

METROD HOLDINGS BERHAD (916531-A)

Interim report for the second quarter ended 30 June 2014

Notes:-

1) Basis of preparation and Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared in accordance with the requirements of Malaysian Financial Reporting Standard (MFRS) 134 "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2013.

Adoption of amendments to MFRSs

The significant 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 2013, except during the financial period, the Group has adopted the following Amendments to MFRSs issued by the Malaysian accounting Standards Board that are mandatory for the current financial period beginning 1 January 2014:-

- Amendments to MFRS 10 'Consolidated financial statements'
- Amendments to MFRS 12 'Disclosure of interests in other entities'
- Amendments to MFRS 127 'Separate financial statements'
- Amendments to MFRS 132 'Financial Instruments: Presentation'

The adoption of the above Amendments did not have any material effect on the financial performance, position or presentation of the Group.

Amendments to MFRSs issued but not yet effective

At the date of authorisation of these interim financial statements, the following amendments to MFRSs were issued but not yet effective and have not been early adopted by the Group:-

(a) Annual Improvements to MFRSs 2010 - 2012 Cycle

- i. Amendments to MFRS3 "Business Combinations" (effective from 1 July 2014) clarifies that when contingent consideration meets the definition of financial instrument, its classification as a liability or equity is determined by reference to MFRS132 Financial Instruments: Presentation" and that contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.
- ii. Amendments to MFRS8 "Operating Segments" (effective from 1 July 2014) requires the disclosure of judgements made in applying the aggregation criteria to operating segments. This includes a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The Amendment clarifies that reconciliation of the total reportable segments' assets to the entity's assets is required if that amount is regularly provided to the chief operating decision maker.

- iii. Amendments to MFRS116 “Property, Plant and Equipment” and MFRS138 “Intangible Assets” (effective from 1 July 2014) clarifies the accounting for the accumulated depreciation/amortisation when an asset is revalued. It clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation/amortisation is calculated as the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.
- iv. Amendments to MFRS124 “Related Party Disclosures” (effective from 1 July 2014) extends the definition of ‘related party’ to include an entity, or any member of a group of which it is apart, that provides key management personnel services to the reporting entity or to the parent of the reporting entity.

(b) Annual Improvements to MFRSs 2011 - 2013 Cycle

- i. Amendments to MFRS3 “Business Combinations” (effective from 1 July 2014) clarifies that MFRS3 excludes from its scope the accounting for the formation of all types of joint arrangements (as defined in MFRS11 “Joint Arrangements”) in the financial statements of the joint arrangement itself, but not to the parties to the joint arrangement for their interests in the joint arrangement.
- ii. Amendments to MFRS13 “Fair Value Measurement” (effective from 1 July 2014) clarifies that the scope of the portfolio exception of MFRS13 includes all contracts accounted for within the scope of MFRS139 “Financial Instruments: Recognition and Measurement” or MFRS9 “Financial Instruments”, regardless of whether they meet the definition of financial assets or financial liabilities as defined in MFRS 132 Financial Instruments: Presentation.

(c) Amendments to MFRS 119 “Defined Benefit Plans: Employee Contributions”

Amendments to MFRS119 “Defined Benefit Plans: Employee Contributions” (effective from 1 July 2014) provide a practical expedient in accounting for contributions from employees or third parties to defined benefit plans. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.

However, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by MFRS119 for the gross benefit (i.e. either based on the plan’s contribution formula or on a straight-line basis).

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any material effect to the financial statements of the Group upon their initial application.

2) Audit qualification of preceding annual financial statements

The auditors’ report for the preceding annual financial statements for the year ended 31 December 2013 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**

No dividend was paid during financial quarter ended 30 June 2014.
- 8) Segment Reporting**

The Board of Directors is the Group's chief operating decision maker. Management has determined the operating segments based on geographical areas of operations and the information reviewed by the Board of Directors for the purpose of allocating resources and assessing performance. The Board reviews internal management reports at least on a quarterly basis.

Since the Group is principally engaged in the manufacturing and sales of electrical conductivity grade copper wire, rod and strip i.e. within one industry and one geographical area, no segmental analysis is prepared.
- 9) Carrying amount of revalued assets**

Valuation of property, plant and equipment have been brought forward without any amendment from the previous annual financial statements for the year ended 31 December 2013.
- 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 second quarter ended 30 June 2014, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations except for the acquisitions of Metrod (Mauritius) Pvt Ltd and Metrod International Pvt Ltd in Republic of Mauritius on 16 June 2014 with a total share capital of USD1 each representing the entire issued and paid up capital. (Announcement to Bursa dated 17 June 2014).
- 12) Contingent liabilities / assets**

Contingent liability of EUR 10.0 million (approximately RM44 million) (2013 June end: EUR 10.0 million) exists in the form of a Bank Guarantee issued by HSBC Bank Malaysia Bhd on behalf of Metrod Singapore Pte Ltd ("Metrod Singapore") (a wholly-owned subsidiary of the Company) and Letter of Comfort issued by Metrod Singapore in favour of GEP II Beteiligungs GmbH ("GEP"), the counterparty to the disposal by Metrod Singapore of the international operations of the Metrod Group ("Disposal"). This Guarantee and Letter of Comfort is issued to cover claims against Metrod Singapore relating to representations, warranties, covenants and indemnifications as set out in the notarial deed agreement dated 23 December 2011 ("Agreement") in relation to the Disposal.

Saved as disclosed above, there were no other 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 2014 is as follows:

| | <u>RM'000</u> |
|-----------------------------------|---------------|
| Property, plant and equipment :- | |
| Authorised and contracted for | 1,150 |
| Authorised but not contracted for | 3,400 |
| Total : | 4,550 |

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

For the second quarter under review, Group's pre-tax profit of RM2.067 million was lower as compared to corresponding previous year pre-tax profit of RM6.137 million. Cumulatively, Group's pre-tax profit of RM3.698 million was significantly lower as compared to corresponding year pre-tax profit of RM9.432 million. Profit during the quarter and cumulatively is lower mainly due to exchange translation loss of RM1.0 million during the quarter (cumulatively RM1 million) as compared to exchange translation gain of RM4.3 million (cumulatively RM6.7 million) on sales proceeds being held in US\$ arising from disposal of international operations during last year period and higher legal expenses relating to the arbitration proceedings. Revenue for the quarter and cumulatively for the year was higher as compared to corresponding previous year period mainly due to higher sales volume despite lower copper prices.

Demand in Malaysia during current quarter remained steady. Activity level during the quarter has been higher. Competition arising from over capacity remained intense. Credit, commercial and security risks remain high due to the difficult conditions in financial markets and volatile copper prices.

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

The Group reported a higher pre-tax profit for the quarter of RM2.067 million as compared to preceding quarter pre-tax profit of RM1.631 million mainly due to better sales mix and higher sales volumes.

16) Current year Prospects

Stable political and economic environment in Malaysia is expected to provide the necessary boost in private and public investment and in construction section growth. Although the uncertainties associated with recovery in EU and in US, and slowdown in China and India remains. Competition remains high. Credit, commercial and security risks are expected to remain high due to volatile copper prices.

The Board continues to assess and evaluate plans for the use of cash proceeds with the objective of maximizing shareholders' value.

The Board expects the performance of the Group for the financial year 2014 to be satisfactory in the above context.

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 30/06/2014 RM'000 | Comparative Quarter 30/06/2013 RM'000 | Current year YTD 30/06/2014 RM'000 | Comparative YTD 30/06/2013 RM'000 |
|------------------------------|---|--|---|--|
| In respect of current period | | | | |
| - Income tax | 199 | 141 | 424 | 392 |
| - Deferred tax | 591 | 527 | 1,490 | 1,055 |
| | 790 | 668 | 1,914 | 1,447 |

Effective tax rate was higher mainly due to loss in a subsidiary.

19) Corporate proposals (status as at 22 August 2014)

There are no other corporate proposal announced but not completed as at 22 August 2014.

20) Group Borrowings and Debt Securities

Group borrowings and debt securities as at 30 June 2014 are as follows:-

| | Amount RM'000 | Denominated in Foreign Currency | | Secured / Unsecured |
|----------------------------------|--------------------------|--|---|--------------------------------|
| | | Foreign Currency | Foreign Currency Amount ('000) | |
| Short-term borrowings: | | | | |
| - Foreign Currency Trade Loan | 323,683 | USD | 100,820 | Unsecured |

21) Changes in Material litigation (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 as of 22 August 2014 except as per the announcement on 19 July 2012 that the indirect subsidiary company, Metrod (Singapore) Pte Ltd (Metrod Singapore) has received a statement of claim for an amount of EUR 5.0 million ("Initial claim") from GEP II Beteiligungs (GEP) for alleged breach of certain guarantees, representations and warranties, indemnifications and covenants as set out in the notarial deed agreement dated 23 December 2011 in relation to the disposal by Metrod Singapore of the international operation of the Group. Metrod Singapore and its legal counsel have already submitted its response and rebuttal to the "Initial claim".

As announced on 2 August 2013, Metrod Singapore had on 24 July 2013 received an "Extension of Claim" from GEP amending the claim amount to EUR16.036 million. The Rejoinder was filed by Metrod Singapore on 24 October 2013 to dismiss both the "Initial claim and "Extension of Claim".

The arbitral tribunal hearing on this case was conducted in Vienna on 12 to 14 February 2014 and the outcome of the arbitral proceedings would be known upon the granting of award by Arbitral Tribunal.

Having considered legal counsel's views including that the Arbitral Tribunal effectively did not indicate any views on this matter within the oral hearing and given the uncertainties over this arbitration proceedings, the Board of Directors believes that it is premature at this juncture to opine on the outcome of the arbitral proceedings, hence no provision has been made against the claim as at 30 June 2014. However, the contingent liability exists as disclosed in Note 12.

The parties have been attempting to settle the dispute. Whilst no agreement has been reached, they have requested the arbitral tribunal, respectively the arbitral institution, not to render an award.

22) **Earnings per share**

| | Current Year Quarter 30/06/2014 RM'000 | Comparative Year Quarter 30/06/2013 RM'000 | Current Year To Date 30/06/2014 RM'000 | Comparative Year To Date 30/06/2013 RM'000 |
|--|---|--|---|--|
| Basic | | | | |
| Net profit for the period (RM'000) | 1,277 | 5,469 | 1,784 | 7,985 |
| Weighted average number of ordinary shares in issue ('000) | 120,000 | 120,000 | 120,000 | 120,000 |
| Basic earnings per share (sen) | 1.06 | 4.56 | 1.49 | 6.65 |

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.

23) **Fair Value Hierarchy**

The Group uses the following hierarchy for determining the fair value of all financial instruments carried at fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Input that are based on observable market data, either directly or indirectly

Level 3 - Input that are not based on observable market data.

The derivatives of the Group amounting to RM120,000 in debit (30.06.2013 RM 2000,000 in credit) are measured at Level 2 hierarchy.

24) **Profit Before Tax**

Profit before tax is arrived at after (crediting)/charging the following (incomes) / expenses:

| | Current Quarter 30/06/2014 RM'000 | Comparative Quarter 30/06/2013 RM'000 | Current Year To Date 30/06/2014 RM'000 | Comparative Year To Date 30/06/2013 RM'000 |
|--|--|--|---|--|
| Interest income | (1,507) | (1,290) | (2,808) | (2,652) |
| Other income | (37) | (621) | (130) | (745) |
| Interest expense | 769 | 412 | 1,495 | 866 |
| Depreciation and amortization | 978 | 657 | 1,520 | 1,316 |
| Provision for and write off of receivables | 0 | 0 | 0 | 0 |
| Provision for and write off of inventories | 0 | 0 | 0 | 0 |
| (Gain)/ loss on disposal of Quoted or unquoted investments or properties | 0 | 0 | 0 | 0 |
| Impairment of assets | 0 | 0 | 0 | 0 |
| Foreign exchange (gain)/loss (net) | (1,583) | (1,870) | 354 | (2,668) |
| (Gain) / loss on derivatives (net) | (2,059) | 174 | (1,847) | 532 |
| Exceptional items | 0 | 0 | 0 | 0 |

25) Disclosure of realised and unrealised profits/losses pursuant to the directive issued by Bursa Malaysia Securities Berhad

The following analysis of realised and unrealised retained earnings at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the Group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

The retained earnings as at period end is analysed as follows:

| | Group Period ended 30/06/2014 | Group Year ended 31/12/ 2013 |
|--|--|------------------------------------|
| | RM'000 | RM'000 |
| Retained profits of the Company and its subsidiaries | | |
| - Realised | 318,984 | 317,391 |
| - Unrealised | 11,886 | 11,695 |
| Total as per consolidated accounts | 330,870 | 329,086 |

26) Authorisation for issue

The interim financial statements were issued by the Board of Directors in accordance with a resolution of the directors on 29 August 2014.