

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 2016  
(Financial Year Ending 31 December 2016)

**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 2015.

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 2015 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
MFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128 <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
Amendments to MFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to MFRS 101 <i>Disclosure Initiative</i>	1 January 2016
Amendments to MFRS 116 and MFRS 138 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to MFRS 116 and MFRS 141 <i>Agriculture: Bearer Plants</i>	1 January 2016
Amendments to MFRS 127 <i>Equity Method in Separate Financial Statements</i>	1 January 2016
Amendments to MFRSs contained in the document entitled " <i>Annual Improvements to MFRSs 2012 - 2014 Cycle</i> "	1 January 2016

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 18 April 2016 in respect of the audited financial statements for the year ended 31 December 2015 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, resale and repayment of debts and equity securities during the financial period under review, except for the following:

- (i) Repurchased a total of 687,600 ordinary shares of its issued share capital from the open market during the period, at an average cost of RM1.98 per share. The total repurchases consideration, including transaction costs and GST during the period amounted to RM1,359,765 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 2016, the number of treasury shares held was 2,790,200 ordinary shares.

**A7. Dividend paid**

During the financial period ended 30 June 2016, the Company paid a final single tier dividend of 10 sen per share, amounting to RM12,463,980 in respect of the financial year ended 31 December 2015.

**A8. Segment reporting**

**a. Operating segment**

30 June 2016	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	422,597	106,246	43,900	572,743
Segment liabilities	94,653	20,621	3	115,277
External revenue	207,155	68,514	0	275,669
Segment profit	14,160	6,902	8,660	29,722

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

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

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	16,668	2,048	(6,386)	12,330

**b. Geographical information**

In RM'000	External revenue		Non-current assets	
	30/06/2016	30/06/2015	30/06/2016	30/06/2015
Malaysia	63,572	70,353	68,493	72,082
Thailand	3,876	6,283	80,875	83,834
United States of America	38,527	45,236	0	0
Germany	58,454	42,204	0	0
Japan	13,349	27,431	0	0
Other countries	97,891	109,772	0	0
	275,669	301,279	149,368	155,916

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**A9. Changes in the composition of the Group**

The Company had on 29 June 2016 entered into a conditional share sale and purchase agreement with All Star International Holdings Limited for the proposed acquisition by the Company of 3,899,213 ordinary shares of THB100 each in Tong Heer Fasteners (Thailand) Co., Ltd. ("THFT"), an existing 50.01% owned subsidiary company of the Company, representing approximately 49.99% of the equity interest in THFT, for a purchase consideration of RM60,500,000 to be satisfied via the combination of RM2,000,000 in cash and issuance of 30,000,000 new ordinary shares of RM1.00 each in the Company ("Tong Herr Share(s)") at an issue price of RM1.95 per Tong Herr Share.

**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>30/06/2016</b> <b>RM'000</b>
<u>Property, plant and equipment</u>	
Contracted but not provided for	966

**A12. Material events subsequent to the reported period**

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 Aug 2016.

**A13. Contingent liabilities**

	<b>30/06/2016</b> <b>RM'000</b>	<b>30/06/2015</b> <b>RM'000</b>
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	222,746	231,795

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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 RM275.67million and profit before tax of RM34.52million for the current period as compared with revenue of RM301.28million and profit before tax of RM18.25million for the corresponding period in previous financial year.

The decrease in revenue is primarily due to selling price has dropped and customer demand has been slowing down. In spite of the lower revenue, the Group recorded a higher profit before tax of RM34.52million this period compared with RM18.25million in the corresponding period in previous financial year. The improvement in profit is due to reclassification adjustment upon disposal of foreign operations of RM11.78million in relation to the completion of disposal of Fuco International Ltd. (“Fuco”). Besides, lower profit recorded in the corresponding period in the previous financial year was also partly due to share of losses of associates which amounted to RM6.40million.

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

The Group’s revenue has decreased by 6.47% from RM142.44million in the immediate preceding quarter to RM133.23million in current quarter. Decrease in revenue was mainly due to decrease in selling price and lower demand.

Profit before tax and reclassification adjustment upon disposal of foreign operations has been improved from RM10.30million to RM12.44million for current quarter as compared to the immediate preceding quarter. This was mainly attributable to gain from currency translation due to strengthening of Ringgit Malaysia in the current quarter.

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

The outlook for general business environment remains challenging and vulnerable, due to uncertainty surrounding the direction of global commodity price, foreign exchange environment as well as geopolitical uncertainty.

Barring any unforeseen circumstances, the Board expects the prospects of the Group’s financial performance for the financial year ending 31 December 2016 to be satisfactory.

**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>2016 RM'000</b>	<b>2015 RM'000</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Current taxation	1,706	2,702	4,694	5,972
Deferred taxation	(20)	(29)	104	(48)
	<u>1,686</u>	<u>2,673</u>	<u>4,798</u>	<u>5,924</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:

	<b>30/06/2016 RM'000</b>	<b>30/06/2015 RM'000</b>
<b><u>Bank loans and borrowings - unsecured</u></b>		
Short term borrowings		
Bankers' acceptance	931	0
Onshore foreign currency loans	45,468	47,585
Foreign currency trust receipts	42,599	100,418
Finance lease obligations	66	36
Term loans	<u>2,586</u>	<u>7,317</u>
	<u>91,650</u>	<u>155,356</u>
Long term borrowings		
Finance lease obligations	80	62
Term loans	<u>0</u>	<u>2,559</u>
	<u>80</u>	<u>2,621</u>
Total	<u>91,730</u>	<u>157,977</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:

	<b>30/06/2016</b>	<b>30/06/2015</b>
<b><u>Bank loans and borrowings - unsecured</u></b>	<b>RM'000</b>	<b>RM'000</b>
US Dollars	90,653	155,309
Thai Baht	0	2,570
Malaysian Ringgit	1,077	98
	<u>91,730</u>	<u>157,977</u>

**7. Material pending litigation**

The Group is not engaged in any material litigation as at 23 Aug 2016 (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 2016, the outstanding forward exchange contracts are as follows:

	<b>30/06/2016</b>		<b>30/06/2015</b>	
	<b>To sell '000</b>	<b>To buy '000</b>	<b>To sell '000</b>	<b>To buy '000</b>
Contract I	EUR 7,492	USD 8,443	EUR 6,576	USD 7,370
Contract II	EUR 1,800	RM 8,362	EUR 2,400	RM 10,074
Contract III	USD 1,000	RM 4,067	NIL	NIL
Contract IV	RM 3,168	USD 781	NIL	NIL
Contract V	NIL	NIL	USD 667	THB 22,438
Contract VI	NIL	NIL	EUR 550	THB 20,604

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 10 sen per share, amounting to RM12,463,980 in respect of the financial year ended 31 December 2015.

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**10. Earnings per share**

	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>3 months ended</b>		<b>ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Profit for the period attributable to owners of the Company (RM'000)	7,796	801	24,280	8,144
Number of shares in issue at 1 January ('000)	125,327	126,413	125,327	126,413
Effect of shares purchased ('000)	(589)	(129)	(589)	(129)
Weighted average number of shares in issue ('000)	124,738	126,284	124,738	126,284
Basic earnings per share (sen)	6.25	0.63	19.46	6.45
Diluted earnings per share (sen)	6.25	0.63	19.46	6.45



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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>30/06/2016</b>	<b>30/06/2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	335,088	340,277
- Unrealised	(5,104)	(3,422)
	329,984	336,855
Total share of retained losses from associates:		
- Realised	0	(13,202)
- Unrealised	0	0
	0	(13,202)
Less: Consolidation adjustments and eliminations	(112,876)	(107,108)
Total retained profits as per consolidated financial statements	217,108	216,545

**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	974	1,592
Interest expense	319	608
Depreciation and amortization	4,294	8,702
Impairment loss on receivables	9	9
(Gain)/Loss on financial instruments at fair value through profit or loss	(943)	217
Reversal of provision for receivables	12	25
Foreign exchange Gain	2,545	2,788
Reclassification adjustment upon disposal of foreign investments	-	11,780
Gain on disposal of foreign investment	606	606

BY ORDER OF THE BOARD

Tsai Yi Ting  
Managing Director  
Dated this 29 August 2016