

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 31 MARCH 2012  
(Financial Year Ending 31 December 2012)

**EXPLANATORY NOTES AS PER MFRS 134**

**A1. Basis of preparation**

These condensed consolidated interim financial statements (Condensed Reports) are unaudited and have been prepared in accordance with MFRS 134: *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. This Condensed Report also complies with IAS34: *Interim Financial Reporting* issued by the International Accounting Standards Board (IASB) and should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2011. For the period up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards (FRSs).

These are the Group's condensed consolidated interim financial statements for part of the period covered by the Group first MFRS framework annual financial statements and MFRS 1, First-Time Adoption of Malaysian Financial Reporting Standards has been applied. The transition to MFRS framework does not have any significant financial impact to the financial statements of the Group.

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 2011.

**A2. Qualification of Financial Statements**

The auditors' report dated 19 April 2012 in respect of the audited financial statements for the year ended 31 December 2011 was not subject to any qualification.

**A3. Seasonal or cyclical factors**

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

**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 period under review.

**A5. Changes in estimates**

There were no material changes in the nature and amount of estimates during the financial period 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 300,000 ordinary shares of its issued share capital from the open market during the financial year, at an average cost of RM 2.07 per share. The total repurchases consideration, including transaction costs during the financial year amounted to RM 621,481 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 31 March 2012, the number of treasury shares held was 623,700 ordinary shares.

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**A7. Dividend paid**

No dividend was paid by the Company during the financial period ended 31 March 2012.

**A8. Segment reporting**

**a. Operating segment**

	<b>Manufacture and sale of stainless steel fasteners RM'000</b>	<b>Manufacture and sale of aluminium and its related products RM'000</b>	<b>Unallocated non-operating segments RM'000</b>	<b>Total RM'000</b>
<b>31 March 2012</b>				
Segment assets	368,418	120,663	4,840	493,922
Investment in associates	0	0	58,432	58,431
Total assets	<u>368,418</u>	<u>120,663</u>	<u>63,272</u>	<u>552,353</u>
Segment liabilities	<u>106,185</u>	<u>38,933</u>	<u>71</u>	<u>145,189</u>
External revenue	<u>112,356</u>	<u>35,595</u>	<u>0</u>	<u>147,951</u>
Segment profit	<u>6,270</u>	<u>3,043</u>	<u>245</u>	<u>9,558</u>
<b>31 March 2011</b>				
Segment assets	361,353	104,114	8	465,475
Investment in associates	0	0	57,200	57,200
Total assets	<u>361,353</u>	<u>104,114</u>	<u>57,208</u>	<u>522,793</u>
Segment liabilities	<u>120,209</u>	<u>22,281</u>	<u>75</u>	<u>142,565</u>
External revenue	<u>110,080</u>	<u>33,232</u>	<u>0</u>	<u>143,312</u>
Segment profit	<u>12,961</u>	<u>4,506</u>	<u>92</u>	<u>17,559</u>

**b. Geographical information**

In RM'000	<b>External revenue</b>		<b>Non-current assets</b>	
	<b>31/03/2012</b>	<b>31/03/2011</b>	<b>31/03/2012</b>	<b>31/03/2011</b>
Malaysia	29,076	31,329	83,379	86,275
Thailand	3,594	2,413	59,379	34,688
Germany	29,422	16,981	0	0
United States of America	25,794	28,400	0	0
Other countries	<u>60,065</u>	<u>64,189</u>	<u>0</u>	<u>0</u>
	<u>147,951</u>	<u>143,312</u>	<u>142,758</u>	<u>120,963</u>

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**A8. Segment reporting (Cont'd)**

Compared with the corresponding period in last financial year, both operating segments of the Group with a slight increase in revenue, which increased by RM2.27million and RM2.36million in stainless steel fasteners segment and aluminium products segment respectively.

Despite of the uncertainties in Eurozone periphery, the sales to Germany still increased compared with the corresponding period in last financial year. The improved performance of aluminium segment was mainly contributed by the effort to expand and explore oversea market, especially Asian countries during the current quarter.

The expansion of new fasteners factory project in Thailand is still on-going. Currently, the estimated costs for expansion still not much vary from the initial plan.

**A9. Changes in the composition of the Group**

There were no changes in the composition of the Group during the current financial year to-date.

**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:

	<b>31/03/2012</b> <b>RM'000</b>
<u>Property, plant and equipment</u>	
Contracted but not provided for	29,924
	29,924

**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 year from the end of the year under review to 30 May 2012.

**A13. Contingent liabilities**

	<b>31/03/2012</b> <b>RM'000</b>	<b>31/12/2011</b> <b>RM'000</b>
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	270,711	271,131
	270,711	271,131

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**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 RM147.95 million and profit before tax of RM11.28 million for the current quarter as compared to revenue of RM143.31 million and profit before tax of RM15.90 million for the corresponding quarter in previous year.

The increase in revenue during the quarter was mainly contributed by the local subsidiaries with the higher sale demand from local and other new markets in overseas.

The lower profit before tax in this current quarter as compared to the corresponding quarter in the previous year is mainly contributed by the lower profit margin with higher costs during this current quarter.

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

The Group reported revenue of RM147.95 million and profit before tax of RM11.28 million for the current reporting quarter as compared to revenue of RM143.79 million and profit before tax of RM6.16 million in the preceding quarter.

The increase in profit before tax recorded in this current quarter as compared to the preceding quarter is mainly due to improvement in profit margin attained with slightly increased sales demand for this current quarter.

**3. Prospects for the current financial year**

After suffering a major setback during 2011, global prospects are becoming very uncertain and are still very fragile, especially in Euro zone, and unemployment in many advanced economies still stay high. Real GDP growth should be picking up gradually during this financial year. Improved financial conditions, accommodative monetary policies, a similar pace of fiscal tightening as in 2011, and special factors (reconstruction in Japan and Thailand) will drive the reacceleration. However, the recovery will remain vulnerable to several major downside risks.

Despite of uncertainties of the global prospects, the Board will continue keeping with the efforts toward cost saving measures to remain competitive. The Board also looks for alternate opportunities by diversifying our core business's market share in order to manage the risks. Barring any unforeseen circumstances, the financial year ending 31 December 2012 is expected to be challenging.

**4. Variance of actual profit from forecast profit**

Not applicable.

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**5. Taxation**

The taxation for continuing operations comprises:

	<b>Individual Quarter 3 months ended 31 March</b>		<b>Cumulative Quarter ended 31 March</b>	
	<b>2012 RM'000</b>	<b>2011 RM'000</b>	<b>2012 RM'000</b>	<b>2011 RM'000</b>
Current taxation	1,688	1,969	1,688	1,969
Deferred taxation	35	(14)	35	(14)
	1,723	1,955	1,723	1,955
Taxation over provided in prior years	-	(3,617)	-	(3,617)
	<u>1,723</u>	<u>(1,662)</u>	<u>1,723</u>	<u>(1,662)</u>

The effective tax rates is lower compared with the statutory rates for the current quarter and cumulative financial year to date mainly contributed by the foreign subsidiary of which still enjoying free-tax benefits on the manufacturing income.

**6. Group borrowings and debt securities**

The Group's loans and borrowings are as follows:

	<b>31/03/2012 RM'000</b>	<b>31/12/2011 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
Onshore foreign currency loans	51,799	35,220
Foreign currency trust receipts	66,674	85,337
Bank overdrafts	0	25
Long term loans	4,189	3,223
	<u>122,662</u>	<u>123,805</u>

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

	<b>31/03/2012 RM'000</b>	<b>31/12/2011 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
US Dollars	119,182	121,271
Thai Baht	3,480	2,509
Ringgit Malaysia	0	25
	<u>122,662</u>	<u>123,805</u>

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**7. Material pending litigation**

The Group is not engaged in any material litigation as at 23 May 2012 (the latest practicable date which is not earlier than 7 days from the date of this quarterly report).

**8. Financial instruments**

As at 31 March 2012, the outstanding forward exchange contracts are as follows:

	31/03/2012		31/12/2011	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 1,150	USD 1,538	EUR 190	USD 253
Contract II	EUR 300	RM 1,198	EUR 1,460	RM 6,274
Contract III	USD 6,369	RM 19,921	USD 13,732	RM 43,139
Contract IV	USD 296	THB 9,217	USD 150	THB 4,613

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.

**9. Dividend**

A final tax exempt dividend of 22 sen per share, in respect of the financial year ended 31 December 2011 will be proposed for shareholders' approval at the forthcoming Annual General Meeting.

**10. Earnings per share**

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	31 March		31 March	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Profit for the period attributable to owners of the Company (RM'000)	6,668	13,025	6,668	13,025
Number of shares in issue at 1 January ('000)	127,106	127,312	127,106	127,312
Effect of shares purchased ('000)	(250)	-	(250)	-
Weighted average number of shares in issue ('000)	126,856	127,312	126,856	127,312
Basic earnings per share (sen)	5.26	10.23	5.26	10.23
Diluted earnings per share (sen)	5.26	10.23	5.26	10.23

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**Additional Information As Required By Appendix 9b of Bursa Malaysia Listing Requirement**

**11. Realised and unrealised profits or losses disclosures**

	<b>31/03/2012</b>	<b>31/12/2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits of the Company and its subsidiaries:		
- Realised	330,500	323,466
- Unrealised	(4,924)	(6,399)
	325,576	317,067
Total share of retained profits from associates:		
- Realised	375	358
- Unrealised	71	(205)
	446	153
Less: Consolidation adjustments and eliminations	(118,972)	(116,838)
Total retained profits as per consolidated financial statements	207,050	200,382

**12. Notes to the Condensed Consolidated Statement of Comprehensive Income**

	<b>Current Quarter</b>	<b>Current Year To Date</b>
	<b>RM'000</b>	<b>RM'000</b>
Interest income	431	431
Interest expense	399	399
Depreciation and amortization	4,000	4,000
Reversal of provision for receivables, net	(28)	(28)
Foreign exchange loss	379	379
Gain on financial instruments at fair value through profit or loss	330	330

BY ORDER OF THE BOARD

Tsai Ming Ti  
Managing Director

Dated this 30 May 2012