

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 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 September 2016, the number of treasury shares held was 2,790,200 ordinary shares.

A7. Dividend paid

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

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, was paid on 24 June 2016.

A8. Segment reporting

a. Operating segment

30 September 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	443,639	109,301	46,331	599,271
Segment liabilities	103,651	24,806	0	128,457
External revenue	315,702	103,433	0	419,135
Segment profit	20,631	8,753	9,564	38,948

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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	<u>438,251</u>	<u>137,190</u>	<u>82,342</u>	<u>657,783</u>
Segment liabilities	<u>129,325</u>	<u>55,649</u>	0	<u>184,974</u>
External revenue	<u>322,152</u>	<u>124,080</u>	0	<u>446,232</u>
Segment profit	<u>19,709</u>	<u>1,506</u>	<u>(9,898)</u>	<u>11,317</u>

b. Geographical information

In RM'000	External revenue		Non-current assets	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Malaysia	96,112	113,188	67,455	70,306
Thailand	11,159	8,564	82,186	89,350
United States of America	70,164	53,466	0	0
Germany	81,527	81,521	0	0
Japan	18,633	35,693	0	0
Other countries	<u>141,540</u>	<u>153,800</u>	<u>0</u>	<u>0</u>
	<u>419,135</u>	<u>446,232</u>	<u>149,641</u>	<u>159,656</u>

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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.

The acquisition was completed on 13 October 2016. Subsequently, the Company holds approximately 100% equity interest of THFT.

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:

	30/09/2016
	RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	843

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 21 November 2016.

A13. Contingent liabilities

	30/09/2016	30/09/2015
	RM'000	RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	226,609	233,509

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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 RM419.14million and profit before tax of RM46.88million for the current period as compared with revenue of RM446.23million and profit before tax of RM18.15million for the corresponding period in previous financial year.

Revenue in the current period had dropped RM27.10million or 6.07% as compared to the corresponding period in preceding year. The reduction of revenue is primarily due to lower customer demand for Aluminium segment and lower selling price for Fasteners segment.

In spite of the lower revenue, the Group recorded a higher profit before tax of RM46.88million in this period compared with RM18.15million 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"). The lower profit recorded in the corresponding period in the previous financial year was partly due to share of losses of associates which amounted to RM9.89million against forex loss amounted to RM8.68million in previous quarter to date wherein there was forex gain in the current report quarter of RM4.88million.

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

The Group reported revenue of RM143.47million and profit before tax of RM12.36million for the current quarter as compared to revenue of RM133.23million and profit before tax of RM12.44million in the immediate preceding quarter. Increase in revenue was mainly due to higher selling volume for fasteners segment as compared with immediate preceding 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:

	Individual Quarter 3 months ended 30 September		Cumulative Quarter ended 30 September	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current taxation	3,151	1,207	7,845	7,179
Deferred taxation	(21)	(90)	83	(138)
	3,130	1,117	7,928	7,041
Taxation over provided in prior years	0	(210)	0	(210)
	<u>3,130</u>	<u>907</u>	<u>7,928</u>	<u>6,831</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:

	30/09/2016 RM'000	30/09/2015 RM'000
<u>Bank loans and borrowings - unsecured</u>		
Short term borrowings		
Bankers' acceptance	862	300
Onshore foreign currency loans	54,309	50,124
Foreign currency trust receipts	45,780	95,311
Finance lease obligations	66	36
Term loans	1,356	7,744
	<u>102,373</u>	<u>153,515</u>
Long term borrowings		
Finance lease obligations	66	54
Term loans	0	1,421
	<u>66</u>	<u>1,475</u>
Total	<u>102,439</u>	<u>154,990</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:

	30/09/2016	30/09/2015
	RM'000	RM'000
<u>Bank loans and borrowings - unsecured</u>		
US Dollars	101,444	151,815
Thai Baht	0	2,785
Malaysian Ringgit	995	390
	<u>102,439</u>	<u>154,990</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 21 November 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 September 2016, the outstanding forward exchange contracts are as follows:

	30/09/2016		30/09/2015	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 6,353	USD 7,163	EUR 7,023	USD 7,906
Contract II	EUR 1,500	RM 6,926	EUR 1,800	RM 7,662
Contract III	USD 1,000	RM 4,077	NIL	NIL
Contract IV	USD 200	THB 6,975	USD 1,419	THB 49,743
Contract V	NIL	NIL	EUR 1,050	THB 39,946

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 24 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.

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10. Earnings per share

	Individual Quarter		Cumulative Quarter	
	3 months ended		ended	
	30 September		30 September	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Profit for the period attributable to owners of the Company (RM'000)	6,089	(700)	30,369	7,444
Number of shares in issue at 1 January ('000)	125,327	126,413	125,327	126,413
Effect of shares purchased ('000)	(589)	(368)	(589)	(368)
Weighted average number of shares in issue ('000)	124,738	126,045	124,738	126,045
Basic earnings per share (sen)	4.88	(0.56)	24.35	5.91
Diluted earnings per share (sen)	4.88	(0.56)	24.35	5.91

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

11. Realised and unrealised profits or losses disclosures

	30/09/2016	30/09/2015
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	344,012	341,828
- Unrealised	(6,234)	(6,642)
	337,778	335,186
Total share of retained losses from associates:		
- Realised	0	(11,804)
- Unrealised	0	0
	0	(11,804)
Less: Consolidation adjustments and eliminations	(114,581)	(107,537)
Total retained profits as per consolidated financial statements	223,197	215,845

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	909	2,501
Interest expense	334	942
Depreciation and amortization	4,313	13,015
Impairment loss on receivables	0	9
Loss on financial instruments at fair value through profit or loss	434	651
Reversal of provision for receivables	12	37
Foreign exchange Gain	2,090	4,878
Reclassification adjustment upon disposal of foreign investments	0	11,780
Gain on disposal of foreign investment	0	606

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director
Dated this 28 November 2016