

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

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2012
(Financial Year Ended 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 year 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 year under review.

A5. Changes in estimates

There were no material changes in the nature and amount of estimates during the financial year 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 year under review, except for the following:

- (i) Repurchased a total of 619,400 ordinary shares of its issued share capital from the open market during the financial year, at an average cost of RM 1.9448 per share. The total repurchases consideration, including transaction costs during the financial year amounted to RM 1,204,612 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.

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As at 31 December 2012, the number of treasury shares held was 943,100 ordinary shares.

A7. Dividend paid

During the financial year ended 31 December 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

	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	Total RM'000
31 December 2012				
Segment assets	363,019	115,293	10,752	489,064
Investment in associates	0	0	57,749	57,749
Total assets	<u>363,019</u>	<u>115,293</u>	<u>68,501</u>	<u>546,813</u>
Segment liabilities	<u>122,017</u>	<u>35,201</u>	<u>72</u>	<u>157,290</u>
External revenue	<u>341,228</u>	<u>142,925</u>	<u>0</u>	<u>484,153</u>
Segment profit/(loss)	<u>14,001</u>	<u>11,404</u>	<u>(564)</u>	<u>24,841</u>
31 December 2011				
Segment assets	367,921	116,157	5,495	489,573
Investment in associates	0	0	59,503	59,503
Total assets	<u>367,921</u>	<u>116,157</u>	<u>64,998</u>	<u>549,076</u>
Segment liabilities	<u>111,198</u>	<u>37,469</u>	<u>72</u>	<u>148,739</u>
External revenue	<u>449,535</u>	<u>151,530</u>	<u>0</u>	<u>601,065</u>
Segment profit	<u>37,696</u>	<u>9,441</u>	<u>49</u>	<u>47,186</u>

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A8. Segment reporting (Cont'd)

b. Geographical information

In RM'000	External revenue		Non-current assets	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Malaysia	119,222	131,090	81,542	83,408
Thailand	13,052	10,114	87,666	58,249
Germany	67,641	93,468	0	0
United States of America	96,070	104,368	0	0
Other countries	188,168	262,025	0	0
	<u>484,153</u>	<u>601,065</u>	<u>169,208</u>	<u>141,657</u>

The Group's revenue of this current financial year was recorded at RM484.2 million, which dropped by RM116.9 million or 19.45%, from a high of RM601.1 million in last financial year. The declined revenue was mainly attributed by the drop in the sales order in stainless steel fasteners segment which decreased by RM108.3million. Subsequent to the uncertainties in Eurozone periphery, the sales of stainless steel fasteners segment to European countries have dropped significantly compared with the last financial year. In addition, the investigation concerning the possible circumvention of anti-dumping measures imposed by European Commission also contributed to the slowdown of sales delivery to European countries in the fourth quarter.

The installation of machineries in new fasteners Thailand factory will be completed in the first quarter of Year 2013 and expected to be commencing operation in the second quarter of Year 2013.

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 year 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:

	31/12/2012
	RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	3,680
	<u>3,680</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 year from the end of the year under review to 27 February 2013.

A13. Contingent liabilities

	31/12/2012	31/12/2011
	RM'000	RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	200,090	271,131
	<u>200,090</u>	<u>271,131</u>

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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 revenue of RM103.89million and profit before tax of RM6.46million for the current quarter as compared to revenue of RM143.79million and profit before tax of RM6.16million 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 and also investigation concerning the possible circumvention of anti-dumping measures imposed by European Commission to the fasteners division.

However, the Group recorded a higher profit before tax in current quarter. This was mainly attributed by the share of gain from the investment in associates, subsequent to the strengthened Vietnamese Dong against US Dollar at the end of this quarter.

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

The Group reported revenue of RM103.89 million and profit before tax of RM6.46 million for the current reporting quarter as compared to revenue of RM112.09 million and profit before tax of RM3.98 million in the preceding quarter.

The decrease of RM8.2 million or 7.32% in revenue was mainly contributed by declined sales demand from European countries and local markets. However, the profit before tax was increased by RM2.48 million or 62.31% was mainly due to the share of gain from the investment in associates which amounted to RM2.07 million.

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 remain 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 to suggest that these nations' economies are strong, as persistent weaknesses continue to dampen growth.

However, manufacturing activity in the Eurozone is not as 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 2013 will continue to be challenging.

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4. Variance of actual profit from forecast profit

Not applicable.

5. Taxation

The taxation for continuing operations comprises:

	Individual Quarter 3 months ended 31 December		Cumulative Quarter ended 31 December	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current taxation	(505)	(1,435)	3,701	5,177
Deferred taxation	1,228	(575)	1,215	(596)
Taxation over provided in prior years	723	(2,010)	4,916	4,581
	<u>(747)</u>	<u>(158)</u>	<u>(199)</u>	<u>(3,640)</u>
	<u>(24)</u>	<u>(2,168)</u>	<u>4,717</u>	<u>941</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.

6. Group borrowings and debt securities

The Group's loans and borrowings are as follows:

	31/12/2012 RM'000	31/12/2011 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Onshore foreign currency loans	59,275	35,220
Foreign currency trust receipts	39,795	85,337
Bank overdrafts	0	25
Long term loans	21,711	3,223
	<u>120,781</u>	<u>123,805</u>

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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:

<u>Bank loans and borrowings - unsecured</u>	31/12/2012	31/12/2011
	RM'000	RM'000
US Dollars	112,489	121,271
Thai Baht	8,292	2,509
Ringgit Malaysia	0	25
	<u>120,781</u>	<u>123,805</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 19 February 2013 (the latest practicable date which is not earlier than 7 days from the date of this quarterly report).

8. Financial instruments

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

	31/12/2012		31/12/2011	
	To sell	To buy	To sell	To buy
	'000	'000	'000	'000
Contract I	EUR 900	USD 1,166	EUR 190	USD 253
Contract II	EUR 650	RM 2,602	EUR 1,460	RM 6,274
Contract III	NIL	NIL	USD 13,732	RM 43,139
Contract IV	NIL	NIL	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 year ended 31 December 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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10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Year ended	
	31 December		31 December	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Profit for the period/ year attributable to owners of the Company (RM'000)	3,837	8,016	14,955	36,554
Number of shares in issue at 1 January ('000)	127,106	127,312	127,106	127,312
Effect of shares purchased ('000)	(316)	(59)	(316)	(59)
Weighted average number of shares in issue ('000)	126,790	127,253	126,790	127,253
Basic earnings per share (sen)	3.03	6.30	11.80	28.73
Diluted earnings per share (sen)	3.03	6.30	11.80	28.73

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

11. Realised and unrealised profits or losses disclosures

	31/12/2012	31/12/2011
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	287,747	323,466
- Unrealised	(5,586)	(6,399)
	282,161	317,067
Total share of retained profits/(losses) from associates:		
- Realised	(658)	358
- Unrealised	383	(205)
	(275)	153
Less: Consolidation adjustments and eliminations	(94,446)	(116,838)
Total retained profits as per consolidated financial statements	187,440	200,382

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Year To Date
	RM'000	RM'000
Interest income	590	2,424
Interest expense	384	1,484
Depreciation and amortization	3,664	15,392
Reversal of provision for receivables, net	(24)	(587)
Foreign exchange loss/(gain)	286	(540)
(Gain)/Loss on financial instruments at fair value through profit or loss	(9)	91

BY ORDER OF THE BOARD

Tsai Yi Ting
 Managing Director

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Dated this 27 February 2013