METROD HOLDINGS BERHAD (916531-A)

Interim report for the third quarter ended 30 September 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 except the low season for Group's hotel operations generally during second and third quarters of the financial year.

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 15 July 2016 (previous year 16 July 2015) in respect of the financial year ended 31 December 2015.

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	Hotel Operations	Corporate, Others & eliminations	Group
	RM'000	RM'000	RM'000	RM'000
Financial period ended 30 September 2016				
Revenue				
External	1,279,065	50,138	0	1,329,203
Inter segment revenue	0	0	0	0
Total revenue	1,279,065	50,138	0	1,329,203
Results				
Segment results	25,836	8,524	(8,723)	25.637
Finance costs				(22,877)
Tax expense				(2,148)
Net profit for the financial period				612
As at 30 September 2016				
Net assets				
Segment assets	719,762	489,300	16,592	1,225,654
Segment liabilities	491,272	331,439	(78,497)	744,214
Other Information				
-Depreciation	2,982	8,516	0	11,498
-Capital expenditure	4,764	1,955	0	6,719
-Interest income	(3,614)	(526)	0	(4,140)
-Interest expense	3,833	25,466	(6,422)	22,877
Financial period ended 30 September 2015				
Revenue				
External	1,277,475	0	0	1,277,475
Inter segment revenue	0	0	0	0
Total revenue	1,277,475	0	0	1,277,475
Results				
Segment results	26,806	0	(1,403)	25,403
Finance costs				(1,832)
Tax expense				(3,012)
Net profit for the financial period				20,558
As at 30 September 2015				
Net assets				
Segment assets	899,217	0	248	899,465
Segment liabilities	522,460	0	(24,125)	498,335
Other Information				
-Depreciation	2,625	0	0	2,625
-Capital expenditure	12,001	0	0	12,001
-Interest income	(4,587)	0	0	(4,587)
-Interest expense	1,832	0	0	1,832

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 third quarter ended 30 September 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 30 September 2016 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	580
• Authorised but not contracted for	1,500
Total :	**2,080**

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

For the third quarter under review, Group incurred a pre-tax profit of RM0.077 million as compared to corresponding period's pre-tax profit of RM9.513 million. The profit for the quarter is lower mainly due to sluggish performance of hotel operations due to low season. Cumulatively, Group's pre-tax profit is RM2.760 million as compared to corresponding year pre-tax profit of RM23.570 million. This is mainly caused by the exchange translation loss of RM3.282 million on the investment in Compulsory Convertible Debenture (CCD) of a subsidiary as against exchange translation gain of RM24.060 million on the sale proceeds being held in US$ arising from disposal of international operations in last year same period and sluggish performance of hotel operations due to low season. Revenue for the quarter was lower as compared to corresponding previous year period mainly due to lower copper price though cumulatively higher due to inclusion of revenue from hotel operations.

Demand in Malaysia is showing signs of sluggishness while the same 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.

Third quarter of the year is the low season period for the hospitality business in India. Consequently, the performance was sluggish.

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 pre-tax profit for the quarter of RM0.077 million as compared to preceding quarter pre-tax loss of RM4.409 million mainly due to exchange translation loss in the previous quarter on the investment in Compulsory Convertible Debenture (CCD) of a subsidiary.

16) Current year Prospects

Weak oil prices and Ringgit has created uncertainty in domestic market in Malaysia. These together with slow-down in China with sluggish EU economy and slow recovery in US is also likely to impact exports. Competition has become further challenging. Credit, commercial and security risks are expected to remain high due to volatile copper prices and currency. Recent spike in copper prices and further weakening of Ringgit is expected to add to the uncertainty of demand. The Group is able to manage the copper and exchange exposure due to its hedging policies. We are currently facing uncertain times and are preparing ourselves to mitigate its impact.

Hotel successfully hosted a meeting of the BRICS nations, which was attended by heads of all eleven states. This elevated the image of the hotel and also generated good revenue for current quarter. For the financial year 2016 profit from hotel operations is expected to remain 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 30/09/2016 RM'000	Comparative Quarter 30/09/2015 RM'000	**Current year YTD 30/09/2016 RM'000**	Comparative YTD 30/09/2015 RM'000
In respect of current period				
- Income tax	**852**	482	**1941**	1,067
- Deferred tax	**(59)**	535	**207**	1,945
Total	**793**	1,017	**2,148**	3,012

Effective tax rate for the period is high mainly due to loss in subsidiaries.

19) Corporate proposals (status as at 17 November 2016)

There are no corporate proposals announced but not completed as at 17 November 2016.

20) Group Borrowings and Debt Securities

Group borrowings as at 30 September 2016 are as follows:-

	Amount RM'000	**Denominated in Foreign Currency: Foreign Currency**	**Denominated in Foreign Currency: Foreign Currency Amount ('000)**	**Secured / Unsecured**
Short-term borrowings:				
- Foreign Currency Trade Loan	347,197	USD	83,955	Unsecured
- Term Loan	12,407	USD	3,000	Secured
- Term Loan	8,465	INR	136,445	Secured
	368,069			
Long-term borrowings:				
- Term Loan	47,961	USD	11,597	Secured
- Term Loan	141,508	INR	2,280,816	Secured
- Compulsory Convertible Debenture	76,155	INR	1,227,450	Unsecured
	265,624			

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

As on 17 November 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.

Metrod (Singapore) Pte Ltd (MSPL) 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. MSPL had been awarded with an amount of EUR 1.2 million to be reimbursed by GEP to MSPL towards arbitration cost, legal fees and expenses.

GEP had further filed a claim with the Arbitral Centre of the Austrian Federal Economic Chamber against MSPL 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"). MSPL received the final award on 17 June 2016 via its legal counsel, from the Arbitral Tribunal in respect of the Second Arbitration wherein The Arbitral Tribunal has decided as follows:

MSPL was ordered to pay ASTA Energy Transmission Components GmbH (formerly known as GEP II Beteiligungs GmbH) ("Claimant") the amount of EUR 4.5 million based on a settlement agreement entered into between the parties to the dispute plus interest, at the rate of 4% per year as from 27 September 2014 together with the costs aggregating EUR 475,824.50 towards the administrative fees of the VIAC and Arbitrators' fees and expenses and Claimant's representation costs.

The Claimant obtained an order from the Singapore High Court to enforce the Arbitration Award on 26 October 2016 and has instructed solicitors to serve a Statutory Notice of Demand pursuant to Section 254 of the Singapore Companies Act on MSPL. MSPL obtained an order from the competent Austrian district court to enforce cost claims out of the First Arbitration and related proceedings before the Austrian Supreme Court on 17 November 2016.

Legal counsel is deliberating on the appropriate course of action arising from the above developments. These and any potential winding up of MSPL is not expected to have any material impact on the earnings and net assets of Metrod Group for the financial year ending 31 December 2016 as provisions have been made for contracts related claims in the accounts of Metrod Group for the financial year ending 31 December 2016 and MSPL has been dormant since March 2012.

22) Earnings per share

	Current Year Quarter 30/09/2016 RM'000	Comparative Year Quarter 30/09/2015 RM'000	**Current Year To Date 30/09/2016 RM'000**	Comparative Year To Date 30/09/2015 RM'000
Basic Net profit for the period attributable to the owner the Company (RM'000)	**3,918**	8,496	**8,911**	20,558
Weighted average number of ordinary shares in issue ('000)	**120,000**	120,000	**120,000**	120,000
Basic earnings per share (sen)	**3.27**	7.08	**7.43**	17.13

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 RM6,393,000 in credit (30.09.2015: RM13,389,000 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 30/09/2016 RM'000	Comparative Quarter 30/09/2015 RM'000	**Current Year To Date 30/09/2016 RM'000**	Comparative Year To Date 30/09/2015 RM'000
Interest income	(1,446)	(1,537)	(4,140)	(4,587)
Other income	(55)	(124)	(434)	(312)
Interest expense	7,904	794	22,877	1,832
Depreciation and amortization	4,058	875	11,498	2,625
Foreign exchange (gain)/loss (net)	(3,011)	(15,626)	3,282	(24,060)
(Gain) / loss on derivatives (net)	2,116	7,945	(5,635)	10,685

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 30/09/2016 RM'000	Group Year ended 31/12/ 2015 RM'000
Retained profits of the Company and its subsidiaries		
- Realised	384,450	383,703
- Unrealised	(34,889)	(35,853)
Total as per consolidated accounts	349,561	347,850

26) Authorisation for issue

The interim financial statements were issued by the Board of Directors in accordance with a resolution of the directors on 24 November 2016.