

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 2013
(Financial Year Ended 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 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 57,100 ordinary shares of its issued share capital from the open market during the financial year, at an average cost of RM1.6918 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 31 December 2013, the number of treasury shares held was 1,000,200 ordinary shares.

A7. Dividend paid

During the financial year ended 31 December 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

31 December 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	372,977	117,599	3,109	493,685
Investment in associates	0	0	75,131	75,131
Total assets	<u>372,977</u>	<u>117,599</u>	<u>78,240</u>	<u>568,816</u>
Segment liabilities	<u>125,131</u>	<u>37,271</u>	<u>81</u>	<u>162,483</u>
External revenue	<u>365,986</u>	<u>154,013</u>	<u>0</u>	<u>519,999</u>
Segment profit/(loss)	<u>18,660</u>	<u>10,236</u>	<u>(4,672)</u>	<u>24,224</u>

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

31 December 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	363,019	115,293	10,752	489,064
Investment in associates	0	0	57,450	57,450
Total assets	<u>363,019</u>	<u>115,293</u>	<u>68,202</u>	<u>546,514</u>
Segment liabilities	<u>122,017</u>	<u>35,202</u>	<u>72</u>	<u>157,291</u>
External revenue	<u>341,473</u>	<u>142,925</u>	<u>0</u>	<u>484,398</u>
Segment profit/(loss)	<u>14,001</u>	<u>11,404</u>	<u>(865)</u>	<u>24,540</u>

b. Geographical information

In RM'000	External revenue		Non-current assets	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Malaysia	129,303	119,222	76,172	81,542
Thailand	12,396	13,297	83,901	87,666
Germany	80,946	67,641	0	0
United States of America	90,824	96,070	0	0
Other countries	<u>206,530</u>	<u>188,168</u>	<u>0</u>	<u>0</u>
	<u>519,999</u>	<u>484,398</u>	<u>160,073</u>	<u>169,208</u>

The Group's revenue of current year-to-date was recorded at RM520.0million, which increased by RM35.60million or 7.34% compared to last financial year. The improvement in revenue was mainly attributed by both segments, which increased by RM24.51million and RM11.09million in sales in stainless steel fasteners segment and Aluminium segment respectively.

The sales improvement from fasteners segment recorded in this year 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 mid of last year has caused the drop in sales demand from European market. 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)

The increment of revenue for local market was mainly contributed by Aluminium segment for this current year as compared with the 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. However, the slow demand from US fasteners market has net-off the improvement in other markets.

A9. Changes in the composition of the Group

There were no changes in the composition of the Group during the current financial year.

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.

A11. Capital commitment

Authorised capital expenditure not provided for in the interim financial report is as follows:

	31/12/2013 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	858
	858

A12. Material events subsequent to the end of the year reported

There was no item, transaction or event of a material or unusual in nature during the year from the end of the period under review to 20 February 2014.

A13. Contingent liabilities

	31/12/2013 RM'000	31/12/2012 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	216,155	198,567
	216,155	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 RM124.30million and profit before tax of RM0.76million for the current quarter as compared to revenue of RM104.13million and profit before tax of RM6.16million 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 RM24.51million and RM11.09million 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 have slowly recovered subsequent to the termination of this investigation case at the beginning of this year.

Besides, higher revenue also contributed by the increase in sales delivery to US market in this current quarter, compared with the corresponding quarter in last financial year, subsequent to the completion of second plant in Thailand in last quarter.

However, the profit before tax was decreased by RM5.40million in this quarter compared to the corresponding quarter in last financial year. The decrease was mainly contributed by the share of loss from associates in this current quarter while the Group was shared the profit in the corresponding quarter of last financial year. In addition, the weakened Thai Baht and Ringgit Malaysia against US Dollar at this year end has led to the unrealized loss on the foreign exchange. This has dampened the profit of the Group attained in this current quarter.

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

The Group reported revenue of RM124.30million and profit before tax of RM0.76million for the current quarter as compared to revenue of RM138.59million and profit before tax of RM8.80million in the preceding quarter.

The decrease of RM14.29million or 10.31% in revenue during this quarter, compared with the preceding quarter was mainly caused by the drop in sales from fasteners division, especially European market and Asia market, subsequent to the lower sales demand.

Profit before tax for this quarter was dropped by RM8.04million, compared with the preceding quarter. Other than the drop in sales attained in this current quarter, the decrease in profit before tax was also caused by the foreign exchange loss incurred in this quarter, which resulted from the strengthened US Dollar against Thai Baht and also Ringgit Malaysia. However, the improvement of share of loss from associates in this quarter, compared with the preceding quarter has slightly netted off the negative impact from the lower sales demand and foreign exchange loss.

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3. Prospects for the current financial year

The world economy had experienced the challenging growth in 2013. There were some sign of improvement have emerged recently, whereby Euro area has come out of a protracted recession and US continues to recover. However, the economy prospect is still uncertain and fragile. Uncertainties associated with the political wrangling in the US over budget issue as well as the challenging unemployment condition in Euro area. These risk factors could derail the world economy far away from the projections outline.

On the other hand, world fixed investment levels will continue to increase and the global durable goods manufacturing environment will improve, both of which may support increased fasteners demands.

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 2014 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 31 December		Cumulative Quarter ended 31 December	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Current taxation	52	(505)	6,266	3,701
Deferred taxation	(763)	1,228	(769)	1,215
	(711)	723	5,497	4,916
Taxation (over)/under provided in prior years	(283)	(747)	388	(199)
	<u>(994)</u>	<u>(24)</u>	<u>5,885</u>	<u>4,717</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.

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6. Group borrowings and debt securities

The Group's loans and borrowings are as follows:

	31/12/2013	31/12/2012
	RM'000	RM'000
<u>Bank loans and borrowings - unsecured</u>		
Bankers' acceptance	1,200	0
Onshore foreign currency loans	72,678	59,276
Foreign currency trust receipts	38,636	39,795
Long term loans	18,524	21,710
	<u>131,038</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:

	31/12/2013	31/12/2012
	RM'000	RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	123,963	112,489
Thai Baht	5,875	8,292
Malaysian Ringgit	1,200	0
	<u>131,038</u>	<u>120,781</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 20 February 2014 (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 2013, the outstanding forward exchange contracts are as follows:

	31/12/2013		31/12/2012	
	To sell	To buy	To sell	To buy
	'000	'000	'000	'000
Contract I	EUR 1,800	USD 2,442	EUR 900	USD 1,166
Contract II	EUR 2,000	RM 8,715	EUR 650	RM 2,602

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 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 3 months ended		Cumulative Quarter ended	
	31 December		31 December	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Profit for the period/year attributable to owners of the Company (RM'000)	2,095	3,536	16,982	14,654
Number of shares in issue at 1 January ('000)	126,487	127,106	126,487	127,106
Effect of shares purchased ('000)	(34)	(316)	(34)	(316)
Weighted average number of shares in issue ('000)	126,453	126,790	126,453	126,790
Basic earnings per share (sen)	1.66	2.79	13.43	11.56
Diluted earnings per share (sen)	1.66	2.79	13.43	11.56

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

11. Realised and unrealised profits or losses disclosures

	31/12/2013	31/12/2012
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	308,303	287,752
- Unrealised	(7,076)	(5,591)
	301,227	282,161
Total share of retained profits/(losses) from associates:		
- Realised	(5,521)	(959)
- Unrealised	0	383
	(5,521)	(576)
Less: Consolidation adjustments and eliminations	(96,644)	(94,446)
Total retained profits as per consolidated financial statements	199,062	187,139

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Year To Date
	RM'000	RM'000
Interest income	882	2,634
Interest expense	488	1,617
Depreciation and amortization	4,266	16,718
Provision for receivables, net	1,417	1,486
Foreign exchange loss	2,976	3,349
Loss on financial instruments at fair value through profit or loss	270	1,288

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 27 February 2014