

METROD HOLDINGS BERHAD (916531-A)

Interim report for the third quarter ended 30 September 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 September 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 September 2020				
Revenue				
External	1,272,977	23,866	0	1,296,843
Inter segment revenue	0	0	0	0
Total revenue	<u>1,272,977</u>	<u>23,866</u>	<u>0</u>	<u>1,296,843</u>
Results				
Segment results	18,748	(5,824)	(3,711)	9,213
Finance costs				(24,033)
Tax expense				(946)
Net profit for the financial period				<u>(15,766)</u>
As at 30 September 2020				
Net assets				
Segment assets	967,513	410,664	45,356	1,423,533
Segment liabilities	712,516	300,015	(50,848)	961,683
Other Information				
- Depreciation	7,870	9,353	0	17,223
- Capital expenditure	4,389	270	0	4,659
- Interest income	(4,565)	(362)	0	(4,927)
- Interest expense	15,044	10,988	(1,999)	24,033
Financial period ended 30 September 2019				
Revenue				
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>
Results				
Segment results	25,307	7,555	(685)	32,177
Finance costs				(31,826)
Tax expense				(97)
				<u>254</u>
As at 30 September 2019				
Net assets				
Segment assets	1,093,602	438,724	6,005	1,538,331
Segment liabilities	842,029	305,786	(93,952)	1,053,863
Other Information				
- 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

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 third quarter ended 30 September 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 September 2020 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	12,000
• Authorised but not contracted for	900
Total :	12,900

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

Financial review of the current quarter and year to date

	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		
	30/09/2020	30/09/2019			30/09/2020	30/09/2019		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	489,263	831,220	-341,957	-41%	1,296,843	2,259,993	-963,150	-43%
E.B.I.T.D.A.	13,770	9,292	4,478	48%	21,509	42,262	-20,753	-49%
Profit before depreciation, amortisation, difference in fair value on foreign exchange derivatives and exchange translation on the investment in CCD	239	1,457	-1,217	-84%	1,803	17,501	-15,697	-90%
Profit before tax	3,021	-4,534	7,555	-167%	-14,820	351	-15,171	-4322%
Profit after tax	2,564	-4,395	6,959	-158%	-15,766	254	-16,020	-6307%
Profit for the financial period attributable to :								
- Owners of the Company	5,895	-401	6,296	-1570%	-7,531	4,165	-11,696	-281%
- Non-controlling interest	-3,331	-3,994	663	-17%	-8,235	-3,911	-4,324	111%

Operations of the Group, both for Copper and Hospitality Business, during the third quarter continued to be severely impacted due to outbreak of the coronavirus pandemic (COVID-19) in Malaysia and India. Continuing lockdown in some ASEAN countries also adversely affected the sales.

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 profit of RM3.021 million for the current quarter (cumulative pre-tax loss of RM14.820 million) as compared to previous year's corresponding quarter's pre-tax loss of RM4.534 million (cumulative pre-tax profit of RM0.351 million). Pre-tax loss for the current quarter includes net positive impact of RM8.489 million (cumulatively for the current year period of RM0.600 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 RM0.630 million in previous year corresponding quarter (cumulatively RM0.450 million).

Demand for copper products in Malaysia continued to remain weak during the quarter. 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 which have started yielding results.

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	Change
	30/09/2020	30/06/2020		
	RM'000	RM'000	RM'000	%
Revenue	489,263	290,340	198,923	69%
E.B.I.T.D.A.	13,770	52	13,718	26381%
Profit before depreciation, amortisation, difference in fair value on foreign exchange derivatives and exchange translation on the investment in CCD	239	-4,893	5,132	-105%
Profit before tax	3,021	-11,849	14,870	-125%
Profit after tax	2,564	-13,471	16,035	-119%
Profit for the financial period attributable to :				
- Owners of the Company	5,895	-6,941	12,836	-185%
- Non-controlling interest	-3,331	-6,530	3,199	-49%

The Group reported a pre-tax profit for the quarter of RM3.021 million as compared to preceding quarter's pre-tax loss of RM11.849 million mainly due to higher fair value gain on foreign exchange derivatives during the quarter.

16) Current Year Prospects

The global economy during Q3 continues to be adversely impacted 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. Malaysia recent Budget announcing the continuity of certain mega projects may help the Copper Business in due course.

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.

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.

Q2 and Q3 was a complete wash down for the Hospitality Business due to COVID-19 restrictions. Domestic business is expected to gradually return in Q4 but the occupancy and room rates have been hit badly. Absence of international travellers is expected to reduce the profitability of hospitality business in 2020. Increased level of SOPs have been implemented to assure guests of the health and hygiene comfort.

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 which have started yielding results. 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 30/09/2020 RM'000	Comparative Quarter 30/09/2019 RM'000	Current year YTD 30/09/2020 RM'000	Comparative YTD 30/09/2019 RM'000
In respect of current period				
- Income tax	152	127	1,125	470
- Deferred tax	305	(266)	(179)	(373)
Total	457	(139)	946	97

Effective tax rate for the period 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

There are no corporate proposals announced but not completed as at 18 November 2020.

20) Group Borrowings and Debt Securities

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

As at quarter ended 30 September 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	287,685	16,219	83,808	4,725	371,493	20,944
Term Loan	USD	22,251	92,052	2,114	9,174	24,365	104,226
Unsecured							
Term Loan	RM	0	51,394	0	16,200	0	67,594
Foreign Currency Trade Loan	USD	0	0	149,860	623,192	149,860	623,192
Compulsorily Convertible Debenture	INR	1,227,450	69,202	0	0	1,227,450	69,202
Total			228,867		653,291		882,158

As at quarter ended 30 September 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	2,933	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
Unsecured							
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
Total			273,368		743,548		1,016,916

21) Material litigation

As on 18 November 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 30/09/2020	Comparative Year Quarter 30/09/2019	Current Year To Date 30/09/2020	Comparative Year To Date 30/09/2019
Basic				
Net (loss)/profit for the period attributable to Owners of the Company (RM'000)	5,895	(401)	(7,531)	4,165
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	4.91	(0.33)	(6.28)	3.47

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 RM6,237,000 in debit (30.9.2019: RM3,785,000 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 30/09/2020	Comparative Year Quarter 30/09/2019	Current Year To Date 30/09/2020	Comparative Year To Date 30/09/2019
	RM'000	RM'000	RM'000	RM'000
Interest income	(1,025)	(3,597)	(4,927)	(7,515)
Other income	(320)	(833)	(1,325)	(1,436)
Interest expense	6,067	12,062	24,033	31,826
Depreciation and amortisation	5,707	5,361	17,223	17,600
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) #	(8,012)	10,355	18,497	7,090
(Gain) / loss on derivatives (net)	(8,912)	(200)	(1,921)	(505)
Other material items (if any)	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 25 November 2020.