PRESS METAL

PRESS METAL ALUMINIUM HOLDINGS BERHAD *(Company No.: 1198171-H)*
Suite 61 & 62, Setia Avenue, No. 2, Jalan Setia Prima S U13/S, Setia Alam Seksyen U13, 40170 Shah Alam, Selangor D.E.
Tel. : 603-3362-2188 Fax. : 603-3362-2003

NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

A1. Basis of preparation

The financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting, paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, International Financial Reporting Standards and the Companies Act 2016 in Malaysia.

Significant Accounting Policies

The accounting policies adopted in these interim financial statements are consistent with those adopted for the financial year ended 31 December 2017, except for the adoption of the following Amendments and Annual Improvements to Standards:-

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- MFRS 3, Business Combinations (Annual Improvements to MFRS Standard 2015-2017 Cycle)
- MFRS 9, Financial Instruments – Prepayment Features with Negative Compensation
- MFRS 11, Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- MFRS 112, Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

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FOR THE SECOND QUARTER ENDED 30 JUNE 2018

A1. Basis of preparation *(cont'd)*

MFRS, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendment to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group plans to adopt the above when they become effective in the respective financial periods. The adoption of the above is not expected to have any material impacts to the financial statements of the Group upon their initial adoption.

A2. Auditors' report

The auditors' report of the audited financial statements for the financial year ended 31 December 2017 was not subject to any qualification.

A3. Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors.

A4. Extraordinary and exceptional items

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the financial quarter under review.

NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

A5. Changes in estimates

There were no changes in estimates during the financial quarter under review and financial period-to-date.

A6. Debt and equity securities

There were no debt and equity securities issued during the current financial period-to-date.

A7. Dividends paid

	Tax exempt (sen per share)	Total amount (RM'000)	Date of payment
Fourth interim 2017	1.5	57,991	03.04.2018
First interim 2018	1.5	58,031	19.06.2018

A8. Segmental information

Segmental information is presented in respect of the Group's business segments.

The Group comprises the following main business segments:

(i) Smelting and extrusion

Manufacturing and marketing of aluminium and other related products.

(ii) Contracting and others

Contracting of aluminium and stainless steel products.

A8. Segmental information – *(cont'd)*

Business Segments

RM'000	Smelting and extrusion	Contracting and others	Elimination	Total
Revenue from external customers	4,534,664	29,612	-	4,564,276
Inter-segment revenue	904,332	40,748	(945,080)	-
Total revenue	**5,438,996**	**70,360**	**(945,080)**	**4,564,276**
Segment results	**531,004**	**(9,464)**		**521,540**
Share of associate's profit				838
Finance costs				(90,716)
Profit before tax				431,662
Taxation				(40,033)
Profit after tax				**391,629**

Geographical Segments

RM'000	Malaysia	Asia Region	Europe Region	American Region	Elimination	Total
Revenue from external customers	4,422,957	733,007	259,362	94,030	(945,080)	4,564,276
Segment assets by location	12,524,708	1,376,665	171,624	40,809	(5,794,463)	8,319,343
Investment in associate	45,504	32,440	-	-	-	77,944
	12,570,212	1,409,105	171,624	40,809	(5,794,463)	8,397,287

NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

A9. Valuation of property, plant and equipment

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements, as the Group does not adopt a revaluation policy of its property, plant and equipment.

A10. Material events subsequent to the balance sheet date

There was no material event subsequent to the end of the financial period to the date of issue at this report.

A11. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter under review.

A12. Contingent liabilities

There were no material changes in contingent liabilities as at the date of this quarterly report.

A13. Capital commitments

As at 30 June 2018, the Group has the following known commitments:

	RM'000
Authorised property, plant and equipment expenditures not provided for in the financial statements	120,000
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A14. Related party transactions

The Group	RM'000
With the affiliated companies – PMB Technology Berhad Group:-	
-Sales of aluminium products	103,120
-Purchase of fabricated aluminium products and building materials	15,693
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NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

Disclosure requirements per Bursa Malaysia Securities Berhad's Listing Requirements – Part A of Appendix 9B

Review of performance

B1. Q2 2018 vs Q2 2017

The Group revenue increased from RM1.96 billion in Q2 2017 to RM2.44 billion in Q2 2018, representing an increase of RM482.62 million or 24.7%.

Higher revenue generated in Q2 2018 was mainly due to the completion of Leader Universal Aluminium Sdn. Bhd. ("LUA") acquisition (the "Acquisition") on 30 March 2018 where LUA's revenue has been consolidated into the Group revenue in Q2 2018. Higher revenue in the current year quarter was also due to the higher metal price as compared to Q2 2017.

Correspondingly, profit before tax ("PBT") has also increased from RM209.37 million to RM221.42 million, increased by RM12.05 million or 5.8%. Such improvement was mainly due to the completion of the Acquisition and higher metal price as explained above.

B2. Q2 2018 vs Q1 2018

Compared to the preceding quarter, the Group PBT has shown an increase of RM11.18 million or 5.3% from RM210.24 million in Q1 2018 to RM221.42 million in Q2 2018 as a result of the Acquisition and stronger metal price.

B3. Current year's prospects

External uncertainties continue to exist in the global supply chain as a result of U.S. tariffs and sanctions and this is amplified by the on-going alumina supply disruptions.

Internally, we continue to strengthen ourselves vertically through our joint venture with Sunstone Development Co., Ltd in China for the manufacturing of pre-baked carbon anodes which is a key raw material for our smelting activities. The plant is under construction and on-track for commissioning in the last quarter of FY2018.

Our plan to increase our value-added products from our smelting operations is panning out well and we are on our way to achieve 50% contribution by the end of the year.

So, barring unforeseen circumstances, the Board expects the Group to achieve a satisfactory result for the remaining of the year.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Taxation

Taxation comprises the following:

	6 months ended 30.06.2018 ***RM'000***
Malaysian income tax	904
Foreign tax	16,178
Deferred tax	22,951

	40,033
	=======

B6. Retained earnings

	As at 30.06.2018 *RM'000*	As at 31.12.2017 *RM'000*
Retained earnings:		
Realised	2,208,840	2,005,641
Unrealised	(156,809)	(149,291)
	2,052,031	1,856,350
Total share of retained earnings of associate:		
Unrealised	(33,692)	(33,069)
Total Group retained earnings	2,018,339	1,823,281

B7. Status of Corporate Proposals Announced and Pending Completion

Joint Venture

On 20 September 2016, the Group announced that it had entered into a joint venture agreement with Sunstone Development Co., Ltd, a company incorporated in China whereby the Group has agreed to participate in the establishment and operation of a new joint venture company, namely Shandong Sunstone & PMB Carbon Ltd., Co., in China for the primary purpose of manufacturing of pre-baked carbon anodes.

The Group has on 22 January 2018 injected RMB52.8 million (approximately RM32.4 million) being the investment cost for this joint venture and currently, the plant construction is in progress.

Save as above, there were no corporate proposals announced but pending completion during the financial quarter.

NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

B8. Group borrowings and debt securities as at 30 June 2018

	Secured (RM'000)	Unsecured (RM'000)	Total (RM'000)
Long term	530,148	1,592,192	2,122,340
Short term	687,095	476,330	1,163,425
	1,217,243	2,068,522	3,285,765

Borrowings that are denominated in foreign currencies amounting to RM3,021 million are as follow: -

Currency		As at 30.06.2018 million
US Dollar	USD	639
Renminbi	RMB	528
Pound Sterling	GBP	22

B9. Derivative Financial Instruments

(a) Details of derivative financial instruments

Details of derivative financial instrument that are outstanding as at 30 June 2018 are as follows:

	Nominal value RM'000	Fair value assets/(liabilities) RM'000
Commodity swaps		
- Less than 1 year	2,572,505	(141,564)
- 1 year to 3 years	2,952,298	(221,737)
- More than 3 years	-	-
	5,524,803	(363,301)
Forward exchange contracts		
- Less than 1 year	1,052,645	70,201
- 1 year to 3 years	-	-
- More than 3 years	-	-
	1,052,645	70,201

The Group entered into commodity swaps to hedge its highly probable forecast physical alumimium delivery that are expected to occur at various dates in the future. The commodity swaps have maturity dates which match the expected occurrence of these transactions.

The Group entered into the forward exchange contracts to hedge its highly probable forecast transactions denominated in foreign currency expected to occur in the future. Such contracts have maturity dates that match the expected occurrence of these transactions.

These financial instruments are stated at fair value based on the financial institutions' quote.

B9. Derivative Financial Instruments *(cont'd)*

(a) Details of derivative financial instruments *(cont'd)*

All the derivatives were contracted with creditworthy financial institutions to mitigate the credit risk, market risk and liquidity risk associated with the derivatives.

There is no cash requirement for these derivatives other than the repayment obligation for the bank borrowings.

There have been no changes made to the accounting polices associated with those derivatives since the end of the previous financial year ended 31 December 2017.

(b) Fair value changes in financial liabilities

The gain arising from fair value changes of financial liabilities for the current quarter and financial period-to-date are as follows:-

Type of financial liabilities	Basis of fair value measurement	Reason for gain	Fair value gain/(loss)	
			Current quarter 30.06.2018 RM'000	Current period-to-date 30.06.2018 RM'000
Commodity swaps	Difference between the commodity swaps contracted price and the market forward price	Commodity price differential between the contracted price and market forward price which have moved in favour/(not in favour) of the Group	(127,124)	376,930
Forward exchange contracts	Difference between the contracted foreign exchange rates and the market forward rate	Foreign exchange rate differential between the contracted rate and the market forward rate which have moved in favour of the Group	(108,489)	(93,122)
Total			(235,613)	283,808

NOTES TO THE QUARTERLY REPORT
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B10. Material Litigation

The Company had on 17 February 2014 announced that the Company has not reached an acceptable agreement with its insurers on the claims arising from the power outage incident at PMS's smelting plant in Mukah, Sarawak and accordingly, has on the same date served to the lead insurer, a Writ of Summon and Statement of Claim filed vide Kuala Lumpur High Court ("Court") in respect of a suit commenced by PMS through its solicitors ("Suit").

For the financial year ended 2013, PMS has provided an estimated RM90 million for both operating losses and assets written off. No accrual of insurance claim has been made in the Group income statement for the financial year ended 31 December 2013.

On 12 June 2014, the Court allowed Etiqa's application for stay of proceeding for reference of the matter to Arbitration.

Subsequently, PMS filed an appeal to the Court of Appeal against the High Court's decision in allowing the said application for a stay of proceedings pending arbitration. The Court of Appeal dismissed PMS' appeal on 30 October 2014. Subsequently, PMS filed the motion for Leave to Appeal to the Federal Court on 28 November 2014. The Federal Court granted PMS Leave to Appeal on 26 March 2015. After hearing the Appeal, the Federal Court had on 15 August 2016 upheld the decision of the High Court and Court of Appeal which allowed Etiqa's application for stay of the court proceeding pending reference of the matter to arbitration.

Subsequently, PMS has on 24 November 2016 issued a Notice of Arbitration to Etiqa for commencement of the Arbitration and has on 20 January 2017 made a written request to the Director of Kuala Lumpur Regional Centre of Arbitration ("KLRCA") for registration and commencement of the Arbitration.

Therefore, PMS's claim against Etiqa is for, inter alia, an indemnity in respect of its losses and damages arising from the power outage incident at PMS's smelting plant in Mukah, Sarawak.

NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

B11. Dividend

The Board of Directors has approved a second interim single tier dividend of 1.5 sen per ordinary share, approximate of RM58,037,000 for the financial period ended 30 June 2018.

The Book Closure and Payment Dates for the aforesaid dividend are 4 September 2018 and 19 September 2018 respectively.

B12. Earnings per ordinary share

(a) Basic earnings per share

	2nd Quarter 6 months ended		Period-to-date 6 months ended	
	30.06.18	**30.06.17**	**30.06.18**	**30.06.17**
Profit attributable to shareholders (RM'000)	160,603	150,168	311,080	298,217
Weighted average number of ordinary shares ('000)	3,868,061	3,736,214	3,864,207	3,719,219
Basic earnings per share (sen)	4.15	4.02	8.05	8.02
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NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

B12. Earnings per ordinary share-*cont'd*

(b) Diluted earnings per share

	2nd Quarter 3 months ended		Period-to-date 6 months ended	
	30.06.18	**30.06.17**	**30.06.18**	**30.06.17**
Profit attributable to shareholders (RM'000)	160,603	150,168	311,080	298,217
Weighted average number of ordinary shares ('000)	3,868,061	3,736,214	3,864,207	3,719,219
Warrants C ('000)	156,813	257,167	156,813	257,167
	4,024,874	3,993,381	4,021,020	3,976,386
Diluted earnings per share (sen)	3.99	3.76	7.74	7.50

NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

B13. Note to the Condensed Consolidated Income Statement

Profit before tax is arrived at after charging/(crediting) the following items:

	Current Quarter RM'000	Current Financial Period-To-Date RM'000
Interest income	(1,526)	(2,589)
Other income including investment income	-	-
Interest expense	48,910	93,305
Depreciation and amortisation	98,671	197,895
Provision for and write off of trade receivables	-	-
Provision for and write off of inventories	-	-
(Gain) or loss on disposal of quoted or unquoted investment or properties	-	-
Impairment of assets	-	-
Foreign exchange (gain)/loss	14,048	5,212
(Gain) or loss on derivatives	64,304	83,775
Property, plant and equipment written off	4,343	10,363
Exceptional item	-	-

B14. Comparative figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.

On behalf of the Board

Tan Sri Dato' Koon Poh Keong
Group Chief Executive Officer
15 August 2018