

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 2016
(Financial Year Ended 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 year 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 year under review.

A5. Changes in estimates

There were no material changes in the nature and amount of estimates during the financial year 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 year 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 31 December 2016, the number of treasury shares held was 2,790,200 ordinary shares.

- (ii) On 13 October 2016, a total of 30,000,000 new ordinary shares of RM1.00 were issued pursuant to the acquisition of 3,899,213 ordinary shares of THB100 each in Tong Heer Fasteners (Thailand) Co., Ltd. ("THFT"), an existing 50.01%-owned subsidiary company, representing approximately 49.99% of the equity interest in THFT, from All Star International Holdings Limited for a purchase consideration of RM60,500,000 satisfied via the combination of RM2,000,000 in cash and issuance of 30,000,000 new ordinary shares of RM1.00 each in Tong Herr ("Tong Herr Share(s)") at an issue price of RM1.95 per Tong Herr Share.

A7. Dividend 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, was paid on 24 June 2016.

An interim single-tier dividend of 10 sen per share, amounting to RM15,463,980 in respect of the financial year ended 31 December 2016, was paid on 22 December 2016.

A8. Segment reporting

a. Operating segment

31 December 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	466,636	108,911	34,634	610,181
Segment liabilities	108,607	28,474	94	137,175
External revenue	429,118	144,308	0	573,426
Segment profit	31,269	11,696	12,220	55,185

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A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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	131,290	49,345	1,208	181,843
External revenue	434,338	164,747	0	599,085
Segment profit	31,488	1,708	(30,568)	2,628

b. Geographical information

In RM'000	External revenue		Non-current assets	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Malaysia	134,233	149,943	66,095	69,065
Thailand	14,548	12,853	84,195	86,521
Germany	105,173	120,942	0	0
United States of America	93,582	69,834	0	0
Other countries	225,890	245,513	0	0
	<u>573,426</u>	<u>599,085</u>	<u>150,290</u>	<u>155,586</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 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:

	31/12/2016 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	3,533

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 22 February 2017.

A13. Contingent liabilities

	31/12/2016 RM'000	31/12/2015 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	215,298	230,901

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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 RM573.43million and profit before tax of RM66.40million for the current year as compared with revenue of RM599.09million and profit before tax of RM11.72million for the previous financial year.

Revenue in the current year had dropped RM25.66million or 4.28% as compared to the previous financial year. The reduction of revenue is primarily due to lower customer demand for Aluminium segment and lower selling price for Fasteners segment as compared to previous financial year.

In spite of the lower revenue, the Group recorded a higher profit before tax of RM66.40million in this financial year compared with RM11.72million in the 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 previous financial year was partly due to share of losses of associates which amounted to RM20.18million against forex loss amounted to RM10.97million wherein there was forex gain in the current financial year of RM5.49million.

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

The Group reported revenue of RM154.29million and profit before tax of RM19.52million for the current quarter as compared to revenue of RM143.47million and profit before tax of RM12.36million in the immediate preceding quarter. Increase in revenue was mainly due to higher selling volume for aluminium segment as compared with immediate preceding quarter. The higher revenue generated has contributed to higher profit generated in the current quarter.

3. Prospects for the current financial year

The global economy continues to be afflicted by weak growth and remain challenging, 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 2017 to be satisfactory but 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current taxation	4,136	454	11,981	7,633
Deferred taxation	(1,115)	1,460	(1,032)	1,322
	3,021	1,914	10,949	8,955
Taxation over provided in prior years	266	348	266	138
	<u>3,287</u>	<u>2,262</u>	<u>11,215</u>	<u>9,093</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:

	31/12/2016 RM'000	31/12/2015 RM'000
<u>Secured</u>		
Hire purchase payables	116	81
<u>Unsecured</u>		
Short term borrowings		
Bankers' acceptance	1,100	310
Onshore foreign currency loans	62,411	50,675
Foreign currency trust receipts	42,586	90,735
Term loans	0	6,868
Total	<u>106,213</u>	<u>148,669</u>
Disclosed as:-		
- Current liabilities	106,164	148,624
- Non-current liabilities	49	45
	<u>106,213</u>	<u>148,669</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:

	31/12/2016	31/12/2015
<u>Bank loans and borrowings</u>	RM'000	RM'000
US Dollars	104,665	146,966
Thai Baht	331	1,312
Malaysian Ringgit	1,217	391
	<u>106,213</u>	<u>148,669</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 22 February 2017 (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 2016, the outstanding forward exchange contracts are as follows:

	31/12/2016		31/12/2015	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 4,636	USD 5,072	EUR 7,729	USD 8,702
Contract II	EUR 600	RM 2,826	NIL	NIL
Contract III	USD 200	THB 7,201	NIL	NIL
Contract IV	NIL	NIL	MYR4,923	USD1,174
Contract V	NIL	NIL	EUR 454	THB17,319

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.

On 22 December 2016, the Company paid an interim single-tier dividend of 10 sen per share, amounting to RM15,463,980, in respect of the financial year ended 31 December 2016.

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10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	31 December		31 December	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Profit/(Loss) for the period attributable to owners of the Company (RM'000)	14,862	(10,553)	45,231	(3,109)
Number of shares in issue at 1 January ('000)	125,327	126,413	125,327	126,413
Effect of new issuance of shares	6,475	0	6,475	0
Effect of shares purchased ('000)	(589)	(389)	(589)	(389)
Weighted average number of shares in issue ('000)	131,213	126,024	131,213	126,024
Basic earnings per share (sen)	11.33	(8.37)	34.47	(2.47)
Diluted earnings per share (sen)	11.33	(8.37)	34.47	(2.47)

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

11. Realised and unrealised profits or losses disclosures

	31/12/2016	31/12/2015
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	340,384	329,008
- Unrealised	(5,432)	(4,446)
	334,952	324,562
Total share of retained losses from associates:		
- Realised	0	(26,981)
- Unrealised	0	0
	0	(26,981)
Less: Consolidation adjustments and eliminations	(110,805)	(92,289)
Total retained profits as per consolidated financial statements	224,147	205,292

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	816	3,317
Interest expense	396	1,338
Depreciation and amortization	4,094	17,109
Impairment loss on receivables	0	9
Gain on financial instruments at fair value through profit or loss	1,180	529
Reversal of provision for receivables	13	50
Foreign exchange gain	611	5,489
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 February 2017