

## METROD HOLDINGS BERHAD (916531-A)

Interim report for the third quarter ended 30 September 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.

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
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**

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 14 July 2017 (previous year 15 July 2016) in respect of the financial year ended 31 December 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	Hospitality Business	Holding Company, Others & eliminations	Group
	RM'000	RM'000	RM'000	RM'000
<b>Financial period ended 30 September 2017</b>				
<b>Revenue</b>				
External	1,809,638	57,413	0	1,867,051
Inter segment revenue	0	0	0	0
Total revenue	<u>1,809,638</u>	<u>57,413</u>	<u>0</u>	<u>1,867,051</u>
<b>Results</b>				
Segment results	24,498	6,846	(2,881)	28,463
Finance costs				(20,426)
Tax expense				(2,709)
Net profit for the financial period				<u>5,328</u>
<b>As at 30 September 2017</b>				
<b>Net assets</b>				
Segment assets	942,550	501,250	5,077	1,448,877
Segment liabilities	712,245	346,278	(101,614)	956,909
<b>Other Information</b>				
- Depreciation	3,149	10,314		13,463
- Capital expenditure	4,562	1,998		6,560
- Interest income	(3,232)	(678)		(3,846)
- Interest expense	8,011	19,420	(7,005)	20,426
<b>Financial period ended 30 September 2016</b>				
<b>Revenue</b>				
External	1,279,065	50,138	0	1,329,203
Inter segment revenue	0	0	0	0
Total revenue	<u>1,279,065</u>	<u>50,138</u>	<u>0</u>	<u>1,329,203</u>
<b>Results</b>				
Segment results	25,836	8,524	(8,723)	25,637
Finance costs				(22,877)
Tax expense				(2,148)
Net profit for the financial period				<u>612</u>
<b>As at 30 September 2016</b>				
<b>Net assets</b>				
Segment assets	719,762	489,300	16,592	1,225,654
Segment liabilities	491,272	331,439	(78,497)	744,214
<b>Other Information</b>				
-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

**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 second quarter ended 30 June 2017, 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 2017 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	60,500
• Authorised but not contracted for	64,500
<b>Total :</b>	<b>125,000</b>

**14) Review of the performance of the Company and its principal subsidiaries**  
**Financial review of the current quarter and year to date**

	Individual Period (3rd quarter)		Change	Change	Cumulative Period		Change	Change
	Current Year Quarter	Preceding year corresponding quarter			Current Year to Date	Preceding year corresponding period		
	30/9/2017	30/9/2016			30/9/2017	30/9/2016		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	697,799	420,850	276,949	66%	1,867,051	1,329,203	537,848	40%
Operating profit	6,396	7,086	-690	-10%	23,990	23,284	706	3%
Profit before interest and tax	6,939	7,981	-1,042	-13%	28,463	25,637	2,826	11%
Profit before tax	161	77	84	109%	8,037	2,760	5,277	191%
Profit after tax	-855	-716	-139	19%	5,328	612	4,716	771%
Profit for the financial period attributable to :								
- Owners of the Company	2,758	3,918	-1,160	-30%	11,487	8,911	2,576	29%
- Non-controlling interest	-3,613	-4,634	1,021	-22%	-6,159	-8,299	2,140	-26%

For the third quarter under review, Group registered a marginally higher pre-tax profit of RM0.161 million as compared to corresponding period's pre-tax profit of RM0.077 million. Cumulatively, Group's pre-tax profit is RM8.037 million, higher as compared to corresponding year pre-tax profit of RM2.760 million mainly due to better operating performance in current year, litigation expenses in previous year period and higher positive impact of RM4.473 million arising from exchange translation difference on the investment in Compulsory Convertible Debenture (CCD) of a subsidiary and fair value gain on foreign exchange derivative as compared to net positive impact of RM2.353 million on the same items in corresponding last year period.

Revenue for the quarter and cumulatively was higher as compared to corresponding previous year period mainly due to higher sales volume and increase in copper price .

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.

Third quarter is low season period for the hospitality business. However, the performance of the hotel was impacted by the new GST Act in India, which imposed a tax of 28%, as compared to 21% previously. This is expected to be temporary and will be accepted by the guests in the long run.

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

### **Financial review of the current quarter compared with immediate preceding quarters**

	<b>Current Quarter</b>	<b>Immediate Preceding Quarter</b>		
	<b>30/9/2017</b>	<b>30/6/2017</b>	Change	Change
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>%</b>
Revenue	697,799	613,150	84,649	14%
Operating profit	6,396	6,555	-159	-2%
Profit before interest and tax	6,939	7,265	-326	-4%
Profit before tax	161	392	-231	-59%
Profit after tax	-855	225	-1,080	-480%
Profit for the financial period attributable to :				
- Owners of the Company	2,758	3,619	-861	-24%
- Non-controlling interest	-3,613	-3,394	-219	6%

The Group reported a marginally lower pre-tax profit for the quarter of RM0.161 million as compared to preceding quarter pre-tax profit of RM0.392 million.

## 16) Current Year Prospects

Domestic market in Malaysia seems to be slowing down. This together with uncertainty in UK and EU due to Brexit and other global markets together with demonetisation and introduction of GST 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 for Hospitality business is positive even with the increase in costs due to GST imposed on Luxury Hotels. Bookings from foreign guests have started and it is expected to improve over last year. Finnish Airlines has also started direct flights to Goa, which is expected to be positive for Goa's tourism.

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**

	<b>Current year Quarter 30/09/2017 RM'000</b>	<b>Comparative Quarter 30/09/2016 RM'000</b>	<b>Current year YTD 30/09/2017 RM'000</b>	<b>Comparative YTD 30/09/2016 RM'000</b>
In respect of current period				
- Income tax	<b>182</b>	<b>852</b>	<b>740</b>	<b>1941</b>
- Deferred tax	<b>834</b>	<b>(59)</b>	<b>1,969</b>	<b>207</b>
<b>Total</b>	<b>1,016</b>	<b>793</b>	<b>2,709</b>	<b>2,148</b>

Effective tax rate for the year is higher mainly due to non-recognition of deferred tax asset on the losses of a subsidiary.

**19) Corporate proposals (status as at 17 November 2017)**

There are no corporate proposals announced but not completed as at 17 November 2017.

**20) Group Borrowings and Debt Securities**

Group borrowings as at 30 September 2017 are as follows:-

**As at quarter ended 30 September 2017**

		<b>Long Term</b>		<b>Short Term</b>		<b>Total Borrowings</b>	
		<b>Foreign Currency '000</b>	<b>RM'000</b>	<b>Foreign Currency '000</b>	<b>RM'000</b>	<b>Foreign Currency '000</b>	<b>RM'000</b>
<b>Secured</b>							
Term Loan	USD	8,739	36,895	3000	12,666	11,739	49,561
Tem Loan	USD	16,150	67,997	1,164	5,167	17,314	73,164
Term Loan	INR	1,092,331	70,555	80,000	5,168	1,172,331	75,723
<b>Unsecured</b>							
Foreign Currency Trade Loan	USD	0	0	118,387	499,831	118,387	499,831
Compulsorily Convertible Debenture	INR	1,227,450	79,282			1,227,450	79,282
<b>Total</b>			<b>254,729</b>		<b>522,832</b>		<b>777,561</b>

**As at quarter ended 30 September 2016**

		<b>Long Term</b>		<b>Short Term</b>		<b>Total Borrowings</b>	
		<b>Foreign Currency '000</b>	<b>RM'000</b>	<b>Foreign Currency '000</b>	<b>RM'000</b>	<b>Foreign Currency '000</b>	<b>RM'000</b>
<b>Secured</b>							
Term Loan	USD	11,597	47,961	3000	12,407	14,597	60,368
Term Loan	INR	2,280,816	141,508	136,445	8,465	2,417,261	149,973
<b>Unsecured</b>							
Foreign Currency Trade Loan	USD	0	0	83,955	347,197	83,955	347,197
Compulsorily Convertible Debenture	INR	1,227,450	76,155			1,227,450	76,155
<b>Total</b>			<b>265,624</b>		<b>368,069</b>		<b>633,693</b>

- 21) **Changes in Material litigation (including status of any pending material litigation)**  
As on 17 November 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**

	<b>Current Year Quarter 30/09/2017 RM'000</b>	Comparative Year Quarter 30/09/2016 RM'000	<b>Current Year To Date 30/09/2017 RM'000</b>	Comparative Year To Date 3/09/2016 RM'000
<b>Basic</b>				
Net profit for the period attributable to Owners of the Company (RM'000)	<b>2,758</b>	<b>3,918</b>	<b>11,487</b>	<b>8,911</b>
Weighted average number of ordinary shares in issue ('000)	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>
Basic earnings per share (sen)	<b>2.30</b>	<b>3.27</b>	<b>9.57</b>	<b>7.43</b>

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 RM3,108,000 in credit (30.9.2016: RM6,393,000 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:

	<b>Current Year Quarter 30/09/2017 RM'000</b>	Comparative Year Quarter 30/09/2016 RM'000	<b>Current Year To Date 30/09/2017 RM'000</b>	Comparative Year To Date 30/09/2016 RM'000
Interest income	(1,061)	(1,446)	(3,910)	(4,140)
Other income	(406)	(55)	(1,085)	(434)
Interest expense	6,778	7,904	20,426	22,877
Depreciation and amortisation	4,497	4,058	13,463	11,498
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)	1,090	(3,011)	(2,198)	3,282
(Gain) / loss on derivatives (net)	(1,633)	2,116	(2,275)	(5,635)
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:

	<b>Group Quarter ended 30/09/2017</b>	Group Year ended 31/12/ 2016
	<b>RM'000</b>	RM'000
Retained profits of the Company and its subsidiaries		
- Realised	387,226	394,384
- Unrealised	(29,714)	(41,159)
Total as per consolidated accounts	<u>357,512</u>	<u>353,225</u>

**26)** Pursuant to Issuer Communication No. (ICN) 1/2017 issued on 31 July 2017, Bursa Malaysia Securities Berhad has recommended enhanced disclosures in the notes to the quarterly reports and providing detailed commentaries or analysis on factors that may have contributed to material changes in the listed issuer's financial performance. The listed issuer should adopt the recommendations gradually commencing from this quarter. Consequently, certain disclosures notes have been enhanced.

**27) 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 2017.