METROD HOLDINGS BERHAD (916531-A)

Interim report for the second quarter ended 30 June 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
• Amendments to References to the Conceptual Framework in MFRS Standards"	1 January 2020
• Amendments to MFRS 3 – Definition of a Business	1 January 2020
• 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 30 June 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 30 June 2019				
Revenue				
External	1,388,150	40,623	0	1,428,773
Inter segment revenue	0	0	0	0
Total revenue	1,388,150	40,623	0	1,428,773
Results				
Segment results	14,012	10,528	109	24,649
Finance costs				(19,764)
Tax expense				(236)
Net profit for the financial period				4,649
As at 30 June 2019				
Net assets				
Segment assets	1,111,582	448,058	13,416	1,573,056
Segment liabilities	862,632	305,383	(92,752)	1,075,263
Other Information				
- Depreciation	6,109	6,130	0	12,239
- Capital expenditure	12,508	1,448	0	13,956
- Interest income	(3,484)	(434)	0	(3,918)
- Interest expense	11,942	10,359	(2,537)	19,764
Financial period ended 30 June 2018				
Revenue				
External	1,352,560	38,816	0	1,391,376
Inter segment revenue	0	0	0	0
Total revenue	1,352,560	38,816	0	1,391,376
Results				
Segment results	21,453	9,440	(7,394)	23,499
Finance costs				(14,769)
Tax expense				(2,880)
				5,850
As at 30 June 2018				
Net assets				
Segment assets	1,031,103	448,834	4,947	1,484,884
Segment liabilities	783,068	304,298	(100,090)	987,276
Other Information				
- Depreciation	2,354	6,208	0	8,562
- Capital expenditure	17,477	1,140	0	18,617
- Interest income	(2,962)	(429)	0	(3,391)
- Interest expense	7,056	11,237	(3,524)	14,769

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 second quarter ended 30 June 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 30 June 2019 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	2,700
• Authorised but not contracted for	6,700
Total :	**9,400**

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

	Individual Period (2nd quarter)				Cumulative Period			
	Current Year Quarter	Preceding year corresponding quarter			Current Year to Date	Preceding year corresponding period		
	30/06/2019	30/06/2018	Change	Change	30/06/2019	30/06/2018	30/06/2018	Change
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	764,498	719,771	44,727	6%	1,428,773	1,391,376	37,397	3%
E.B.I.T.D.A.	13,216	10,910	2,306	21%	32,970	28,670	4,300	15%
Profit before interest and tax	9,169	8,547	622	7%	24,649	23,499	1,150	5%
Profit before tax	-1,152	471	-1,623	-345%	4,885	8,730	-3,845	-44%
Profit after tax	-1,006	-1,899	893	-47%	4,649	5,850	-1,201	-21%
Profit for the financial period attributable to :								
- Owners of the Company	810	998	-188	-19%	4,566	6,730	-2,164	-32%
- Non-controlling interest	-1,816	-2,897	1,081	-37%	83	-880	963	-109%

For the second quarter under review, Group registered a higher Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) of RM13.216 million as compared to previous year corresponding period EBITDA of RM10.910 million.

However, the Group registered a pre-tax loss of RM1.152 million for the current quarter (cumulative pre-tax profit of RM4.885 million) as compared to previous year's corresponding quarter pre-tax profit of RM0.471 million (cumulative pre-tax profit of RM8.730 million) mainly due to higher interest expense and depreciation of the new continuous cast copper rod plant which was commissioned in December 2018. The production is getting stabilized and quality is getting improved. Hospitality business was affected by low season as usual.

Cumulatively, Group registered a higher EBITDA of RM32.970 million as compared to previous year's corresponding period EBITDA of RM28.670 million.

Revenue for the quarter and cumulatively was higher as compared to previous year's corresponding period mainly due to higher sales volumes.

Demand for copper products in Malaysia as well as in certain export markets has started showing signs of slowing down. 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 was stable. Occupancy and average room rates improved over previous year but MICE segment was down.

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**		
	30/06/2019	31/03/2019	Change	Change
	RM'000	RM'000	RM'000	%
Revenue	764,498	664,275	100,223	15%
E.B.I.T.D.A.	13,216	19,754	-6,538	-33%
Profit before interest and tax	9,169	15,480	-6,311	-41%
Profit before tax	-1,152	6,037	-7,189	-119%
Profit after tax	-1,006	5,655	-6,661	-118%
Profit for the financial period attributable to :				
- Owners of the Company	810	3,756	-2,946	-78%
- Non-controlling interest	-1,816	1,899	-3,715	-196%

The Group reported a pre-tax loss for the quarter of RM1.152 million as compared to preceding quarter’s pre-tax profit of RM6.037 million mainly due to low season for the hospitality business as usual.

16) Current Year Prospects

Domestic demand as well as certain export markets has started to show the signs of slow down. 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. The investigation is under process. 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 getting improved. 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.

Hospitality business in the current year is expected to remain stable with a decent growth over last year though the risk of foreign tourists remains due to external factors such as exchange rate change & Brexit.

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 30/06/2018 RM'000	Comparative Quarter 30/06/2018 RM'000	**Current year YTD 30/06/2019 RM'000**	Comparative YTD 30/06/2018 RM'000
In respect of current period				
- Income tax	**209**	**389**	**343**	**672**
- Deferred tax	**(355)**	**1,981**	**(107)**	**2,208**
Total	**(146)**	**2,370**	**236**	**2,880**

19) Corporate proposals

There are no corporate proposals announced but not completed as at 19 August 2019.

20) Group Borrowings and Debt Securities

Group borrowings as at 30 June 2019 are as follows:-

As at quarter ended 30 June 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	2,916	12,054	3,000	12,400	5,916	24,454
Term Loan	USD	18,022	74,198	1,495	6,153	19,517	80,351
Term Loan	INR	684,213	40,974	81,869	4,903	766,082	45,877
Unsecured							
Term Loan	RM	0	67,875	0	0	0	67,875
Foreign Currency Trade Loan	USD	0	0	160,855	664,894	160,855	664,894
Compulsorily Convertible Debenture	INR	1,227,450	73,506			1,227,450	73,506
Total			**268,607**		**688,350**		**956,957**

As at quarter ended 30 June 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	5,826	23,448	3,000	12,113	8,826	35,561
Term Loan	INR	2,045,906	120,682	160,000	9,438	2,205,906	130,120
Unsecured							
Term Loan	RM	0	25,611	0	0	0	25,611
Foreign Currency Trade Loan	USD	0	0	148,029	597,666	148,029	597,666
Compulsorily Convertible Debenture	INR	1,227,450	72,404			1,227,450	72,404
Total			**242,145**		**619,217**		**861,362**

21) Material litigation

As on 19 August 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 30/06/2019	Comparative Year Quarter 30/06/2018	**Current Year To Date 30/06/2019**	Comparative Year To Date 30/06/2018
Basic Net profit for the period attributable to Owners of the Company (RM'000)	**810**	**998**	**4,566**	**6,730**
Weighted average number of ordinary shares in issue ('000)	**120,000**	**120,000**	**120,000**	**120,000**
Basic earnings per share (sen)	**0.68**	**0.83**	**3.81**	**5.61**

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 RM3,572,000 in debit (30.6.2018: RM9,858,000 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 30/06/2019	Comparative Year Quarter 30/06/2018	**Current Year To Date 30/06/2019**	Comparative Year To Date 30/06/2018
	RM'000	RM'000	**RM'000**	RM'000
Interest income	**(2,113)**	(1,866)	**(3,918)**	(3,391)
Other income	**(263)**	(182)	**(603)**	(430)
Interest expense	**10,321**	8,076	**19,764**	14,769
Depreciation and amortisation	**6,160**	4,229	**12,239**	8,562
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) #	**3,921**	16,999	**(3,266)**	8,288
(Gain) / loss on derivatives (net)	**757**	5,841	**(305)**	(3,799)
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 26 August 2019.