METROD (MALAYSIA) BERHAD (66954-H)

Interim report for the second quarter ended 30 June 2010

Notes:-

1) Basis of preparation and Accounting Policies

The interim financial statements have been prepared in accordance with the requirements of Financial Reporting Standard (FRS) 134 “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board and paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad. It should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2009.

The accounting policies and methods of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 December 2009, except that the Group has adopted the new/revised standards mandatory for annual periods beginning on or after 1 January 2010 that have an impact on the Group, detailed below :

(a) FRS 8 Operating Segments (effective for annual periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114_{2004} Segment Reporting. The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. As the Group’s chief operating decision maker, the Group’s Board of Directors, relies on internal reports which are similar to those currently disclosed externally, no further segmental information disclosures will be necessary.

(b) FRS 139 Financial Instruments : Recognition and Measurement (effective for annual periods beginning on or before 1 January 2010). This standard establishes principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items and permits hedge accounting only under strict circumstances. As allowed under the transitional provisions of FRS 139, the changes are applied prospectively and the comparatives as at 31 December 2009 were not restated. Instead, the changes should be recognised as an adjustment to the opening retained earnings as at 1 January 2010. Arising from the adoption of this Standard, there is a positive impact of increasing the opening retained earnings by RM10.6 million.

In addition, the Group has not applied hedge accounting as at 30 June 2010, these changes in accounting policies have the effect of decreasing the profit for the current quarter by RM3.048 million (YTD RM6.520 million).

(c) FRS 7 Financial Instruments : Disclosures (effective for annual periods beginning on or after 1 January 2010). This standard requires additional disclosures regarding fair value measurements and liquidity risk in the full year financial statements, and has no effect on reported profit or equity. However, FRS 7 disclosures are not required in the interim financial statements, and hence, no further disclosures have been made in these interim financial statements.

(d) Amendments to FRS 101 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendments to FRS 101 requires changes in the format of the financial statements including the amounts directly attributable to shareholders in the primary statements, but does not affect the measurement of reported profit or equity. The Group has elected to show other comprehensive income in one statement (Statement of Comprehensive Income) and hence, all owner changes in equity are presented in the consolidated statement of changes in equity, whereas non-owner changes in equity are shown in the consolidated statement of comprehensive income.

(e) Amendments to FRS 117 Leases (effective for annual periods beginning on or after 1 January 2010). The amendments to FRS 117 requires entities with existing leases or land and buildings (combined) to reassess the classification of land as a finance or operating lease. The Group has reclassified the existing leasehold land to property, plant and equipment following the reassessment, with no effect on reported profit or equity. However, as a result of the adoption of the Amendments to FRS 117, comparative balances have been restated as follows :

	As previously reported (RM'000)	Effects of changes in accounting policy (RM'000)	As restated (RM'000)
Property, plant and equipment	288,063	8,866	296,929
Prepaid lease payment	8,866	(8,866)	-

The adoption of other interpretations and revisions to existing standards mandatory for annual periods beginning on or after 1 January 2010 did not result in significant changes in the reported profit or equity or on the disclosures in the financial statements.

2) Audit qualification of preceding annual financial statements

The auditors' report for the preceding annual financial statements for the year ended 31 December 2009 was not subject to any qualification.

3) Seasonal or cyclical factors

The business operations of the Group were not materially affected by any seasonal or cyclical factors during the interim period.

4) Unusual items

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence during the interim period.

5) Changes in estimates

There were no changes in estimates of amounts reported in prior financial years, that have a material effect in the interim period.

6) Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the interim period.

7) Dividends paid

No dividend was paid during the financial quarter ended 30 June 2010.

8) Segmental information

The Group is principally engaged in the manufacturing of copper products in various parts of the world. Accordingly, geographical segment reporting of the Group is set out below:

Segment reporting	Malaysia RM'000	Rest of Asia RM'000	European Union RM'000	North America RM'000	Eliminations RM'000	Group RM'000
Period ending 30.06.2010						
Revenue						
External	604,769	53,015	297,164	24,652	0	979,600
Inter segment revenue	16,722	0	0	0	(16,722)	0
Total revenue	621,491	53,015	297,164	24,652	(16,722)	979,600
Results						
Segment Results	7,356	(6,526)	26,790	(10,665)	1,176	18,131
Finance cost						(5,995)
Tax expense						(7,718)
Net profit for the period						4,418
As at 30.06.2010						
Segment assets	450,303	210,180	201,267	98,137	(86,476)	873,411
Unallocated assets						32,990
Total assets						906,401
Segment liabilities	122,162	25,984	77,740	5,054	(12,280)	218,660
Unallocated liabilities						360,032
Total liabilities						578,692

9) Carrying amount of revalued assets

Valuations of property, plant and equipment have been brought forward without any amendment from the previous annual financial statements for the year ended 31 December 2009.

10) Material subsequent events

There were no material events subsequent to the end of the interim period reported on that have not been reflected in the financial statements for the said interim period.

11) Changes in composition of the Group

There were no changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations.

12) Contingent liabilities / assets

There were no contingent liabilities or contingent assets as at the date of this report.

13) Capital Commitments

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 30 June 2010 is as follows :

	RM'000
Property, plant and equipment :-	
Authorised and contracted for	3,018
Authorised but not contracted for	2,590
Total	**5,608**

14) Review of the performance of the Company and its principal subsidiaries

For the second quarter under review, the Group recorded a pre-tax profit of RM6.881 million and turnover of RM541.732 million. Group's pre-tax profit was lower compared to corresponding previous year period pre-tax profit of RM9.078 million mainly due to the costs associated with green-field projects in India and the USA, weaker demand in China and the impact of FRS 139. The revenue for the period was higher as compared to corresponding previous year period of RM425.280 million mainly due to higher copper prices.

Malaysia :
The business seems to have marginally improved although competition arising from over capacity remained intense. The difficult conditions in financial markets have increased credit and commercial risks.

European Union:
The order backlog and resultant demand from Power Transmission & Distribution sector continued to show signs of a decline. ASTA was able to utilize almost its full capacity. Competition had also increased.

North America & Rest of Asia :
For both plants in India & USA, quality is being further stabilized and production quantities are being ramped up. Competition is already strong in both the markets. Demand in US remains weak. Gestation period is getting extended due to unforeseen weaknesses in the market conditions.
The transformer industry slowed down considerably in China. Competition from local producers of CTC had been strong with government support and prices fell significantly.

Subject to above, in the opinion of the Directors, the results of the operations for the Group have not been substantially affected by any item, transaction or event of a material and unusual nature as at the date of this report.

15) Material Changes in Quarterly Results

Pre-tax profit for the quarter of RM6.881 million was higher compared to preceding quarter's pre-tax profit of RM5.255 million mainly due to better product-mix and better performance of Malaysian operations.

16) Current year Prospects

The uncertainties about global economies coming out of the grips of recession remains high and the recoveries are fragile. Financial crisis in Europe is further adding to the uncertainties. The depth of the problems suggest a continuing adverse impact on the business segments in which the Group is involved. Visibility in respect of forward business remains poor and price competition remains intense.

Malaysia :
Market demand for copper rod and wire in Malaysia seems to be improving gradually. Domestic competition is expected to increase with new capacities being installed. With the implementation of the ASEAN free trade agreements and bilateral ASEAN agreements with China and Korea, the margins are under pressure. The strip business has been adversely affected by reduced demand from the transformer and construction industry. Credit risks remain high as before.

European Union:
The demand from the power transmission and distribution sector is weakening as a result of the global financial crisis. Significant new capacity has been added in Europe and in global markets which would have an adverse effect on ASTA's profitability.

North America & Rest of Asia :
The green-field projects in USA and India are expected to remain in gestation for a longer period than as envisaged earlier due to adverse market conditions. In China, competition from domestic producers remains intense with considerable pressure on operating margins. The transformer industry is experiencing a considerable slow down.

Volatility in copper prices has also increased the risks. Copper prices which had come down significantly have more than doubled from the lower levels seen earlier this year.

The Board expects the performance of the Group for the financial year 2010 to be negatively impacted due to the global recession and uncertainties in the economic conditions.

17) Profit forecast and variance

There was no profit forecast or profit guarantee issued during the financial period to-date.

18) Taxation

	Current Year Quarter 30/06/10 RM'000	Comparative Year Quarter 30/06/09 RM'000	**Current Year To Date 30/06/10 RM'000**	Comparative Year To Date 30/06/09 RM'000
In respect of current period:				
- income tax	**3,476**	2,096	**6,559**	3,010
- deferred tax	**517**	411	**1,159**	975
TOTAL :	**3,993**	2,507	**7,718**	3,985

Effective tax rate was higher due to losses in certain foreign subsidiaries.

19) Profit/(losses) on sales of unquoted investments and/or properties

There were no sales of unquoted investments and/or properties for the current financial period to-date.

20) Purchase/disposal of quoted securities

(a) There were no purchases/sales of quoted securities for the current financial period to-date.
(b) There were no investments in quoted shares as at end of the reporting period.

21) Corporate proposals (status as at 10 August 2010)

There were no corporate proposals announced but not completed as at 10 August 2010.

22) Group Borrowings and Debt Securities

Group borrowings and debt securities as at 30 June 2010 are as follows:-

		Denominated in Foreign Currency		
	Amount RM'000	**Foreign Currency**	**Foreign Currency Amount ('000)**	**Secured / Unsecured**
Long-term borrowings				
- Term Loans	71,241	EUR	17,906	Secured
- Term Loan	21,493	EUR	5,402	Unsecured
	92,734			
Short-term borrowings:				
- Foreign Currency Trade Loan	114,725	USD	35,000	Unsecured
- Banker Acceptance	11,380	RM		
- Working Capital Loan	13,562	RMB	28,334	Unsecured
- Working Capital Loan	29,982	USD	9,200	Secured
- Working Capital Loan	5,745	INR	81,937	Secured
- Export Financing	33,817	EUR	8,500	Secured
- Term Loans	28,007	EUR	7,040	Secured
- Term Loans	19.008	EUR	4, 778	Unsecured
	256,226			
Total :	**348,960**			

23) Financial Instruments

Derivatives

As at 30 June 2010, the derivative contracts that have been entered into by the Group to hedge its trade payables/receivables and forecasted sale and purchase transactions are as follows:-

Type of Derivatives	Contract Value (RM'000)	Fair Value (RM'000)	Fair Value gain/(loss) (RM'000)
Forward Exchange Contracts (USD)			
(i) Forecast Sales :	(USD5,000)		
- Less than 1 year	17,255	16,293	962
(ii) Trade Payables:	(USD9,881)		
- Less than 1 year	32,221	32,028	(192)
(iii) Trade Receivables:	(USD470)		
- Less than 1 year	1,364	1,204	160
Forward Copper Contracts (RMB)			
Less than 1 year	(RMB22,335)		
	10,691	10,040	(651)
		TOTAL :	**279**

There is no change to the related accounting policies, cash requirements of the derivatives, risk associated with the derivatives and policies to mitigate those risks since the last financial year.

24) Changes in Material litigations (including status of any pending material litigation)

Neither Metrod nor any of its subsidiaries are engaged in any litigation, claims or arbitration either as plaintiff or defendant, which may have a material effect on the financial position of Metrod and the Group.

25) Earnings per share

	Current Year Quarter 30/06/10 RM'000	Comparative Year Quarter 30/06/09 RM'000	**Current Year To Date 30/06/10 RM'000**	Comparative Year To Date 30/06/09 RM'000
Basic Net profit for the period (RM'000)	**2,888**	6,571	**4,418**	11,351
Weighted average number of ordinary shares in issue ('000)	**60,000**	60,000	**60,000**	60,000
Basic earnings per share (sen)	**4.81**	10.95	**7.36**	18.92

The Group does not have in issue any financial instrument or other contract that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

26) Authorisation for issue

The interim financial statements were issued by the Board of Directors in accordance with a resolution of the directors on **17 August 2010**.