the competitors have been doing the same. The results have demonstrated that TGIB is able to stand out from amongst its competition.

- (c) What is the current utilisation rate for the facilities inclusive any new capacity that you are having on?**

Answer:

Now, TGIB is operating at full capacity. The Group do not have enough capacity in certain areas to fulfil demand. New production capacity is being installed and moving forward, the Group should have additional capacity coming online that would be able to translate into sales.

- (d) What is the impact in terms of the absolute number on the increase of minimum wages from RM1,200 to RM1,500?**

Answer:

Management had estimated that the expenses would increase between RM3 million to RM4 million for financial year 2022 and would slowly pass on in terms of higher prices. The industry itself is also experiencing similar phenomenon and selling prices moving forward would increase in tandem with hike in cost.

- (e) For every increase in 1% of USD and MYR rate, what is the estimated gain for top and bottom line?**

Answer:

The management has a rough guide whereby for every 2.5% upward appreciation of USD against Ringgit, the impact to margin would be around 1% increase subject to fluctuation of raw materials prices.

**Q13 Neoh Seong Seng**

**What is the reason of the delay of new plant development progress? When will all 3 new plants in full run?**

Answer:

Plants 1 and 2 are completed. Plant 1 on the new 16-acre land was completed after Chinese New Year last year. It is running currently with three nano-layered lines and the fourth line is assembling now with more lines are coming in. Plant 2 was commissioned after Chinese New Year this year and it is running smoothly now. Plant 2 is a courier bags plant.

Plant 3 is used for flexible packaging mainly for premium food packaging. Plant 3 was delayed due to 4 months of lock down and 1 month of rainy days. The construction ground became very muddy and crane was not able to move. Hence, the delay in construction by another month.

The machines had arrived. As construction is still in progress, there is delay in plant commissioning. Management is working very hard to complete the plant as soon as possible and expects to complete by the 2<sup>nd</sup> half of this year. Hopefully by then, everything will be running smoothly.

**Q14 Liew Tuck Wai**

**The trade receivables as at 31 December 2021 increased substantially to RM239 million from RM137 million in FY2020? What are the reasons for the big increase in receivables? Has the level improved as at 31 March 2022 and if yes, what are the current level?**

Answer:

Trade receivables increased in tandem with increase in sales. The sales increased by 25% last year. Increase in local account receivables was mainly due to pandemic. The percentage on local market in terms of sales had increased thus significantly increased in receivables. On 31 March 2022, trade receivables had increased to RM326 million as reported in the most recent quarterly announcement.

**Q15 Terry Yong**

**May I ask Thong Guan Management on how to reduce or handle cost raise by minimum wages policy, inflation, sea freight rate of container shipment?**

Answer:

The Management had no choice but to translate all costs in terms of average selling prices to customers. Customers are able to accept it over the past 2 years despite the sharp increase in raw materials prices.

**Q16 Au Yong Chee Hoong**

**Can the board share the latest factory developments in myanmar? By when will the factory start contributing to the bottom line?**

Answer:

Please refer to the response under Q3(b).

**Q17 Tey CF**

**There is an increase in the trade receivables in the past few quarter, is there any collection issue? Will company's cash flow improve in the next few quarter as Quarter 1 FY2022, TGIB reported negative cash flow from operation.**

Answer:

Please refer to Q14. The fluctuation in cashflow for each quarter is quite the norm in the business.

**Q18 Choong Khhai Munn**

What action is taken to mitigate increase labour cost and labour shortage by the company? How much financial impact would it affect the company?

Answer:

Please refer to Q2(d). Management has been on recruitment drive to hire more local production operators to overcome the labour shortage issue.

**Q19 Wong Kwang Chen**

**What is the dividend policy of the company? What are the strategies that will be implemented by the Company to maximize the shareholders' wealth? Does the Company have any plans to increase the dividend distribution?**

Answer:

The Company does not have a dividend policy in place. Executive leadership will consider all relevant aspects of the business (capital investment and working capital needs, among others) before recommending any dividend.

**Q20 Leong Chong Beng**

**Can discuss the milestone plan 2027 to RM2 billion**

Answer:

As disclosed in the Annual Report, we are working on expanding our product arrays and establishing permanent presence in key markets as part of initiatives to grow market share and ultimately, our revenue.

**Q21 Dunston Har**

**What is the status/progress of joint venture in US? When can it start to contribute to TGIB bottom line?**

Answer:

We are still in the initial stage of planning the joint venture ("JV") in the US and would provide further information in due course.

**Q22 Lew Tuck Wai**

**Trade receivables of the group which are pass due more than 90 days has increased to RM32.654 million from RM27.224 million (FY2020). Can these receivables be collected and if not, why is it not impaired?**

Answer:

Management has assessed the trade receivables based on the impairment measurement model known as ECL (estimated credit losses) prescribed under MFRS 9: Financial Instruments.

**Q23 Neoh Seong Seng**  
**What are the advantages of setting a plant in USA? Any plan to establish a physical AGM in coming future?**

Answer:

Please refer to our response to Q21 on JV in USA.

We are still assessing the endemic phase of the Covid-19 pandemic and would consider a return to physical AGM once the situation permits.

**Q24 Tan Seng Yong**  
**Would the Company foresee the impact of cukai makmur?**

Answer:

As of now, none of the companies within the Group has achieved the prescribed profit level.

**Q25 Terry Yong**  
**What is the latest utilisation rate?**

Answer:

Please refer Q12(c).

**Q26 Lim Wan Shun**  
**What is the % of foreign workers under TGIB?**

Answer:

Foreign workers made up about 35% of our total workforce.

**Q27 Lew Tuck Wai**  
**I have tried the coffee and tea products of the Company and found them to be of good quality. Will the Company consider increasing its investment in this segment by producing more value-added and premium products which have better margins similar to some of the bigger players in the market? Look forward to new products from the Company.**

Answer:

The Group's F&B division focused on continuous improvement before introducing new products to the market.



**Q28    Lew Tuck Wai**

**I wish to congratulate the Board for the very informative and detailed Sustainability Statement which runs into 40 pages. However there seems to be less attention paid to the Management Discussion and Analysis which only have 4 pages. Appreciate if the Management can provide more details and elaboration for the Management Discussion & Analysis in future Annual Reports.**

Answer:

Thank you. We endeavor to improve on the disclosure.

**Q29    Neoh Seong Seng**

**What is the direct impact of Russia Ukraine war on Tguan business?**

Answer:

There is no direct impact as we do not have customers at both countries.