

METROD HOLDINGS BERHAD (916531-A)

Interim report for the second quarter ended 30 June 2020.

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 2019. 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 2019.

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 2019, 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 2020:-

- Amendments to MFRS 3: Definition of a Business
- Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform
- Amendments to MFRS 101 and MFRS 108: Definition of Material
- Revised Conceptual Framework for Financial Reporting

The adoption of the above pronouncements did not have any material financial impact on the Group and the Company.

As at the date of authorisation of these interim financial statements, the new and revised MFRSs and amendments to MFRSs which were in issue but not yet effective and not early adopted by the Group are:

Title	Effective date
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 101 <i>Classification of Liabilities as Current or 1 January 2022 Non-current</i>	1 January 2022
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Deferred Assets Between an investor and its Associate or Joint Venture</i>	Deferred

The Group will apply the above MFRSs, Amendments to MFRSs that are applicable when they become effective.

- 2) **Audit qualification of preceding annual financial statements**
The auditors' report for the preceding annual financial statements for the year ended 31 December 2019 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 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				
30 June 2020				
Revenue				
External	784,848	22,732	0	807,580
Inter segment revenue	0	0	0	0
Total revenue	<u>784,848</u>	<u>22,732</u>	<u>0</u>	<u>807,580</u>
Results				
Segment results	2,196	309	(2,380)	125
Finance costs				(17,966)
Tax expense				(489)
Net profit for the financial period				<u>(18,330)</u>
As at 30 June 2020				
Net assets				
Segment assets	1,051,894	419,162	9,660	1,480,716
Segment liabilities	809,471	301,055	(89,823)	1,020,703
Other Information				
- Depreciation	5,273	6,242	0	11,515
- Capital expenditure	2,122	159	0	2,281
- Interest income	(3,626)	(277)	0	(3,903)
- Interest expense	11,666	10,320	(4,020)	17,966
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	<u>1,388,150</u>	<u>40,623</u>	<u>0</u>	<u>1,428,773</u>
Results				
Segment results	14,012	10,528	109	24,649
Finance costs				(19,764)
Tax expense				(236)
				<u>4,649</u>
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

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 2019.

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 30 June 2020, 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 2020 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	6,700
• Authorised but not contracted for	9,400
Total :	16,100

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

Financial review of the current quarter and year to date

	Individual Period (2nd quarter)		Change RM'000	Change %	Cumulative Period		Change RM'000	Change %
	Current Year Quarter	Preceding year corresponding quarter			Current Year to Date	Preceding year corresponding period		
	30/06/2020 RM'000	30/06/2019 RM'000			30/06/2020 RM'000	30/06/2019 RM'000		
Revenue	290,340	764,498	-474,158	-62%	807,580	1,428,773	-621,193	-43%
E.B.I.T.D.A.	52	13,216	-13,164	-100%	7,739	32,970	-25,231	-77%
Profit before depreciation, amortisation, difference in fair value on foreign exchange derivatives and exchange translation on the investment in CCD	-4,893	4,724	-9,617	-204%	1,564	16,044	-14,480	-90%
Profit before tax	-11,849	-1,152	-10,697	929%	-17,841	4,885	-22,726	-465%
Profit after tax	-13,471	-1,006	-12,465	1239%	-18,330	4,649	-22,979	-494%
Profit for the financial period attributable to :								
- Owners of the Company	-6,941	810	-7,751	-957%	-13,426	4,566	-17,992	-394%
- Non-controlling interest	-6,530	-1,816	-4,714	260%	-4,904	83	-4,987	-6008%

Operations of the Group during the second quarter were severely impacted due to lockdown caused by the outbreak of the coronavirus pandemic (COVID-19). During Movement Control Order (“MCO”) implemented by the Malaysian Government in March 2020, it directly caused the suspension of the entire business activity whilst the Group continued to incur the fixed and recurring costs. Though subsequently Metrod was allowed to reopen, most of our customers facilities were only able to be resumed much later. Continuing lockdown in India and ASEAN countries adversely also affected the sales. Also, performance of the hospitality business was severely hit by shut down of the hotel owing to COVID-19 outbreak.

Consequently, revenue for the quarter and cumulatively was significantly lower as compared to previous year’s corresponding period.

Cumulatively, the Group did generate cash profit as stated above under Profit before depreciation, amortization, difference in fair value on foreign exchange derivatives and exchange translation on the investment in CCD.

The Group registered a pre-tax loss of RM11.849 million for the current quarter (cumulative pre-tax loss of RM17.841 million) as compared to previous year’s corresponding quarter pre-tax loss of RM1.152 million (cumulative pre-tax profit of RM4.885 million). Pre-tax loss for the current cumulative period includes net negative

impact of RM7.889 million arising from and fair value loss 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 RM1.080 million in previous year's corresponding cumulative period.

Demand for copper products in Malaysia continued to remain weak during the quarter in absence of any major projects both in the Government and private sectors. Exports to India continued to be negligible due to the imposition of Countervailing duty (CVD) on import of copper wires. 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.

The Group has taken several measures to mitigate the impact of the pandemic to optimize its cost, improve operating efficiencies and manage cash flow.

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	Change RM'000	Change %
	30/06/2020	31/03/2020		
	RM'000	RM'000		
Revenue	290,340	517,240	-226,900	-44%
E.B.I.T.D.A.	52	7,687	-7,635	-99%
Profit before depreciation, amortisation, difference in fair value on foreign exchange derivatives and exchange translation on the investment in CCD	-4,893	6,457	-11,350	-176%
Profit before tax	-11,849	-5,992	-5,857	98%
Profit after tax	-13,471	-4,859	-8,612	177%
Profit for the financial period attributable to :				
- Owners of the Company	-6,941	-6,485	-456	7%
- Non-controlling interest	-6,530	1,626	-8,156	-502%

The Group reported a pre-tax loss for the quarter of RM11.849 million as compared to preceding quarter's pre-tax loss of RM5.992 million as a result of a complete shutdown of the hospitality business and a significant reduction in sales volumes in the copper business segment from suspension of business activities due to the Covid-19 pandemic.

16) Current Year Prospects

The global economy during Q2 has been devastated due to outbreak of the coronavirus pandemic (COVID-19) which has caused severe disruption of economic activity globally including in our relevant markets. This has been further compounded by US-China trade war and geopolitical risks.

Effective January this year, Director 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 has adversely impacted the export sales to India. The Group is implementing strategy to mitigate its impact. Consequently, copper business is facing challenges impacting its financial performance.

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.

Credit, commercial and security risks are expected to remain high due to volatile copper prices and currency and the uncertainties surrounding weak economic sentiment and forecasts. Margins remain under significant pressure. The Group is able to manage the copper and exchange exposure due to its hedging policies.

Hospitality sector has been hit the worst and completely paralysed due to the pandemic. Hotels are expected to open under increased surveillance and stringent hygiene and safety SOPs. However, due to national and international flight curtailment and ban on group events, performance for the year is expected to be very challenging. Significant reduction in fixed costs and resumption of limited domestic business, is expected to result in some positive cash flow for the year.

The global economy has been in uncharted territory with the fallout from the COVID-19 pandemic. Going forward, the headwinds surrounding the Group's business segments persists depending on the longevity of the pandemic in the absence of an effective vaccine and the risks from potential reoccurrences of COVID-19. The Group continues to implement various austerity measures, cost optimisation, improving operational efficiencies and continue to look at various scenarios to stay competitive. The key objective at this moment remains not to lose cash.

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 30/06/2020 RM'000	Comparative Quarter 30/06/2019 RM'000	Current year YTD 30/06/2020 RM'000	Comparative YTD 30/06/2019 RM'000
In respect of current period				
- Income tax	76	209	973	343
- Deferred tax	1,546	(355)	(484)	(107)
Total	1,622	(146)	489	236

Effective tax rate for the period is higher mainly due to unrealised derivative losses not deductible for tax purposes.

19) Corporate proposals (status as at 19 August 2020)

There are no corporate proposals announced but not completed as at 19 August 2020.

20) Group Borrowings and Debt Securities

Group borrowings as at 30 June 2020 are as follows:-

As at quarter ended 30 June 2020

		Long Term		Short Term		Total Borrowings	
		Foreign Currency '000	RM'000	Foreign Currency '000	RM'000	Foreign Currency '000	RM'000
Secured							
Term Loan	INR	307,689	17,449	47,080	2,671	354,769	20,119
Term Loan	USD	22,288	95,089	2,114	9,017	24,402	104,106
Unsecured							
Term Loan	RM	0	55,444	0	16,200	0	71,644
Foreign Currency Trade Loan	USD	0	0	158,176	676,992	158,176	676,992
Compulsorily Convertible Debenture	INR	1,227,450	69,609	0	0	1,227,450	69,609
Total			237,591		704,879		942,470

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

21) Material litigation

As on 19 August 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.

22) Earnings per share

	Current Year Quarter 30/06/2020	Comparative Year Quarter 30/06/2019	Current Year To Date 30/06/2020	Comparative Year To Date 30/06/2019
Basic				
Net (loss)/profit for the period attributable to Owners of the Company (RM'000)	-6,941	810	-13,426	4,566
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	-5.78	0.68	-11.19	3.81

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 RM2,696,000 in credit (30.6.2019: RM3,572,000 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 30/06/2020 RM'000	Comparative Year Quarter 30/06/2019 RM'000	Current Year To Date 30/06/2020 RM'000	Comparative Year To Date 30/06/2019 RM'000
Interest income	(1,691)	(2,113)	(3,902)	(3,918)
Other income	(312)	(263)	(1,005)	(603)
Interest expense	7,804	10,321	17,966	19,764
Depreciation and amortisation	5,788	6,160	11,516	12,239
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) #	3,425	3,921	26,508	(3,266)
(Gain) / loss on derivatives (net)	781	757	6,991	(305)
Exceptional items	0	0	0	0

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 26 August 2020.