

METROD HOLDINGS BERHAD (916531-A)

Interim report for the first quarter ended 31 March 2019.

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 2018. 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 2018.

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 2018, 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 2019:-

Description	Effective for annual periods beginning on or after
• Amendment to MFRS 9 "Prepayment Features with negative compensation"	1 January 2019
• MFRS 16 Leases	1 January 2019
• Amendments to MFRS 128 "Long-term Interests in Associates and Joint Ventures"	1 January 2019
• Amendments to MFRS 112 'Income Taxes'	1 January 2019
• Amendments to MFRS 123 'Borrowing Costs'	1 January 2019
• Amendments to MFRS 119 'Plan amendment, curtailment or settlement'	1 January 2019
• IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019

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:

MFRS 16 Leases

MFRS 16 eliminates the distinction between finance and operating leases. All leases will be brought onto the statement of financial position except for short-term and low value asset leases. On the adoption of this standard, the Group has capitalized its rented forklifts on the statements of financial position by recognizing them as 'right-of-use' assets and their corresponding lease liabilities for the present value for future lease payments.

On the date of initial recognition, the Group applied the simplified transition approach and did not restate comparative amounts for the periods prior to first adoption. Right-of-use assets were measured on transition as if the new rules had always been applied.

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	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • Amendments to References to the Conceptual Framework in MFRS Standards” 	1 January 2020
<ul style="list-style-type: none"> • Amendments to MFRS 3 – Definition of a Business 	1 January 2020
<ul style="list-style-type: none"> • Definition of Material (Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors) 	1 January 2020

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 2018 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 2019.

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 2019				
Revenue				
External	638,387	25,888	0	664,275
Inter segment revenue	0	0	0	0
Total revenue	<u>638,387</u>	<u>25,888</u>	<u>0</u>	<u>664,275</u>
Results				
Segment results	7,440	9,170	(1,130)	15,480
Finance costs				(9,443)
Tax expense				(382)
Net profit for the financial period				<u>5,655</u>
As at 31 March 2019				
Net assets				
Segment assets	1,009,992	452,436	5,472	1,467,900
Segment liabilities	760,736	307,929	(97,556)	971,109
Other Information				
- Depreciation	3,054	3,025	0	6,079
- Capital expenditure	10,823	1,203	0	12,026
- Interest income	(1,602)	(203)	0	(1,805)
- Interest expense	5,518	5,293	(1,368)	9,443
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)
				<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

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 2018.

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 2019, 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 2019 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	1,300
• Authorised but not contracted for	8,000
Total :	9,300

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		
	31/03/2019	31/03/2018			31/03/2019	31/03/2018		
	RM'000	RM'000			RM'000	RM'000		
Revenue	664,275	671,605	-7,330	-1%	664,275	671,605	-7,330	-1%
Profit before interest and tax	15,480	14,952	528	4%	15,480	14,952	528	4%
Profit before tax	6,037	8,259	-2,222	-27%	6,037	8,259	-2,222	-27%
Profit after tax	5,655	7,749	-2,094	-27%	5,655	7,749	-2,094	-27%
Profit for the financial period attributable to :								
- Owners of the Company	3,756	5,732	-1,976	-34%	3,756	5,732	-1,976	-34%
- Non-controlling interest	1,899	2,017	-118	-6%	1,899	2,017	-118	-6%

Group registered a higher EBITDA of RM19.754 million for the current quarter as compared to previous year's corresponding quarter EBITDA of RM17.760 million. Pre-tax profit of RM6.037 million for the current quarter was lower as compared to previous year's corresponding quarter pre-tax profit of RM8.259 million mainly due to interest and depreciation of the new continuous cast copper rod plant which was commissioned in December 2018. The production is being ramped up and quality is being stabilised. Hospitality business performed on par with the previous year's corresponding period.

Pre-tax profit for the current quarter includes net positive impact of RM0.796 million arising from fair value gain on foreign exchange derivatives and exchange translation loss on the investment in Compulsory Convertible Debenture (CCD) of a subsidiary, as compared to a net positive impact of RM4.452 million in previous year's corresponding period.

Revenue for the quarter was marginally lower as compared to previous year's corresponding period mainly due to lower copper prices despite higher sales volumes.

Demand for copper products in Malaysia has softened during the current quarter though export markets 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 occupancy and better average room revenue. Closure of a competitive property also helped in diversion of some 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		
	31/03/2019	31/12/2018	Change	Change
	RM'000	RM'000	RM'000	%
Revenue	664,275	713,104	-48,829	-7%
Profit before interest and tax	15,480	19,245	-3,765	-20%
Profit before tax	6,037	11,351	-5,314	-47%
Profit after tax	5,655	11,652	-5,997	-51%
Profit for the financial period attributable to :				
- Owners of the Company	3,756	10,454	-6,698	-64%
- Non-controlling interest	1,899	1,198	701	59%

The Group reported a lower pre-tax profit for the quarter of RM6.037 million as compared to preceding quarter's pre-tax profit of RM11.351 million due to the impact of interest and depreciation of the new continuous cast copper rod plant which was commissioned in December 2018. Besides, the preceding quarter's pre-tax profit was higher mainly due to exchange translation adjustments.

16) Current Year Prospects

The Malaysian economy is expected to grow at a reasonable pace. Government is reviewing various policies to support the manufacturing industry and business in general which is expected to boost the industry. Ringgit has been relatively volatile in line with several other currencies. These together with the continuing and heightened potential impact of trade war between US and China and uncertainty in the UK and EU due to Brexit together with demonetisation and GST in India is also likely to impact exports. Directorate General of Trade Remedies (DGTR) under Ministry of Commerce, Government of India has initiated an anti-subsidy investigation for the export of copper rod and wires from Malaysia, Indonesia, Thailand and Vietnam. Metrod has submitted all the details together with its defense duly supported by reply from MITI. In an unlikely event of any imposition of duty, it might adversely impact the export sales to India.

The Group has completed a major capacity expansion during December 2018 continuous cast copper rod. The production and quality are being stabilized. It is expected to yield lower operating costs though there will be interest and depreciation of new capex.

Competition across various markets 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 the hospitality business for the year is expected to be positive. Industry experts are expecting an overall growth in the tourism industry and the hospitality sector during the year.

Subject to above, the Board expects the performance of the Group for the financial year 2019 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 31/03/2019 RM'000	Comparative Quarter 31/03/2018 RM'000	Current year YTD 31/03/2019 RM'000	Comparative YTD 31/03/2018 RM'000
In respect of current period				
- Income tax	134	283	134	283
- Deferred tax	248	227	248	227
Total	382	510	382	510

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

19) Corporate proposals (status as at 21 May 2019)

There are no corporate proposals announced but not completed as at 21 May 2019.

20) Group Borrowings and Debt Securities

Group borrowings as at 31 March 2019 are as follows:-

As at quarter ended 31 March 2019

		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	4,395	17,954	3,000	12,255	7,395	30,209
Term Loan	USD	18,411	75,622	1,478	6,070	19,889	81,692
Term Loan	INR	670,153	39,586	64,367	3,800	734,521	43,386
Unsecured							
Term Loan	RM	0	53,473	0	0	0	53,473
Foreign Currency Trade Loan	USD	0	0	151,309	618,099	151,309	618,099
Compulsorily Convertible Debenture	INR	1,227,450	72,505			1,227,450	72,505
Total			259,140		640,224		899,364

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

21) Material litigation

As on 21 May 2019, 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 31/03/2019	Comparative Year Quarter 31/03/2018	Current Year To Date 31/03/2019	Comparative Year To Date 31/03/2018
Basic				
Net profit for the period attributable to Owners of the Company (RM'000)	3,756	5,732	3,756	5,732
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	3.13	4.78	3.13	4.78

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 RM4,329,000 in debit (31.3.2018: RM15,704,000 in debit) 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 31/03/2019	Comparative Year Quarter 31/03/2018	Current Year To Date 31/03/2019	Comparative Year To Date 31/03/2018
	RM'000	RM'000	RM'000	RM'000
Interest income	(1,805)	(1,525)	(1,805)	(1,525)
Other income	(340)	(248)	(340)	(248)
Interest expense	9,443	6,693	9,443	6,693
Depreciation and amortisation	6,079	4,333	6,079	4,333
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) #	(7,187)	(8,710)	(7,187)	(8,710)
(Gain) / loss on derivatives (net)	(1,062)	(9,641)	(1,062)	(9,641)
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 28 May 2019.