

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 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 period, at an average cost of RM2.09 per share. The total repurchases consideration, including transaction costs during the period 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 30 June 2015, the number of treasury shares held was 1,176,500 ordinary shares.

**A7. Dividend paid**

During the financial period ended 30 June 2015, the Company paid a final single tier dividend of 6 sen per share, amounting to RM7,575,210 in respect of the financial year ended 31 December 2014.

**A8. Segment reporting**

**a. Operating segment**

30 June 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	426,126	140,832	1,757	568,715
Investment in associates	0	0	76,241	76,241
Total assets	426,126	140,832	77,998	644,956
Segment liabilities	130,533	58,751	4	189,288
External revenue	220,514	80,765	0	301,279
Segment profit/(loss)	16,668	2,048	(6,386)	12,330

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

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

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	<u>405,090</u>	<u>124,287</u>	<u>75,777</u>	<u>605,154</u>
Segment liabilities	<u>145,083</u>	<u>40,997</u>	<u>23</u>	<u>186,303</u>
External revenue	<u>186,519</u>	<u>79,382</u>	<u>0</u>	<u>265,901</u>
Segment profit	<u>16,895</u>	<u>7,962</u>	<u>141</u>	<u>24,998</u>

**b. Geographical information**

In RM'000	External revenue		Non-current assets	
	30/06/2015	30/06/2014	30/06/2015	30/06/2014
Malaysia	70,353	64,291	72,082	73,538
Thailand	6,283	6,076	83,834	80,066
United States of America	45,236	30,965	0	0
Germany	42,204	43,189	0	0
Japan	27,431	17,908	0	0
Other countries	<u>109,772</u>	<u>103,472</u>	<u>0</u>	<u>0</u>
	<u>301,279</u>	<u>265,901</u>	<u>155,916</u>	<u>153,604</u>

The Group's revenue of current quarter-to-date was recorded at RM301.28 million, which increased by RM35.38 million or 13.40% compared to the corresponding quarter in last financial year. The improvement in revenue was mainly attributed by the fasteners segments, which had increased by RM34.00million or 18.23% as compared to the corresponding quarter-to-date in 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 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 current 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>30/06/2015</b> <b>RM'000</b>
<u>Property, plant and equipment</u>	
Contracted but not provided for	1,393

**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 21 August 2015.

**A13. Contingent liabilities**

	<b>30/06/2015</b> <b>RM'000</b>	<b>30/06/2014</b> <b>RM'000</b>
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	231,795	214,680

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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 RM301.28million and profit before tax of RM18.25million for the current quarter-to-date as compared with revenue of RM265.90million and profit before tax of RM31.01million for the corresponding quarter-to-date in previous year.

Fasteners segment recorded revenue of RM220.51million in current quarter-to-date, which represents an increase of 18.23% compared to RM186.52million for the corresponding quarter-to-date in previous financial year. This was mainly attributable to higher revenue generated in the overseas market as a result of favourable impact from foreign exchange rates, even though selling price has dropped and demand from European Market has been slowing down.

Nevertheless, lower profit recorded was mainly resulted from the loss of investment in associate, which amounted to RM6.39million as well as losses from currency translation due to weakening of Ringgit Malaysia.

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

The Group reported revenue of RM142.45million and profit before tax of RM3.90million for the current quarter as compared to revenue of RM158.83million and profit before tax of RM14.36million in the immediate preceding quarter. Profit margins were under pressure from slower demand from European Market for fasteners segment as well as higher import cost due to weakening of Ringgit Malaysia, especially for Aluminium Segment.

**3. Prospects for the current financial year**

The general business environment remains challenging. Challenges are expected, due to volatility of commodity price, foreign exchange environment and geopolitical uncertainty.

In light with the challenging environment, the Board will continue its efforts toward cost saving measures and improving its operational efficiency 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:

	<b>Individual Quarter 3 months ended 30 June</b>		<b>Cumulative Quarter ended 30 June</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>	<b>2015 RM'000</b>	<b>2014 RM'000</b>
Current taxation	2,702	2,963	5,972	5,949
Deferred taxation	(29)	36	(48)	62
	<u>2,673</u>	<u>2,999</u>	<u>5,924</u>	<u>6,011</u>

The effective tax rate (excluding share of loss in associates of RM6.40million) was lower than the statutory tax rate due to free tax benefits available to one of the plant owned by the foreign subsidiary.

**6. Group borrowings and debt securities**

The Group's loans and borrowings are as follows:

	<b>30/06/2015 RM'000</b>	<b>30/06/2014 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
Short term borrowings		
Bankers' acceptance	0	400
Onshore foreign currency loans	47,585	44,714
Foreign currency trust receipts	100,418	100,438
Finance lease obligations	36	0
Term loans	<u>7,317</u>	<u>6,459</u>
	<u>155,356</u>	<u>152,011</u>
Long term borrowings		
Finance lease obligations	62	0
Term loans	<u>2,559</u>	<u>8,669</u>
	<u>2,621</u>	<u>8,669</u>
Total	<u>157,977</u>	<u>160,680</u>

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

	<b>30/06/2015 RM'000</b>	<b>30/06/2014 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
US Dollars	155,309	155,035
Thai Baht	2,570	5,245
Malaysian Ringgit	<u>98</u>	<u>400</u>
	<u>157,977</u>	<u>160,680</u>

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**7. Material pending litigation**

The Group is not engaged in any material litigation as at 21 August 2015 (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 2015, the outstanding forward exchange contracts are as follows:

	30/06/2015		30/06/2014	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 6,576	USD 7,370	EUR 3,685	USD 5,051
Contract II	EUR 2,400	RM 10,074	EUR 1,000	RM 4,537
Contract III	USD 667	THB 22,438	NIL	NIL
Contract IV	EUR 550	THB 20,604	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 Statement of Comprehensive Income on settlement of the forward exchange contract.

**9. Dividend**

During the financial period ended 30 June 2015, the Company paid a final single tier dividend of 6 sen per share, amounting to RM7,575,210, in respect of the financial year ended 31 December 2014.

**10. Earnings per share**

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	30 June		30 June	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Profit for the period attributable to owners of the Company (RM'000)	801	9,676	8,144	18,089
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)	0.63	7.65	6.45	14.31
Diluted earnings per share (sen)	0.63	7.65	6.45	14.31

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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>30/06/2015</b>	<b>30/06/2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	340,277	320,824
- Unrealised	(3,422)	(4,075)
	336,855	316,749
Total share of retained losses from associates:		
- Realised	(13,202)	(4,634)
- Unrealised	0	0
	(13,202)	(4,634)
Less: Consolidation adjustments and eliminations	(107,108)	(100,668)
Total retained profits as per consolidated financial statements	216,545	211,447

**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	578	1,167
Interest expense	500	1,024
Depreciation and amortization	4,414	8,916
Reversal of provision for receivables	15	28
Foreign exchange Loss	893	2,496
Loss/(Gain) on financial instruments at fair value through profit or loss	850	(2,735)

BY ORDER OF THE BOARD

Tsai Yi Ting  
Managing Director

Dated this 27 August 2015