

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 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 57,100 ordinary shares of its issued share capital from the open market during the financial period, at an average cost of RM 1.6918 per share. The total repurchases consideration, including transaction costs during the financial period amounted to RM96,599 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 2013, the number of treasury shares held was 1,000,200 ordinary shares.

A7. Dividend paid

During the financial period ended 30 September 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 September 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	390,411	126,274	8,261	524,946
Investment in associates	0	0	55,211	55,211
Total assets	<u>390,411</u>	<u>126,274</u>	<u>63,472</u>	<u>580,157</u>
Segment liabilities	<u>130,201</u>	<u>40,259</u>	<u>0</u>	<u>170,460</u>
External revenue	<u>279,958</u>	<u>115,744</u>	<u>0</u>	<u>395,702</u>
Segment profit/(loss)	<u>15,393</u>	<u>10,924</u>	<u>(3,847)</u>	<u>22,470</u>

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

30 September 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	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. Geographical information

In RM'000	External revenue		Non-current assets	
	30/09/2013	30/09/2012	30/09/2013	30/09/2012
Malaysia	97,566	91,497	77,042	137,128
Thailand	10,205	10,445	89,462	77,298
Germany	63,704	57,254	0	0
United States of America	64,253	74,105	0	0
Other countries	<u>159,974</u>	<u>146,966</u>	<u>0</u>	<u>0</u>
	<u>395,702</u>	<u>380,267</u>	<u>166,504</u>	<u>214,426</u>

The Group's revenue of current quarter-to-date was recorded at RM395.70million, which increased by RM15.44million or 4.06% in the corresponding quarter-to-date in last financial year. The improvement in revenue was mainly attributed by both segments, which increased by RM9.40million and RM6.03million in sales in stainless steel fasteners segment and Aluminium segment respectively.

The sales improvement from fasteners segment recorded in this quarter-to-date was due to the higher sales demand from European countries and other Asian countries markets. The initiation of the investigation concerning the possible circumvention of anti-dumping measures imposed by European Commission to the fasteners division in the middle of last year has caused the drop in sales demand from European market for the corresponding quarter in previous year. With the termination of this investigation case at the beginning of this year, the contribution of revenue from this segment to the Group's revenue has been improved.

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A8. Segment reporting (Cont'd)

b. Geographical information (Cont'd)

However, the slow demand from US fasteners market has net-off the improvement in other markets. Furthermore, the strengthened Thai Baht against US Dollar has also led to the lower sales recorded in this current period, as compared with the corresponding period in last financial year.

The increment of 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. Higher sales demand from local market and successfully tendering a new project in this year have led to the increase of revenue in Aluminium division.

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:

	30/09/2013 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	2,089
	2,089

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

	30/09/2013 RM'000	31/12/2012 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	203,888	198,567
	203,888	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 RM138.59million and profit before tax of RM8.80million for the current quarter as compared to revenue of RM112.09million and profit before tax of RM3.98million 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 increased by RM21.98million and RM4.52million respectively. Increased sales demand from local market and also European market has led to the higher sales in this quarter. The initiation of the investigation concerning the possible circumvention of anti-dumping measures imposed by European Commission to the fasteners division since the middle of last year has caused the drop in sales demand from European market for the corresponding quarter in previous year. However, the sales orders has slowly recovered subsequent to the termination of this investigation case at the beginning of this year.

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 RM138.59million and profit before tax of RM8.80million for the current quarter as compared to revenue of RM125.17million and profit before tax of RM10.90million in the preceding quarter.

The increase of RM13.42million or 10.72% in revenue was mainly contributed by the improvement in sales of fasteners, especially to US market. The sales orders from US market were started to be delivered by the new Thailand plant in this quarter, in order to fulfill the demand.

However, profit before tax attained during this quarter has dropped by RM2.10 million or 19.27%. This was mainly due to higher costs with lower margin for fastener division, especially for new Thailand plant. The economic scale benefit has yet to be achieved due to the lower sales orders compared with the capacity of this new plant.

In addition, the foreign exchange loss incurred in this quarter, subsequent to the strengthened US Dollar against Thai Baht has caused lower profit margin attained in this quarter.

3. Prospects for the current financial year

Despite improved global financial conditions and reduced short-term risks, the world economy continues to expand at a subdued pace, especially resulted from the US government partial shutdown. At the same time, new medium-term risks have emerged, including possible adverse effects of unconventional monetary measures in developed economies on global financial stability. These risks have the potential to once again derail the feeble recovery of the world economy.

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3. Prospects for the current financial year (Cont'd)

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 profitable but challenging.

4. Variance of actual profit from forecast profit

Not applicable.

5. Taxation

The taxation for continuing operations comprises:

	Individual Quarter 3 months ended 30 September		Cumulative Quarter ended 30 September	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Current taxation	2,491	1,341	6,214	4,206
Deferred taxation	13	-	(6)	(13)
	2,504	1,341	6,208	4,193
Taxation under provided in prior years	671	548	671	548
	<u>3,175</u>	<u>1,889</u>	<u>6,879</u>	<u>4,741</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:

	30/09/2013 RM'000	31/12/2012 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Bankers' acceptance	500	0
Onshore foreign currency loans	79,973	59,276
Foreign currency trust receipts	38,590	39,795
Long term loans	20,137	21,710
	<u>139,200</u>	<u>120,781</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:

	30/09/2013	31/12/2012
	RM'000	RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	131,928	112,489
Thai Baht	6,772	8,292
Malaysian Ringgit	500	0
	<u>139,200</u>	<u>120,781</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 20 November 2013 (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 2013, the outstanding forward exchange contracts are as follows:

	30/09/2013		31/12/2012	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 2,485	USD 3,314	EUR 900	USD 1,166
Contract II	EUR 2,650	RM 11,232	EUR 650	RM 2,602
Contract III	USD800	RM2,634	NIL	NIL
Contract IV	USD364	THB10,962	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 September 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.

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10. Earnings per share

	Individual Quarter		Cumulative Quarter	
	3 months ended		ended	
	30 September		30 September	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Profit for the period attributable to owners of the Company (RM'000)	3,661	695	14,887	11,118
Number of shares in issue at 1 January ('000)	126,481	127,106	126,487	127,106
Effect of shares purchased ('000)	(14)	(284)	(20)	(284)
Weighted average number of shares in issue ('000)	126,467	126,822	126,467	126,822
Basic earnings per share (sen)	2.89	0.55	11.77	8.77
Diluted earnings per share (sen)	2.89	0.55	11.77	8.77

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

11. Realised and unrealised profits or losses disclosures

	30/09/2013	31/12/2012
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	307,538	287,752
- Unrealised	(6,498)	(5,591)
	301,040	282,161
Total share of retained profits/(losses) from associates:		
- Realised	(4,567)	(959)
- Unrealised	7	383
	(4,560)	(576)
Less: Consolidation adjustments and eliminations	(99,513)	(94,446)
Total retained profits as per consolidated financial statements	196,967	187,139

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	644	1,752
Interest expense	429	1,129
Depreciation and amortization	4,467	12,452
Reversal of provision for receivables, net	19	69
Foreign exchange loss	438	373
Loss on financial instruments at fair value through profit or loss	1,152	1,018

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 27 November 2013