

METROD HOLDINGS BERHAD (916531-A)

Interim report for the first quarter ended 31 March 2017.

Notes:-

1) Basis of preparation and Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared in accordance with the requirements of *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 interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2016. 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 2016.

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 2016, except during the financial year, the Group has adopted the following pronouncements issued by the Malaysian Accounting Standards Board that are mandatory for the current financial year beginning 1 January 2017:-

- Disclosure Initiative (Amendments to MFRS 107)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)
- Disclosure of Interest in other Entities (Annual improvements to MFRS Standards 2014-2016 cycle)

The adoption of the above pronouncements 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.

Description	<u>Effective for annual periods beginning on or after</u>
Amendment to MFRS 1: "First-time Adoption of Malaysian Financial Reporting Standards (Annual improvements to MFRS Standards 2014-2016 cycle)	1 January 2018
Amendment to MFRS 128: "Investment in Associates and Joint Ventures" (Annual improvements to MFRS Standards 2014-2016 cycle)	1 January 2018
Amendments to MFRS 2 "Classification and Measurement of Share-based payment Transactions"	1 January 2018
Amendments to MFRS 4 "Applying MFRS 9 "Financial Instruments" with MFRS 4 "Insurance Contracts"	1 January 2018

Adoption of amendments to MFRSs (continued)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 140 “Transfers of Investment Property”	1 January 2018
IC Interpretation 22 “Foreign Currency Transactions and Advance Consideration”	1 January 2018
MFRS 15 “Revenue from Contracts with Customers”	1 January 2018
MFRS/FRS 9 “Financial Instruments” (IFRS issued by IASB in July 2014)	1 January 2018
MFRS 16: Leases	1 January 2019

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 pronouncements 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 2016 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 March 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 period ended				
31 March 2017				
Revenue				
External	529,391	26,711	0	556,102
Inter segment revenue	0	0	0	0
Total revenue	<u>529,391</u>	<u>26,711</u>	<u>0</u>	<u>556,102</u>
Results				
Segment results	3,363	8,349	2,547	14,259
Finance costs				(6,773)
Tax expense				(1,528)
Net profit for the financial period				<u>5,958</u>
As at 31 March 2017				
Net assets				
Segment assets	838,733	544,710	5,562	1,389,005
Segment liabilities	623,439	366,440	(109,910)	879,969
Other Information				
- Depreciation	1,049	3,392		4,441
- Capital expenditure	641	620		1,261
- Interest income	(1,301)	(215)		(1,516)
- Interest expense	2,457	6,618	(2,302)	6,773
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

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 2016.

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 2017, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations except for the acquisitions of 100% equity interest in Metrod Metals Private Limited in India by wholly owned subsidiaries Metrod (Mauritius) Pvt Ltd and Metrod International Pvt Ltd on 27 March 2017. (Announcement to Bursa dated 28 March 2017).

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 2017 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	1,500
• Authorised but not contracted for	123,500
Total :	125,000

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 RM7.486 million higher than corresponding period pre-tax profit of RM7.092 million. This includes net positive impact of RM3.220 million arising from exchange translation gain on the investment in Compulsory Convertible Debenture (CCD) of a subsidiary and fair value gain on foreign exchange derivative as compared to RM2.570 million in previous corresponding period.

Revenue for the quarter was higher as compared to corresponding previous year period mainly due to higher copper price and exchange rate.

Demand for copper products in Malaysia and export markets during the 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 for the quarter were satisfactory due to higher foreign tourists arrivals. Although the occupancy in this period was low but higher room rates and cost savings mitigated the impact.

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 RM7.486 million as compared to preceding quarter pre-tax profit of RM5.906 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, UK and EU due to Brexit and other 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.

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 31/03/2017 RM'000	Comparative Quarter 31/03/2016 RM'000	Current year YTD 31/03/2017 RM'000	Comparative YTD 31/03/2016 RM'000
In respect of current period				
- Income tax	244	363	244	363
- Deferred tax	1,284	252	1,284	252
Total	1,528	615	1,528	615

Effective tax rate for the year is lower mainly due to unrealised exchange translation gain not subject to tax.

19) Corporate proposals (status as at 24 May 2017)

There are no corporate proposals announced but not completed as at 24 May 2017.

20) Group Borrowings and Debt Securities

Group borrowings as at 31 March 2017 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	493,378	USD	111,548	Unsecured
- Term Loan	5,455	USD	1,164	Secured
- Term Loan	13,269	USD	3,000	Secured
- Term Loan	5,456	INR	80,000	Secured
- Bankers Acceptances	22,207			Unsecured
	539,765			
Long-term borrowings:				
- Term Loan	44,985	USD	10,171	Secured
- Term Loan	73,552	USD	16,732	Secured
- Term Loan	63,738	INR	934,608	Secured
- Compulsory Convertible Debenture	83,710	INR	1,227,450	Unsecured
	265,985			

- 21) **Changes in Material litigation (including status of any pending material litigation)**
As on 24 May 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.

22) **Earnings per share**

	Current Year Quarter 31/03/2017 RM'000	Comparative Year Quarter 31/03/2016 RM'000	Current Year To Date 31/03/2017 RM'000	Comparative Year To Date 31/03/2016 RM'000
Basic				
Net profit for the period attributable to Owners of the Company (RM'000)	5,110	6,187	5,110	6,187
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	4.26	5.16	4.26	5.16

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 RM5,638,000 in credit (31.3.2016: RM2,318,000 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 Year Quarter 31/03/2017 RM'000	Comparative Year Quarter 31/03/2016 RM'000	Current Year To Date 31/03/2017 RM'000	Comparative Year To Date 31/03/2016 RM'000
Interest income	(1,516)	(1,309)	(1,516)	(1,309)
Other income	(331)	(207)	(331)	(207)
Interest expense	6,773	7,515	6,773	7,515
Depreciation and amortisation	4,441	3,687	4,441	3,687
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)	(2,728)	6,983	(2,728)	6,983
(Gain) / loss on derivatives (net)	(492)	(9,553)	(492)	(9,553)
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 31/03/2017	Group Year ended 31/12/ 2016
	RM'000	RM'000
Retained profits of the Company and its subsidiaries		
- Realised	360,272	394,384
- Unrealised	(1,937)	(41,159)
Total as per consolidated accounts	358,335	353,225

26) Authorisation for issue

The interim financial statements were issued by the Board of Directors in accordance with a resolution of the directors on 31 May 2017.