



ASIA FILE CORPORATION BHD. (313192-P)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2010

A EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT - FRS 134

A1 Basis of preparation

The interim financial statements are unaudited and has been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 March 2010. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 March 2010.

A2 Changes in Accounting Policies

At the date of authorisation of these financial statements, the Group and Company has not applied the following new FRSs, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the Group and the Company:

FRSs/Amendments/Interpretations	Effective date
FRS 1, First-time Adoption of Financial Reporting Standards (revised)	1 July 2010
FRS 3, Business Combinations (revised)	1 July 2010
FRS 4, Insurance Contracts	1 January 2010
FRS 7, Financial Instruments: Disclosure	1 January 2010
FRS 8, Operating Segments	1 July 2009
FRS 101, Presentation of Financial Statements (revised)	1 January 2010
FRS 123, Borrowings Costs (revised)	1 January 2010
FRS 127, Consolidated and Separate Financial Statements (revised)	1 July 2010
FRS 139, Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 1, First-time Adoption of Financial Reporting Standards	1 January 2010
Amendments to FRS 1, First-time Adoption of Financial Reporting Standards	1 January 2011
- Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	
- Additional Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 2, Share-based Payment	1 July 2010
Amendments to FRS 2, Group Cash-settled Share-based Payment	1 July 2011
Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 7, Financial Instruments: Disclosures	1 January 2010
Amendments to FRS 7, Financial Instruments: Disclosures	1 January 2011
- Improving Disclosures about Financial Instruments	
Amendments to FRS 101, Presentation of Financial Statements	1 January 2010
- Puttable Financial Instruments and Obligations Arising on Liquidation	
Amendments to FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 132, Financial Instruments: Presentation	
- Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2010
- Separation of Compound Instruments	1 January 2010
- Classification of Rights Issues	1 March 2010
Amendments to FRS 138, Intangible Assets	1 July 2010
Amendments to FRS 139, Financial Instruments: Recognition and Measurement	1 January 2010
- Reclassification of Financial Assets	
- Collective Assessment of Impairment for Banking Institutions	
Improvement to FRSs (2009)	1 January 2010
IC Interpretation 4, Determining whether an Arrangement contains a Lease	1 January 2011

IC Interpretation 9, Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10, Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11, FRS 2 - Group and Treasury Share Transactions	1 January 2010
IC Interpretation 12, Service Concession Agreements	1 July 2010
IC Interpretation 13, Customer Loyalty Programmes	1 January 2010
IC Interpretation 14, FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction	1 January 2010
IC Interpretation 15, Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17, Distribution of Non-cash Assets to Owners	1 July 2010
IC Interpretation 18, Transfers of Assets from Customers	1 January 2011
Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives	1 July 2010

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 April 2010 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2009, 1 January 2010 and 1 March 2010, except for FRS 4 and IC Interpretation 13 and 14 which are not applicable to the Group and to the Company; and
- from the annual period beginning 1 April 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, except for IC Interpretation 12, IC Interpretation 15 and IC Interpretation 16 which are not applicable to the Group and to the Company.

The above FRS, amendment to FRS and Interpretations are expected to have no significant financial impact on financial statements of the Group and the Company, except for the following:

a) FRS 101 (revised), Presentation of Financial Statements

The revised FRS 101 introduces changes in the presentation and disclosure of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised directly in equity, either in one single statement, or in two statements. The Group has elected to present this statement in one single statement approach. This Standard does not have any impact on the financial position and results of the Group.

b) FRS 117, Leases

The amendments requires entity with existing leases of land and building to reassess the classification of land as finance or operating lease. Following the amendments, the Group has reclassified the existing leasehold land to property, plant and equipment, with no effect on reported profit or equity. However, as a result of the adoption of the amendments, comparative balances as at 31 March 2010 has been restated as follows:

	As previously stated RM'000	Effects of adopting amendments to FRS 117 RM'000	As restated RM'000
Property, plant and equipment	93,991	1,756	95,747
Prepaid lease payments	1,756	(1,756)	-

c) FRS 139, Financial Instruments: Recognition and Measurement

The adoption of FRS 139 has resulted in changes to accounting policies relating to recognition and measurement of financial instruments.

Financial Assets

Loan and Receivables

Prior to 1 January 2010, loan and receivables were carried at participated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amount as of balance sheet date. Under FRS 139, loan and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated comprehensive income statement when the loans and receivables are derecognised, impaired or through the

amortised process.

Financial Liabilities

Derivative Financial Instruments

Prior to 1 January 2010, derivative were off-balance-sheet instruments and were not recognised in the financial statements. Under FRS 139, derivatives are required to be initially recognised at fair value on the contract date and subsequently remeasured its fair value at the balance sheet date. Derivatives that are not qualified for hedge accounting are classified as Financial Assets at fair value through profit and loss with any gain or loss arising from changes in fair value on these derivatives being recognised in the comprehensive income statement.

Effect of Adoption of FRS 139

In accordance with the transitional provisions of FRS 139, the changes are applied prospectively and the comparatives as of 31 March 2010 are not restated. Instead, the changes have been accounted for by restating the opening retained earnings in the balance sheet as of 1 April 2010.

	As at 1 April 2010
	Retained Earnings
	RM'000
Previously stated at	318,312
<u>Effect under FRS 139:</u>	
Impairment of trade and sundry receivables	(67)
Gains on forward contract	8
Restated at	<u>318,253</u>

A3 Audit report of preceding annual financial statements

The audit report of the Group's annual financial statements for the year ended 31 March 2010 was not subject to any qualification.

A4 Seasonal or cyclical factors

The operation of the Group is not subject to any major effects of seasonality or cyclicity.

A5 Unusual items due to their Nature, Size or Incidence

There were no unusual items that have a material effect on the assets, liabilities, equity, net income or cash flow reported in the interim financial report.

A6 Material changes in accounting estimates

There were no material changes in accounting estimates of amounts reported in prior financial years.

A7 Issuance or repayment of debts and equity securities

19,400 ordinary shares were issued pursuant to the Employee Share Option Scheme during the financial quarter and financial year to date. Subsequent to the financial quarter ended 30 June 2010, 333,400 ordinary shares were issued pursuant to the Employee Share Option Scheme.

30,400 ordinary shares of Asia File Corporation Bhd was purchased and retained as treasury shares pursuant to the Shares Buy Back Scheme during the financial quarter and financial year to date. Accordingly, a total of 302,500 shares was retained as treasury shares as at 30 June 2010.

Subsequent to the financial quarter ended 30 June 2010, a total of 100 shares of Asia File Corporation Bhd was purchased and retained as treasury shares pursuant to the Shares Buy Back Scheme. Accordingly, a total of 302,600 shares was retained as treasury shares subsequent to the financial quarter ended 30 June 2010.

Other than the above, there were no issuances or repayment of debts and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial quarter and financial year to date.

A8 Dividend Paid**(a) In respect of the financial year ended 31 March 2011**

No dividend was declared during the current financial quarter and financial year to date.

(b) In respect of the financial year ended 31 March 2010

An interim dividend of 12% less 25% tax on 114,600,530 ordinary shares of RM1 each totalling RM 10,314,048 for the financial year ended 31 March 2010 was paid on 27 May 2010.

A9 Segment information**Business segment**

The Group is principally involved in the manufacture and trading of stationery products. Business segmental information has therefore not been prepared as the Group's revenue, operating profit, assets employed, liabilities, capital expenditure, depreciation and amortization as well as non-cash expenses are mainly confined to one business segment.

A10 Valuations of property, plant and equipment

The valuations of land and buildings have been brought forward without amendment from the previous annual report.

A11 Material events subsequent to the end of the quarter

There were no material events subsequent to the end of the quarter.

A12 Changes in composition of the Group

During current financial period, the Group disposed its 50% investment in an associate company, Mefajaya Sdn Bhd and the disposal has no significant impact on the financial position of the Group.

A13 Changes in contingent liabilities/assets

The total contingent liabilities as at 30 June 2010 for the Company are corporate guarantees for banking facilities granted to subsidiaries of RM 89.45 million (31 March 2010: RM 92.70 million).

A14 Capital commitments approved and contracted for

	30-Jun-2010
	RM'000
Machinery	147
Land & Building	4,140

Lease commitments

One of its subsidiaries has entered into two rental lease commitment as follows :-

	30-Jun-2010
	RM'000
Less Than one year	1,391
One to five years	433

A15 Net assets per share (sen)

	30-Jun-10	31-Mar-10
Shareholders' Fund (RM'000)	329,999	318,312
Share Capital (000) *	114,892	114,873
Treasury Shares (000)	(302)	(272)
	<u>114,590</u>	<u>114,601</u>
Net assets per share (sen)	287.98	277.76

B Additional information required by the Bursa Malaysia Securities Berhad's Listing Requirements

B1 Review of performance

For the quarter ended 30 June 2010, the Group achieved a total sales revenue of RM 66.6 million which represented an improvement of 7% when compared to the corresponding quarter last year. Based on the same comparison note, sales generated from Malaysia market picked up by 16% as the Group continued to enjoy consistent support from its Malaysia customers. As for the overseas market economy in the Euro zone remain stagnant. However, the Group was well buffered by the significant pick up in its sales to other market segments which has more than make up for the weaker sales generated from its European market.

In terms of pre tax profit, a total of RM 18.8 million (last year: RM 18.9 million) was recorded during the quarter. The current pre tax margin of 28% was slightly lower than the 30% achieved in the corresponding quarter last year. A forex loss of RM 140,000 was recorded in the current quarter as compared to a forex gain of RM 4.4 million achieved in the corresponding quarter last year.

B2 Comparison of profit before taxation with preceding quarter

Despite a drop in turnover by 8.3%, profit before taxation showed an impressive improvement of 44% when compared with preceding quarter (current quarter: RM 18.8million; preceding quarter: RM 13.0 million).

The above improvement was mainly attributable to product mix of higher value and a more favorable foreign exchange factor during the quarter.

B3 Current year prospects

Despite a challenging business environment in which the Group is expected to operate in, the Group is confident of achieving satisfactory performance for the remaining quarters.

B4 Profit forecast or profit guarantee

No profit forecast or profit guarantee was published by the Group.

B5 Tax expense

	3 months ended	
	30-Jun	
	2010	2009
	RM'000	RM'000
Current year tax expense		
- Based on results for the year	1,844	1,901
- (Over)/under provision in respect of prior year	14	2
	1,858	1,903
Deferred tax expense		
- Current year	1,211	1,299
	3,069	3,202

The lower tax rate in relation to the results of the Group for the financial year to date is mainly due to availability of certain tax incentives.

B6 Profit/loss on sale of unquoted investments and properties

There were no sales of unquoted investments and properties for the current quarter and financial year to date.

B7 Purchase or disposal of quoted securities

(a) Purchase and disposal of quoted securities were as follows:

	Current Year to Date 30-Jun-10 RM'000
Purchase of quoted securities	<u>7</u>

(b) Investment in quoted securities:

	As at 30-Jun-10 RM'000
At cost	46,291
At book value	46,291
At market value	<u>51,182</u>

B8 Status of corporate proposal announced

No corporate proposal was announced by the Group.

B9 Group borrowings and debt securities

Group borrowings relate to bank overdraft, foreign currency loan, term loan and hire purchase which are denominated in Ringgit Malaysia, EURO and USD.

	As at 30-Jun-10 RM('000)
a) Bank borrowing - Non current	
Term Loan	13,167
Finance lease	244
	<u>13,411</u>
b) Bank borrowing - current	
Bank overdraft	100
Foreign currency loan	16,990
Portion of term loan due within one year	8,933
Portion of finance lease due within one year	290
	<u>26,313</u>

B10 Derivative financial instruments

Details of outstanding derivative financial instruments as at 30 June 2010:

Forward foreign exchange contracts:

	Contract Value RM'000	Fair Value RM'000	Gain/(Loss) RM'000
Within 1 year	21,874	21,520	354

Forward foreign exchange contracts are entered into with licensed banks to hedge part of the Group's sales from exchange rate movements. As the exchange rates are pre-determined under such contracts, the Group is not exposed to any market risk. Given that the contracts are entered into with licensed banks, we are of the view that credit risk is minimal.

B11 Changes in material litigation

On 23 July 2010, Asia File Products Sdn Bhd ("AFP"), a wholly owned subsidiary of Asia File Corporation Bhd was served with a Writ of Seizure and Sales by Mr Kalidason A/L Ramoo in relation to his claims of losses and damages amounting to RM 217.7 million in respect of a piece of property purchased by AFP for a total purchase consideration of RM 4.6million.

AFP has successfully been granted a stay of the execution of the Writ of Seizure and Sales pending the decision from the High Co on AFP's application to set aside the judgement in default of appearance to be pronounced on 8 September 2010.

The Group wishes to stress its confidence of a positive outcome of the court hearing.

B12 Dividends Proposed

After taking into consideration the net cash position for the financial year ended 31 March 2010, the Group decided to recommend a final dividend of 16% less tax (2009: 15% less tax) subject to approval by shareholders. The date of payment of the recommended final dividend shall be determined by the directors and to be announced at a later date.

B13 Earnings per share

	Current Quarter ended 30-Jun-10	Current Year to Date 30-Jun-10
Basic earnings per share		
Net profit for the period (RM'000)	15,744	15,744
Weighted average number of ordinary shares ('000)	114,587	114,587
Basic earnings per share (sen)	<u>13.74</u>	<u>13.74</u>

	Current Quarter ended 30-Jun-10	Current Year to Date 30-Jun-10
Diluted earnings per share		
Net profit for the period (RM'000)	15,744	15,744
Weighted average number of ordinary shares ('000)	114,587	114,587
Adjustment for share options ('000)	<u>1,112</u>	<u>1,112</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>115,699</u>	<u>115,699</u>
Diluted earnings per share (sen)	<u>13.61</u>	<u>13.61</u>

By Order of The Board
Lam Voon Kean (Company Secretary)
