

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 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 56,100 ordinary shares of its issued share capital from the open market during the financial period, at an average cost of RM 1.6910 per share. The total repurchases consideration, including transaction costs during the financial period amounted to RM94,866 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 2013, the number of treasury shares held was 999,200 ordinary shares.

A7. Dividend paid

During the financial period ended 30 June 2013, the Company paid a final single tier dividend of 4 sen per share, amounting to RM5,058,876 in respect of the financial year ended 31 December 2012.

A8. Segment reporting

a. Operating segment

30 June 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	385,841	129,737	5,652	521,230
Investment in associates	0	0	55,537	55,537
Total assets	<u>385,841</u>	<u>129,737</u>	<u>61,189</u>	<u>576,767</u>
Segment liabilities	<u>133,014</u>	<u>41,750</u>	<u>1</u>	<u>174,765</u>
External revenue	<u>181,829</u>	<u>75,284</u>	<u>0</u>	<u>257,113</u>
Segment profit/(loss)	<u>10,179</u>	<u>7,895</u>	<u>(1,231)</u>	<u>16,843</u>

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

30 June 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	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	86,784	38,207	2	124,993
External revenue	194,410	73,769	0	268,179
Segment profit	<u>9,701</u>	<u>6,322</u>	<u>235</u>	<u>16,258</u>

b. Geographical information

In RM'000	External revenue		Non-current assets	
	30/06/2013	30/06/2012	30/06/2013	30/06/2012
Malaysia	64,739	60,974	78,401	82,931
Thailand	6,394	6,822	89,043	67,801
Germany	44,879	45,661	0	0
United States of America	38,509	50,013	0	0
Other countries	102,592	104,709	0	0
	<u>257,113</u>	<u>268,179</u>	<u>167,444</u>	<u>150,732</u>

The Group's revenue of the current quarter-to-date was recorded at RM257.11million, which dropped by RM11.07million or 4.13% in the corresponding quarter-to-date in last financial year. The declined revenue was mainly attributed by the drop in sales in stainless steel fasteners segment which decreased by RM12.58million. The lower sales in fasteners segment recorded in this quarter-to-date was contributed by the significant drop of sales delivery to US market, subsequent to the strengthened Thai Baht against US Dollar where majority of sales orders for Thailand plant are delivered to US and also lower selling price.

The increment of the revenue for local market was mainly contributed by Aluminium segment for this current quarter-to-date as compared with the corresponding period in last financial year.

The operations of second plant in Thailand commenced in the second quarter of Year 2013. No other major capital expenditure incurred in this quarter.

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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:

	30/06/2013
	RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	3,487

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 21 August 2013.

A13. Contingent liabilities

	30/06/2013	31/12/2012
	RM'000	RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	201,182	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 RM125.17million and profit before tax of RM10.90million for the current quarter as compared to revenue of RM120.23million and profit before tax of RM7.83million for the corresponding quarter in previous year.

The higher revenue attained in this quarter was mainly contributed by both divisions in the Group, fasteners and aluminium divisions by RM2.06million and RM2.88million respectively. Increased sales demand from local market and also European market has led to the higher sales in this quarter. However, the increase in sales to these two main markets was netted off by the drop in sales to US market, resulted from the lower selling price and strengthened Thai Baht against US Dollar.

Other than the increased sales demand, improvement of profit margin has led to the increased in profit before tax during the quarter.

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

The Group reported revenue of RM125.17million and profit before tax of RM10.90million for the current quarter as compared to revenue of RM131.95million and profit before tax of RM9.65million in the preceding quarter.

The decrease of RM6.78 million or 5.14% in revenue was mainly contributed by the drop in sales of fasteners, especially to US market, as a result of lower sales delivery.

However, profit before tax attained during this quarter has improved by RM1.25 million or 12.95%, 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 30 June		Cumulative Quarter ended 30 June	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Current taxation	1,937	1,177	3,723	2,865
Deferred taxation	(6)	(48)	(19)	(13)
	<u>1,931</u>	<u>1,129</u>	<u>3,704</u>	<u>2,852</u>

The effective tax rate was increased compared with last year as the free-tax benefits that previously enjoyed by one of the plant owned by the foreign subsidiary has expired. Therefore, the manufacturing income generated from this plant is taxable from second quarter onwards.

6. Group borrowings and debt securities

The Group's loans and borrowings are as follows:

	30/06/2013 RM'000	31/12/2012 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Onshore foreign currency loans	60,036	59,276
Foreign currency trust receipts	64,203	39,795
Long term loans	20,696	21,710
	<u>144,935</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:

	30/06/2013 RM'000	31/12/2012 RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	138,313	112,489
Thai Baht	6,622	8,292
	<u>144,935</u>	<u>120,781</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 21 August 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 30 June 2013, the outstanding forward exchange contracts are as follows:

	30/06/2013		31/12/2012	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 1,900	USD 2,478	EUR 900	USD 1,166
Contract II	EUR 2,800	RM 11,562	EUR 650	RM 2,602
Contract III	USD800	THB25,304	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

During the financial period ended 30 June 2013, the Company paid a final single tier dividend of 4 sen per share, amounting to RM5,058,876, in respect of the financial year ended 31 December 2012.

10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	30 June		30 June	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Profit for the period attributable to owners of the Company (RM'000)	5,975	3,755	11,226	10,423
Number of shares in issue at 1 January ('000)	126,487	127,106	126,487	127,106
Effect of shares purchased ('000)	(6)	(275)	(6)	(275)
Weighted average number of shares in issue ('000)	126,481	126,831	126,481	126,831
Basic earnings per share (sen)	4.72	2.96	8.88	8.22
Diluted earnings per share (sen)	4.72	2.96	8.88	8.22

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

11. Realised and unrealised profits or losses disclosures

	30/06/2013	31/12/2012
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	302,122	287,752
- Unrealised	(6,955)	(5,591)
	295,167	282,161
Total share of retained profits/(losses) from associates:		
- Realised	(1,900)	(959)
- Unrealised	0	383
	(1,900)	(576)
Less: Consolidation adjustments and eliminations	(99,961)	(94,446)
Total retained profits as per consolidated financial statements	193,306	187,139

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	623	1,108
Interest expense	391	700
Depreciation and amortization	4,374	7,985
Reversal of provision for receivables, net	30	50
Foreign exchange gain	627	65
Loss/(Gain) on financial instruments at fair value through profit or loss	139	(134)

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 28 August 2013