METROD HOLDINGS BERHAD (916531-A)

Interim report for the fourth quarter ended 31 December 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. The Group is assessing the impact of the above pronouncement on the financial statements of the Group in the initial year of adoption.

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

No dividend was paid during financial quarter ended 31 December 2016.

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 14 July 2017 to shareholders registered on the Company's Register of Members at the close of business on 30 June 2017.

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	Holding Company, Others & eliminations	Group
	RM'000	RM'000	RM'000	RM'000
Financial year ended 31 December 2016				
Revenue				
External	1,709,135	73,362	0	1,782,497
Inter segment revenue	0	0	0	0
Total revenue	1,709,135	73,362	0	1,782,497
Results				
Segment results	20,297	13,895	3	34,195
Finance costs				(25,529)
Tax expense				(2,843)
Net profit for the financial period				5,823
As at 31 December 2016				
Net assets				
Segment assets	841,577	527,639	16,881	1,386,097
Segment liabilities	626,590	356,671	(94,424)	888,837
Other Information				
-Depreciation	4,030	12,363		16,393
-Capital expenditure	4,842	2,933		7,775
-Interest income	(4,837)	(811)		(5,648)
-Interest expense	6,187	28,032	(8,690)	25,529
Financial year ended 31 December 2015				
Revenue				
External	1,727,630	5,774	0	1,733,404
Inter segment revenue	0	0	0	0
Total revenue	1,727,630	5,774	0	1,733,404
Results				
Segment results	34,126	2,259	1,999	38,384
Finance costs				(3,999)
Tax expense				(3,738)
Net profit for the financial period				30,647
As at 31 December 2015				
Net assets				
Segment assets	882,370	528,390	(170,517)	1240,243
Segment liabilities	507,652	346,010	(109,712)	743,950
Other Information				
-Depreciation	3,693	763	0	4,456
-Capital expenditure	15,295	42	0	15,337
-Interest income	(6,106)	(176)	0	(6,282)
-Interest expense	2,754	1,669	(424)	3,999

** Company's home country*

The Group's revenue by geographical location of customers is as follows:

	2016	2015
	RM'000	RM'000
Malaysia	883,425	916,489
Asia Pacific	889,072	816,916
	1,782,497	1,733,405

The Group's non-current assets excluding deferred tax assets by geographical location are as follows:

	2016 RM'000	2015 RM'000
Malaysia	62,941	62,193
Others	494,882	494,159
	557,823	556,352

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 fourth quarter ended 31 December 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 December 2016 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	353
• Authorised but not contracted for	11,000
Total :	**11,353**

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

Cumulatively, Group registered a higher EBITDA of RM44.943 million as compared to previous year of RM36.557 million. Pre-tax profit of RM8.666 million for the year was significantly lower than corresponding year pre-tax profit of RM34.385 million mainly due to exchange translation gain during last year of RM21.841 million on the sale proceeds being held in US$ arising from disposal of international operations in the year 2012, and the results of the newly acquired hotel operations. Group recorded a profit attributable to Owners of the Company of RM12.748 million for the financial year as compared to previous year of RM26.754 million, lower mainly due to said exchange translation gain in last year from disposal of international operations. For the fourth quarter under review, Group registered a pre-tax profit of RM5.906 million as compared to corresponding period's pre-tax profit of RM10.815 million mainly due to the reasons as stated above.

Revenue for the quarter was marginally lower as compared to corresponding previous year period mainly due to lower copper price though cumulatively marginally higher due to inclusion of revenue from hotel operations.

Demand for copper products in Malaysia remained weak. Export markets during the current quarter also remained weak and especially exports to India were impacted by demonetisation. 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 for the year were satisfactory as the foreign tourist arrival picked up in the fourth quarter. However, demonetisation of high value currency temporarily impacted the Meetings, Incentives, Conferences and Events business.

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 RM5.906 million as compared to preceding quarter pre-tax profit of RM0.077 million mainly due to better operating performance.

16) Current year Prospects

Weak oil prices and Ringgit has created uncertainty and weakness in domestic market in Malaysia. These together with uncertainty in US and global markets together with demonetisation in India 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. Margins are under significant pressure. 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 including evaluation to make major investment to expand the capacity and reduce the operating costs.

Outlook for 2017 is positive for the hotel operations. With the improvement in domestic leisure travel and foreign tourist arrivals, business conditions are expected to improve. Indian government is promoting inbound tourism by relaxing visa rules and simplified tax structure.

The Board expects the performance of the Group for the financial year 2017 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 31/12/2016 RM'000	Comparative Quarter 31/12/2015 RM'000	**Current year YTD 31/12/2016 RM'000**	Comparative YTD 31/12/2015 RM'000
In respect of current period				
- Income tax	**(246)**	851	**1,695**	1,918
- Deferred tax	**823**	(147)	**1,030**	1,798
	577	704	**2,725**	3,716
In respect of prior years				
- Income tax	**118**	22	**118**	22
- Deferred tax	**0**	0	**0**	0
	118	22	**118**	22
Total	**695**	726	**2,843**	3,738

Effective tax rate for the year is higher mainly due non recognition of deferred tax on the loss in a subsidiary.

19) Corporate proposals (status as at 21 February 2017)

There are no corporate proposals announced but not completed as at 21 February 2017.

20) Group Borrowings and Debt Securities

Group borrowings as at 31 December 2016 are as follows:-

		Denominated in Foreign Currency		
	Amount RM'000	Foreign Currency	Foreign Currency Amount ('000)	Secured / Unsecured
Short-term borrowings:				
- Foreign Currency Trade Loan	456,966	USD	101,865	Unsecured
- Term Loan	13,458	USD	3,000	Secured
- Term Loan	10,570	INR	160,000	Secured
- Bankers Acceptances	22,208			Unsecured
	503,202			
Long-term borrowings:				
- Term Loan	45,471	USD	10,136	Secured
- Term Loan	148,543	INR	2,248,511	Secured
- Compulsory Convertible Debenture	81,089	INR	1,227,450	Unsecured
	275,103			

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

As on 21 February 2017, 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. As ASTA had not paid the cost award, Company initiated enforcement proceedings against ASTA in Austria. The enforcement has been granted by the Court, however ASTA filed an appeal and enforcement proceedings have been suspended. First hearing for civil proceedings will take place on 30 March 2017.

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.

The winding-up application was served on MSPL on 6 February 2017. It was presented on 3 February 2017 at the Singapore High Court. The amount claimed for under the petition is approximately SGD7,524,440.50. An affidavit to oppose the application had been filed on 17 February 2017.

The Company and ASTA have initiated a Settlement on 24 February 2017 and paper work is in progress. Both parties approached the Court on same day to adjourn the hearing for two weeks which was granted.

These and winding up proceedings of MSPL, if any, are not expected to have any material impact on the earnings and net assets of Metrod Group for the financial year ending 31 December 2017.

22) Earnings per share

	Current Year Quarter 31/12/2016 RM'000	Comparative Year Quarter 31/12/2015 RM'000	**Current Year To Date 31/12/2016 RM'000**	Comparative Year To Date 31/12/2015 RM"000
Basic Net profit for the period (RM'000)	**3,837**	6,196	**12,748**	26,754
Weighted average number of ordinary shares in issue ('000)	**120,000**	120,000	**120,000**	120,000
Basic earnings per share (sen)	**3.20**	5.16	**10.62**	22.30

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 RM2,193,000 in credit (31.12.2015: RM11,871,000 in credit) 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 31/12/2016 RM'000	Comparative Quarter 31/12/2015 RM'000	**Current Year To Date 31/12/2016 RM'000**	Comparative Year To Date 31/12/2015 RM'000
Interest income	(1,508)	(1,696)	(5,648)	(6,283)
Other income	(780)	0	(1,214)	27
Interest expense	2,652	2,167	25,529	3,999
Depreciation and amortisation	4,899	1,887	16,393	4,455
Provision for and write off of receivables	0	0	0	0
Provision for and write off of inventories	(491)	0	(491)	183
(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)	16,108	(3,229)	19,390	(23,319)
(Gain) / loss on derivatives (net)	1,595	(1,518)	(4,040)	9,167
Exceptional items	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 31/12/2016	Group Year ended 31/12/ 2015
	RM'000	RM'000
Retained profits of the Company and its subsidiaries		
- Realised	**394,384**	383,703
- Unrealised	**(41,159)**	(35,853)
Total as per consolidated accounts	**353,225**	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 28 February 2017.