

TONG HERR RESOURCES BERHAD  
(Company No.432139-W)  
(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 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 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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AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 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 year under review.

**A7. Dividend 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, was paid on 19 June 2017.

An interim single-tier dividend of 18 sen per share, amounting to RM27,835,164 in respect of the financial year ended 31 December 2017, was paid on 21 December 2017.

**A8. Segment reporting**

**a. Operating segment**

31 December 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	482,717	124,881	4,374	611,972
Segment liabilities	102,897	35,297	150	138,344
External revenue	508,135	185,968	0	694,103
Segment profit	51,887	17,716	(3,461)	66,142

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(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

**b. Geographical information**

In RM'000	External revenue		Non-current assets	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Malaysia	178,899	134,233	67,977	66,095
Thailand	16,472	14,548	79,172	84,195
Germany	110,260	105,173	0	0
United States of America	111,503	93,582	0	0
Japan	42,955	23,972	0	0
Other countries	234,014	201,918	0	0
	<u>694,103</u>	<u>573,426</u>	<u>147,149</u>	<u>150,290</u>

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AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

**A9. Changes in the composition of the Group**

Tong Heer Aluminium Industries Sdn. Bhd., a 51% owned subsidiary company of Tong Herr Resources Berhad had on 6 November 2017 acquired 6,000,000 Shares of NTD10.00 each, representing 15.58% of the total issued and paid up share capital of Han Tec Precision Industry Co., Ltd. (“HTPI”) for a total consideration of NTD60,000,000. THR effectively holds 7.95% equity interest in HTPI.

**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:

	<b>31/12/2017</b> <b>RM'000</b>
<u>Property, plant and equipment</u>	
Contracted but not provided for	1,923

**A12. Material events subsequent to the reported period**

There was no item, transaction or event of a material or unusual in nature during the year from the end of the financial year under review to 19 February 2018.

**A13. Contingent liabilities**

	<b>31/12/2017</b> <b>RM'000</b>	<b>31/12/2016</b> <b>RM'000</b>
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	207,324	215,298

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(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 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 (4 <sup>th</sup> quarter)		Changes		Cumulative Period		Changes	
	31/12/17	31/12/16			31/12/17	31/12/16		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	185,610	154,291	31,319	20.30	694,103	573,426	120,677	21.04
Gross Profit	20,593	24,678	(4,085)	(16.55)	103,408	69,868	33,540	48.00
Profit Before Interest and Tax	15,718	19,920	(4,202)	(21.09)	84,131	67,738	16,393	24.20
Profit Before Tax	15,058	19,524	(4,466)	(22.87)	82,315	66,400	15,915	23.97
Profit After Tax	12,823	16,237	(3,414)	(21.03)	66,142	55,185	10,957	19.86
Profit attributable to owners of the Company	10,751	14,862	(4,111)	(27.66)	57,414	45,231	12,183	26.94

The Group's revenue for the current year ended 31 December 2017 increased by 21.04% to RM694.10million as compared to RM573.43million for the previous financial year. Higher revenue generated as compared to last financial year was attributable to increase of sales volume and average selling price for both Aluminium and Fasteners segment.

Higher revenue generated from both segment was mainly contributed by sales to Asia customers, which had increased from RM113.50million to RM170.65million for Fasteners segment and from RM143.75million to RM185.97million for Aluminium segment respectively as compared previous financial year.

In tandem with the increase of revenue, the Group profit before tax had increased by RM15.92million or 23.97% as compared to the previous financial year.

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

	Current Quarter	Immediate Preceding Quarter	Changes	
	31/12/17	30/09/17	Amount	%
	RM'000	RM'000		
Revenue	185,610	185,521	89	0.05
Gross Profit	20,593	27,290	(6,697)	(24.54)
Profit Before Interest and Tax	15,718	23,188	(7,470)	(32.21)
Profit Before Tax	15,058	22,741	(7,683)	(33.78)
Profit After Tax	12,823	18,228	(5,405)	(29.65)
Profit attributable to owners of the Company	10,751	15,988	(5,237)	(32.76)

TONG HERR RESOURCES BERHAD  
(Company No.432139-W)  
(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 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 quarter ended 31 December 2017 has slightly increased RM89,000 or 0.05% to RM185.61million as compared to RM185.52million for the immediate preceding quarter. The increase of the revenue was mainly contributed from slightly increase of sales volume for Aluminium segment.

However, the profit before tax has decreased by RM7.68million to RM15.06million which was mainly due to strengthen of Ringgit Malaysia, which had lower the selling price after translation, and also higher production cost incurred resulted from higher raw material cost purchased for Fasteners segment, which dampened the profit margin as compared with the immediate preceding quarter.

**3. Prospects for the current financial year**

The global economy growth has picked up in 2017, supported by a broad-based recovery and is projected to carry forward its current global growth momentum into 2018. Despite the brighter outlook for global economy, it is still subject to downside risks, owing particularly to the rising geopolitical tension, volatility of the commodity price as well as uncertainties in terms of policy developments in the major economies.

In this challenging market environment, the Group will continue with ongoing efforts to maintain operational efficiency and remain focused on the core business. The Group will continue to focus on the product developments to elevate the product quality and continue to seek for opportunities in order to broaden our customer base and expand the existing markets.

Barring any unforeseen circumstances, the Group anticipates satisfactory performance for the financial year ending 31 December 2018.

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

Not applicable.

**5. Taxation**

The taxation for continuing operations comprises:

	<b>Individual Quarter 3 months ended 31 December</b>		<b>Cumulative Quarter ended 31 December</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current taxation	1,868	4,136	15,826	11,981
Deferred taxation	288	(1,115)	237	(1,032)
	<u>2,156</u>	<u>3,021</u>	<u>16,063</u>	<u>10,949</u>
Taxation over provided in prior years	79	266	110	266
	<u>2,235</u>	<u>3,287</u>	<u>16,173</u>	<u>11,215</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.

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(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

**6. Group borrowings and debt securities**

The Group's loans and borrowings are as follows:

	<b>31/12/2017</b>	<b>31/12/2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Secured</u></b>		
Hire purchase payables	49	116
<b><u>Unsecured</u></b>		
Short term borrowings		
Bankers' acceptance	7,164	1,100
Onshore foreign currency loans	45,376	47,960
Foreign currency trust receipts	44,007	57,037
Term loans	0	0
Total	<u>96,596</u>	<u>106,213</u>
Disclosed as:-		
- Current liabilities	96,585	106,164
- Non-current liabilities	11	49
	<u>96,596</u>	<u>106,213</u>

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

	<b>31/12/2017</b>	<b>31/12/2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Bank loans and borrowings</u></b>		
US Dollars	89,383	104,665
Thai Bath	0	332
Malaysian Ringgit	7,213	1,216
	<u>96,596</u>	<u>106,213</u>

**7. Material pending litigation**

The Group is not engaged in any material litigation as at 19 February 2018 (the latest practicable date which is not earlier than 7 days from the date of this quarterly report).

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AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

**8. Financial instruments**

As at 31 December 2017, the outstanding forward exchange contracts are as follows:

	<b>31/12/2017</b>		<b>31/12/2016</b>	
	<b>To sell '000</b>	<b>To buy '000</b>	<b>To sell '000</b>	<b>To buy '000</b>
Contract I	EUR 6,946	USD 8,229	EUR 4,636	USD 5,072
Contract II	EUR 1,400	RM 7,007	EUR 600	RM 2,826
Contract III	EUR 214	THB 8,345	NIL	NIL
Contract VI	NIL	NIL	USD 200	THB 7,201

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.

On 21 December 2017, the Company paid an interim single-tier dividend of 18 sen per share, amounting to RM27,835,164 in respect of the financial year ended 31 December 2017.

**10. Earnings per share**

	<b>Individual Quarter 3 months ended</b>		<b>Cumulative Quarter ended</b>	
	<b>31 December</b>		<b>31 December</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)	10,751	14,862	57,414	45,231
Number of shares in issue at 1 January ('000)	154,640	125,327	154,640	125,327
Effect of shares purchased ('000)	0	6,475	0	6,475
Effect of shares issued ('000)	0	(589)	0	(589)
Weighted average number of shares in issue ('000)	154,640	131,213	154,640	131,213
Basic earnings per share (sen)	6.95	11.33	37.13	34.47
Diluted earnings per share (sen)	6.95	11.33	37.13	34.47



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AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED  
INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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

**11. Realised and unrealised profits or losses disclosures**

	<b>31/12/2017</b>	<b>31/12/2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits/(losses) of the Company and its subsidiaries:		
- Realised	340,565	341,167
- Unrealised	(2,844)	(6,309)
	337,721	334,858
Less: Consolidation adjustments and eliminations	(114,923)	(110,711)
Total retained profits as per consolidated financial statements	222,798	224,147

**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	795	3,558
Interest expense	667	1,823
Depreciation and amortization	4,150	16,689
Impairment on receivables	0	3
(Gain)/Loss on financial instruments at fair value through profit or loss	(712)	3,513
Reversal of provision for receivables	7	34
Foreign exchange gain	996	6,681
	996	6,681

BY ORDER OF THE BOARD

Tsai Yi Ting  
Managing Director  
Dated this 26 Feb 2018