

METROD HOLDINGS BERHAD (916531-A)

Interim report for the second quarter ended 30 June 2015.

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 2014.

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 2014, 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 2015:-

Amendments to MFRS 1	First time Adoption of Malaysian Financial Reporting Standards (Annual improvements 2011 – 2013 Cycle)
Amendments to MFRS 2	Share-based Payment (Annual Improvement 2010-2012 Cycle)
Amendments to MFRS 3	Business Combination (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
Amendments to MFRS 8	Operating Segments (Annual improvements 2010-2012 Cycle)
Amendments to MFRS 13	Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
Amendments to MFRS 116	Property Plant and Equipment (Annual improvements 2010-2012 Cycle)
Amendments to MFRS 119	Employee Benefits – Defined Benefit Plans Employee Contributions.
Amendments to MFRS 124	Related Party Disclosures (Annual improvement 2010-2012 Cycle)
Amendments to MFRS 138	Intangible Assets (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 140	Investment Properties (Annual improvements 2011-2013 Cycle)

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:-

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual improvements 2012-2014 Cycle)
Amendments to MFRS 7	Financial instruments. Disclosures (Annual improvements 2012-2014 Cycle)
Amendments to MFRS 10	Consolidated Financial Statements and MFRS 128, investments in Associates and Joint Ventures – Sale or contribution of Assets between an investor and its Associate or Joint Venture. Consolidated Financial Statements, MFRS 12, (Disclosure of interests in Other Entities and MFRS 128, Investments in Associates and Joint Ventures – investment Entities. Applying the Consolidation Exception.
Amendments to MFRS 11	Joint Arrangements – Accounting for Acquisitions of interest in Joint Operations
MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 101	Presentation of Financial Statements – Disclosure initiative
Amendments to MFRS 116	Property, Plant and Equipment and MFRS 138, intangible Assets – Clarification of Acceptance Methods of Depreciation and Amortisation. Property, Plant and Equipment and MFRS 141, Agriculture – Agriculture: Bearer Plants
Amendments to MFRS 119	Employee Benefits (Annual Improvements 2012-2014 Cycle)
Amendments to MFRS 127	Separate Financial Statements – Equity Method in Separate Financial Statements.
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvement 2012-2014 Cycle)

Effective for annual periods beginning on or after 1 January 2017

MFRS 15	Revenue from Contracts with Customers
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Effective for annual periods beginning on or after 1 January 2018

MFRS 9	Financial Instrument (2014)
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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 2014 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 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 2014.
- 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 2015, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations except for the incorporation of a wholly-owned subsidiary known as Metrod Holdings (Singapore) Pte Ltd ("MHSPL") for a cash consideration of USD1.00 on 24 June 2015 with a total issued and paid share capital of USD1 comprising of 1 ordinary share. (Announcement to Bursa dated 24 June 2015).

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 2015 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	7,300
• Authorised but not contracted for	5,300
Total :	12,600

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

For the second quarter under review, Group registered a pre-tax profit of RM4.249 million higher than corresponding period pre-tax profit of RM2.067 million. Cumulatively, Group's pre-tax profit of RM14.057 million was significantly higher as compared to corresponding year pre-tax profit of RM3.698 million. The higher profit for the quarter and cumulatively is mainly due to exchange translation gain of RM1.668 million (cumulatively RM8.434 million) against RM1.003 million loss (cumulatively RM2.096 million) in last year same period on the sale proceeds being held in US\$ arising from disposal of international operations and better operating performance. Revenue for the quarter and cumulatively was higher as compared to corresponding previous year period mainly due to higher sales volume.

Demand in Malaysia and in export markets during current quarter remained steady. Competition arising from over capacity remained intense. Credit, commercial and security risks remained 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 RM4.249 million as compared to preceding quarter pre-tax profit of RM9.808 million mainly due to lower exchange translation gain.

16) Current year Prospects

Drop in oil prices and sharp weakening of Ringgit is creating uncertainty in domestic market in Malaysia. Currency weakening together with fall in copper prices and slow down in China with slow recovery in EU and US will also impact exports. We are currently facing uncertain times and preparing ourselves to mitigate its impact. Competition is on the increase. Credit, commercial and security risks are expected to remain high due to volatile copper prices. The Group is able to manage the exposure due to its hedging policies.

The Board is continuously 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 30/06/2015 RM'000	Comparative Quarter 30/06/2014 RM'000	Current year YTD 30/06/2015 RM'000	Comparative YTD 30/06/2014 RM'000
In respect of current period				
- Income tax	278	199	585	424
- Deferred tax	674	591	1,410	1,490
	952	790	1,995	1,914

Effective tax rate is lower mainly due to unrealized exchange translation gain not subject to tax.

19) Corporate proposals (status as at 21 August 2015)

There are no other corporate proposal announced but not completed as at 21 August 2015.

20) Group Borrowings and Debt Securities

Group borrowings as at 30 June 2015 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	320,384	USD	84,635	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 21 August 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. 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 Company had 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 had also been awarded with an amount of EUR 1,238,114.10 to be reimbursed by GEP to the Company towards arbitration cost, legal fees and expenses.

As announced on 6 March 2015, a Set-Aside Claim was filed by GEP on 27 February 2015 with the Austrian Supreme Court. Metrod Singapore has filed its rebuttal. An oral hearing has taken place at the Supreme Court and the order is expected in due course. The Supreme Court judgment will be final and binding. The Supreme Court does not render any decision on the merits itself, it only sets-aside the arbitral award or maintains it in place.

Tax escrow money of EUR5.044 million was received on 14 August 2015.

GEP had further filed a lawsuit with the Arbitral Centre of the Austrian Federal Economic Chamber (“AFEC”) on 21 November 2014 in order to enforce its Statement of Claims amounting to EUR4,500,000 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 reply to the Statement of Claims on 30 January 2015. The hearing has been fixed for 28 and 29 October 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.

22) Earnings per share

	Current Year Quarter 30/06/2015 RM'000	Comparative Year Quarter 30/06/2014 RM'000	Current Year To Date 30/06/2015 RM'000	Comparative Year To Date 30/06/2014 RM'000
Basic				
Net profit for the period (RM'000)	3,297	1,277	12,062	1,784
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	2.75	1.06	10.05	1.49

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 RM5,444,000 in credit (30.06.2014 RM120,000 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 30/06/2015	Comparative Quarter 30/06/2014	Current Year To Date 30/06/2015	Comparative Year To Date 30/06/2014
	RM'000	RM'000	RM'000	RM'000
Interest income	(1,478)	(1,507)	(3,050)	(2,808)
Other income	(149)	(37)	(188)	(130)
Interest expense	532	769	1,038	1,495
Depreciation and amortization	955	978	1,750	1,520
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)	(8,425)	(1,583)	(18,097)	354
(Gain) / loss on derivatives (net)	197	(2,059)	2,740	(1,847)
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 30/06/2015	Group Year ended 31/12/ 2014
	RM'000	RM'000
Retained profits of the Company and its subsidiaries		
- Realised	342,060	340,063
- Unrealised	(1,552)	(11,617)
Total as per consolidated accounts	<u>340,508</u>	<u>328,446</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 28 August 2015.