THONG GUAN INDUSTRIES BERHAD
Registration No. 199401038519 (324203-K)
(Incorporated in Malaysia)

Appendix A

Response to queries posed after the conclusion of the Twenty Eighth Annual General Meeting ("**28th AGM**") of Thong Guan Industries Berhad ("**TGI**" or "**the Company**") held at Sapphire Hall, Purest Hotel, No. A-2 Jalan Indah 1, Taman Sejati Indah, 08000 Sungai Petani, Kedah Darul Aman, Malaysia on Monday, 22 May 2023, 11.00 am

The questions and answers had been edited for clarity.

Q1 Poh Chung Wee
TGI had shared a 6-year plan to achieve RM2 billion in revenue by year 2027. TGI is halfway through this journey. Can the Management update on the progress of its plan and its focus area in term of its geographical market as well as its product segment to achieve the targeted revenue?

Answer:
Indeed, Management has set a target to double up its revenue to RM2.0 billion in year 2027. The 1st double up was set in year 2017 in conjunction with the Company's 75th anniversary celebration at which point revenue was closed to RM750 million for financial year ended 31 December 2016 ("**FY2016**"). The plan to double up to RM1.5 billion is by year 2024. TGI and its subsidiaries ("**TGI Group**" or "**the Group**") delivered RM1.4 billion in respect of FY2022 and this was very closed to RM1.5 billion. As such, the next target of RM2.0 billion is achievable.

In order to achieve RM2.0 billion in revenue, the Group is installing 1 more premium line – a 67-layer stretch film line which will be cast no. 19. This line is expected to generate annual revenue of about RM80 million to RM100 million. Before end of this year, the Group would install one more similar line, known as line no. 20 which is expected to generate similar revenue. So, the installation of these 2 premium lines would work towards achieving the target.

In term of market, the Group has received a very good response from Interpack 2023 (an international packaging trade fair) held in Germany a couple of weeks ago. European market has been doing very well with the visit of the procurement head of confectionary maker to the Group recently.

On a separate note, Management planned to set up a warehouse in Charlotte, North Caroline, USA to save some logistic time as ocean freight forwarding is time consuming. Expansion into USA and Europe would help the Group to achieve its target.

On blown film, the Group had completed the installation of 3 new lines which would double up the blown film capacity. The plan is to have 20 lines by growing 2 lines a year. Before end of this year, the Group would be taking delivery of 1 more line to produce stretch hood. The Group has installed 1 more line for shrink film that is being used for packing bottled mineral water. During pandemic, a lot of mineral water players shifted from carton packaging to shrink film packaging as paper carton prices went up sky high from 50 sen to RM1.00 per box.

The questions and answers had been edited for clarity.

Food wrap had been doing badly with 2 consecutive years of losses during the Covid-19 pandemic. There is some recovery and TGI had been trying to explore US market.

Courier bags division is not doing well right now. Management is trying to diversify this division's customer base and look forward to growth in e-commerce again.

Food and beverages division did well last year with profit of RM8 million. Garbage bags division is still growing despite maturity of the Japanese market.

Q2 Poh Chung Wee
With regards to the proposed setting up a warehouse in Charlotte, North Caroline, USA, I would like to know if Management's plan is to expand manufacturing there or purely for warehousing and distribution?

Answer:
At this moment, management's plan to set up warehouse is for "just-in-time" delivery to customers across the USA.

Q3 Poh Chung Wee
You mentioned that you are expanding food wrap into the US market. Will this product be marketed under another brand?

Answer:
There are quite a number of existing players in US. The packaging requirements there are very different compared to Asia and more specifically, Malaysia. The packaging in USA is mostly used in hotels and restaurants.

Q4 Poh Chung Wee
Are food wrap and garbage bag the items with highest profit margin in their product range?

Answer:
Stretch films had been overtaken by other products in terms of margin. Since 2016, the Group had moved into offering premium stretch films that could create more value for customers with better margin for the Group.

The questions and answers had been edited for clarity.

Q5 Poh Chung Wee
Everyone is talking about recession which will affect businesses. From Management's point of view, do you see if this will happen and the impact to business and what is the best way to mitigate this impact?

Answer:
Management has been very cautious over the years and had experienced the up and down since its establishment 81 years ago. During the Asian financial crisis, which was the biggest recession to hit Asia in year 1997, the Group had managed to grow many folds. It was a high growth period; the Group's export business benefited from Ringgit Malaysia's huge devaluation against USD and the buying of raw materials from newly established local players.

Management remains cautious this time as interest rate had increased by 75 basis point. At the same time, the container freight industry that was doing so well crashed: freight cost from Penang to Long Beach, California, USA was USD18,000 per container in July 2022 dropped to USD1,800 per container in August 2022. This showed a softening in market. The Group do experience similar softening in market and have to accommodate and react and adjust accordingly.

The Group would still be cautious in terms of investment even though the stretch film line had been doing well. During the 1st half of this year, production has reached its full capacity and management had to reject purchase order for the first time. Management would adjust accordingly for the 2nd half of the year.

The Group viewed the global slowdown in a positive light even though it might prolong until end of next year. During this time, management would focus on increasing its efficiency and carry internal restructuring. The Group would promote packaging solutions by differentiating over wrap and under wrap to its customers. The former might cost more but the latter might cause safety problem. A wholly owned subsidiary, Newton Research & Development Sdn. Bhd. could offer a solution to this problem.

Management would position the Group as a packaging solutions provider and plans are ongoing to this end.

Q6 Poh Chung Wee
Since there is a 8% ceiling on margin, do you think there is any opportunity for business to reach that kind of net margin with automation?

Answer:
One of the ways is to operate efficiently with cost down in production and more importantly to sell at high value.

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Q7 Poh Chung Wee
Your revenue has been on the uptrend for the past 3 years. Was margin growing during same period? Will the efforts (operate efficiently with cost down in production) reverse margin drop?

Answer:
Margin was affected during pandemic. The PVC division suffered losses during pandemic and upon re-opening of economy, e-commerce business dropped. If everything went well, margin would be much better.

Q8 Poh Chung Wee
In the worst-case scenario, what kind of margin is the Company expecting?

Answer:
The Group would take GP (gross profit) margin as a key performance indicator. As for net margin, economics of scale such as efficiency would be taken into consideration.

Q9 Teoh Hui Han
Since January 2023, how much is electricity cost impact on the Company?

Answer:
It is lucky that the Group has subscribed to Green Energy Tariff ("**GET**") Scheme. The ICPT (imbalance cost past through) surcharge on GET was capped at 3.7 sen/kWh when the agreement was signed, and it did not affect a whole lot when the rate went to 20 sen/kWh.

Q10 Teoh Hui Han
How long would the GET program will last?
The GET Scheme would end by 30 June 2023. The Group would wait for Government's announcement. Management foresee that ICPT would be reduced after June 2023. For information, there are 2 schemes of electricity tariffs in Malaysia. The first is IBR (Incentive-based Regulation) mechanism which is gas and coal based generation of electricity. This tariff is reviewed every 6 months by the Malaysia Energy Commission or Suruhanjaya Tenaga Malaysia.

This half year tariff was based on last year's cost of energy from July until December 2022. Last year's energy cost was set at 39.9 sen by Suruhanjaya Tenaga Malaysia. As industrial users, we paid 53 sen including ICPT. In this manner, industrial users are subsidising household users and small industries that do not fall under E category electricity tariff.

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Q11 Teoh Hui Han
Based on Annual Report on Sustainability Statement, the Company targeted to use up to 10% of solar energy. As there are a lot of tax incentives for using solar energy, is there any plan for such installation?

Answer:
The Group would adhere to rules set by the government and would install solar on 2 more factories. Management is revisiting the feasibility of solar installations as government has tightened tax incentives as there were too many solar installations across the nation. The government would now only give incentives to new applicants. So, management is more cautious on electricity usage by each subsidiary within the Group.

Q12 Teoh Hui Han
So far, how many percent estimated for solar usage?

Answer:
The Group has achieved around 63% usage of renewable electricity. Subscribing to the GET incentive was a jump start and the Group would focus on solar energy going forward.

Q13 Teoh Hui Han
On the revenue contribution by each country, there is no detailed breakdown by region in the Annual Report. Could you please share further information on this?

Answer:
The shareholders are directed to page 128 in the Annual Report 2022. Revenue contribution from China is small while contribution from the USA is closed to 10%.

Q14 Teoh Hui Han
You have a lot of plans for expansion of production line, is there any incentives being obtained?

Answer:
Several subsidiaries within the Group enjoy Reinvestment Allowance currently.

Q15 Teoh Hui Han
What is your target tax rate for this year?

Answer:
The Group's tax rate is always below statutory tax rate of 24%. It is around 20% now.

The questions and answers had been edited for clarity.

Q16 Teoh Hui Han
What is your production capacity and unit level at this moment?

Answer:
For production capacity, in term of machine, the thickness of the films would affect the capacity.

Q17 Tan Wei Hen
Devaluation of Ringgit Malaysia against USD is now at about RM4.50:USD1. Is there any foreign exchange gain from stronger USD?

Answer:
In view of volatile currency fluctuation, the Group prefers to hedge naturally. 85% of sale proceeds are export driven so the Group is very sensitive to foreign exchange ("**forex**") movement. In order to mitigate forex impact, the Group tends to hedge naturally as much as possible as most of the proceeds are denominated in USD, Euro and Japanese Yen.

In terms of outflow of currency, the Group pays all its resin suppliers in USD. Management would match income proceeds against payments and would convert USD to Ringgit Malaysia to pay certain expenses (such as salaries, expenses and packaging materials). In short, appreciation of USD is beneficial to the Group.

Q18 Tan Wei Hen
Understand from TGI's Annual Report that factory in Myanmar is expected to be completed by 1st quarter 2024. Could you please elaborate further on the factory in Myanmar?

Answer:
The Group is keen to invest in Myanmar in view of many advantages such as availability of low-cost labour, very competitive prices and tax incentives. However, military coup had affected inflow of investments in Myanmar and slowed down the whole process for the Group as well. Management is keeping a 'wait and see' position and would monitor the situation closely before making the next move.