

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 2013
(Financial Year Ending 31 December 2013)

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 2012.

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 2012 except for the adoption of the following new/revised MFRSs:-

MFRS (issued as at the end of the reporting period)	Effective for annual periods beginning on or after
Amendments to MFRS 101 <i>Presentation of Items of Other Comprehensive Income</i>	1 July 2012
MFRS 10 <i>Consolidated Financial Statements</i>	1 January 2013
MFRS 11 <i>Joint Arrangements</i>	1 January 2013
MFRS 12 <i>Disclosure of Interests in Other Entities</i>	1 January 2013
MFRS 13 <i>Fair Value Measurement</i>	1 January 2013
MFRS 119 <i>Employee Benefits</i> (amended in 2011)	1 January 2013
MFRS 127 <i>Separate Financial Statements</i> (amended in 2011)	1 January 2013
MFRS 128 <i>Investments in Associates and Joint Ventures</i> (amended in 2011)	1 January 2013
IC Interpretation 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	1 January 2013
Amendments to MFRS 1 <i>Government Loans</i>	1 January 2013
Amendments to MFRS 7 <i>Disclosures-Offsetting Financial Assets and Financial Liabilities</i>	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12 <i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i>	1 January 2013
Amendments to MFRSs contained in the document entitled " <i>Annual Improvement 2009 – 2011 Cycle</i> "	1 January 2013

The adoption of the above new/revised MFRSs and IC Interpretations have not resulted in any material impact on the financial statements of the Group.

A2. Qualification of Financial Statements

The auditors' report dated 15 April 2013 in respect of the audited financial statements for the year ended 31 December 2012 was not subject to any qualification.

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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 5,000 ordinary shares of its issued share capital from the open market during the financial period, at an average cost of RM 1.7326 per share. The total repurchases consideration, including transaction costs during the financial period amounted to RM8,663 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 2013, the number of treasury shares held was 948,100 ordinary shares.

A7. Dividend paid

No dividend was paid by the Company during the financial period ended 31 March 2013.

A8. Segment reporting

a. Operating segment

31 March 2013	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
Segment assets	371,895	122,598	11,025	505,518
Investment in associates	0	0	56,223	56,223
Total assets	371,895	122,598	67,248	561,741
Segment liabilities	121,092	38,977	71	160,140
External revenue	97,723	34,223	0	131,946
Segment profit/(loss)	4,871	3,530	(525)	7,876

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

31 March 2012	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
Segment assets	368,418	120,663	4,840	493,921
Investment in associates	0	0	58,432	58,432
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. Geographical information

In RM'000	External revenue		Non-current assets	
	31/03/2013	31/03/2012	31/03/2013	31/03/2012
Malaysia	29,421	29,076	79,833	83,379
Thailand	3,320	3,594	93,755	59,379
Germany	25,763	29,422	0	0
United States of America	21,745	25,794	0	0
Other countries	<u>51,697</u>	<u>60,065</u>	<u>0</u>	<u>0</u>
	<u>131,946</u>	<u>147,951</u>	<u>173,588</u>	<u>142,758</u>

The Group's revenue of the current quarter was recorded at RM131.95 million, which dropped by RM16.01 million or 10.82%, from a high of RM147.95 million in the corresponding quarter 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 RM14.63million. The sales of stainless steel fasteners segment to European countries have dropped significantly compared with the corresponding quarter in last financial year. This was mainly due to uncertainties in Euro Zone. Lower sales demand from US market also led to the lower revenue recorded in this quarter, as compared with the corresponding quarter in last financial year. As a result of lower sales demand, the performance for this segment also was noted at lower level. However, as compared with previous quarter, the termination of anti-circumvention investigation has led to improvement in this segment.

The performance of the Aluminium segment for this current quarter was consistent with the corresponding period in last financial year. No major capital expenditure incurred by this segment in this quarter.

The installation of machineries in new fasteners Thailand factory was completed by the end of this quarter. The operations will be commenced in the second quarter of Year 2013.

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A9. Changes in the composition of the Group

There were no changes in the composition of the Group during the current financial period 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 period 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:

	31/03/2013 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	921
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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 period from the end of the period under review to 23 May 2013.

A13. Contingent liabilities

	31/03/2013 RM'000	31/12/2012 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	201,752	198,567
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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 RM131.95million and profit before tax of RM9.65million for the current quarter as compared to revenue of RM147.95million and profit before tax of RM11.28million for the corresponding quarter in previous year.

The drop in revenue during the quarter was mainly contributed by the declined sales demand in fasteners division, especially from European and US markets, as a result of slowdown of economy.

The Group recorded a lower profit before tax in current quarter which was mainly attributed by the lower sales demand and also weakened Ringgit Malaysia against US Dollar in this quarter.

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

The Group reported revenue of RM131.95 million and profit before tax of RM9.65 million for the current quarter as compared to revenue of RM104.13 million and profit before tax of RM6.16 million in the preceding quarter.

The increase of RM27.82 million or 26.72% in revenue was mainly contributed by the surge in sales demand from European countries and local markets. The termination of the investigation concerning the possible circumvention of anti-dumping measures imposed by European Commission to the fasteners division at the beginning of this quarter has positively impacted the sales orders from European market.

Higher sales demand has led to higher profit before tax, which was increased by RM3.49 million or 56.66%, in conjunction with the improvement from the profit margin attained in current quarter.

3. Prospects for the current financial year

Global prospects still very uncertain, especially in Eurozone, and unemployment in many advanced economies still stay high. The manufacturing activity in the Eurozone is still 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 2013 continues 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:

	Individual Quarter 3 months ended 31 March		Cumulative Quarter ended 31 March	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Current taxation	1,786	1,688	1,786	1,688
Deferred taxation	(13)	35	(13)	35
	<u>1,773</u>	<u>1,723</u>	<u>1,773</u>	<u>1,723</u>

The effective tax rate is lower compared with the statutory rates for cumulative financial period 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:

	31/03/2013 RM'000	31/12/2012 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Onshore foreign currency loans	52,933	59,276
Foreign currency trust receipts	55,172	39,795
Bank overdrafts	9	0
Long term loans	21,439	21,710
	<u>129,553</u>	<u>120,781</u>

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

	31/03/2013 RM'000	31/12/2012 RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	121,409	112,489
Thai Baht	8,135	8,292
Ringgit Malaysia	9	0
	<u>129,553</u>	<u>120,781</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 16 May 2013 (the latest practicable date which is not earlier than 7 days from the date of this quarterly report).

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8. Financial instruments

As at 31 March 2013, the outstanding forward exchange contracts are as follows:

	31/03/2013		31/12/2012	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 1,600	USD 2,122	EUR 900	USD 1,166
Contract II	EUR 800	RM 3,269	EUR 650	RM 2,602
Contract III	EUR60	THB2,412	NIL	NIL

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 single tier dividend of 4 sen per share, in respect of the financial year ended 31 December 2012 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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Profit for the period attributable to owners of the Company (RM'000)	5,251	6,668	5,251	6,668
Number of shares in issue at 1 January ('000)	126,487	127,106	126,487	127,106
Effect of shares purchased ('000)	(1)	(250)	(1)	(250)
Weighted average number of shares in issue ('000)	126,486	126,856	126,486	126,856
Basic earnings per share (sen)	4.15	5.26	4.15	5.26
Diluted earnings per share (sen)	4.15	5.26	4.15	5.26

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

11. Realised and unrealised profits or losses disclosures

	31/03/2013	31/12/2012
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	297,068	287,752
- Unrealised	(6,551)	(5,591)
	290,517	282,161
Total share of retained profits/(losses) from associates:		
- Realised	(1,150)	(959)
- Unrealised	(4)	383
	(1,154)	(576)
Less: Consolidation adjustments and eliminations	(96,973)	(94,446)
Total retained profits as per consolidated financial statements	192,390	187,139

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	485	485
Interest expense	309	309
Depreciation and amortization	3,611	3,611
Reversal of provision for receivables, net	20	20
Foreign exchange loss	562	562
Gain on financial instruments at fair value through profit or loss	273	273

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 23 May 2013