

TONG HERR RESOURCES BERHAD
(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

The interim financial statements are unaudited and have been prepared in accordance with FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2010.

EXPLANATORY NOTES AS PER FRS 134

A1. Basis of preparation

The significant accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those adopted in the annual audited financial statements for the financial year ended 31 December 2010, except for the adoption of the following new Financial Reporting Standards (FRSs) and IC Interpretations with effect from 1 March 2010, 1 July 2010 and 1 January 2011.

Standard/Interpretation	Effective for financial periods beginning on or after
Amendment to FRS 1 <i>Limited Exemption from Comparative FRS 7 Disclosures for first-time Adopters</i>	1 January 2011
Amendments to FRS 1 <i>Additional Exemptions for First-time Adopters</i>	1 January 2011
Amendments to FRS 2 <i>Share-based Payment</i>	1 July 2010
Amendments to FRS 2 <i>Group Cash-settled Share-based Payment Transactions</i>	1 January 2011
Amendments to FRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 July 2010
Amendments to FRS 7 <i>Improving Disclosures about Financial Instruments</i>	1 January 2011
Amendments to FRS 132 <i>Financial Instruments: Presentation</i>	1 March 2010
Amendments to FRS 138 <i>Intangible Assets</i>	1 July 2010
Amendments to IC Interpretation 9 <i>Reassessment of Embedded Derivatives</i>	1 July 2010
Amendments to FRSs contained in the document entitled " <i>Improvements to FRSs (2010)</i> "	1 January 2011
FRS 1 <i>First-time Adoption of Financial Reporting Standards</i> (revised in 2010)	1 July 2010
FRS 3 <i>Business Combination</i> (revised in 2010)	1 July 2010
FRS 127 <i>Consolidated and Separate Financial Statements</i> (revised in 2010)	1 July 2010
IC Interpretation 4 <i>Determining whether an Arrangement contains a Lease</i>	1 January 2011
IC Interpretation 12 <i>Service Concession Arrangements</i>	1 July 2010
IC Interpretation 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	1 July 2010
IC Interpretation 17 <i>Distributions of Non-cash Assets to Owners</i>	1 July 2010
IC Interpretation 18 <i>Transfers of Assets from Customers</i>	1 January 2011

Comparatives

The above FRSs, amendments to FRSs and IC Interpretations do not have any material impact on the financial statements of the Group.

A2. Qualification of Financial Statements

The auditors' report dated 12 April 2011 in respect of the audited financial statements for the year ended 31 December 2010 was not subject to any qualification.

A3. Seasonal or cyclical factors

The Group performance for the financial quarter under review was not materially affected by any major seasonal and cyclical factors.

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NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

A4. Extraordinary and exceptional items

There were no extraordinary and exceptional items affecting the Group's assets, liabilities, equity, net income or cash flows during the financial quarter under review.

A5. Changes in estimates

There were no material changes in the nature and amount of estimates during the financial quarter under review.

A6. Issuance and repayment of debts and equity securities etc

There were no issuances, cancellation, share buy-back, resale and repayment of debts and equity securities during the financial period under review, except for the following:

(i) Repurchased a total of 205,700 ordinary shares of its issued share capital from the open market during the financial year, at an average cost of RM 1.93 per share. The total repurchases consideration, including transaction costs during the financial year amounted to RM 398,040 and were financed by internally generated funds. The repurchased shares are held as treasury shares in accordance with the requirements of Section 67A of the Companies Act, 1965.

As at 30 September 2011, the number of treasury shares held was 323,700 ordinary shares.

A7. Dividend paid

A final dividend of 8 sen per share less 25% tax, in respect of the financial year ended 31 December 2010 paid on 24 June 2011.

A8. Segment reporting

a. Operating segment

30 September 2011	Manufacture and sale of stainless steel fasteners RM'000	Manufacture and sale of aluminium and its related products RM'000	Unallocated non-operating segments RM'000	Adjustment and eliminations RM'000	Total RM'000
Segment assets	397,517	116,905	2,915	0	517,337
Investment in associates	0	0	59,591	0	59,591
Income tax assets	0	75	5	0	80
Total assets	397,517	116,980	62,511	0	577,008
Additions to non-current assets	26,302	2,538	0	0	28,840
Segment liabilities	9,393	5,710	0	0	15,103

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(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

	Manufacture and sale of stainless steel fasteners RM'000	Manufacture and sale of aluminium and its related products RM'000	Unallocated non-operating segments RM'000	Adjustment and eliminations RM'000	Total RM'000
30 September 2010					
Segment assets	304,061	102,518	230	0	406,809
Investment in associates	0	0	64,895	0	64,895
Income tax assets	168	153	5	0	326
Total assets	<u>304,229</u>	<u>102,671</u>	<u>65,130</u>	<u>0</u>	<u>472,030</u>
Additions to non-current assets	<u>7,740</u>	<u>207</u>	<u>0</u>	<u>0</u>	<u>7,947</u>
Segment liabilities	<u>0</u>	<u>6,396</u>	<u>5</u>	<u>0</u>	<u>6,401</u>
30 September 2011					
Segment profit/(loss)	<u>31,693</u>	<u>9,951</u>	<u>(64)</u>	<u>0</u>	<u>41,580</u>
Included in the measure of segment profit/(loss) are:-					
- External revenue	347,757	109,517	0	0	457,274
- Interest income	1,263	124	2	0	1,389
- Non-cash income	0	0	0	0	0
- Interest expenses	776	202	0	0	978
- Amortisation and depreciation	7,568	4,870	0	0	12,438
- Other non-cash expenses	10,762	0	0	0	10,762
- Share of loss of associates	0	0	27	0	27
- Tax expense	<u>1,621</u>	<u>1,488</u>	<u>0</u>	<u>0</u>	<u>3,109</u>
30 September 2010					
Segment profit/(loss)	<u>19,816</u>	<u>731</u>	<u>(291)</u>	<u>5,103</u>	<u>25,359</u>
Included in the measure of segment profit/(loss) are:-					
- External revenue	208,701	9,941	0	0	218,642
- Interest income	1,738	1	0	0	1,739
- Non-cash income	0	0	0	0	0
- Interest expenses	670	40	0	0	710
- Depreciation	6,190	579	0	0	6,769
- Other non-cash expenses	528	0	0	0	528
- Share of loss of associates	0	0	1	0	1
- Tax expense	<u>3,300</u>	<u>237</u>	<u>0</u>	<u>0</u>	<u>3,537</u>

TONG HERR RESOURCES BERHAD
(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

b. Geographical information

In RM'000	External revenue		Non-current assets	
	30/9/2011	30/9/2010	30/9/2011	30/9/2010
Malaysia	96,435	9,058	143,968	154,617
Thailand	7,832	5,066	55,859	36,522
Germany	64,089	30,948	0	0
United States of America	81,458	72,066	0	0
Other countries	207,460	101,504	0	0
	<u>457,274</u>	<u>218,642</u>	<u>199,827</u>	<u>191,139</u>

As of todate, the Group's operations in Thailand have not been affected by the floods and as such, there is no impact on the Group's results.

A9. Changes in the composition of the Group

There were no changes in the composition of the Group during the current financial period to-date other than the following:-

On 22 August 2011, Tong Heer Aluminium Industries Sdn Bhd, a 51% owned subsidiary of the Company, entered into a Share Sale and Purchase Agreement to dispose 350,000 ordinary shares of RM1.00 each, representing 70% of the total issued and paid-up share capital in Aluminium Service Centre Sdn Bhd, at a cash consideration of RM600,000.

A10. Property, plant and equipment

The valuations of land and buildings have been brought forward, with no amendment from the previous annual report in the financial quarter under review.

In the opinion of the directors, the fair value of property, plant and equipment is not significantly different from the carrying value.

A11. Capital commitment

Authorised capital expenditure not provided for in the interim financial report is as follows:

	30/9/2011 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	<u>36,947</u>

A12. Material events subsequent to the end of the period reported

There was no item, transaction or event of a material or unusual in nature during the period from the end of the quarter under review to 29 November 2011.

TONG HERR RESOURCES BERHAD
(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

A13. Contingent liabilities

	30/09/2011 RM'000	31/12/2010 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	272,180	259,140

TONG HERR RESOURCES BERHAD
(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

B. ADDITIONAL INFORMATION REQUIRED UNDER BURSA MALAYSIA LISTING REQUIREMENTS

1. Review of the performance of the Company and its principal subsidiaries

The Group reported a revenue of RM148.38 million and profit before tax of RM7.8 million for the current quarter as compared to revenue of RM96.20 million and profit before tax of RM10.69 million for the corresponding quarter in previous year.

The increase in revenue is due to increasing demand, and consolidation of the newly acquired subsidiaries, Tong Heer Aluminium Industries Sdn Bhd and its subsidiaries.

The lower profit before tax in this current quarter as compared to the corresponding quarter in the previous year is mainly contributed by the unrealized loss on foreign exchange, as a result of the strengthened Ringgit Malaysia against US Dollar at this current quarter end; and partially offset against higher sales demand attained during current quarter, as compared to the corresponding quarter in the preceding year.

2. Material changes in the quarterly results compared to the results of the preceding quarter

The Group reported revenue of RM148.38 million and profit before tax of RM7.8 million for the current reporting quarter as compared to revenue of RM165.59 million and profit before tax of RM18.26 million in the preceding quarter.

The decrease in profit before tax attained in the current reporting quarter as compared to the preceding quarter is due to lower sales recorded for this current quarter and unrealized loss on foreign exchange, as a result of the strengthened Ringgit Malaysia against US Dollar at this current quarter end.

3. Prospects for the current financial year

Prospects for the global economy remain favorable in 2011 with continued improvements, especially in emerging and developing countries. In advanced economies, activity has moderated less than expected, but growth remains subdued, unemployment is still high, and renewed stresses in the Eurozone periphery are contributing to downside risks. Meanwhile, in many emerging economies, activity remains buoyant, inflation pressures are emerging, and there are now some signs of overheating, driven in part by strong capital inflows.

In view of this, the Board will streamline the corporate strategy and continue its marketing and cost containment efforts in order to remain competitive. The Board also diversifies the business into various markets to manage the risks. Barring any unforeseen circumstances, the Group is optimistic to attain a satisfactory level of performance for the current financial year.

4. Variance of actual profit from forecast profit

Not applicable.

TONG HERR RESOURCES BERHAD
(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

5. Taxation

The taxation for continuing operations comprises:

	Individual Quarter 3 months ended 30 September		Cumulative Quarter ended 30 September	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Current taxation	1,585	1,146	6,612	3,537
Deferred taxation	10	-	(21)	-
	<u>1,595</u>	<u>1,146</u>	<u>6,591</u>	<u>3,537</u>
Taxation under/(over) provided in prior years	135	-	(3,482)	-
	<u><u>1,730</u></u>	<u><u>1,146</u></u>	<u><u>3,109</u></u>	<u><u>3,537</u></u>

The effective tax rates is lower compared with the statutory rates for the current quarter and cumulative financial period to date, as a result of higher contribution from foreign subsidiary which enjoying free-tax benefits.

The over-provided tax expenses in prior years were mainly attributable to the tax refund receivable from Malaysia Inland Revenue Board, subsequent to one of the subsidiary succeeded in claiming increased export allowance and reinvestment allowance for previous years.

6. Profit/(loss) on sale of unquoted investment and/or properties

There was no material sale of unquoted investment and/or properties for the financial period under review.

7. Quoted securities

There was no purchase or disposal of quoted shares for the current financial period under review.

TONG HERR RESOURCES BERHAD
(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

8. Group borrowings and debt securities

The Group's borrowings are as follows:

<u>Bank borrowings - unsecured</u>	30/9/2011	31/12/2010
	RM'000	RM'000
Onshore foreign currency loans	105,316	56,840
Foreign currency trust receipts	51,498	42,962
Bankers acceptances	0	8,613
Bank overdrafts	0	15
Finance lease liabilities	1	84
Under Non-current liabilities held for sale	236	0
	<u>157,051</u>	<u>108,514</u>

The Group borrowings in RM equivalent analysed by currencies in which the borrowings were denominated are as follows:

<u>Bank borrowings - unsecured</u>	30/9/2011	31/12/2010
	RM'000	RM'000
US Dollars	156,814	99,802
Ringgit Malaysia	237	8,712
	<u>157,051</u>	<u>108,514</u>

9. Material pending litigation

The Group is not engaged in any material litigation as at 22 November 2011 (the latest practicable date which is not earlier than 7 days from the date of this quarterly report).

10. Financial instruments

As at 30 September 2011, the outstanding forward exchange contracts are as follows:

	30/9/2011		31/12/2010	
	To sell	To buy	To sell	To buy
	'000	'000	'000	'000
Contract I	EUR 221	USD 319	EUR 788	USD 1,103
Contract II	EUR 3,500	RM 15,172	EUR 1,860	RM 8,082
Contract III	USD 4,000	RM 12,128	USD 3,974	RM 12,507
Contract IV	USD 739	THB 22,057	N/A	N/A

Forward exchange contracts were entered into by subsidiaries in currencies other than the functional currency to manage the exposure to the foreign exchange rates fluctuation.

All exchange gains/losses arising on the hedge instruments are recognised in the income statement on settlement of the forward exchange contract.

TONG HERR RESOURCES BERHAD
(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

11. Dividend

A final dividend of 8 sen per share, less 25% tax, in respect of the financial year ended 31 December 2010 paid on 24 June 2011.

12. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	30 September		30 September	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
<u>Basic earnings per share</u>				
Profit for the period attributable to owners of the Company	4,060	8,371	28,538	18,472
Number of shares in issue at 1 January	127,312	127,406	127,312	127,406
Effect of shares purchased	(59)	(31)	(59)	(31)
Weighted average number of shares in issue ('000)	127,253	127,375	127,253	127,375
Basic earnings per share (sen)	3.19	6.57	22.43	14.50

The Company did not have any dilutive potential ordinary shares during the financial period.

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AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011
(Financial Year Ending 31 December 2011)

13. Realised and unrealised earnings or losses disclosures

	30/09/2011	31/12/2010
	RM'000	RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realised	322,078	285,229
- Unrealised	(10,620)	(4,141)
	<u>311,458</u>	<u>281,088</u>
Total share of retained earnings from associates:		
- Realised	75	27
- Unrealised	(108)	(33)
	<u>(33)</u>	<u>(6)</u>
Less: Consolidation adjustments and eliminations	(119,059)	(109,615)
Total retained earnings as per consolidated financial statements	<u>192,366</u>	<u>171,467</u>

BY ORDER OF THE BOARD

Tsai Ming Ti
Managing Director

Dated this 29 November 2011