

METROD HOLDINGS BERHAD (916531-A)

Interim report for the fourth quarter ended 31 December 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 capitalised its rented forklifts on the statements of financial position by recognising 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 December 2019.

The Directors now recommend the payment of a final dividend of 6 sen per share on 120,000,004 ordinary shares amounting to RM 7,200,000 which, subject to the approval of members at the forthcoming Annual General Meeting of the Company will be paid on 10 July 2020 to shareholders registered on the Company’s Register of Members at the close of business on 26 June 2020.

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 December 2019				
Revenue				
External	2,839,465	72,874	0	2,912,339
Inter segment revenue	0	0	0	0
Total revenue	<u>2,839,465</u>	<u>72,874</u>	<u>0</u>	<u>2,912,339</u>
Results				
Segment results	35,166	14,604	(3,729)	46,041
Finance costs				(41,123)
Tax expense				<u>(2,798)</u>
Net profit for the financial period				<u><u>2,120</u></u>
As at 31 December 2019				
Net assets				
Segment assets	1,263,100	435,103	12,943	1,711,146
Segment liabilities	1,011,405	305,513	(85,592)	1,231,326
Other Information				
Depreciation	12,488	12,245	0	24,733
Capital expenditure	19,311	10,323	0	29,634
Interest income	(7,110)	(678)	0	(7,788)
Interest expense	25,796	21,545	(6,218)	41,123
Financial period ended 31 December 2018				
Revenue				
External	2,792,453	75,042	0	2,867,495
Inter segment revenue	0	0	0	0
Total revenue	<u>2,792,453</u>	<u>75,042</u>	<u>0</u>	<u>2,867,495</u>
Results				
Segment results	31,688	16,230	(7,709)	40,209
Finance costs				(31,652)
Tax expense				<u>(2,364)</u>
Net profit for the financial period				<u><u>6,193</u></u>
As at 31 December 2018				
Net assets				
Segment assets	977,624	454,230	13,425	1,445,279
Segment liabilities	729,024	313,171	(88,365)	953,830
Other Information				
Depreciation	5,284	12,458	0	17,742
Capital expenditure	97,557	8,551	0	106,108
Interest income	(6,293)	(717)	0	(7,010)
Interest expense	16,097	22,165	(6,610)	31,652

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Copper business	Hospitality business	Group
	RM	RM	RM
<u>As at 31 December 2019</u>	RM'000	RM'000	RM'000
Sale of copper products	2,839,465	0	2,839,465
Room rentals	0	51,299	51,299
Food and beverages	0	17,571	17,571
Others	0	4,004	4,004
	2,839,465	72,874	2,912,339
<u>Geographical market</u>			
Malaysia	1,005,755	0	1,005,755
Asia Pacific	1,833,710	72,874	1,906,584
	2,839,465	72,874	2,912,339
<u>Timing of revenue recognition</u>			
At a point in time	2,839,465	21,575	2,861,040
Over-time	0	51,299	51,299
	2,839,465	72,874	2,912,339

	Copper business	Hospitality business	Group
	RM	RM	RM
<u>As at 31 December 2018</u>	RM'000	RM'000	RM'000
Sale of copper products	2,792,453	0	2,792,453
Room rentals	0	52,356	52,356
Food and beverages	0	18,558	18,558
Others	0	4,128	4,128
	2,792,453	75,042	2,867,495
<u>Geographical market</u>			
Malaysia	1,179,589	0	1,179,589
Asia Pacific	1,612,864	75,042	1,687,906
	2,792,453	75,042	2,867,495
<u>Timing of revenue recognition</u>			
At a point in time	2,792,453	22,686	2,815,139
Over-time	0	52,356	52,356
	2,792,453	75,042	2,867,495

The Group's non-current assets excluding deferred tax assets by geographical location are as follows:

	2019	2018
	RM	RM
Malaysia**	164,312	157,480
India	415,291	430,543
	579,603	588,023

** Company's home country

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 fourth quarter ended 31 December 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 December 2019 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	6,400
• Authorised but not contracted for	9,800
Total :	16,200

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

	Individual Period (4th quarter)		Change	Change	Cumulative Period		Change	Change
	Current Year Quarter	Preceding year corresponding quarter			Current Year to Date	Preceding year corresponding period		
	31/12/2019	31/12/2018			31/12/2019	31/12/2018		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	652,346	713,104	-60,758	-9%	2,912,339	2,867,495	44,844	2%
E.B.I.T.D.A.	20,724	22,295	-1,571	-7%	62,986	50,941	12,045	24%
Profit before interest and tax	13,864	19,245	-5,381	-28%	46,041	40,209	5,832	15%
Profit before tax	4,567	11,351	-6,784	-60%	4,918	8,557	-3,639	-43%
Profit after tax	1,866	11,652	-9,786	-84%	2,120	6,193	-4,073	-66%
Profit for the financial period attributable to :								
- Owners of the Company	1,355	10,454	-9,099	-87%	5,520	9,100	-3,580	-39%
- Non-controlling interest	511	1,198	-687	-57%	-3,400	-2,907	-493	17%

Cumulatively, Group registered a higher EBITDA of RM62.986 million as compared to previous year's EBITDA of RM50.941 million. For the fourth quarter under review, Group registered a marginally lower EBITDA of RM20.724 million as compared to previous year corresponding period EBITDA of RM22.295 million.

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

The Group registered a lower pre-tax profit of RM4.918 million for the year (pre-tax profit of RM4.567 million for the current quarter) as compared to previous year's pre-tax profit of RM 8.557 million (previous year's corresponding quarter pre-tax profit of RM11.351 million). Out of above, profit for the financial period attributable to Owners of the Company for the year was RM5.520 million. Current year'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.

Demand for copper products in Malaysia as well as in certain export markets had 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. Recommendation of import duty by Directorate General of Trade Remedies (DGTR) on export to India impacted the volumes in last quarter. The production and quality of continuous cast copper rod plant has stabilised to a large extent.

During the quarter direct flights to Goa out of Europe were hit as a result of the collapse of a large chartered flight operator based in UK. Consequently Hospitality Business performance in the fourth quarter was negatively impacted. However, part of the loss was compensated by higher inflow of repeated guests.

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		
	31/12/2019	30/09/2019	Change	Change
	RM'000	RM'000	RM'000	%
Revenue	652,346	831,220	-178,874	-22%
E.B.I.T.D.A.	20,724	9,292	11,432	123%
Profit before interest and tax	13,864	7,528	6,336	84%
Profit before tax	4,567	-4,534	9,101	-201%
Profit after tax	1,866	-4,395	6,261	-142%
Profit for the financial period attributable to :				
- Owners of the Company	1,355	-401	1,756	-438%
- Non-controlling interest	511	-3,994	4,505	-113%

The Group reported a pre-tax profit for the quarter of RM4.567 million as compared to preceding quarter's pre-tax loss of RM4.534 million mainly attributable to better performance of Hospitality businesses and exchange translation adjustments.

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. Coronavirus disease (COVID-19) has caused and is likely to cause a significant impact on copper consumption in China leading to major disruptions. These together with the continuing impact of trade war between US and China, Brexit, Demonetisation and GST in India are also likely to impact the demand. Directorate General of Trade Remedies (DGTR) under Ministry of Commerce, Government of India has imposed a Countervailing duty (CVD) for the export of copper wires from Malaysia, Indonesia, Thailand and Vietnam though at a lower rate on the Company. This is likely to adversely impact the export sales to India. The Group is evaluating various options to mitigate its impact including filing an appeal.

The production and quality from new continuous cast copper rod plant has stabilised to a large extent. 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 remain 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 2020, is likely to be impacted negatively by slowing down of the Indian economy. However, authorities are taking steps to boost the growth & consumer spending. Overall performance of the hospitality business is expected to be positive though challenging.

The Group will strive to leverage the new capacity equipped with state-of-the-art technology and build on current performance with a focus on improvement in the operational efficiencies, cost optimization and improved product mix.

In view of the above, the Board expects the performance of the Group for the financial year 2020 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 31/12/2019 RM'000	Comparative Quarter 31/12/2018 RM'000	Current year YTD 31/12/2019 RM'000	Comparative YTD 31/12/2018 RM'000
In respect of current period				
- Income tax	920	1,109	1,390	1,692
- Deferred	(575)	(1410)	(948)	486
Subtotal	345	(301)	442	2,178
In respect of prior years				
- Income tax	(216)	0	(216)	186
- Deferred tax	2,572	0	2,572	0
Subtotal	2,356	0	2,356	186
Total	2,701	(301)	2,798	2,364

Effective tax rate for the year is higher mainly due to certain expenses not deductible for tax purposes and non-recognition of deferred tax assets on the tax losses of a subsidiary.

19) Corporate proposals (status as at 21 February 2020)

There are no corporate proposals announced but not completed as at 21 February 2020.

20) Group Borrowings and Debt Securities

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

As at quarter ended 31 December 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	1,450	5,932	3,000	12,279	4,450	18,211
Term Loan	INR	207,243	11,898	98,371	5,647	305,614	17,545
Term Loan	USD	24,813	102,144	1,433	5,899	26,246	108,043
Unsecured							
Term Loan	RM	0	59,494	0	13,500	0	72,994
Foreign Currency Trade Loan	USD	0	0	191,810	785,079	191,810	785,079
Letter of Credit Discounting	INR	0	0	638,596	36,664	638,596	36,664
Compulsorily Convertible Debenture	INR	1,227,450	70,471			1,227,450	70,471
Total			249,939		859,068		1,109,007

As at quarter ended 31 December 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	4,375	18,098	3,000	12,408	7,375	30,506
Term Loan	INR	1,983,854	117,599	166,573	9,874	2,150,427	127,473
Unsecured							
Term Loan	RM	0	50,471	0	0	0	50,471
Foreign Currency Trade Loan	USD	0	0	119,756	495,310	119,756	495,310
Compulsorily Convertible Debenture	INR	1,227,450	72,761			1,227,450	72,761
Total			258,929		517,592		776,521

21) Material litigation

As on 21 February 2020, 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 had 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. On 20 January 2020 the case was decided in favour of MMSB. The Judge accordingly struck out the petition filed by the Petitioner and also awarded costs to be paid by Petitioner to Metrod as announced to Bursa on 21 January 2020.

22) Earnings per share

	Current Year Quarter 31/12/2019 RM'000	Comparative Year Quarter 31/12/2018 RM'000	Current Year To Date 31/12/2019 RM'000	Comparative Year To Date 31/12/2018 RM'000
Basic				
Net profit for the period attributable to Owners of the Company (RM'000)	1,355	10,454	5,520	9,100
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	1.13	8.71	4.60	7.58

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 RM4,320 in debit (31.12.2018: RM3,273,000 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 31/12/2019	Comparative Year Quarter 31/12/2018	Current Year To Date 31/12/2019	Comparative Year To Date 31/12/2018
	RM'000	RM'000	RM'000	RM'000
Interest income	(273)	(2,015)	(7,788)	(7,010)
Other income	(1,143)	(96)	(2,579)	(1,309)
Interest expense	9,297	7,984	41,123	31,652
Depreciation and amortisation	7,133	5,065	24,733	17,742
Provision for and write off of receivables	0	0	0	0
Provision for and write off of inventories	(14)	(844)	(14)	(844)
(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) #	(7,684)	(2,445)	(594)	15,082
(Gain) / loss on foreign exchange derivatives (net)	(590)	3,643	(1,095)	3,242

Significant 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 February 2020.