

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 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 ended 31 December 2016 except for the adoption of the following new/revised MFRSs:-

<b>MFRS (issued as at the end of the reporting period)</b>	<b>Effective for annual periods beginning on or after</b>
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 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.

**A7. Dividend paid**

During the financial period ended 30 June 2017, the Company paid a final single tier dividend of 20 sen per share, amounting to RM30,927,960 in respect of the financial year ended 31 December 2016.

**A8. Segment reporting**

**a. Operating segment**

30 June 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	456,787	116,033	32,237	605,057
Segment liabilities	96,256	33,646	3	129,905
External revenue	231,788	91,184	0	322,972
Segment profit	27,900	8,948	(1,757)	35,091

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

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

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

**b. Geographical information**

In RM'000	External revenue		Non-current assets	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
Malaysia	87,920	63,572	62,754	68,493
Thailand	7,969	7,422	83,854	80,875
Germany	49,257	58,454	0	0
United States of America	54,489	38,527	0	0
Other countries	123,337	107,694	0	0
	<u>322,972</u>	<u>275,669</u>	<u>146,608</u>	<u>149,368</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**

There was no capital expenditure contracted but not provided for in the unaudited interim financial report of the Group during the current financial period under review.

**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 August 2017.

**A13. Contingent liabilities**

	<b>30/06/2017</b>	<b>30/06/2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	212,252	222,746

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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 RM322.97million and profit before tax of RM44.52million for the current period as compared with revenue of RM275.67million and profit before tax of RM34.52million for the corresponding period 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 period in previous financial year, due to increase of commodity price.

Higher revenue generated from both segment was mainly generated from sales of fasteners products to Asia and United States of America whilst aluminium products to Asia countries, which had increased from RM92.12million to RM134.54million for fasteners segment and from RM68.03million to RM91.18million for aluminium segment respectively as compared to the corresponding period in previous financial year. However, decrease of revenue generated from Europe countries for fasteners segment had partially offset with the increase as mentioned earlier.

In tandem with the increase of revenue, the Group profit before tax had increased by RM10.00million or 28.96% as compared to the corresponding period in previous financial year.

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

The Group reported revenue of RM166.13million and profit before tax of RM16.91million for current quarter as compared to revenue of RM156.84million and profit before tax of RM27.61million in the immediate preceding quarter.

Increase in revenue was mainly due to slightly higher selling volume for both aluminium and fasteners segment as compared with immediate preceding quarter. However, the profit before tax did not increase correspondingly with the slightly higher revenue in the current quarter primarily due to the higher raw material cost of both fasteners and aluminium segment which has reduced the current quarter profit margin. Besides, the loss on financial instruments at fair value through profit or loss of RM3.01million also had reduced the profit margin reported in 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.

Barring any unforeseen circumstances, the Groups anticipate satisfactory performance for the financial year ending 31 December 2017.

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**4. Variance of actual profit from forecast profit**

Not applicable.

**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>2017 RM'000</b>	<b>2016 RM'000</b>	<b>2017 RM'000</b>	<b>2016 RM'000</b>
Current taxation	4,110	1,706	9,515	4,694
Deferred taxation	(40)	(20)	(90)	104
	4,070	1,686	9,425	4,798

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>30/06/2017 RM'000</b>	<b>30/06/2016 RM'000</b>
<b><u>Secured</u></b>		
Hire purchase payables	83	146
<b><u>Unsecured</u></b>		
Short term borrowings		
Bankers' acceptance	1,010	931
Onshore foreign currency loans	34,745	45,468
Foreign currency trust receipts	54,938	42,599
Term loans	0	2,586
Total	90,776	91,730
Disclosed as:-		
- Current liabilities	90,749	91,650
- Non-current liabilities	27	80
	90,776	91,730

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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>30/06/2017</b>	<b>30/06/2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Bank loans and borrowings</u></b>		
US Dollars	89,683	90,653
Malaysian Ringgit	1,093	1,077
	<u>90,776</u>	<u>91,730</u>

**7. Material pending litigation**

The Group is not engaged in any material litigation as at 21 Aug 2017 (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 2017, the outstanding forward exchange contracts are as follows:

	<b>30/06/2017</b>		<b>30/06/2016</b>	
	<b>To sell</b>	<b>To buy</b>	<b>To sell</b>	<b>To buy</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
Contract I	EUR 14,723	USD 16,134	EUR 7,492	USD 8,443
Contract II	EUR 600	RM 2,882	EUR 1,800	RM 8,362
Contract III	USD 600	RM 2,619	USD 1,000	RM 4,067
Contract IV	NIL	NIL	RM 3,168	USD 781

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 2017, the Company paid a final single tier dividend of 20 sen per share, amounting to RM30,927,960 in respect of the financial year ended 31 December 2016.

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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>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Profit for the period attributable to owners of the Company (RM'000)	11,219	7,796	30,675	24,280
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)	7.25	6.25	19.84	19.46
Diluted earnings per share (sen)	7.25	6.25	19.84	19.46



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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>30/06/2017</b>	<b>30/06/2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	341,148	335,088
- Unrealised	(4,113)	(5,104)
	337,035	329,984
Less: Consolidation adjustments and eliminations	(113,141)	(112,876)
Total retained profits as per consolidated financial statements	223,894	217,108

**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	1,030	1,882
Interest expense	433	709
Depreciation and amortization	4,146	8,345
Loss on financial instruments at fair value through profit or loss	3,006	3,389
Reversal of provision for receivables	8	17
Foreign exchange gain	1,126	3,557
	1,126	3,557

BY ORDER OF THE BOARD

Tsai Yi Ting  
Managing Director  
Dated this 28 Aug 2017