

## METROD HOLDINGS BERHAD (916531-A)

Interim report for the third quarter ended 30 September 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:-

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

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

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 12 July 2019 (previous year 13 July 2018) in respect of the financial year ended 31 December 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
<b>Financial period ended</b>				
<b>30 September 2019</b>				
<b>Revenue</b>				
External	2,209,404	50,589	0	2,259,993
Inter segment revenue	0	0	0	0
Total revenue	<u>2,209,404</u>	<u>50,589</u>	<u>0</u>	<u>2,259,993</u>
<b>Results</b>				
Segment results	25,307	7,555	(685)	32,177
Finance costs				(31,826)
Tax expense				(97)
Net profit for the financial period				<u>254</u>
<b>As at 30 September 2019</b>				
<b>Net assets</b>				
Segment assets	1,093,602	438,724	6,005	1,538,331
Segment liabilities	842,029	305,786	(93,952)	1,053,863
<b>Other Information</b>				
- Depreciation	8,664	8,936	0	17,600
- Capital expenditure	13,370	1,997	0	15,367
- Interest income	(7,015)	(500)	0	(7,515)
- Interest expense	18,740	15,539	(2,453)	31,826
<b>Financial period ended</b>				
<b>30 September 2018</b>				
<b>Revenue</b>				
External	2,103,526	50,865	0	2,154,391
Inter segment revenue	0	0	0	0
Total revenue	<u>2,103,526</u>	<u>50,865</u>	<u>0</u>	<u>2,154,391</u>
<b>Results</b>				
Segment results	22,181	9,109	(10,326)	20,964
Finance costs				(23,758)
Tax expense				(2,665)
				<u>(5,459)</u>
<b>As at 30 September 2018</b>				
<b>Net assets</b>				
Segment assets	967,062	431,036	4,919	1,403,017
Segment liabilities	722,828	297,711	(91,722)	928,767
<b>Other Information</b>				
- Depreciation	3,532	9,145	0	12,677
- Capital expenditure	73,125	1,712	0	74,837
- Interest income	(4,424)	(571)	0	(4,995)
- Interest expense	11,583	17,490	(5,315)	23,758

**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 third quarter ended 30 September 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 September 2019 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	1,100
• Authorised but not contracted for	6,700
<b>Total :</b>	<b>7,800</b>

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

	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		
	30/09/2019	30/09/2018			30/09/2019	30/09/2018		
	RM'000	RM'000			RM'000	RM'000		
Revenue	831,220	763,015	68,205	9%	2,259,993	2,154,391	105,602	5%
E.B.I.T.D.A.	9,292	-24	9,316	38516%	42,262	28,646	13,616	48%
Profit before interest and tax	7,528	-2,535	10,063	397%	32,177	20,964	11,213	53%
Profit before tax	-4,534	-11,524	6,990	61%	351	-2,794	3,145	113%
Profit after tax	-4,395	-11,309	6,914	61%	254	-5,459	5,713	105%
Profit for the financial period attributable to :								
- Owners of the Company	-401	-8,084	7,683	95%	4,165	-1,354	5,519	408%
- Non-controlling interest	-3,994	-3,225	-769	-24%	-3,911	-4,105	194	5%

Cumulatively, Group registered a higher EBITDA of RM42.262 million as compared to previous year's corresponding period EBITDA of RM28.646 million. For the third quarter under review, Group registered a higher Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) of RM9.292 million as compared to previous year corresponding period negative EBITDA of RM0.024 million.

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

The Group also registered a lower pre-tax loss of RM4.534 million for the current quarter (cumulative pre-tax profit of RM0.351 million) as compared to previous year's corresponding quarter pre-tax loss of RM11.527 million (cumulative pre-tax loss of RM2.794 million). Out of above, Profit/(loss) for the financial period attributable to Owners of the Company for the current quarter and year was negative RM0.4 million and RM4.165 million respectively. Current year period's results were impacted mainly due to higher interest expense and depreciation of the new continuous cast copper rod plant which was commissioned in December 2018 while previous year's results include a net negative impact of RM7.770m arising from exchange translation loss on investment in CCD of a subsidiary and fair value gain on foreign currency derivatives. The production is stabilizing and quality is improving. Performance of the Hospitality business during the quarter was hit by heavy rains in the region, followed by a cyclone which impacted airline traffic and flow of tourists. Slowing economic growth in the country has also hit the leisure business hard. Third quarter is typically a low season period.

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.

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		
	30/09/2019	30/06/2019	Change	Change
	RM'000	RM'000	RM'000	%
Revenue	831,220	764,498	66,722	9%
E.B.I.T.D.A.	9,292	13,216	-3,924	-30%
Profit before interest and tax	7,528	9,169	-1,641	-18%
Loss before tax	-4,534	-1,152	-3,382	-294%
Loss after tax	-4,395	-1,006	-3,389	-337%
Profit/(loss) for the financial period attributable to :				
- Owners of the Company	-401	810	-1,211	-150%
- Non-controlling interest	-3,994	-1,816	-2,178	-120%

The Group reported a pre-tax loss for the quarter of RM4.534 million as compared to preceding quarter's pre-tax loss of RM1.152 million mainly due to low season for the hospitality business as usual.

## 16) Current Year Prospects

Domestic sentiment continues to remain weak in absence of any major projects both in the Government and private sectors. Demand in 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 recently concluded its anti-subsidy investigation for the export of copper wires from Malaysia, Indonesia, Thailand and Vietnam recommending Countervailing duty (CVD) to be imposed on imports into India from these countries including on Metrod though albeit at a lower rate. This is likely to adversely impact the export sales to India. We are evaluating various options including legal.

The production and quality from new continuous cast copper rod plant have improved substantially. It is expected to yield lower operating costs though there is interest and depreciation of new capex.

Imposition of CVD is likely to further increase the competition in the region. 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.

Performance of the hospitality business in 2019, is likely to be impacted by slowing down of the Indian economy. However reduction in GST rates are expected to be positive for the industry. Overall performance of the hospitality business is expected to be positive though challenging.

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**

	<b>Current year Quarter 30/09/2019 RM'000</b>	<b>Comparative Quarter 30/09/2018 RM'000</b>	<b>Current year YTD 30/09/2019 RM'000</b>	<b>Comparative YTD 30/09/2018 RM'000</b>
In respect of current period				
- Income tax	127	(89)	470	583
- Deferred tax	(266)	(312)	(373)	1,896
Subtotal	(139)	(401)	97	2,479
In respect of prior years				
- Income tax	0	186	0	186
- Deferred tax	0	0	0	0
Subtotal	0	186	0	186
Total	(139)	(215)	97	2,665

**19) Corporate proposals**

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

**20) Group Borrowings and Debt Securities**

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

**As at quarter ended 30 September 2019**

		<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	2,933	12,289	3,000	12,570	5,933	24,859
Term Loan	USD	24,707	103,056	2,079	8,568	26,786	111,624
Term Loan	INR	207,997	12,321	52,882	3,132	260,879	15,453
Bank Overdraft	INR	0	0	54,825	3,248	54,825	3,248
<b>Unsecured</b>							
Term Loan	RM	0	72,994	0	0	0	72,994
Foreign Currency Trade Loan	USD	0	0	170,890	716,030	170,890	716,030
Compulsorily Convertible Debenture	INR	1,227,450	72,708			1,227,450	72,708
<b>Total</b>			<b>273,368</b>		<b>743,548</b>		<b>1,016,916</b>

**As at quarter ended 30 September 2018**

		Long Term		Short Term		Total Borrowings	
		Foreign Currency '000	RM'000	Foreign Currency '000	RM'000	Foreign Currency '000	RM'000
<b>Secured</b>							
Term Loan	USD	5,850	24,202	3,000	12,410	8,850	36,612
Term Loan	INR	2,034,756	115,964	160,000	9,119	2,194,756	125,083
<b>Unsecured</b>							
Term Loan	RM	0	47,446	0	0	0	47,446
Foreign Currency Trade Loan	USD	0	0	119,960	496,212	119,960	496,212
Compulsorily Convertible Debenture	INR	1,227,450	69,955			1,227,450	69,955
<b>Total</b>			<b>257,567</b>		<b>517,741</b>		<b>775,308</b>

**21) Material litigation**

As on 28 November 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. Reference is made to announcement with respect to a winding-up petition ("Petition") served by SQA Builders Sdn Bhd ("Petitioner") on 26 July 2019 claiming an amount of RM1,179,101.30 due from Metrod (Malaysia) Sdn Bhd (MMSB). MMSB has taken necessary actions to dismiss and strike off the Petition for winding up. Relevant announcements were made in this regard to Bursa Malaysia on 26 August 2019, 30 August 2019, 17 October 2019 and 25 November 2019. The hearing of the Notice of Motion to strike out the Petitioner's Winding-Up Petition has been adjourned to 9 December 2019. The case management for the Winding Up Petition has also been fixed on the same date.

The Group does not expect any financial and operational impact arising from the filing of the Petition. Save for legal fees and disbursements involved to challenge and oppose the Petition, the Group is not expected to incur losses arising from the winding up proceedings.

**22) Earnings per share**

	Current Year Quarter 30/09/2019	Comparative Year Quarter 30/09/2018	Current Year To Date 30/09/2019	Comparative Year To Date 30/09/2018
<b>Basic</b>				
Net profit for the period attributable to Owners of the Company (RM'000)	(401)	(8,084)	4,165	(1,354)
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	(0.33)	(6.74)	3.47	(1.13)

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 RM3,785,000 in debit (30.9.2018: RM6,082,000 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:

	<b>Current Year Quarter 30/09/2019</b>	Comparative Year Quarter 30/09/2018	<b>Current Year To Date 30/06/2019</b>	Comparative Year To Date 30/09/2018
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Interest income	<b>(3,597)</b>	(1,604)	<b>(7,515)</b>	(4,995)
Other income	<b>(833)</b>	(783)	<b>(1,436)</b>	(1,213)
Interest expense	<b>12,062</b>	8,989	<b>31,826</b>	23,758
Depreciation and amortisation	<b>5,361</b>	4,115	<b>17,600</b>	12,677
Provision for and write off of receivables	<b>0</b>	0	<b>0</b>	0
Provision for and write off of inventories	<b>0</b>	0	<b>0</b>	0
(Gain)/ loss on disposal of quoted or unquoted investments or properties	<b>0</b>	0	<b>0</b>	0
Impairment of assets	<b>0</b>	0	<b>0</b>	0
Foreign exchange (gain)/loss (net) #	<b>10,355</b>	9,240	<b>7,090</b>	17,528
(Gain) / loss on derivatives (net)	<b>(200)</b>	3,398	<b>(505)</b>	(401)

# 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 November 2019.