

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 2014
(Financial Year Ending 31 December 2014)

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 2013.

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 2013 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
MFRS 9 <i>Financial Instruments</i>	To be announced
IC Interpretation 21 <i>Levies</i>	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127 <i>Investment Entities</i>	1 January 2014
Amendments to MFRS 132 <i>Offsetting Financial Assets and Financial Liabilities</i>	1 January 2014
Amendments to MFRS 136 <i>Recoverable Amount Disclosure for Non-Financial Assets</i>	1 January 2014
Amendments to MFRS 139 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	1 January 2014

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 16 April 2014 in respect of the audited financial statements for the year ended 31 December 2013 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.

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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 10,000 ordinary shares of its issued share capital from the open market during the financial period, at an average cost of RM1.66 per share. The total repurchases consideration, including transaction costs during the financial period amounted to RM16,722 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 2014, the number of treasury shares held was 1,010,200 ordinary shares.

A7. Dividend paid

During the financial period ended 30 June 2014, the Company paid a final single tier dividend of 5 sen per share, amounting to RM6,320,990 in respect of the financial year ended 31 December 2013.

A8. Segment reporting

a. Operating segment

30 June 2014	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	405,090	124,287	2,876	532,253
Investment in associates	0	0	72,901	72,901
Total assets	405,090	124,287	75,777	605,154
Segment liabilities	145,083	40,997	23	186,303
External revenue	186,519	79,382	0	265,901
Segment profit	16,895	7,962	141	24,998

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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>

b. Geographical information

In RM'000	External revenue		Non-current assets	
	30/06/2014	30/06/2013	30/06/2014	30/06/2013
Malaysia	64,291	64,739	73,538	78,401
Thailand	6,076	6,394	80,066	89,043
United States of America	30,965	38,509	0	0
Germany	43,189	44,879	0	0
Italy	17,492	3,416	0	0
Singapore	22,549	17,953	0	0
Other countries	<u>81,339</u>	<u>81,223</u>	<u>0</u>	<u>0</u>
	<u>265,901</u>	<u>257,113</u>	<u>153,604</u>	<u>167,444</u>

The Group's revenue of current quarter-to-date was recorded at RM265.90million, which increased by RM8.79million or 3.42% compared to corresponding quarter-to-date in the last financial year. The improvement in revenue was mainly attributed by both segments, which increased by RM4.69million and RM4.10million in sales in stainless steel fasteners segment and Aluminium segment respectively.

The lower sales demand from United States of America fasteners market has net off with the improvement in the higher revenue generated from Italy market. While the higher sales demand from Singapore market have led to the increase of revenue in Aluminium division.

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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.

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:

	30/06/2014
	RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	957

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 period from the end of the period under review to 22 Aug 2014.

A13. Contingent liabilities

	30/06/2014	31/12/2013
	RM'000	RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	214,680	216,155

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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 RM265.90million and profit before tax of RM31.01million for the current quarter-to-date as compared to revenue of RM257.11million and profit before tax of RM20.55million for the corresponding quarter-to-date in previous year.

The higher revenue attained in this quarter was mainly contributed by both segments, which increased by RM4.69million and RM4.10million in sales in stainless steel fasteners segment and Aluminium segment respectively.

The Group recorded a higher profit before tax in current quarter-to-date which was mainly attributed to the improvement in the gross profit margin as a result of increase in the selling price.

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

The Group reported revenue of RM265.90million and profit before tax of RM31.01million for the current quarter-to-date as compared to revenue of RM257.11million and profit before tax of RM20.55million in the preceding quarter-to-date.

The increase of RM8.79million or 3.42% in revenue during this quarter-to-date, compared with the preceding quarter-to-date is as result from the increase in sales demand from both fasteners and aluminium division.

Higher sales demand has led to higher profit before tax, in conjunction with the improvement from the profit margin attained in current quarter-to-date.

3. Prospects for the current financial year

With the merging of global economy, global durable good manufacturing environment is likely to be improved as recovery gather pace. This may support increased of fasteners and aluminium demand.

However, challenges are still expected and the global prospects still uncertain due to geopolitics tension, which could threaten inflation around the world. This risk factor could derail the world economy far away from the projections outline.

The Board expects there will be a steady growth in the Group's performance and will continue keeping with the efforts toward cost saving measures to remain competitive. 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.

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5. Taxation

The taxation for continuing operations comprises:

	Individual Quarter 3 months ended 30 June		Cumulative Quarter ended 30 June	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current taxation	2,961	1,937	5,947	3,723
Deferred taxation	36	(6)	62	(19)
	<u>2,997</u>	<u>1,931</u>	<u>6,009</u>	<u>3,704</u>

The effective tax rate was increased compared with last financial period as the free-tax benefits that previously enjoyed by one of the plant owned by the foreign subsidiary has expired. The manufacturing income generated from this plant is taxable from 2nd Quarter of year 2013 onwards.

6. Group borrowings and debt securities

The Group's loans and borrowings are as follows:

	30/06/2014 RM'000	31/12/2013 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Bankers' acceptance	400	1,200
Onshore foreign currency loans	44,714	72,678
Foreign currency trust receipts	100,438	38,636
Long term loans	15,128	18,524
	<u>160,680</u>	<u>131,038</u>

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

	30/06/2014 RM'000	31/12/2013 RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	155,035	123,963
Thai Baht	5,245	5,875
Malaysian Ringgit	400	1,200
	<u>160,680</u>	<u>131,038</u>

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7. Material pending litigation

The Group is not engaged in any material litigation as at 22 August 2014 (the latest practicable date which is not earlier than 7 days from the date of this quarterly report).

8. Financial instruments

As at 30 June 2014, the outstanding forward exchange contracts are as follows:

	30/06/2014		31/12/2013	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 2,800	USD 3,847	EUR 1,800	USD 2,442
Contract II	EUR 1,000	RM 4,537	EUR 2,000	RM 8,715
Contract III	EUR 885	USD 1,204	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 2014, the Company paid a final single tier dividend of 5 sen per share, amounting to RM6,320,990, in respect of the financial year ended 31 December 2013.

10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	30 June		30 June	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Profit for the period attributable to owners of the Company (RM'000)	9,676	5,975	18,089	11,226
Number of shares in issue at 1 January ('000)	126,430	126,487	126,430	126,487
Effect of shares purchased ('000)	(8)	(6)	(8)	(6)
Weighted average number of shares in issue ('000)	126,422	126,481	126,422	126,481
Basic earnings per share (sen)	7.65	4.72	14.31	8.88
Diluted earnings per share (sen)	7.65	4.72	14.31	8.88

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

11. Realised and unrealised profits or losses disclosures

	30/06/2014	31/12/2013
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	320,824	308,087
- Unrealised	(4,075)	(7,076)
	316,749	301,011
Total share of retained profits/(losses) from associates:		
- Realised	(4,634)	(4,799)
- Unrealised	0	(0)
	(4,634)	(4,799)
Less: Consolidation adjustments and eliminations	(100,668)	(96,536)
Total retained profits as per consolidated financial statements	211,444	199,676

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	582	1,103
Interest expense	586	1,122
Depreciation and amortization	4,490	8,987
Reversal of provision for receivables	38	74
Foreign exchange Gain	1,432	1,281
Loss on financial instruments at fair value through profit or loss	307	419

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 28 August 2014