

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 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 307,500 ordinary shares of its issued share capital from the open market during the financial period, at an average cost of RM 2.0659 per share. The total repurchases consideration, including transaction costs during the financial period amounted to RM 635,259 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 2012, the number of treasury shares held was 631,200 ordinary shares.

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

**A7. Dividend paid**

During the financial period ended 30 September 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 September 2012</b>				
Segment assets	344,621	114,952	131	459,704
Investment in associates	0	0	54,455	54,455
Total assets	<u>344,621</u>	<u>114,952</u>	<u>54,586</u>	<u>514,159</u>
Segment liabilities	<u>97,451</u>	<u>31,327</u>	<u>2</u>	<u>128,780</u>
External revenue	<u>270,555</u>	<u>109,712</u>	<u>0</u>	<u>380,267</u>
Segment profit/(loss)	<u>12,982</u>	<u>7,937</u>	<u>(2,565)</u>	<u>18,354</u>
<b>30 September 2011</b>				
Segment assets	397,518	116,980	2,920	517,418
Investment in associates	0	0	59,590	59,590
Total assets	<u>397,518</u>	<u>116,980</u>	<u>62,510</u>	<u>577,008</u>
Segment liabilities	<u>146,288</u>	<u>34,153</u>	<u>0</u>	<u>180,441</u>
External revenue	<u>347,757</u>	<u>109,517</u>	<u>0</u>	<u>457,274</u>
Segment profit/(loss)	<u>30,561</u>	<u>8,368</u>	<u>(73)</u>	<u>38,856</u>

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INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2012  
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**A8. Segment reporting (Cont'd)**

**b. Geographical information**

In RM'000	External revenue		Non-current assets	
	30/09/2012	30/09/2011	30/09/2012	30/09/2011
Malaysia	91,497	96,435	137,128	143,968
Thailand	10,445	7,832	77,298	55,859
Germany	57,254	64,089	0	0
United States of America	74,105	81,458	0	0
Other countries	146,966	207,460	0	0
	<u>380,267</u>	<u>457,274</u>	<u>214,426</u>	<u>199,827</u>

The Group's revenue of this current financial period was recorded at RM380.3million, which dropped by RM77.0million or 16.84%, from a high of RM457.3million in the corresponding period in last financial year. The declined revenue was attributed by the drop in the sales order in stainless steel fasteners segment. Subsequent to the uncertainties in Eurozone periphery, the sales of stainless steel fasteners segment to European countries have dropped significantly compared with the corresponding period in last financial year.

The construction of new fasteners factory in Thailand will be completed by the fourth quarter and expected to be commencing operation in the second quarter of Year 2013. 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>30/09/2012</b>
	<b>RM'000</b>
<u>Property, plant and equipment</u>	
Contracted but not provided for	11,822

**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 26 November 2012.

**A13. Contingent liabilities**

	<b>30/09/2012</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	190,755	271,131

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NOTES TO THE UNAUDITED  
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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 revenue of RM112.09million and profit before tax of RM3.98million for the current quarter as compared to revenue of RM148.38million and profit before tax of RM7.80million for the corresponding quarter in previous year.

The drop 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.

The lower revenue has led to the drop in profit before tax of this current quarter as compared to the corresponding quarter in the previous year. In addition, the lower profit before tax also attributed by the share of losses from the investment in associates, subsequent to the weakened Vietnamese Dong against US Dollar at the end of this quarter, which has led to unrealized loss in foreign currency exchange.

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

The Group reported revenue of RM112.09million and profit before tax of RM3.98million for the current reporting quarter as compared to revenue of RM120.23million and profit before tax of RM7.83million in the preceding quarter.

The decrease of RM8.14million or 6.77% in revenue was mainly contributed by declined sales orders from European countries and local markets. Whilst the profit before tax was dropped by RM3.85million or 49.17% was mainly due to the share of losses from the investment in associates which amounted to RM2.80million.

**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 Eurozone, and unemployment in many advanced economies still stay high. In the past few months, there have been some signs that the overall global economy is improving, despite significant headwinds. We continue to see modest growth in certain nations' economies, such as North America, United States, Canada, Mexico, Brazil and China; where the manufacturing activities are expanding, however, this is not suggest that these nations' economies are strong, as persistent weaknesses continue to dampen growth.

However, manufacturing activity in the Eurozone is not optimistic compared with other nations. Declining new orders continue to reduce production and employment across the continent. This has led to lower industrial production in Eurozone with high unemployment rate.

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 continues to be challenging.

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

Not applicable.

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AND ITS SUBSIDIARIES

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

**5. Taxation**

The taxation for continuing operations comprises:

	<b>Individual Quarter 3 months ended 30 September</b>		<b>Cumulative Quarter ended 30 September</b>	
	<b>2012 RM'000</b>	<b>2011 RM'000</b>	<b>2012 RM'000</b>	<b>2011 RM'000</b>
Current taxation	1,341	1,585	4,206	6,612
Deferred taxation	-	10	(13)	(21)
	1,341	1,595	4,193	6,591
Taxation under/(over) provided in prior years	548	135	548	(3,482)
	<u>1,889</u>	<u>1,730</u>	<u>4,741</u>	<u>3,109</u>

The effective tax rate is lower compared with the statutory rates for cumulative financial year to date mainly contributed by the foreign subsidiary of which still enjoying free-tax benefits on the manufacturing income. However, the effective tax rate for current quarter is higher than the statutory tax rate which was mainly due to the under-provision of tax expenses in last year for the local subsidiaries, amounted to RM548K.

**6. Group borrowings and debt securities**

The Group's loans and borrowings are as follows:

	<b>30/09/2012 RM'000</b>	<b>31/12/2011 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
Onshore foreign currency loans	46,504	35,220
Foreign currency trust receipts	36,746	85,337
Bank overdrafts	0	25
Long term loans	15,005	3,223
	<u>98,255</u>	<u>123,805</u>

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AND ITS SUBSIDIARIES

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

**6. Group borrowings and debt securities (Cont'd)**

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

	<b>30/09/2012</b>	<b>31/12/2011</b>
<b><u>Bank loans and borrowings - unsecured</u></b>	<b>RM'000</b>	<b>RM'000</b>
US Dollars	89,409	121,271
Thai Baht	8,846	2,509
Ringgit Malaysia	0	25
	<u>98,255</u>	<u>123,805</u>

**7. Material pending litigation**

The Group is not engaged in any material litigation as at 19 November 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 September 2012, the outstanding forward exchange contracts are as follows:

	<b>30/09/2012</b>		<b>31/12/2011</b>	
	<b>To sell</b>	<b>To buy</b>	<b>To sell</b>	<b>To buy</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
Contract I	EUR 1,700	USD 2,121	EUR 190	USD 253
Contract II	EUR 750	RM 2,982	EUR 1,460	RM 6,274
Contract III	USD 1,000	RM 3,210	USD 13,732	RM 43,139
Contract IV	NIL	NIL	USD150	THB4,613
	<u>NIL</u>	<u>NIL</u>	<u>USD150</u>	<u>THB4,613</u>

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 September 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.

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

**10. Earnings per share**

	<b>Individual Quarter 9 months ended</b>		<b>Cumulative Quarter ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Profit for the period attributable to owners of the Company (RM'000)	695	4,060	11,118	28,538
Number of shares in issue at 1 January ('000)	127,106	127,312	127,106	127,312
Effect of shares purchased ('000)	(284)	(59)	(284)	(59)
Weighted average number of shares in issue ('000)	126,822	127,253	126,822	127,253
Basic earnings per share (sen)	0.55	3.19	8.77	22.43
Diluted earnings per share (sen)	0.55	3.19	8.77	22.43



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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>30/09/2012</b>	<b>31/12/2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	285,268	323,466
- Unrealised	(4,133)	(6,399)
	281,135	317,067
Total share of retained profits/(losses) from associates:		
- Realised	(18)	358
- Unrealised	(2,323)	(205)
	(2,341)	153
Less: Consolidation adjustments and eliminations	(95,191)	(116,838)
Total retained profits as per consolidated financial statements	183,603	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	596	1,834
Interest expense	326	1,100
Depreciation and amortization	3,790	11,728
Reversal of provision for receivables, net	(344)	(563)
Foreign exchange gain	1,075	826
Loss on financial instruments at fair value through profit or loss	89	101

BY ORDER OF THE BOARD

Tsai Yi Ting  
Managing Director

Dated this 26 November 2012