

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 MARCH 2015
(Financial Year Ending 31 December 2015)

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 2014.

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 2014 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 119 <i>Defined Benefit Plans: Employee Contributions</i>	1 July 2014
Amendments to MFRSs contained in the document entitled " <i>Annual Improvements to MFRSs 2010 - 2012 Cycle</i> "	1 July 2014
Amendments to MFRSs contained in the document entitled " <i>Annual Improvements to MFRSs 2011 - 2013 Cycle</i> "	1 July 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 2015 in respect of the audited financial statements for the year ended 31 December 2014 was not subject to any qualification.

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.

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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 159,000 ordinary shares of its issued share capital from the open market during the financial year, at an average cost of RM2.09 per share. The total repurchases consideration, including transaction costs during the financial year amounted to RM332,900 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 March 2015, the number of treasury shares held was 1,176,500 ordinary shares.

A7. Dividend paid

No dividend was paid by the Company during the financial period ended 31 March 2015.

A8. Segment reporting

a. Operating segment

31 March 2015	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	441,671	134,930	4,485	581,086
Investment in associates	0	0	78,655	78,655
Total assets	441,671	134,930	77,477	659,741
Segment liabilities	143,913	53,275	92	197,280
External revenue	119,303	39,525	0	158,828
Segment profit/(loss)	11,889	1,620	(2,405)	11,104

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

31 March 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	400,563	108,759	3,129	512,451
Investment in associates	0	0	74,348	74,348
Total assets	<u>400,563</u>	<u>108,759</u>	<u>77,477</u>	<u>568,799</u>
Segment liabilities	<u>143,631</u>	<u>24,591</u>	<u>80</u>	<u>168,302</u>
External revenue	<u>94,899</u>	<u>38,670</u>	<u>0</u>	<u>133,569</u>
Segment profit/(loss)	<u>8,266</u>	<u>3,840</u>	<u>(388)</u>	<u>11,718</u>

b. Geographical information

In RM'000	External revenue		Non-current assets	
	31/03/2015	31/03/2014	31/03/2015	31/1203/2014
Malaysia	33,282	30,584	69,575	73,848
Thailand	4,781	2,784	87,580	83,256
United States of America	26,703	20,388	0	0
Germany	20,147	19,531	0	0
Japan	15,527	9,761	0	0
Other countries	<u>58,388</u>	<u>50,521</u>	<u>0</u>	<u>0</u>
	<u>158,828</u>	<u>133,569</u>	<u>157,155</u>	<u>157,104</u>

The Group's revenue of current quarter-to-date was recorded at RM158.83 million, which increased by RM25.26 million or 18.91% compared to the corresponding quarter in last financial year. Higher revenue generated was mainly contributed by the stainless steel fasteners segment, which had increased by RM24.40million or 25.72%.

Increased of revenue generated was mainly due to higher revenue contributed from Japan market, which had increased by RM5.77million as compared to corresponding quarter in last 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 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 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:

	31/03/2015 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	<u>5,678</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 financial year under review to 22 May 2015.

A13. Contingent liabilities

	31/03/2015 RM'000	31/03/2014 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	<u>228,114</u>	<u>216,821</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 RM158.83million and profit before tax of RM11.10million for the current quarter as compared to revenue of RM133.57million and profit before tax of RM11.72million 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 RM24.40million or 25.72%. Higher order demand from customers, which placed in previous quarter has led to higher sales generated in current quarter.

The Group recorded a slightly lower profit before tax in current quarter as compared with the corresponding quarter in previous year which was mainly attributed by the foreign exchange loss due to weakening of Ringgit Malaysia result.

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

The Group reported revenue of RM158.83million and profit before tax of RM11.10million for the current financial year as compared to revenue of RM149.95million and profit before tax of RM4.01million in the immediate preceding quarter.

Increase in profit before tax recorded in current quarter as compared to the preceding quarter was mainly due to improvement in the operating cost, which had decreased by RM5.08million.

3. Prospects for the current financial year

Global growth remains moderate, with uneven prospects across the main countries and regions, especially in Eurozone. Challenges are still expected, due to volatility of commodity price, foreign exchange environment and geopolitical tension. This risk factor could derail the world economy far away from the projections outline.

Despite the uncertainties of the global prospect, the Board remains cautious with the potential challenges and 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 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 March		Cumulative Quarter ended 31 March	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Current taxation	3,270	2,986	3,270	2,986
Deferred taxation	(19)	26	(19)	26
	<u>3,251</u>	<u>3,012</u>	<u>3,251</u>	<u>3,012</u>

The effective tax rates is lower compared with the statutory tax rates for the current quarter mainly contributed by the one of the plant owned by a foreign subsidiary of which still enjoying free-tax benefits on the manufacturing income.

6. Group borrowings and debt securities

The Group's loans and borrowings are as follows:

	31/03/2015 RM'000	31/03/2014 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Short term borrowings		
Bankers' acceptance	600	300
Onshore foreign currency loans	46,755	49,645
Foreign currency trust receipts	109,517	80,709
Finance lease obligations	37	0
Term loans	<u>7,461</u>	<u>5,831</u>
	<u>164,370</u>	<u>136,485</u>
Long term borrowings		
Finance lease obligations	70	0
Term loans	<u>4,331</u>	<u>10,173</u>
	<u>4,401</u>	<u>10,173</u>
Total	<u>168,771</u>	<u>146,658</u>

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

	31/03/2015 RM'000	31/03/2014 RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	164,083	141,019
Thai Baht	3,981	5,339
Malaysian Ringgit	<u>707</u>	<u>300</u>
	<u>168,771</u>	<u>146,658</u>

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7. Material pending litigation

The Group is not engaged in any material litigation as at 22 May 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 March 2015, the outstanding forward exchange contracts are as follows:

	31/03/2015		31/03/2014	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 5,150	USD 6,085	EUR 4,644	USD 6,343
Contract II	EUR 2,200	RM 9,295	EUR 1,600	RM 7,139
Contract III	USD 2,000	RM 7,350	NIL	NIL
Contract IV	NIL	NIL	EUR 123	THB 5,559

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

A final single tier dividend of 6 sen per share, in respect of the financial year ended 31 December 2014, will be proposed for the shareholders' approval at the forthcoming Annual General Meeting.

10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	31 March		31 March	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Profit for the period attributable to owners of the Company (RM'000)	7,343	8,413	7,343	8,413
Number of shares in issue at 1 January ('000)	126,413	126,430	126,413	126,430
Effect of shares purchased ('000)	(129)	(8)	(129)	(8)
Weighted average number of shares in issue ('000)	126,284	126,422	126,284	126,422
Basic earnings per share (sen)	5.81	6.65	5.81	6.65
Diluted earnings per share (sen)	5.81	6.65	5.81	6.65

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

11. Realised and unrealised profits or losses disclosures

	31/03/2015	31/03/2014
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	343,428	317,686
- Unrealised	(4,596)	(4,644)
	338,832	313,042
Total share of retained losses from associates:		
- Realised	(9,235)	(5,185)
- Unrealised	0	(0)
	(9,235)	(5,185)
Less: Consolidation adjustments and eliminations	(106,278)	(99,768)
Total retained profits as per consolidated financial statements	223,319	208,089

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	589	589
Interest expense	524	524
Depreciation and amortization	4,502	4,502
Reversal of provision for receivables	13	13
Foreign exchange Loss	2,597	2,597
Gain on financial instruments at fair value through profit or loss	3,585	3,585

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 28 May 2015