

METROD HOLDINGS BERHAD (916531-A)

Interim report for the fourth quarter ended 31 December 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 132 ‘Offsetting Financial Assets and Financial Liabilities’
- Amendments to MFRS 136 ‘Recoverable Amount Disclosures for Non-Financial Assets’
- Amendments to MFRS 139 ‘Novation of Derivatives and Continuation of Hedge Accounting’
- Amendments to MFRS 10, MFRS 12 and MFRS 127 ‘Investment entities’
- IC Interpretation 21 ‘Levies’

The adoption of the above Amendments did not have any material effect on the financial performance, position or presentation of the Group and did not result in substantial changes in the Group’s accounting policies,

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:-

- Annual Improvements to MFRSs 2010-2012 Cycle (Amendments to MFRS 2 Share-based Payment, MFRS 3 Business Combinations, MFRS 8 Operating Segments, MFRS 13 Fair Value Measurement, MFRS 116 Property, Plant and Equipment, MFRS 124 Related Party Disclosures & MFRS 138 Intangible Assets)
- Annual Improvements to MFRSs 2011-2013 Cycle (Amendments to MFRS 1 First-time Adoption of Financial Reporting Standards, MFRS 3 Business Combinations, MFRS 13 Fair Value Measurement & MFRS 140 Investment Property)
- Amendments to MFRS 119 Defined Benefits Plans: Employee Contributions

- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation and amortisation of an item of property, plant and equipment and intangible are not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

- Amendments to MFRS 10 and MFRS 128 regarding sale or contribution of assets between an investor and its associate or joint venture (effective from 1 January 2016) resolve a current inconsistency between MFRS 10 and MFRS 128. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business'. Full gain or loss shall be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture. They are not intended to address accounting for the sale or contribution of assets by an investor in a joint operation.
- Amendments to MFRS 127 Separate Financial Statements - Equity accounting in separate financial statements
- Annual Improvements to MFRSs 2012 - 2014 Cycle (Amendments to MFRS 5 Non-current Assets Held for sale and Discontinued Operations, MFRS 7 Financial Instruments: Disclosures, MFRS 119 Employee Benefits, MFRS 134 "Interim Financial Reporting) (effective from 1 January 2016).
- MFRS 15 'Revenue from contracts with customers' (effective from 1 Jan 2017) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations.
- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

There is now a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

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 31 December 2014.

The Directors now recommend the payment of a final dividend of 6 sen per share on 120,000,004 ordinary shares amounting to RM 7,200,000 which, subject to the approval of members at the forthcoming Annual General Meeting of the Company will be paid on 17 July 2015 to shareholders registered on the Company's Register of Members at the close of business on 30 June 2015.

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.

However, 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

Except as disclosed in the Note 21, 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 fourth quarter ended 31 December 2014, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations.

12) Contingent liabilities / assets

Contingent liability of EUR 10.0 million (approximately RM42.5 million) (2013 December 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 are 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 31 December 2014 is as follows:

	<u>RM'000</u>
Property, plant and equipment :-	
Authorised and contracted for	4239
Authorised but not contracted for	5,502
Total :	9741

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

Cumulatively, Group registered a pre-tax profit of RM13.135 million lower than corresponding year pre-tax profit of RM18.010 million mainly due to legal provisions. Cumulative profit is after considering exchange translation gain of RM7.855 million on the sale proceeds being held in US\$ arising from disposal of international operations in the year 2012. For the fourth quarter under review, Group’s pre-tax profit of RM1.737 million was lower as compared to corresponding previous year pre-tax profit of RM2.948 million mainly due to legal provision though partially off-set by better operating performance and exchange translation gain. Revenue for the quarter and for the year was higher as compared to corresponding previous year period mainly due to higher sales volume despite lower copper prices. Revenue for the year was RM1655.118 million, higher by 27% over previous year.

Demand in Malaysia during current quarter remained sluggish. 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 lower pre-tax profit for the quarter of RM1.737 million as compared to preceding quarter pre-tax profit of RM7.700 million mainly due to legal provisions partly off-set by higher exchange translation gain.

16) Current year Prospects

The domestic market in Malaysia seems to be bit sluggish due to drop in oil prices, weakening of Ringgit, the uncertainties associated with recovery in EU and US and slowdown in China and India. Competition remains high. Credit, commercial and security risks are expected to remain high due to volatile copper prices. LME copper prices have weakened due to uncertainties of demand from China etc. The Group is able to manage the exposure due to its hedging policies.

The Board is assessing and evaluating 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 2015 to be satisfactory.

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 31/12/2014 RM'000	Comparative Quarter 31/12/2013 RM'000	Current year YTD 31/12/2014 RM'000	Comparative YTD 31/12/2013 RM'000
In respect of current period				
- Income tax	550	328	1,283	1,087
- Deferred tax	2,635	(58)	5,483	1,745
	3,185	270	6,766	2,832
In respect of prior years				
- Income tax	(10)	36	(10)	36
- Deferred tax	(181)	257	(181)	257
	(191)	293	(191)	293
Total	2,994	563	6,575	3,125

19) Corporate proposals (status as at 19 February 2015)

There are no other corporate proposal announced but not completed as at 19 February 2015.

20) Group Borrowings and Debt Securities

Group borrowings and debt securities as at 31 December 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	241,854	USD	69,200	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 19 February 2015 except as per the announcement on 19 July 2012 that the 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.

The Company has on 16 December 2014 received the Final Award dated 3 December 2014 from the Arbitral Tribunal in Vienna, by which all claims of GEP have been denied. The final award concluded that there is no liability accruing from the “Initial Claim” and “Extension of Claim” by GEP. The Company has been awarded with an amount of EUR 1.2 million to be reimbursed by GEP to the Company towards arbitration cost, legal fees and expenses. The release of tax escrow account is being pursued which may take few months.

GEP had further filed a lawsuit with the Arbitral Centre of the Austrian Federal Economic Chamber (“AFEC”) on November 21, 2014 in order to enforce its Statement of Claims amounting to EUR4.5 million according to the settlement agreement dated 26 September 2014. This settlement agreement was signed by GEP and the Company pursuant to settlement negotiations prior to receipt of the Final Award. The Arbitral Tribunal was requested not to render an award as long as those negotiations last. Subsequent to signing of the settlement agreement, Metrod Singapore has submitted to the Arbitral Tribunal on 22 October 2014 that disputes arose, in particular as to the binding effect of the settlement agreement and as to the settlement amount. GEP on the other hand alleged that a valid settlement agreement had been reached by which the Arbitral Proceedings relating to the “Initial Claim” and “Extension of Claim” stand terminated. Metrod Singapore has filed its answer to the Statement of Claims on 30 January 2015.

In the opinion of the Directors after taking appropriate legal advice, the outcome of this legal claim is not expected to give rise to any significant loss in future years.

22) Earnings per share

	Current Year Quarter 31/12/2014 RM'000	Comparative Year Quarter 31/12/2013 RM'000	Current Year To Date 31/12/2014 RM'000	Comparative Year To Date 31/12/2013 RM'000
Basic				
Net profit for the period (RM'000)	(1,257)	2,385	6,560	14,885
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	(1.04)	1.99	5.47	12.40

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 RM 2,704,000 in credit (31.12.2013 RM 1,727,000 in debit) 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 31/12/2014 RM'000	Comparative Quarter 31/12/2013 RM'000	Current Year To Date 31/12/2014 RM'000	Comparative Year To Date 31/12/2013 RM'000
Interest income	(1,637)	(1,604)	(5,931)	(5,660)
Other income	(3,183)	(843)	(3,560)	(1,841)
Interest expense	560	509	2,752	1,778
Depreciation and amortization	1,884	497	4,284	2,472
Provision for and write off of receivables	0	0	0	0
Provision for and write off of inventories	(118)	360	(118)	360
(Gain)/ loss on disposal of quoted or unquoted investments or properties	0	0	0	0
Impairment of assets	(608)	(845)	(608)	(845)
Foreign exchange (gain)/loss (net)	(2,397)	(10,125)	1,419	(10,720)
(Gain) / loss on derivatives (net)	3,327	482	978	2,059
Exceptional items				
Gain in disposal of subsidiaries	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 Quarter ended 31/12/2014	Group Year ended 31/12/ 2013
	RM'000	RM'000
Retained profits of the Company and its subsidiaries		
- Realised	340,063	324,180
- Unrealised	(11,617)	4,906
Total as per consolidated accounts	<u>328,446</u>	<u>329,086</u>

26) Authorisation for issue

The interim financial statements were issued by the Board of Directors in accordance with a resolution of the directors on 26 February 2015.