

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

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 2017.

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 2017 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 9 <i>Financial Instruments</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 1 <i>First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)</i>	1 January 2018
Amendments to MFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 4 <i>Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	1 January 2018
Amendments to MFRS 15 <i>Clarifications to MFRS 15 Revenue from Contracts with Customers</i>	1 January 2018
Amendments to MFRS 128 <i>Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018

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 16 April 2018 in respect of the audited financial statements for the year ended 31 December 2017 was not subject to any qualification.

A3. Seasonal or cyclical factors

The Group performance for the financial period 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)

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

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.

- (i) Repurchased a total of 121,400 ordinary shares of its issued share capital from the open market during the period, at an average cost of RM3.25 per share. The total repurchases consideration, including transaction costs and GST during the period amounted to RM394,500 and were financed by internally generated funds. The repurchased shares are held as treasury shares in accordance with the requirements of Section 127 of the Companies Act 2016.

As at 31 March 2018, the number of treasury shares held was 2,911,600 ordinary shares.

A7. Dividend paid

No dividend was paid by the Company during the financial period ended 31 March 2018.

A8. Segment reporting

a. Operating segment

31 March 2018	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	490,252	125,403	3,831	619,486
Segment liabilities	94,173	34,407	141	128,721
External revenue	152,967	47,093	0	200,060
Segment profit/(loss)	15,173	2,944	(140)	17,977

TONG HERR RESOURCES BERHAD
(Company No.432139-W)

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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

b. Geographical information

In RM'000	External revenue		Non-current assets	
	31/03/2018	31/03/2017	31/03/2018	31/03/2017
Malaysia	45,830	41,424	57,992	64,491
Thailand	4,515	4,620	77,084	84,352
Germany	29,878	22,640	0	0
United States of America	31,760	27,299	0	0
Other countries	88,077	60,856	0	0
	<u>200,060</u>	<u>156,839</u>	<u>135,076</u>	<u>148,843</u>

TONG HERR RESOURCES BERHAD
(Company No.432139-W)

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

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:

	31/03/2018 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	12,643

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 period under review to 17 May 2018.

A13. Contingent liabilities

	31/03/2018 RM'000	31/03/2017 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	204,011	215,116

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

B. ADDITIONAL INFORMATION REQUIRED UNDER BURSA MALAYSIA LISTING REQUIREMENTS

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

	Individual Period (1 st quarter)		Changes	
	31/03/18	31/03/17	RM'000	%
	RM'000	RM'000	RM'000	%
Revenue	200,060	156,839	43,221	27.56
Gross Profit	26,511	30,912	(4,401)	(14.24)
Profit Before Interest and Tax	22,337	27,881	(5,544)	(19.88)
Profit Before Tax	21,902	27,605	(5,703)	(20.66)
Profit After Tax	17,977	22,250	(4,273)	(19.20)
Profit attributable to owners of the Company	16,531	19,456	(2,925)	(15.03)

The Group reported revenue of RM200.06million and profit before tax of RM21.90million for the current quarter as compared with revenue of RM156.84million and profit before tax of RM27.61million for the corresponding quarter in previous financial year.

The Group's revenue for current reporting quarter had increased by RM43.22million or 27.56% as compared with corresponding quarter in previous financial year. Increase of revenue was mainly due to there was higher sales volume to Europe market for Fasteners Segment. Revenue generated from Europe market amounted to RM63.79million in current quarter as compared with RM43.59million in the previous year corresponding quarter.

However, the profit before tax had decreased by RM5.70million to RM21.90million 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, which dampened the profit margin as compared with the corresponding quarter 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	Changes	
	31/03/18	31/12/17	Amount	%
	RM'000	RM'000	Amount	%
Revenue	200,060	185,610	14,450	7.79
Gross Profit	26,511	20,593	5,918	28.74
Profit Before Interest and Tax	22,337	15,718	6,619	42.11
Profit Before Tax	21,902	15,058	6,844	45.45
Profit After Tax	17,977	12,823	5,154	40.19
Profit attributable to owners of the Company	16,531	10,751	5,780	53.76

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

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

The Group reported revenue of RM200.06million and profit before tax of RM21.90million for the current quarter as compared to revenue of RM185.61million and profit before tax of RM15.06million in the immediate preceding quarter. The increase of the revenue was mainly contributed from increase of sales volume for Fasteners segment. Higher revenue generated has contributed to higher profit generated in the current quarter.

3. Prospects for the current financial year

The exemption of import duty for THFT which exports to US had expired on 31 December 2017. However, the exemption was renewed subsequently and is reauthorized through 31 December 2019.

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, the Group remains cautiously optimistic for the performance of 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:

	Individual Quarter		Cumulative Quarter	
	3 months ended		ended	
	31 March		31 March	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Current taxation	4,021	5,405	4,021	5,405
Deferred taxation	(96)	(50)	(96)	(50)
	<u>3,925</u>	<u>5,355</u>	<u>3,925</u>	<u>5,355</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)

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

6. Group borrowings and debt securities

The Group's loans and borrowings are as follows:

	31/03/2018	31/03/2017
	RM'000	RM'000
<u>Secured</u>		
Hire purchase payables	35	100
<u>Unsecured</u>		
Short term borrowings		
Bankers' acceptance	1,144	1,326
Onshore foreign currency loans	53,971	61,975
Foreign currency trust receipts	45,516	31,453
Total	<u>100,666</u>	<u>94,854</u>
Disclosed as:-		
- Current liabilities	100,663	94,820
- Non-current liabilities	3	34
	<u>100,666</u>	<u>94,854</u>

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

	31/03/2018	31/03/2017
	RM'000	RM'000
<u>Bank loans and borrowings</u>		
US Dollars	99,487	93,429
Malaysian Ringgit	1,179	1,425
	<u>100,666</u>	<u>94,854</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 17 May 2018 (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)

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

8. Financial instruments

As at 31 March 2018, the outstanding forward exchange contracts are as follows:

	31/03/2018		31/03/2017	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 6,543	USD 7,962	EUR 7,636	USD 9,299
Contract II	EUR 2,400	RM 11,731	EUR 900	RM 4,296
Contract III	EUR 100	THB 3,921	NIL	NIL
Contract VI	USD 1,000	MYR3,907	NIL	NIL

The maturity of the abovementioned foreign exchange contracts are less than 1 year.

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 18 sen per share, in respect of the financial year ended 31 December 2017, will be proposed for the shareholders' approval at the 21st Annual General Meeting.

10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	31 March		31 March	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Profit for the period attributable to owners of the Company (RM'000)	16,531	19,456	16,531	19,456
Number of shares in issue at 1 January ('000)	154,640	154,640	154,640	154,640
Effect of shares issued ('000)	(99)	0	(99)	0
Weighted average number of shares in issue ('000)	154,541	154,640	154,541	154,640
Basic earnings per share (sen)	10.70	12.58	10.70	12.58
Diluted earnings per share (sen)	10.70	12.58	10.70	12.58

TONG HERR RESOURCES BERHAD
(Company No.432139-W)

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2018

11. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter	Current Quarter To Date
	RM'000	RM'000
Interest income	674	674
Interest expense	435	435
Expected credit loss	126	126
Depreciation and amortization	4,041	4,041
Loss on financial instruments at fair value through profit or loss	199	199
Foreign exchange gain	1,543	1,543

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director
Dated this 23 May 2018