

## METROD HOLDINGS BERHAD (916531-A)

Interim report for the third quarter ended 30 September 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**

A first and final dividend of 6 sen per share, single-tier (previous year 6 sen per share) on 120,000,000 ordinary shares (previous year 120,000,000) amounting to RM7.2 million (previous year RM7.2 million) was paid on 16 July 2015 (previous year 17 July 2014) in respect of the financial year ended 31 December 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.

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 third quarter ended 30 September 2015, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations. Notwithstanding the above, Metrod (and its wholly owned subsidiary, Metrod Holdings (Singapore) Pte Ltd), together with its major shareholder, MetTube Sdn Bhd (and its wholly owned subsidiary, MetTube International Pte Ltd), had on 22 October 2015 entered into a conditional restated subscription agreement to invest in Ceres Hotels Private Limited, details of which are set out in note 19 below. A circular in relation to the above proposal has been dispatched to the shareholders of Metrod on 16 November 2015. An extraordinary general meeting to seek shareholders' approval for the abovementioned proposals will be held on 1 December 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 September 2015 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	4,400
• Authorised but not contracted for	1,600
<b>Total :</b>	<b>6,000</b>

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

For the third quarter under review, Group registered a pre-tax profit of RM9.513 million higher than corresponding period pre-tax profit of RM7.700 million. Cumulatively, Group's pre-tax profit of RM23.570 million was significantly higher as compared to corresponding year pre-tax profit of RM11.398 million. The higher profit for the quarter and cumulatively is mainly due to exchange translation gain of RM15.626 million (cumulatively RM24.060 million) against RM3.296 million gain (cumulatively RM1.200 million) in last year same period on the sale proceeds being held in US\$ arising from disposal of international operations and better operating performance though offset partly by the fair value loss on foreign exchange derivative. Revenue for the quarter was marginally lower mainly due to lower copper price but cumulatively was slightly higher as compared to corresponding previous year period mainly due to higher sales volume despite lower copper price.

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 higher pre-tax profit for the quarter of RM9.513 million as compared to preceding quarter pre-tax profit of RM4.249 million mainly due to higher 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 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**

	<b>Current year Quarter 30/09/2015 RM'000</b>	<b>Comparative Quarter 30/09/2014 RM'000</b>	<b>Current year YTD 30/09/2015 RM'000</b>	<b>Comparative YTD 30/09/2014 RM'000</b>
In respect of current period				
- Income tax	<b>482</b>	309	<b>1,067</b>	733
- Deferred tax	<b>535</b>	1,358	<b>1,945</b>	2,848
	<b>1,017</b>	1,667	<b>3,012</b>	3,581

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

**19) Corporate proposals (status as at 20 November 2015)**

There are no other corporate proposal announced but not completed as at 20 November 2015 except for the following:

- (i) proposed investment in Ceres Hotels Private Limited which entails the proposed subscription by:
  - (a) Metrod of 1,277,550 compulsory convertible debentures to be issued by Ceres Hotels Private Limited at the aggregate subscription price of INR1,277,550,000;
  - (b) Metrod Holdings (Singapore) Pte Ltd of 13,749,097 ordinary equity shares of Ceres Hotels Private Limited at the aggregate subscription price of INR1,374,909,700; and
- (ii) proposed diversification of the existing principal activities of Metrod and its subsidiary companies to include hotel operation activities. A circular in relation to the above proposals has been dispatched to the shareholders of Metrod on 16 November 2015. An extraordinary general meeting to seek shareholders' approval for the abovementioned proposals will be held on 1 December 2015.

## 20) Group Borrowings and Debt Securities

Group borrowings as at 30 September 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	388,578	USD	87,409	Unsecured

## 21) Changes in Material litigation (including status of any pending material litigation)

As on 20 November 2015, the Metrod Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and our Board is not aware and does not have any knowledge of any proceedings pending or threatened against the Group, or of any facts likely to give rise to any proceedings which may materially or adversely affect the financial position or business of the Metrod Group, save as disclosed below.

On 19 July 2012, Metrod announced that its indirect subsidiary company, Metrod (Singapore) Pte Ltd has received a statement of claim for an amount of EUR 5.0 million (“Initial Claim”) from GEP II Beteiligungs GmbH (now known as ASTA Energy Transmission Components GmbH) (“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) Pte Ltd of the international operation of the Metrod Group.

On 2 August 2013, Metrod announced that Metrod (Singapore) Pte Ltd had on 24 July 2013 received an “Extension of Claim” from GEP amending the claim amount to EUR16.036 million (“Extension of Claim”) (the Initial Claim and Extension of Claim are collectively referred to as the “First Arbitration”).

A Rejoinder was filed by Metrod (Singapore) Pte Ltd on 24 October 2013 to dismiss both the Initial Claim and Extension of Claim. The Arbitral Tribunal hearing for the First Arbitration was conducted in Vienna from 12 February to 14 February 2014.

Metrod (Singapore) Pte Ltd had on 15 December 2014 received the Final Award dated 3 December 2014 from the Arbitral Tribunal for the First Arbitration (“First Arbitration Award”), by which all claims of GEP under the First Arbitration have been denied. The First Arbitration Award concluded that there was no liability accruing from the Initial Claim and Extension of Claim by GEP. Metrod (Singapore) Pte Ltd had been awarded with an amount of EUR 1.2 million to be reimbursed by GEP to Metrod (Singapore) Pte Ltd towards arbitration cost, legal fees and expenses.

GEP had further filed a claim with the Arbitral Centre of the Austrian Federal Economic Chamber against Metrod (Singapore) Pte Ltd on 27 November 2014 for an amount of EUR4.5 million based on a settlement agreement which was allegedly entered into between the parties to the dispute (“Second Arbitration”). Metrod (Singapore) Pte Ltd has responded to the claim on 30 January 2015. Metrod (Singapore) Pte Ltd's view is that there is no valid settlement agreement reached between the parties and accordingly it is not liable for the amount of EUR4.5 million. The Arbitral Tribunal hearing for the Second Arbitration was held on 28 October 2015. The parties are currently set to file their post-hearing briefs by 27 November 2015 and their statements of costs by 4

December 2015. Thereafter, the Arbitral Tribunal will render its decision in respect of the Second Arbitration.

On 6 March 2015, it came to the knowledge of Metrod (Singapore) Pte Ltd that GEP had filed a claim with the Austrian Supreme Court on 27 February 2015 to set aside the First Arbitration Award (“Set-Aside Claim”). The Set-Aside Claim was heard by the Austrian Supreme Court and a judgment was rendered on 19 August 2015 and served to Metrod (Singapore) Pte Ltd on 9 September 2015 to dismiss the Set-Aside Claim with costs in favour of Metrod (Singapore) Pte Ltd.

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

	<b>Current Year Quarter 30/09/2015 RM'000</b>	Comparative Year Quarter 30/09/2014 RM'000	<b>Current Year To Date 30/09/2015 RM'000</b>	Comparative Year To Date 30/09/2014 RM'000
<b>Basic</b>				
Net profit for the period (RM'000)	<b>8,496</b>	6,033	<b>20,558</b>	7,817
Weighted average number of ordinary shares in issue ('000)	<b>120,000</b>	120,000	<b>120,000</b>	120,000
Basic earnings per share (sen)	<b>7.08</b>	5.03	<b>17.13</b>	6.51

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 RM13,389,000 in credit (30.09.2014 RM618,000 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:

	<b>Current Quarter 30/09/2015</b>	Comparative Quarter 30/09/2014	<b>Current Year To Date 30/09/2015</b>	Comparative Year To Date 30/09/2014
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Interest income	(1,537)	(1,486)	(4,587)	(4,294)
Other income	(124)	(247)	(312)	(377)
Interest expense	794	697	1,832	2,192
Depreciation and amortization	875	881	2,625	2,401
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)	(15,626)	(3,296)	(24,060)	(1,200)
(Gain) / loss on derivatives (net)	7,945	(502)	10,685	(2,349)
<b>Exceptional items</b>	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:

	<b>Group Quarter ended 30/09/2015</b>	Group Year ended 31/12/ 2014
	<b>RM'000</b>	RM'000
Retained profits of the Company and its subsidiaries		
- Realised	363,463	340,063
- Unrealised	(21,659)	(11,617)
Total as per consolidated accounts	<u>341,804</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 27 November 2015.