

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 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 17,300 ordinary shares of its issued share capital from the open market during the financial period, at an average cost of RM1.84 per share. The total repurchases consideration, including transaction costs during the financial period amounted to RM32,017 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 2014, the number of treasury shares held was 1,017,500 ordinary shares.

**A7. Dividend 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, was paid on 26 June 2014.

An interim single-tier dividend of 6 sen per share, amounting to RM7,584,750 for the year ending 31 December 2014, was paid on 25 September 2014.

**A8. Segment reporting**

**a. Operating segment**

30 September 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	419,151	129,803	2,298	551,252
Investment in associates	0	0	74,884	74,884
Total assets	419,151	129,803	77,182	626,136
Segment liabilities	154,711	43,211	15	197,937
External revenue	292,715	119,779	0	412,494
Segment profit	25,989	11,464	409	37,862

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**A8. Segment reporting (Cont'd)**

**a. Operating segment (Cont'd)**

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	390,411	126,274	63,472	580,157
Segment liabilities	130,201	40,259	0	170,460
External revenue	279,958	115,744	0	395,702
Segment profit/(loss)	15,393	10,924	(3,847)	22,470

**b. Geographical information**

In RM'000	External revenue		Non-current assets	
	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Malaysia	96,352	97,566	71,264	77,042
Thailand	9,940	10,205	80,162	89,462
United States of America	46,414	64,253	0	0
Germany	69,521	63,704	0	0
Italy	31,019	6,591	0	0
Other countries	159,248	153,383	0	0
	412,494	395,702	151,426	166,504

The Group's revenue of current quarter-to-date was recorded at RM412.49million, which increased by RM16.79million or 4.24% compared to corresponding quarter-to-date in the last financial year. The improvement in revenue was mainly contributed by the sales of stainless steel fasteners segment, which increased by RM12.76million.

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.

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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:

	<b>30/09/2014</b> <b>RM'000</b>
<u>Property, plant and equipment</u>	
Contracted but not provided for	<u>5,973</u>

**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 Nov 2014.

**A13. Contingent liabilities**

	<b>30/09/2014</b> <b>RM'000</b>	<b>31/12/2013</b> <b>RM'000</b>
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	<u>217,140</u>	<u>216,155</u>

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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 RM412.49million and profit before tax of RM46.94million for the current quarter-to-date as compared to revenue of RM395.70million and profit before tax of RM29.35million for the corresponding quarter-to-date in previous year.

The higher revenue attained in this quarter was mainly contributed by sales in stainless steel fasteners segment, which increased by RM12.76million.

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 higher order demand from customers, which placed in previous quarter.

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

The Group reported revenue of RM412.49million and profit before tax of RM46.94million for the current quarter-to-date as compared to revenue of RM395.70million and profit before tax of RM29.35million in the preceding quarter-to-date.

The increase of RM16.79million or 4.24% in revenue during this quarter-to-date, compared with the preceding quarter-to-date is as result from the increase in sales demand from fasteners.

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**

Global prospects still remains uncertain, especially in Eurozone whereby slow growth momentum has been recorded and also due to the geopolitical tensions. This risk factor could derail the world economy far away from the projections outline.

Despite the uncertainties of the global prospect, the Board will continue keeping with the efforts toward cost saving measures as 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:

	<b>Individual Quarter 3 months ended 30 September</b>		<b>Cumulative Quarter ended 30 September</b>	
	<b>2014 RM'000</b>	<b>2013 RM'000</b>	<b>2014 RM'000</b>	<b>2013 RM'000</b>
Current taxation	3,026	2,491	9,131	6,214
Deferred taxation	47	13	47	(6)
	3,073	2,504	9,084	6,208
Taxation (over)/under provided in prior years	(4)	671	(4)	671
	<u>3,069</u>	<u>3,175</u>	<u>9,080</u>	<u>6,879</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 2<sup>nd</sup> Quarter of year 2013 onwards.

**6. Group borrowings and debt securities**

The Group's loans and borrowings are as follows:

	<b>30/09/2014 RM'000</b>	<b>31/12/2013 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
Bankers' acceptance	1,200	1,200
Onshore foreign currency loans	52,375	72,678
Foreign currency trust receipts	101,872	38,636
Long term loans	13,833	18,524
	<u>169,280</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:

	<b>30/09/2014 RM'000</b>	<b>31/12/2013 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
US Dollars	163,927	123,963
Thai Baht	4,153	5,875
Malaysian Ringgit	1,200	1,200
	<u>169,280</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 November 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 September 2014, the outstanding forward exchange contracts are as follows:

	<b>30/09/2014</b>		<b>31/12/2013</b>	
	<b>To sell '000</b>	<b>To buy '000</b>	<b>To sell '000</b>	<b>To buy '000</b>
Contract I	EUR 2,900	USD 3,931	EUR 1,800	USD 2,442
Contract II	EUR 1,900	RM 8,271	EUR 2,000	RM 8,715
Contract III	EUR 511	USD 660	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**

On 26 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.

On 25 September 2014, the Company has paid an interim single tier dividend of 6 sen per share, amounting to RM7,584,750, in respect of the financial year ending 31 December 2014.

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**10. Earnings per share**

	<b>Individual Quarter 3 months ended</b>		<b>Cumulative Quarter ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Profit for the period attributable to owners of the Company (RM'000)	8,769	3,661	26,858	14,887
Number of shares in issue at 1 July/January ('000)	126,422	126,481	126,430	126,487
Effect of shares purchased ('000)	(3)	(14)	(11)	(20)
Weighted average number of shares in issue ('000)	126,419	126,467	126,419	126,467
Basic earnings per share (sen)	6.94	2.89	21.25	11.77
Diluted earnings per share (sen)	6.94	2.89	21.25	11.77



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

**11. Realised and unrealised profits or losses disclosures**

	<b>30/09/2014</b>	<b>31/12/2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	326,407	308,087
- Unrealised	(4,569)	(7,076)
	321,838	301,011
Total share of retained profits/(losses) from associates:		
- Realised	(4,368)	(4,799)
- Unrealised	0	(0)
	(4,368)	(4,799)
Less: Consolidation adjustments and eliminations	(104,842)	(96,536)
Total retained profits as per consolidated financial statements	212,628	199,676

**12. Notes to the Condensed Consolidated Statement of Comprehensive Income**

	<b>Current Quarter</b>	<b>Current Quarter To Date</b>
	<b>RM'000</b>	<b>RM'000</b>
Interest income	697	1,800
Interest expense	257	1,379
Depreciation and amortization	4,144	13,131
Reversal of provision for receivables	45	119
Foreign exchange Loss	1,760	479
Gain on financial instruments at fair value through profit or loss	2,287	1,868

BY ORDER OF THE BOARD

Tsai Yi Ting  
Managing Director

Dated this 27 November 2014