

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 2015
(Financial Year Ended 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, repurchase, resale and repayment of debts and equity securities during the financial year under review, except for the following:

- (i) Repurchased a total of 1,085,100 ordinary shares of its issued share capital from the open market during the year, at an average cost of RM1.82 per share. The total repurchases consideration, including transaction costs and GST during the year amounted to RM1,970,231 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 2015, the number of treasury shares held was 2,102,600 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

31 December 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	450,243	128,086	62,049	640,378
Segment liabilities	131,291	49,344	1,208	181,843
External revenue	434,339	164,746	0	599,085
Segment profit/(loss)	31,488	1,707	(30,567)	2,628

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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	452,244	142,241	4,527	599,012
Investment in associates	0	0	76,691	76,691
Total assets	<u>452,244</u>	<u>142,241</u>	<u>81,218</u>	<u>675,703</u>
Segment liabilities	<u>174,113</u>	<u>62,207</u>	<u>93</u>	<u>236,413</u>
External revenue	<u>406,248</u>	<u>156,192</u>	<u>0</u>	<u>562,440</u>
Segment profit	<u>34,033</u>	<u>9,906</u>	<u>(2,076)</u>	<u>41,863</u>

b. Geographical information

In RM'000	External revenue		Non-current assets	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Malaysia	149,943	125,753	69,065	69,191
Thailand	12,853	13,736	86,521	82,580
United States of America	69,834	69,263	0	0
Germany	120,942	92,921	0	0
Japan	42,783	42,427	0	0
Other countries	<u>202,730</u>	<u>218,340</u>	<u>0</u>	<u>0</u>
	<u>599,085</u>	<u>562,440</u>	<u>155,586</u>	<u>151,771</u>

The Group's revenue of current year was recorded at RM599.09million, which increased by RM36.65million or 6.52% compared to last financial year. The improvement in revenue contributed by both segments had increased by RM28.09million or 6.92% and RM8.55million or 5.48% in sales in stainless steel fasteners segment and Aluminium segment respectively.

Increased of revenue generated was mainly due to higher revenue contributed from Germany market, which had increased by RM28.02million as compared to previous financial year.

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A9. Changes in the composition of the Group

The Company had on 30 October 2015 entered into a Share Sale and Purchase Agreement with Tung Ho Steel Enterprise Corporation for the disposal of its entire 35.53% equity interest representing 23,982 ordinary shares of USD1,080 each fully paid up in Fuco International Ltd. “Fuco”) for a total cash consideration of USD14,098,019.76 (“Disposal Consideration”).

On 16 November 2015, Aluta Metal Sdn. Bhd. (“Aluta”) and Better Technology Sdn. Bhd. (“Better Technology”), the wholly-owned subsidiaries of Tong Heer Aluminium Industries Sdn. Bhd., which in turn is the subsidiary of Tong Herr Resources Berhad (“the Company”) had held their respective final meetings to conclude the Members Voluntary Winding Up. Both Aluta and Better Technology shall be dissolved three (3) months after lodgement of Form 69 Return of Final Meeting with Companies Commission of Malaysia and the Official Receiver.

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 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:

	31/12/2015 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	1,014

A12. Material events subsequent to the reported period

On 11 January 2016, the Company had completed the First Phase of the Disposal of Fuco upon receipt of USD11,278,415.81 being 80% of the Disposal Consideration.

Saving from those disclosed above, there were no material events subsequent to the end of the current year under review up to the date of this report.

A13. Contingent liabilities

	31/12/2015 RM'000	31/12/2014 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	230,901	223,872

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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 RM599.09million and profit before tax of RM11.72million for the current year as compared with revenue of RM562.44million and profit before tax of RM50.96million for the previous financial year.

Fasteners segment recorded revenue of RM434.34million and profit before tax of RM31.49million respectively in current year. Higher revenue generated as compared to last financial year 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 group's profit recorded was mainly resulted from the share of results of associate and impairment loss of investment, which amounted to RM20.18million and RM9.18million respectively, 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 RM152.85million and loss before tax of RM6.43million for the current quarter as compared to revenue of RM144.95million and loss before tax of RM106,000 in the immediate preceding quarter.

Share of results of associate and impairment loss of investment being recognized had caused the losses in current quarter. Besides, the profit margins were also 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 2016 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 December		Cumulative Quarter ended 31 December	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Current taxation	455	786	7,633	9,917
Deferred taxation	1,460	(1,014)	1,322	(1,061)
Taxation over provided in prior years	1,915	(228)	8,955	8,856
	347	240	138	236
	<u>2,262</u>	<u>12</u>	<u>9,093</u>	<u>9,092</u>

The effective tax rate 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:

	31/12/2015 RM'000	31/12/2014 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Short term borrowings		
Bankers' acceptance	310	700
Onshore foreign currency loans	50,675	48,771
Foreign currency trust receipts	90,735	132,442
Finance lease obligations	36	0
Term loans	6,868	6,962
	<u>148,624</u>	<u>188,875</u>
Long term borrowings		
Finance lease obligations	45	0
Term loans	0	5,808
	<u>45</u>	<u>5,808</u>
Total	<u>148,669</u>	<u>194,683</u>

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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:

	31/12/2015	31/12/2014
<u>Bank loans and borrowings - unsecured</u>	RM'000	RM'000
US Dollars	146,966	190,262
Thai Baht	1,312	3,721
Malaysian Ringgit	391	700
	<u>148,669</u>	<u>194,683</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 19 February 2016 (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 2015, the outstanding forward exchange contracts are as follows:

	31/12/2015		31/12/2014	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	NIL	NIL	EUR 1,200	RM 5,166
Contract II	EUR 7,729	USD 8,701	EUR 4,150	USD 5,218
Contract III	MYR 4,923	USD 1,174	NIL	NIL
Contract IV	EUR 453	THB 17,319	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

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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10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	31 December		31 December	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
(Loss)/Profit for the period attributable to owners of the Company (RM'000)	(10,553)	3,348	(3,109)	30,206
Number of shares in issue at 1 January ('000)	126,413	126,430	126,413	126,430
Effect of shares purchased ('000)	(389)	(11)	(389)	(11)
Weighted average number of shares in issue ('000)	126,024	126,419	126,024	126,419
Basic earnings per share (sen)	(8.37)	2.65	(2.47)	23.89
Diluted earnings per share (sen)	(8.37)	2.65	(2.47)	23.89

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

11. Realised and unrealised profits or losses disclosures

	31/12/2015	31/12/2014
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	329,008	335,743
- Unrealised	(4,446)	(9,744)
	324,562	325,999
Total share of retained losses from associates:		
- Realised	(26,981)	(6,805)
- Unrealised	0	0
	(26,981)	(6,805)
Less: Consolidation adjustments and eliminations	(92,289)	(103,218)
Total retained profits as per consolidated financial statements	205,292	215,976

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	1,090	2,942
Interest expense	375	1,868
Impairment loss	9,175	9,175
Depreciation and amortization	4,674	18,308
Reversal of provision for receivables	24	66
Foreign exchange Loss	2,215	10,892
Gain on financial instruments at fair value through profit or loss	2,419	3,248

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director

Dated this 26 February 2016