

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 MARCH 2017  
(Financial Year Ending 31 December 2017)

**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 2016.

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 ending 31 December 2016 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 107 <i>Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 112 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
Annual Improvements to MFRS Standard 2014 – 2016 Cycle:- Amendments to MFRS 12 <i>Disclosure of Interests in Other Entities</i>	1 January 2017

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 13 April 2017 in respect of the audited financial statements for the year ended 31 December 2016 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 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.

**A7. Dividend paid**

No dividend was paid by the Company during the financial period ended 31 March 2017.

**A8. Segment reporting**

**a. Operating segment**

31 March 2017	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	466,880	122,605	34,217	623,702
Segment liabilities	87,579	36,495	94	124,168
External revenue	113,219	43,620	0	156,839
Segment profit	16,994	5,673	(417)	22,250

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

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

31 March 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	417,278	118,428	54,454	590,160
Segment liabilities	98,371	37,137	92	135,600
External revenue	107,954	34,482	0	142,436
Segment profit	9,757	2,549	6,661	18,967

**b. Geographical information**

In RM'000	External revenue		Non-current assets	
	31/03/2017	31/03/2016	31/03/2017	31/03/2016
Malaysia	41,424	31,347	64,491	67,234
Thailand	4,620	3,876	84,352	79,954
Germany	22,640	32,629	0	0
United States of America	27,299	18,290	0	0
Other countries	60,856	56,294	0	0
	<u>156,839</u>	<u>142,436</u>	<u>148,843</u>	<u>147,188</u>

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**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:

	<b>31/03/2017</b> <b>RM'000</b>
<u>Property, plant and equipment</u>	
Contracted but not provided for	168

**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 19 May 2017.

**A13. Contingent liabilities**

	<b>31/03/2017</b> <b>RM'000</b>	<b>31/03/2016</b> <b>RM'000</b>
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	215,116	220,256

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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 RM156.84million and profit before tax of RM27.61million for the current quarter as compared with revenue of RM142.44million and profit before tax of RM22.08million for the corresponding quarter in previous financial year.

Revenue in the current quarter had increased RM14.40million or 9.18% as compared to the corresponding quarter in previous financial year. Increase of revenue is primarily due to increase of sales volume and selling price for Aluminium segment as well as higher selling price for Fasteners segment as compared to the corresponding quarter in previous financial year, due to increase of commodity price.

Increase in revenue has led to increase of profit before tax.

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

The Group reported revenue of RM156.84million and profit before tax of RM27.61million for the current quarter as compared to revenue of RM154.29million and profit before tax of RM19.52million in the immediate preceding quarter. Increase in revenue was mainly due to higher selling price for both aluminium and fasteners 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**

After a lackluster outturn in 2016, global economy is projected to improve at a modest pace in 2017, owing particularly to volatility of exchange rate, uncertainties in terms of policy developments in the major economies and its global ramifications.

With signals suggesting a challenging year ahead, the Group remains focused in product quality precision and accuracy as well as enhance the product developments and continue to seek for opportunities in order to broaden our customer base and expand the existing markets.

The Board of Directors remains cautious about the Group's outlook for the financial year ending 31 December 2017.

**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 31 March</b>		<b>Cumulative Quarter ended 31 March</b>	
	<b>2017 RM'000</b>	<b>2016 RM'000</b>	<b>2017 RM'000</b>	<b>2016 RM'000</b>
Current taxation	5,405	2,988	5,405	2,988
Deferred taxation	(50)	124	(50)	124
	<u>5,355</u>	<u>3,112</u>	<u>5,355</u>	<u>3,112</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>31/03/2017 RM'000</b>	<b>31/03/2016 RM'000</b>
<b><u>Secured</u></b>		
Hire purchase payables	100	72
<b><u>Unsecured</u></b>		
Short term borrowings		
Bankers' acceptance	1,326	893
Onshore foreign currency loans	36,963	64,972
Foreign currency trust receipts	56,465	39,026
Term loans	0	4,337
Total	<u>94,854</u>	<u>109,300</u>
Disclosed as:-		
- Current liabilities	94,820	109,265
- Non-current liabilities	34	35
	<u>94,854</u>	<u>109,300</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>31/03/2017</b>	<b>31/03/2016</b>
<b><u>Bank loans and borrowings</u></b>	<b>RM'000</b>	<b>RM'000</b>
US Dollars	93,429	107,116
Thai Baht	0	1,219
Malaysian Ringgit	1,425	965
	<u>94,854</u>	<u>109,300</u>

**7. Material pending litigation**

The Group is not engaged in any material litigation as at 19 May 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 March 2017, the outstanding forward exchange contracts are as follows:

	<b>31/03/2017</b>		<b>31/03/2016</b>	
	<b>To sell '000</b>	<b>To buy '000</b>	<b>To sell '000</b>	<b>To buy '000</b>
Contract I	EUR 7,636	USD 9,299	EUR 7,973	USD 8,865
Contract II	EUR 900	RM 4,296	EUR 300	RM 1,403
Contract III	NIL	NIL	USD 1,000	RM 4,141
Contract IV	NIL	NIL	RM 6,699	USD 1,629

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**

A final single tier dividend of 20 sen per share, in respect of the financial year ended 31 December 2016, will be proposed for the shareholders' approval at the forthcoming Annual General Meeting.

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**10. Earnings per share**

	<b>Individual Quarter 3 months ended</b>		<b>Cumulative Quarter ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Profit/(Loss) for the period attributable to owners of the Company (RM'000)	19,456	16,484	19,456	16,484
Number of shares in issue at 1 January ('000)	154,640	125,327	154,640	125,327
Effect of shares purchased ('000)	0	(589)	0	(589)
Weighted average number of shares in issue ('000)	154,640	124,738	154,640	124,738
Basic earnings per share (sen)	12.58	13.21	12.58	13.21
Diluted earnings per share (sen)	12.58	13.21	12.58	13.21

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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>31/03/2017</b>	<b>31/03/2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	361,603	335,150
- Unrealised	(3,999)	(3,326)
	357,604	331,824
Less: Consolidation adjustments and eliminations	(114,001)	(110,048)
Total retained profits as per consolidated financial statements	243,603	221,776

**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	852	852
Interest expense	276	276
Depreciation and amortization	4,199	4,199
Loss on financial instruments at fair value through profit or loss	383	383
Reversal of provision for receivables	9	9
Foreign exchange gain	2,431	2,431
	2,431	2,431

BY ORDER OF THE BOARD

Tsai Yi Ting  
Managing Director  
Dated this 25 May 2017