

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 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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(Financial Year Ending 31 December 2015)

A6. Issuance and repayment of debts and equity securities etc

There were no issuances, cancellation, repurchase, resale and repayment of debts and equity securities during the financial year under review, except for the following:

- (i) Repurchased a total of 904,300 ordinary shares of its issued share capital from the open market during the period, at an average cost of RM1.79 per share. The total repurchases consideration, including transaction costs and GST during the period amounted to RM1,619,705 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 2015, the number of treasury shares held was 1,921,800 ordinary shares.

A7. Dividend paid

No dividend has been paid in the current quarter under review.

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, was paid on 26 June 2015.

A8. Segment reporting

a. Operating segment

30 September 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	438,251	137,190	446	575,888
Investment in associates	0	0	81,896	81,896
Total assets	438,251	137,190	82,342	657,783
Segment liabilities	129,325	55,649	0	184,974
External revenue	322,152	124,080	0	446,232
Segment profit/(loss)	19,709	1,506	(9,898)	11,317

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NOTES TO THE UNAUDITED
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(Financial Year Ending 31 December 2015)

A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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	<u>419,151</u>	<u>129,803</u>	<u>77,182</u>	<u>626,136</u>
Segment liabilities	<u>154,711</u>	<u>43,211</u>	15	<u>197,937</u>
External revenue	<u>292,715</u>	<u>119,779</u>	0	<u>412,494</u>
Segment profit	<u>25,989</u>	<u>11,464</u>	409	<u>37,862</u>

b. Geographical information

In RM'000	External revenue		Non-current assets	
	30/09/2015	30/09/2014	30/09/2015	30/09/2014
Malaysia	113,188	96,352	70,306	71,264
Thailand	8,564	9,940	89,350	80,162
United States of America	53,466	46,414	0	0
Germany	81,521	69,521	0	0
Japan	35,693	28,470	0	0
Other countries	<u>153,800</u>	<u>161,788</u>	<u>0</u>	<u>0</u>
	<u>446,232</u>	<u>412,494</u>	<u>159,656</u>	<u>151,426</u>

The Group's revenue of current quarter-to-date was recorded at RM446.23 million, which increased by RM33.74 million or 8.18% compared to the corresponding quarter in last financial year. The improvement in revenue was mainly attributed by the fasteners segments, which had increased by RM29.44million or 10.06% as compared to the corresponding quarter-to-date in previous financial year.

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NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015
(Financial Year Ending 31 December 2015)

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:

	30/09/2015 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	1,041

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 23 November 2015.

A13. Contingent liabilities

	30/09/2015 RM'000	30/09/2014 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	233,509	217,140

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NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015
(Financial Year Ending 31 December 2015)

**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 RM446.23million and profit before tax of RM18.15million for the current quarter-to-date as compared with revenue of RM412.49million and profit before tax of RM46.94million for the corresponding quarter-to-date in previous year.

Fasteners segment recorded revenue of RM322.15million in current quarter-to-date, which represents an increase of 10.06% compared to RM292.72million 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 RM9.89million 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 RM144.95million and loss before tax of RM106,000 for the current quarter as compared to revenue of RM142.45million and profit before tax of RM3.90million 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 of 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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(Company No.432139-W)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015
(Financial Year Ending 31 December 2015)

5. Taxation

The taxation for continuing operations comprises:

	Individual Quarter 3 months ended 30 September		Cumulative Quarter ended 30 September	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Current taxation	1,207	3,026	7,179	9,131
Deferred taxation	(90)	47	(138)	47
	1,117	3,073	7,041	9,084
Taxation over provided in prior years	(210)	(4)	(210)	(4)
	<u>907</u>	<u>3,069</u>	<u>6,831</u>	<u>9,080</u>

The effective tax rate (excluding share of loss in associates of RM9.89million) 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:

	30/09/2015 RM'000	30/09/2014 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Short term borrowings		
Bankers' acceptance	300	1,200
Onshore foreign currency loans	50,124	52,375
Foreign currency trust receipts	95,311	101,872
Finance lease obligations	36	0
Term loans	7,744	6,624
	<u>153,515</u>	<u>162,071</u>
Long term borrowings		
Finance lease obligations	54	0
Term loans	1,421	7,209
	<u>1,475</u>	<u>7,209</u>
Total	<u>154,990</u>	<u>169,280</u>

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NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015
(Financial Year Ending 31 December 2015)

6. Group borrowings and debt securities (cont'd)

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

	30/09/2015	30/09/2014
	RM'000	RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	151,815	163,927
Thai Baht	2,785	4,153
Malaysian Ringgit	390	1,200
	<u>154,990</u>	<u>169,280</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 23 November 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 September 2015, the outstanding forward exchange contracts are as follows:

	30/09/2015		30/09/2014	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 7,023	USD 7,906	EUR 3,411	USD 4,591
Contract II	EUR 1,800	RM 7,662	EUR 1,900	RM 8,271
Contract III	USD 1,419	THB 49,743	NIL	NIL
Contract IV	<u>EUR 1,050</u>	<u>THB 39,946</u>	<u>NIL</u>	<u>NIL</u>

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

On 26 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.

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NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015
(Financial Year Ending 31 December 2015)

10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	30 September		30 September	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Profit for the period attributable to owners of the Company (RM'000)	(700)	8,769	7,444	26,858
Number of shares in issue at 1 January ('000)	126,413	126,430	126,413	126,430
Effect of shares purchased ('000)	(368)	(11)	(368)	(11)
Weighted average number of shares in issue ('000)	126,045	126,419	126,045	126,419
Basic earnings per share (sen)	(0.56)	6.94	5.91	21.25
Diluted earnings per share (sen)	(0.56)	6.94	5.91	21.25

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NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015
(Financial Year Ending 31 December 2015)

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

11. Realised and unrealised profits or losses disclosures

	30/09/2015	30/09/2014
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	341,828	326,407
- Unrealised	(6,642)	(4,569)
	335,186	321,838
Total share of retained losses from associates:		
- Realised	(11,804)	(4,368)
- Unrealised	0	0
	(11,804)	(4,368)
Less: Consolidation adjustments and eliminations	(107,537)	(104,842)
Total retained profits as per consolidated financial statements	215,845	212,628

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	685	1,852
Interest expense	469	1,493
Depreciation and amortization	4,596	13,512
Reversal of provision for receivables	14	42
Foreign exchange Loss	6,181	8,677
Loss/(Gain) on financial instruments at fair value through profit or loss	1,906	(829)

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 26 November 2015