

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 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:-

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 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.

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 2017
(Financial Year Ending 31 December 2017)

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 has been paid in the current quarter under review.

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, was paid on 19 June 2017.

A8. Segment reporting

a. Operating segment

30 September 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	502,086	135,433	31,744	669,263
Segment liabilities	127,178	48,593	3	175,774
External revenue	370,702	137,791	0	508,493
Segment profit	42,065	13,503	(2,249)	53,319

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 2017
(Financial Year Ending 31 December 2017)

A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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

b. Geographical information

In RM'000	External revenue		Non-current assets	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
Malaysia	133,264	96,112	60,956	67,455
Thailand	12,624	11,159	82,382	82,186
Germany	83,688	81,527	0	0
United States of America	83,348	70,164	0	0
Other countries	195,569	160,173	0	0
	<u>508,493</u>	<u>419,135</u>	<u>143,338</u>	<u>149,641</u>

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 2017
(Financial Year Ending 31 December 2017)

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 November 2017.

A13. Contingent liabilities

	30/09/2017	30/09/2016
	RM'000	RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	211,050	226,609

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 2017
(Financial Year Ending 31 December 2017)

B. ADDITIONAL INFORMATION REQUIRED UNDER BURSA MALAYSIA LISTING REQUIREMENTS

1. Review of the performance of the Company and its principal subsidiaries

	Individual Period (3 rd quarter)				Cumulative Period			
	30/09/17	30/09/16	Changes		30/09/17	30/09/16	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	185,521	143,466	42,055	29.31	508,493	419,135	89,358	21.32
Gross Profit	27,290	15,963	11,327	70.96	82,815	45,190	37,625	83.26
Profit Before Interest and Tax	23,188	12,690	10,498	82.73	68,413	47,818	20,595	43.07
Profit Before Tax	22,741	12,356	10,385	84.05	67,257	46,876	20,381	43.48
Profit After Tax	18,228	9,226	9,002	97.57	53,319	38,948	14,371	36.90
Profit attributable to owners of the Company	15,988	6,089	9,899	162.57	46,663	30,369	16,294	53.65

The Group's revenue for the current period ended 30 September 2017 increased by 21.32% to RM508.49 million as compared to RM419.14 million for the corresponding period in previous financial year. Increase of revenue primarily due to increase of sales volume and average selling price for both Aluminium and Fasteners segment as compared to the corresponding period in previous financial year.

Higher revenue generated from both segment was mainly contributed by sales to Asia customers, which had increased from RM80.97million to RM119.91million for Fasteners segment and from RM102.95million to RM137.79million for Aluminium segment respectively as compared to the corresponding period in previous financial year.

In tandem with the increase of revenue, the Group profit before tax had increased by RM20.38million or 43.48% 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

	Current Quarter	Immediate Preceding Quarter		
	30/09/17	30/06/17	Changes	
	RM'000	RM'000	Amount	%
Revenue	185,521	166,133	19,388	11.67
Gross Profit	27,290	24,613	2,677	10.88
Profit Before Interest and Tax	23,188	17,344	5,844	33.69
Profit Before Tax	22,741	16,911	5,830	34.47
Profit After Tax	18,228	12,841	5,387	41.95
Profit attributable to owners of the Company	15,988	11,219	4,769	42.51

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 2017
(Financial Year Ending 31 December 2017)

2. Material changes in the quarterly results compared to the results of the immediate preceding quarter (cont'd)

The Group's revenue for the current period ended 30 September 2017 has increased RM19.39million or 11.67% to RM185.52million as compared to RM166.13million for the immediate preceding quarter. Increase in revenue was mainly due to higher selling volume for fasteners segment as compared with immediate preceding quarter.

Besides, profit before tax has improved by RM5.83million or 34.47%, which also partly attributable to lower loss on financial instruments at fair value through profit or loss incurred in the current quarter as compared with immediate preceding quarter.

3. Prospects for the current financial year

The outlook for global economy is projected to improve at a modest pace in 2017, owing particularly to volatility of exchange rate and commodity price as well as uncertainties in terms of policy developments in the major economies.

In this challenging market environment, the Group continue with ongoing efforts to maintain operational efficiency and productivity by remain focused on the 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.

4. Variance of actual profit from forecast profit

Not applicable.

5. Taxation

The taxation for continuing operations comprises:

	Individual Quarter 3 months ended 30 September		Cumulative Quarter ended 30 September	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current taxation	4,443	3,151	13,958	7,845
Deferred taxation	39	(21)	(51)	83
	4,482	3,130	13,907	7,928
Taxation over provided in prior years	31	0	31	0
	<u>4,513</u>	<u>3,130</u>	<u>13,938</u>	<u>7,928</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.

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 2017
(Financial Year Ending 31 December 2017)

6. Group borrowings and debt securities

The Group's loans and borrowings are as follows:

	30/09/2017	30/09/2016
	RM'000	RM'000
<u>Secured</u>		
Hire purchase payables	66	132
<u>Unsecured</u>		
Short term borrowings		
Bankers' acceptance	1,585	862
Onshore foreign currency loans	55,500	54,309
Foreign currency trust receipts	79,572	45,780
Term loans	0	1,356
Total	<u>136,723</u>	<u>102,439</u>
Disclosed as:-		
- Current liabilities	136,704	102,373
- Non-current liabilities	19	66
	<u>136,723</u>	<u>102,439</u>

The Group loans and borrowings in RM equivalent analysed by currencies in which the loans and borrowings were denominated are as follows:

	30/09/2017	30/09/2016
	RM'000	RM'000
<u>Bank loans and borrowings</u>		
US Dollars	135,072	101,444
Malaysian Ringgit	1,651	995
	<u>136,723</u>	<u>102,439</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 21 November 2017 (the latest practicable date which is not earlier than 7 days from the date of this quarterly report).

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 2017
(Financial Year Ending 31 December 2017)

8. Financial instruments

As at 30 September 2017, the outstanding forward exchange contracts are as follows:

	30/09/2017		30/09/2016	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 10,353	USD 11,788	EUR 6,353	USD 7,163
Contract II	EUR 1,000	RM 5,052	EUR 1,500	RM 6,926
Contract III	EUR 214	THB 8,345	NIL	NIL
Contract IV	NIL	NIL	USD 1,000	RM 4,077
Contract V	NIL	NIL	USD 200	THB 6,975

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 19 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.

10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	30 September		30 September	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Profit for the period attributable to owners of the Company (RM'000)	15,988	6,089	46,663	30,369
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)	10.34	4.88	30.18	24.35
Diluted earnings per share (sen)	10.34	4.88	30.18	24.35

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 2017
(Financial Year Ending 31 December 2017)

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

11. Realised and unrealised profits or losses disclosures

	30/09/2017	30/09/2016
	RM'000	RM'000
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	358,292	344,012
- Unrealised	(3,357)	(6,234)
	354,935	337,778
Less: Consolidation adjustments and eliminations	(115,053)	(114,581)
Total retained profits as per consolidated financial statements	239,882	223,197

12. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	881	2,763
Interest expense	447	1,156
Depreciation and amortization	4,194	12,539
Impairment on receivables	3	3
Loss on financial instruments at fair value through profit or loss	836	4,225
Reversal of provision for receivables	10	27
Foreign exchange gain	2,128	5,685
	2,128	5,685

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director
Dated this 27 Nov 2017