

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 JUNE 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 30 June 2012, the number of treasury shares held was 623,700 ordinary shares.

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NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2012  
(Financial Year Ending 31 December 2012)

**A7. Dividend paid**

During the financial period ended 30 June 2012, the Company paid a final tax exempt dividend of 22 sen per share, amounting to RM27,897,386 in respect of the financial year ended 31 December 2011.

**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>30 June 2012</b>				
Segment assets	329,678	123,215	143	453,036
Investment in associates	0	0	60,520	60,520
Total assets	<u>329,678</u>	<u>123,215</u>	<u>60,663</u>	<u>513,556</u>
Segment liabilities	<u>86,784</u>	<u>38,207</u>	<u>2</u>	<u>124,993</u>
External revenue	<u>194,410</u>	<u>73,769</u>	<u>0</u>	<u>268,179</u>
Segment profit	<u>9,701</u>	<u>6,322</u>	<u>235</u>	<u>16,258</u>
<b>30 June 2011</b>				
Segment assets	386,920	113,386	8	500,314
Investment in associates	0	0	57,660	57,660
Total assets	<u>386,920</u>	<u>113,386</u>	<u>57,668</u>	<u>557,974</u>
Segment liabilities	<u>141,598</u>	<u>29,042</u>	<u>0</u>	<u>170,640</u>
External revenue	<u>238,601</u>	<u>70,298</u>	<u>0</u>	<u>308,899</u>
Segment profit/(loss)	<u>26,117</u>	<u>6,900</u>	<u>(235)</u>	<u>32,782</u>

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

**b. Geographical information**

In RM'000	External revenue		Non-current assets	
	30/06/2012	30/06/2011	30/06/2012	30/06/2011
Malaysia	60,974	57,833	82,931	84,066
Thailand	6,822	4,774	67,801	37,980
Germany	45,661	42,688	0	0
United States of America	50,013	57,437	0	0
Other countries	104,709	146,167	0	0
	<u>268,179</u>	<u>308,899</u>	<u>150,732</u>	<u>122,046</u>

Compared with the corresponding period in last financial year, aluminium products segment has contributed an increase of RM3.47million to the Group's revenue during the financial period. However, the drop in the sales demand in stainless steel fasteners segment has led to the decrease of RM40.7million in revenue of the Group for this current financial period.

As a result of the uncertainties in Eurozone periphery, the sales of stainless steel fasteners segment to European countries, other than Germany have dropped significantly 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 overseas 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.

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**A11. Capital commitment**

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

	<b>30/06/2012</b>
	<b>RM'000</b>
<u>Property, plant and equipment</u>	
Contracted but not provided for	19,291

**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 29 August 2012.

**A13. Contingent liabilities**

	<b>30/06/2012</b>	<b>31/12/2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	192,823	271,131

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(Financial Year Ending 31 December 2012)

**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 RM120.23 million and profit before tax of RM7.83 million for the current quarter as compared to revenue of RM165.59 million and profit before tax of RM18.26 million for the corresponding quarter in previous year.

The decrease in revenue during the quarter was mainly contributed by the drop in sales demand, especially from European market, as a result of slowdown of economy. However, the drop was slightly netted off against with the increase in sales demand from Asian market.

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 and also lower sales demand.

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

The Group reported revenue of RM120.23 million and profit before tax of RM7.83 million for the current reporting quarter as compared to revenue of RM147.95 million and profit before tax of RM11.28 million in the preceding quarter.

The decrease in profit before tax recorded in this current quarter as compared to the preceding quarter is mainly due to lower 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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INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2012  
(Financial Year Ending 31 December 2012)

**5. Taxation**

The taxation for continuing operations comprises:

	<b>Individual Quarter 3 months ended 30 June</b>		<b>Cumulative Quarter ended 30 June</b>	
	<b>2012 RM'000</b>	<b>2011 RM'000</b>	<b>2012 RM'000</b>	<b>2011 RM'000</b>
Current taxation	1,177	3,058	2,865	5,027
Deferred taxation	(48)	(17)	(13)	(31)
	1,129	3,041	2,852	4,996
Taxation over provided in prior years	-	-	-	(3,617)
	<u>1,129</u>	<u>3,041</u>	<u>2,852</u>	<u>1,379</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>30/06/2012 RM'000</b>	<b>31/12/2011 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
Onshore foreign currency loans	50,370	35,220
Foreign currency trust receipts	42,790	85,337
Bank overdrafts	0	25
Long term loans	6,843	3,223
	<u>100,003</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>30/06/2012 RM'000</b>	<b>31/12/2011 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
US Dollars	95,700	121,271
Thai Baht	4,303	2,509
Ringgit Malaysia	0	25
	<u>100,003</u>	<u>123,805</u>

**7. Material pending litigation**

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NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2012  
(Financial Year Ending 31 December 2012)

The Group is not engaged in any material litigation as at 22 August 2012 (the latest practicable date which is not earlier than 7 days from the date of this quarterly report).

**8. Financial instruments**

As at 30 June 2012, the outstanding forward exchange contracts are as follows:

	30/06/2012		31/12/2011	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 500	USD 641	EUR 190	USD 253
Contract II	EUR 1,500	RM 5,944	EUR 1,460	RM 6,274
Contract III	USD 1,569	RM 5,005	USD 13,732	RM 43,139
Contract IV	USD800	THB25,304	USD150	THB4,613

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**

During the financial period ended 30 June 2012, the Company paid a final tax exempt dividend of 22 sen per share, amounting to RM27,897,386, in respect of the financial year ended 31 December 2011.

**10. Earnings per share**

	Individual Quarter 6 months ended		Cumulative Quarter ended	
	30 June		30 June	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Profit for the period attributable to owners of the Company (RM'000)	3,755	11,453	10,423	24,478
Number of shares in issue at 1 January ('000)	127,106	127,312	127,106	127,312
Effect of shares purchased ('000)	(275)	-	(275)	-
Weighted average number of shares in issue ('000)	126,831	127,312	126,831	127,312
Basic earnings per share (sen)	2.96	9.00	8.22	19.23
Diluted earnings per share (sen)	2.96	9.00	8.22	19.23

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(Financial Year Ending 31 December 2012)

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

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

	<b>30/06/2012</b>	<b>31/12/2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits of the Company and its subsidiaries:		
- Realised	283,027	323,466
- Unrealised	(5,208)	(6,399)
	277,819	317,067
Total share of retained profits from associates:		
- Realised	380	358
- Unrealised	73	(205)
	453	153
Less: Consolidation adjustments and eliminations	(95,365)	(116,838)
Total retained profits as per consolidated financial statements	182,907	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	807	1,238
Interest expense	375	774
Depreciation and amortization	3,938	7,938
Reversal of provision for receivables, net	(191)	(219)
Foreign exchange (gain)/loss	(131)	248
Loss on financial instruments at fair value through profit or loss	342	12

BY ORDER OF THE BOARD

Tsai Ming Ti  
Managing Director

Dated this 29 August 2012