

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 31 DECEMBER 2014
(Financial Year Ended 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
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 year, at an average cost of RM1.84 per share. The total repurchases consideration, including transaction costs during the financial year 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 31 December 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 ended 31 December 2014, was paid on 25 September 2014.

A8. Segment reporting

a. Operating segment

31 December 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	451,958	142,241	4,688	598,887
Investment in associates	0	0	76,691	76,691
Total assets	451,958	142,241	81,379	675,578
Segment liabilities	174,018	62,206	93	236,317
External revenue	406,247	156,192	0	562,439
Segment profit/(loss)	34,000	9,906	(2,076)	41,830

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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	372,987	117,599	3,109	493,695
Investment in associates	0	0	75,131	75,131
Total assets	<u>372,987</u>	<u>117,599</u>	<u>78,240</u>	<u>568,826</u>
Segment liabilities	<u>125,356</u>	<u>37,271</u>	<u>81</u>	<u>162,708</u>
External revenue	<u>365,986</u>	<u>154,013</u>	<u>0</u>	<u>519,999</u>
Segment profit/(loss)	<u>18,444</u>	<u>10,236</u>	<u>(3,950)</u>	<u>24,730</u>

b. Geographical information

In RM'000	External revenue		Non-current assets	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Malaysia	125,770	129,364	69,191	76,172
Thailand	13,736	12,396	82,580	83,901
United States of America	69,263	90,824	0	0
Germany	92,921	80,946	0	0
Italy	43,788	9,293	0	0
Other countries	<u>216,961</u>	<u>197,176</u>	<u>0</u>	<u>0</u>
	<u>562,439</u>	<u>519,999</u>	<u>151,771</u>	<u>160,073</u>

The Group's revenue of current year-to-date was recorded at RM562.44million, which increased by RM42.44million or 8.16% compared to last financial year. The improvement in revenue contributed by both segments had increased by RM40.26million or 11.00% and RM2.18million or 1.41% in sales in stainless steel fasteners segment and Aluminium segment respectively.

Increased of revenue generated was mainly due to higher revenue contributed from Italy market, which had increased by RM34.50million as compared to previous financial year.

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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 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:

	31/12/2014
	RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	7,451

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 financial year under review to 18 Feb 2015.

A13. Contingent liabilities

	31/12/2014	31/12/2013
	RM'000	RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	223,872	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 RM149.95million and profit before tax of RM3.87million for the current quarter as compared to revenue of RM124.30million and profit before tax of RM1.48million for the corresponding quarter in previous year.

The higher revenue attained in current financial year was mainly contributed by the fasteners division, which had increased by RM40.26million or 11.00%. Increased sales demand from European market has led to the higher sales in current financial year.

Current profit before tax was increased by RM19.97million as compared to the last financial year. The Group recorded a higher profit before tax in current financial year 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 RM562.44million and profit before tax of RM50.81million for the current financial year as compared to revenue of RM520.00million and profit before tax of RM30.84million in the last financial year.

The increase of RM42.44million or 8.16% in revenue during this quarter, compared with the preceding quarter was mainly caused by increase of sales from fasteners division, especially European market.

Profit before tax for this quarter was increased by RM19.97million, compared with the preceding quarter. Other than the increase in sales attained in this current quarter, improvement of share of loss from associates in this quarter, compared with the preceding quarter has also contributed to the increase of profit before tax.

3. Prospects for the current financial year

The global economy is still fragile though there are sign of improvement emerging recently, such as US continues to recover. Challenges are still expected and 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 2015 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 31 December		Cumulative Quarter ended 31 December	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current taxation	707	52	9,838	6,492
Deferred taxation	(1,049)	(763)	(1,096)	(769)
	(342)	(711)	8,742	5,723
Taxation (over)/under provided in prior years	242	(283)	238	388
	(100)	(994)	8,980	6,111

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:

	31/12/2014 RM'000	31/12/2013 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Bankers' acceptance	700	1,200
Onshore foreign currency loans	48,771	72,678
Foreign currency trust receipts	132,441	38,636
Long term loans	12,770	18,524
	<u>194,682</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:

	31/12/2014 RM'000	31/12/2013 RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	190,261	123,963
Thai Baht	3,721	5,875
Malaysian Ringgit	700	1,200
	<u>194,682</u>	<u>131,038</u>

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7. Material pending litigation

The Group is not engaged in any material litigation as at 18 February 2015 (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 2014, the outstanding forward exchange contracts are as follows:

	31/12/2014		31/12/2013	
	To sell ‘000	To buy ‘000	To sell ‘000	To buy ‘000
Contract I	EUR 3,100	USD 3,958	EUR 1,800	USD 2,442
Contract II	EUR 1,200	RM 5,166	EUR 2,000	RM 8,715
Contract III	EUR 1,050	USD 1,306	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

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	31 December		31 December	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Profit for the period attributable to owners of the Company (RM'000)	3,280	2,817	30,138	17,596
Number of shares in issue at 1 January ('000)	126,430	126,487	126,430	126,487
Effect of shares purchased ('000)	(11)	(34)	(11)	(34)
Weighted average number of shares in issue ('000)	126,419	126,453	126,419	126,453
Basic earnings per share (sen)	2.59	2.23	23.84	13.91
Diluted earnings per share (sen)	2.59	2.23	23.84	13.91

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

11. Realised and unrealised profits or losses disclosures

	31/12/2014	31/12/2013
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	335,816	308,087
- Unrealised	(9,849)	(7,076)
	325,967	301,011
Total share of retained losses from associates:		
- Realised	(6,805)	(4,799)
- Unrealised	0	(0)
	(6,805)	(4,799)
Less: Consolidation adjustments and eliminations	(103,254)	(96,536)
Total retained profits as per consolidated financial statements	215,908	199,676

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	1,080	2,880
Interest expense	586	1,965
Depreciation and amortization	4,631	17,762
Reversal of provision for receivables	15	134
Foreign exchange Loss	4,702	5,181
Gain on financial instruments at fair value through profit or loss	400	2,268

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 24 February 2015