

METROD HOLDINGS BERHAD (916531-A)

Interim report for the first quarter ended 31 March 2016.

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 2015.

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 2015, except during the financial year, the Group has adopted the following Amendments to MFRSs issued by the Malaysian Accounting Standards Board that are mandatory for the current financial year beginning 1 January 2016:-

- MFRS 14, *Regulatory Deferral Accounts*
- 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*, 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 Interests in Joint Operations*
- 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 Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *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 Improvements 2012-2014 Cycle)*

The adoption of the above standards, amendments to published standards and interpretations did not have a significant financial impact on the Group and the Company, and did not result in substantial changes in the Group’s accounting policies.

As at the date of authorisation of these condensed consolidated interim financial statements, the following new MFRS and Amendments to MFRSs were issued but not yet effective and have not been applied by the Group.

Effective for annual periods beginning on or after 1 January 2017

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)
- Disclosure Initiative (Amendments to MFRS 107)

Effective for annual periods beginning on or after 1 January 2018

- MFRS 15 Revenue from Contracts with Customers
- MFRS 9 Financial Instruments

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 2015 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 March 2016.

8) Segment Reporting

The Board of Directors is the Group's chief operating decision-maker (CODM). Management has determined the operating segments based on the reports reviewed by the CODM that are used to make strategic decisions. The CODM considers the business both from a geographical and business segment perspective and reviews internal management reports at least on a quarterly basis. Performance is measured based on segment's profit before interest and tax as management believes that such information is most relevant in evaluating the results of the segments.

The Group's two main business segments operate in two geographical areas:-

Malaysia	Copper Business- Procurement of raw materials and manufacturing and marketing of electrical conductivity grade copper wires rods and strips
India	Hotel Operations

Information regarding each reportable business segment is as follows:-

Segment reporting	Copper Business RM'000	Hotel Operations RM'000	Corporate, Others & eliminations RM'000	Group RM'000
Financial period ended 31 March 2016				
Revenue				
External	428,102	23,974	0	452,076
Inter segment revenue	0	0	0	0
Total revenue	<u>428,102</u>	<u>23,974</u>	<u>0</u>	<u>452,076</u>
Results				
Segment results	12,784	9,238	(7,415)	14,607
Finance costs				(7,515)
Tax expense				(615)
Net profit for the financial period				<u>6,477</u>
As at 31 March 2016				
Net assets				
Segment assets	857,335	472,448	(152,614)	1,177,169
Segment liabilities	473,083	304,935	(86,923)	691,095
Other Information				
-Depreciation	993	2,694	0	3,687
-Capital expenditure	181	704	0	885
-Interest income	(1,171)	(138)	0	(1,309)
-Interest expense	941	8,646	(2,072)	7,515
Financial period ended 31 March 2015				
Revenue				
External	399,246	0	0	399,246
Inter segment revenue				
Total revenue	<u>399,246</u>	<u>0</u>	<u>0</u>	<u>399,246</u>
Results				
Segment results	11,381	0	(1,067)	10,314
Finance costs				(506)
Tax expense				(1,043)
Net profit for the financial period				<u>8,765</u>
As at 31 March 2015				
Net assets				
Segment assets	687,476	0	(3,228)	684,248
Segment liabilities	288,887	0	3,433	292,320
Other Information				
-Depreciation	795	0	0	795
-Capital expenditure	615	0	0	615
-Interest income	(1,572)	0	0	(1,572)
-Interest expense	506	0	0	506

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 2015.

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 first quarter ended 31 March 2016, 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 31 March 2016 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	2,200
• Authorised but not contracted for	3,200
Total :	5,500

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

For the first quarter under review, Group registered a pre-tax profit of RM7.092 million lower than corresponding period pre-tax profit of RM9.808 million. The lower profit for the quarter is mainly influenced by the exchange translation loss of RM6.983 million on the investment in Compulsory Convertible Debenture (CCD) of a subsidiary against exchange translation gain on the sale proceeds being held in US\$ arising from disposal of international operations in last year same period and fair value gain on foreign exchange derivative. Revenue for the quarter was higher as compared to corresponding previous year period mainly due to higher sales volume despite lower copper price and inclusion of revenue from hotel operations.

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.

Hotel operations contributed to the earnings.

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 RM7.092 million as compared to preceding quarter pre-tax profit of RM10.815 million mainly due to exchange translation loss.

16) Current year Prospects

Drop in oil prices and weakening of Ringgit has created 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 is also likely to impact exports. We are currently facing uncertain times and preparing ourselves to mitigate its impact. Competition has become further challenging. Credit, commercial and security risks are expected to remain high due to volatile copper prices and currency. The Group is able to manage the exposure due to its hedging policies.

With respect to Hotel Operations, performance looks challenging due to drop in tourism in Goa. However, Meetings, Incentives, Conferences and Events (MICE) segment is expected to pick-up and contribute significantly. For the year, Hotel Operations are expected to be satisfactory.

The Board expects the performance of the Group for the financial year 2016 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 31/03/2016 RM'000	Comparative Quarter 31/03/2015 RM'000	Current year YTD 31/03/2016 RM'000	Comparative YTD 31/03/2015 RM'000
In respect of current period				
- Income tax	363	307	363	307
- Deferred tax	252	736	252	736
Total	615	1,043	615	1,043

Effective tax rate for the period is lower mainly due to fair value gain on foreign exchange derivative is not subject to tax.

19) Corporate proposals (status as at 19 May 2016)

There are no corporate proposals announced but not completed as at 19 May 2016.

20) Group Borrowings and Debt Securities

Group borrowings as at 31 March 2016 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	351,557	USD	89,637	Unsecured
Long-term borrowings:				
- Term Loan	142,659	INR	2,411,980	Secured
- Compulsory Convertible Debenture	72,599	INR	1,227,450	Unsecured

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

As on 19 May 2016, 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 filed its answer 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. We await the decision of the Arbitral Tribunal in respect of the Second Arbitration which is expected to be rendered soon.

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.

GEP has obtained an *ex parte* “injunction prohibiting disposal of assets worldwide” against Metrod (Singapore) Pte Ltd, issued by the High Court of the Republic of Singapore on 18 January 2016. Metrod (Singapore) Pte Ltd has since applied to set aside the injunction. The hearing for the application was held on 24 February 2016. The said application was granted on 10 March 2016, with costs.

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 31/03/2016 RM'000	Comparative Year Quarter 31/03/2015 RM'000	Current Year To Date 31/03/2016 RM'000	Comparative Year To Date 31/03/2015 RM'000
Basic				
Net profit for the period (RM'000)	6,187	8,765	6,187	8,765
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	5.16	7.30	5.16	7.30

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 RM2,318,000 in credit (31.03.2015) RM5,247,000 in credit) are measured at Level 2 hierarchy.

24) Profit Before Tax

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

	Current Quarter 31/03/2016 RM'000	Comparative Quarter 31/03/2015 RM'000	Current Year To Date 31/03/2016 RM'000	Comparative Year To Date 31/03/2015 RM'000
Interest income	(1,309)	(1,572)	(1,309)	(1,572)
Other income	(207)	(39)	(207)	(39)
Interest expense	7,515	506	7,515	506
Depreciation and amortization	3,687	795	3,687	795
Foreign exchange (gain)/loss (net)	6,983	(6,776)	6,983	(6,776)
(Gain) / loss on derivatives (net)	(9,553)	2,543	(9,553)	2,543

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 31/03/2016	Group Year ended 31/12/ 2015
	RM'000	RM'000
Retained profits of the Company and its subsidiaries		
- Realised	381,145	383,703
- Unrealised	(27,108)	(35,853)
Total as per consolidated accounts	<u>354,037</u>	<u>347,850</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 May 2016.