

METROD HOLDINGS BERHAD (916531-A)

Interim report for the first quarter ended 31 March 2018.

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 2017. 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 2017.

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 2017, 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 2018:-

Description	Effective for periods beginning on or after
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
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

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 except as set out below:

Impact of initial application of MFRS 9 “Financial Instruments”

The new standard is applicable to financial assets and financial liabilities, and covers the classification, measurement, impairment and derecognition of financial assets and financial liabilities together with a new hedge accounting model.

The Group has undertaken an accounting impact analysis of the new standard based on the nature of the financial instruments it holds and the way in which they are used. The indicative impacts of adopting the standard on the Group are as follows:

Classification and measurement: MFRS 9 establishes a principles-based approach to determining whether a financial asset should be measured at amortised cost or fair value, based on the cash flow characteristics of the asset and the business model in which the asset is held. The Group anticipates that the classification and measurement basis for its financial assets will be largely unchanged under this model.

Impairment: Based on the Group's initial assessment, the introduction of an 'expected credit loss' model for the assessment of impairment of financial assets held at amortised cost is not expected to have a material impact on the Group's results, given the low exposure to counterparty default risk as a result of the credit risk management processes that are in place.

Presentation & disclosure: MFRS 9 allows reclassification of financial asset from one category to another when and only when an entity changes its business model for managing financial assets. As the group does not intend to change its business model it does not expect any material changes in presentation and disclosure of financial instruments.

Impact of initial application of MFRS 15 "Revenue from Contracts with Customers"
The Group does not expect the adoption of the new revenue recognition standard to change the timing and measurement of revenue. The new standard however, introduces expanded disclosure requirements and changes in presentation.

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.

MFRS 16: Leases	1 January 2019
IC Interpretation 23 "Uncertainty over Income Tax Treatments"	1 January 2019

The Group will adopt the above pronouncements when they become effective in the respective financial periods. None of the above is expected to have a significant effect on the consolidated financial statements of the Group.

- 2) Audit qualification of preceding annual financial statements**
The auditors' report for the preceding annual financial statements for the year ended 31 December 2017 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 hospitality business 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 2018.

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	Hospitality and Copper Business

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
Financial period ended				
31 March 2018				
Revenue				
External	645,838	25,767	0	671,605
Inter segment revenue	0	0	0	0
Total revenue	<u>645,838</u>	<u>25,767</u>	<u>0</u>	<u>671,605</u>
Results				
Segment results	12,118	9,703	(6,869)	14,952
Finance costs				(6,693)
Tax expense				(510)
Net profit for the financial period				<u>7,749</u>
As at 31 March 2018				
Net assets				
Segment assets	918,374	461,155	4,869	1,384,398
Segment liabilities	672,736	310,003	(98,638)	884,101
Other Information				
- Depreciation	1,178	3,155	0	4,333
- Capital expenditure	9,248	774	0	10,022
- Interest income	(1,262)	(263)	0	(1,525)
- Interest expense	2,980	5,584	(1,871)	6,693
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

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 2017.

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 2018, 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 2018 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	76,500
• Authorised but not contracted for	41,600
Total :	118,100

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

	Individual Period (1st quarter)		Change	Change	Cumulative Period		Change	Change
	Current Year Quarter	Preceding year corresponding quarter			Current Year to Date	Preceding year corresponding period		
	31/03/2018	31/03/2017			31/03/2018	31/03/2017		
	RM'000	RM'000			RM'000	RM'000		
Revenue	671,605	556,102	115,503	21%	671,605	556,102	115,503	21%
Profit before interest and tax	14,952	14,259	693	5%	14,952	14,259	693	5%
Profit before tax	8,259	7,486	773	10%	8,259	7,486	773	10%
Profit after tax	7,749	5,958	1,791	30%	7,749	5,958	1,791	30%
Profit for the financial period attributable to :								
- Owners of the Company	5,732	5,110	622	12%	5,732	5,110	622	12%
- Non-controlling interest	2,017	848	1,169	138%	2,017	848	1,169	138%

Group registered a higher EBITDA of RM17.760 million and pre-tax profit of RM8.259 million as compared to previous year's corresponding period EBITDA of RM17.184 million and pre-tax profit of RM7.486 million. Hospitality business performed better as compared to the previous year's corresponding period.

Pre-tax profit for the current quarter includes net positive impact of RM4.452 million arising from fair value gain on foreign exchange derivatives of RM9.641million and exchange translation loss of RM5.189 million on the investment in Compulsory Convertible Debenture (CCD) of a subsidiary, as compared to a net positive impact of RM3.220 million in previous year's corresponding period.

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

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.

Performance of the hospitality business during the quarter improved over the same period last year, mainly due to higher foreign tourist arrivals and good MICE 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

Financial review of the current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter		
	31/03/2018	31/12/2017	Change	Change
	RM'000	RM'000	RM'000	%
Revenue	671,605	713,762	-42,157	-6%
Profit before interest and tax	14,952	16,210	-1,258	-8%
Profit before tax	8,259	13,712	-5,453	-40%
Profit after tax	7,749	14,003	-6,254	-45%
Profit for the financial period attributable to :				
- Owners of the Company	5,732	11,579	-5,847	-50%
- Non-controlling interest	2,017	2,424	-407	-17%

The Group reported a lower pre-tax profit for the quarter of RM8.259 million as compared to preceding quarter's pre-tax profit of RM13.712 million. The preceding quarter's pre-tax profit was higher mainly due to exchange translation adjustments.

16) Current Year Prospects

The change in Malaysian Government has led to uncertainties though the change is expected to be good for the business environment. Ringgit has been foreseen to be steady. These together with uncertainty in US, UK and EU due to Brexit and other global markets together with demonetisation and 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 2018 is expected to be positive for the hospitality business. With the improvement in domestic leisure travel and foreign tourist arrivals, business conditions are expected to improve. Industry reports are expecting an upswing in the hotel occupancy rates and ARR's in the current year due to stabilisation of new supplies and growth in demand.

The Board expects the performance of the Group for the financial year 2018 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 31/03/2018 RM'000	Comparative Quarter 31/03/2017 RM'000	Current year YTD 31/03/2018 RM'000	Comparative YTD 31/03/2017 RM'000
In respect of current period				
- Income tax	283	244	283	244
- Deferred tax	227	1,284	227	1,284
Total	510	1,528	510	1,528

Effective tax rate for the period is lower mainly due to unrealised derivative gains and profits of hospitality segment not subject to tax.

19) Corporate proposals (status as at 15 May 2018)

There are no corporate proposals announced but not completed as at 15 May 2018.

20) Group Borrowings and Debt Securities

Group borrowings as at 31 March 2018 are as follows:-

As at quarter ended 31 March 2018

		Long Term		Short Term		Total Borrowings	
		Foreign Currency '000	RM'000	Foreign Currency '000	RM'000	Foreign Currency '000	RM'000
Secured							
Term Loan	USD	7,298	28,190	3000	11,589	10,298	39,779
Term Loan	INR	2,069,352	122,767	160,000	9,492	2,229,352	132,259
Unsecured							
Term Loan	RM	0	16,965	0	0	0	16,965
Foreign Currency Trade Loan	USD	0	0	132,002	509,924	132,002	509,924
Compulsorily Convertible Debenture	INR	1,227,450	72,820			1,227,450	72,820
Total			240,742		531,005		771,747

As at quarter ended 31 March 2017

		Long Term		Short Term		Total Borrowings	
		Foreign Currency '000	RM'000	Foreign Currency '000	RM'000	Foreign Currency '000	RM'000
Secured							
Term Loan	USD	10,171	44,985	3000	13,269	13,171	58,254
Term Loan	USD	16,732	73,552	1,164	5,455	17,896	79,007
Term Loan	INR	934,608	63,738	80,000	5,456	1,014,608	69,194
Unsecured							
Foreign Currency Trade Loan	USD	0	0	111,548	493,378	111,548	493,378
Bankers Acceptances	RM	0	0	0	22,207	0	22,207
Compulsorily Convertible Debenture	INR	1,227,450	83,710			1,227,450	83,710
Total			265,985		539,765		805,750

21) Material litigation

As on 15 May 2018, the Metrod Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and 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 31/03/2018	Comparative Year Quarter 31/03/2017	Current Year To Date 31/03/2018	Comparative Year To Date 31/03/2017
Basic				
Net profit for the period attributable to Owners of the Company (RM'000)	5,732	5,110	5,732	5,110
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	4.78	4.26	4.78	4.26

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 RM15,704,000 in debit (31.3.2017: RM5,638,000 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 31/03/2018	Comparative Year Quarter 31/03/2017	Current Year To Date 31/03/2018	Comparative Year To Date 31/03/2017
	RM'000	RM'000	RM'000	RM'000
Interest income	(1,525)	(1,516)	(1,525)	(1,516)
Other income	(248)	(331)	(248)	(331)
Interest expense	6,693	6,773	6,693	6,773
Depreciation and amortisation	4,333	4,441	4,333	4,441
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) #	(8,710)	2,369	(8,710)	2,369
(Gain) / loss on derivatives (net)	(9,641)	(492)	(9,641)	(492)
Exceptional items	0	0	0	0

Large part of foreign exchange (gains)/losses, both realised and unrealised, pertain to cost of sales due to back to back nature of covering raw material copper prices and have been classified as "other (gains)/losses" in the income statement.

25) Authorisation for issue

The interim financial statements were issued by the Board of Directors in accordance with a resolution of the directors on 22 May 2018.