

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</i> (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)	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</i> (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)	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 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.

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

NOTES TO THE UNAUDITED
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 DECEMBER 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 year under review, except for the following:

- (i) Repurchased a total of 186,700 ordinary shares of its issued share capital from the open market during the period, at an average cost of RM3.17 per share. The total repurchases consideration, including transaction costs and GST during the period amounted to RM591,000 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 December 2018, the number of treasury shares held was 2,976,900 ordinary shares.

A7. Dividend paid

A final single tier dividend of 18 sen per share, amounting to RM27,801,558 in respect of the financial year ended 31 December 2017, was paid on 13 June 2018.

An interim single tier dividend of 8 sen per share, amounting to RM12,356,248 in respect of the financial year ended 31 December 2018, was paid on 21 December 2018.

A8. Segment reporting

a. Operating segment

31 December 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	547,826	118,675	356	666,857
Segment liabilities	137,993	30,428	184	168,605
External revenue	610,773	187,662	0	798,435
Segment profit/(loss)	56,032	10,195	(261)	65,966

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

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

A8. Segment reporting (Cont'd)

a. Operating segment (Cont'd)

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	482,453	124,881	4,374	611,708
Segment liabilities	102,632	35,298	150	138,080
External revenue	508,135	185,968	0	694,103
Segment profit/(loss)	51,887	17,716	(3,461)	66,142

b. Geographical information

In RM'000	External revenue		Non-current assets	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Malaysia	179,317	178,900	57,485	59,679
Thailand	19,136	16,472	84,245	79,171
Germany	127,144	110,260	0	0
United States of America	122,351	111,503	0	0
Other countries	350,487	276,968	0	0
	<u>798,435</u>	<u>694,103</u>	<u>141,730</u>	<u>138,850</u>

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

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

A9. Changes in the composition of the Group

There were no changes in the composition of the Group during the current year.

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:

	31/12/2018 RM'000
<u>Property, plant and equipment</u>	
Contracted but not provided for	7,568

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 18 February 2019.

A13. Contingent liabilities

	31/12/2018 RM'000	31/12/2017 RM'000
Financial guarantees given to financial institutions for credit facilities granted to subsidiaries	244,324	207,324

B. ADDITIONAL INFORMATION REQUIRED UNDER BURSA MALAYSIA LISTING REQUIREMENTS

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

	Individual Period (4 th quarter)		Changes		Cumulative Period		Changes	
	31/12/18	31/12/17			31/12/18	31/12/17		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	186,622	185,610	1,012	0.55	798,435	694,103	104,332	15.03
Gross Profit	14,058	20,593	(6,535)	(31.73)	101,318	103,408	(2,090)	(2.02)
Profit Before Interest and Tax	8,226	15,718	(7,492)	(47.67)	83,490	84,131	(641)	(0.76)
Profit Before Tax	7,346	15,058	(7,712)	(51.22)	80,720	82,315	(1,595)	(1.94)
Profit After Tax	5,594	12,823	(7,229)	(56.38)	65,966	66,142	(176)	(0.27)
Profit attributable to owners of the Company	5,169	10,751	(5,582)	(51.92)	60,948	57,414	3,534	6.16

The Group had recorded the revenue of RM798.44million and profit before tax of RM80.72million in current financial year which represents an increase of RM104.33million or 15.03% in revenue and decrease of RM1.60million or 1.94% in profit before tax as compared with previous financial year.

The increase of revenue was mainly contributed by the sales volume generated from Fasteners segment. However, higher sales generated do not lead to higher gross profit due to increase of its raw material cost purchased as compared with previous financial year.

The lower gross profit margin has partially offset by the improvement of gain generated on the financial instruments at fair value through profit or loss, whereby there is gain of RM941,000 being recorded for current financial year, whilst there was loss on financial instruments at fair value through profit or loss of RM3.51million for previous financial year. Besides, there is also a loss of fair value adjustment for the other investment of RM720,000 being recorded for current financial year.

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

	Current Quarter	Immediate Preceding Quarter	Changes	
	31/12/18	30/09/18		
	RM'000	RM'000	RM'000	%
Revenue	186,622	215,481	(28,859)	(13.39)
Gross Profit	14,058	29,412	(15,354)	(52.20)
Profit Before Interest and Tax	8,226	25,642	(17,416)	(67.92)
Profit Before Tax	7,346	24,865	(17,519)	(70.46)
Profit After Tax	5,594	20,799	(15,205)	(73.10)
Profit attributable to owners of the Company	5,169	19,933	(14,764)	(74.07)

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

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

The Group reported revenue of RM186.62million and profit before tax of RM7.35million for the current quarter as compared to revenue of RM215.48million and profit before tax of RM24.87million in the immediate preceding quarter. Lower revenue and profit recorded was due to lower sales generated for both Aluminium and Fasteners segment. There is also a loss of fair value adjustment for the other investment of RM720,000 being recorded for current quarter.

3. Prospects for the current financial year

The operating environment remains competitive. Volatility of commodity price, impact from geopolitical tensions and uncertain development of the advanced countries' policy, remain as the main challenging factors to the Group. The uncertain policy and factors, which include the Brexit deal as well as the tariff imposition measures between United States and its trading partners, may weigh down the economic growth.

In this challenging market environment, at the meantime to sustain the existing customers base, the Group also continue to explore for more opportunities to broaden customer base and capture more market shares.

In view of the challenging environment, the Board expects the prospects of the Group's financial performance for the financial year ending 31 December 2019 to be challenging.

4. Variance of actual profit from forecast profit

Not applicable.

5. Taxation

The taxation for continuing operations comprises:

	Individual Quarter 3 months ended 31 December		Cumulative Quarter ended 31 December	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Tax based on results for the year:-				
Current tax	2,555	1,822	15,620	15,411
Deferred tax	(806)	433	(894)	382
	1,749	2,255	14,726	15,793
Tax over provided in prior year:-				
Current tax	17	63	42	94
Deferred tax	(14)	(83)	(14)	(83)
Withholding tax on dividend from foreign subsidiary	0	0	0	369
	1,752	2,235	14,754	16,173

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 DECEMBER 2018

6. Group borrowings and debt securities

The Group's loans and borrowings are as follows:

	31/12/2018	31/12/2017
	RM'000	RM'000
<u>Secured</u>		
Hire purchase payables	11	49
<u>Unsecured</u>		
Short term borrowings		
Bank overdraft	29	0
Bankers' acceptance	2,926	7,138
Onshore foreign currency loans	39,691	44,006
Foreign currency trust receipts	78,458	45,403
Term loan	7,311	0
Total	<u>128,426</u>	<u>96,596</u>
Disclosed as:-		
- Current liabilities	121,829	96,585
- Non-current liabilities	6,597	11
	<u>128,426</u>	<u>96,596</u>

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

	31/12/2018	31/12/2017
	RM'000	RM'000
<u>Bank loans and borrowings</u>		
US Dollars	118,149	89,409
Thai Baht	7,311	0
Malaysian Ringgit	2,966	7,187
	<u>128,426</u>	<u>96,596</u>

7. Material pending litigation

The Group is not engaged in any material litigation as at 18 February 2019 (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 DECEMBER 2018

8. Financial instruments

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

	31/12/2018		31/12/2017	
	To sell '000	To buy '000	To sell '000	To buy '000
Contract I	EUR 4,851	USD 5,643	EUR 6,946	USD 8,229
Contract II	EUR 600	RM 2,884	EUR 1,400	RM 7,007
Contract III	EUR 300	THB 11,640	EUR 214	THB 8,345
Contract IV	MYR 5,920	USD 1,424	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

On 21 December 2018, the Company had paid an interim single tier dividend of 8 sen per share, amounting to RM12,356,248 in respect of the financial year ended 31 December 2018.

10. Earnings per share

	Individual Quarter 3 months ended		Cumulative Quarter ended	
	31 December		31 December	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Profit for the period attributable to owners of the Company (RM'000)	5,169	10,751	60,948	57,414
Number of shares in issue at 1 January ('000)	154,640	154,640	154,640	154,640
Effect of shares issued ('000)	(146)	0	(146)	0
Weighted average number of shares in issue ('000)	154,494	154,640	154,494	154,640
Basic earnings per share (sen)	3.35	6.95	39.45	37.13
Diluted earnings per share (sen)	3.35	6.95	39.45	37.13

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

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

11. Notes to the Condensed Consolidated Statement of Comprehensive Income

	Current Quarter RM'000	Current Year To Date RM'000
Interest income	782	2,917
Interest expense	880	2,770
Bad debts written off	0	272
Depreciation and amortization	4,032	16,100
Expected credit loss	234	347
Gain on financial instruments at fair value through profit or loss	188	941
Foreign exchange gain	735	4,961
Loss on fair value adjustment	720	720

BY ORDER OF THE BOARD

Tsai Yi Ting
Managing Director
Dated this 25 February 2019