

METROD HOLDINGS BERHAD (916531-A)

Interim report for the second quarter ended 30 June 2021.

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 2020. 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 2020.

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 2020, 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 2021:-

New MFRSs adopted during the financial year

Title	Effective Date
Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 & MFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021
COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment to MFRS 16 Leases)	1 April 2021

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
Annual Improvements to MFRS Standards 2018-2020	1 January 2022
Amendments to MFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to MFRS 116 Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to MFRS 137 Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to MFRS 101 Classification of Liabilities as Current or Non-Current	1 January 2022
MFRS 17 Insurance Contracts	1 January 2023
Amendments to MFRS 17 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies (Amendments to MFRS 101 Presentation of Financial Statements)	1 January 2023
Disclosure of Accounting Estimates (Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2023
Amendments to MFRS 10 and MFRS 128 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	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 2020 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

On 14 December 2015, the Company via its 51% owned subsidiary Ceres Hotels Private Limited ("Ceres") acquired a hotel business, including the hotel property known as "The Leela Goa", in India. The acquisition of the Hotel Property required payment of stamp duties and registration fees in accordance with the Indian Stamp (Goa, Daman and Diu Amendment) Act, 1968. At the date of acquisition, the applicable stamp duty and registration fees was paid based on a valuation report prepared by a registered valuer.

During the financial year, the Additional Collector, South Goa, India under Section 47A of the Indian Stamp Act 1899 based on suo-moto proceedings to determine the market value of the hotel properties, concluded that the stamp duty and registration fees paid by Ceres in the year 2015 were inaccurate due to the higher valuation of hotel properties now assessed by him and raised a demand order for an additional stamp duty and registration fees of INR115.5 million (RM6.454 million).

The Group acknowledged the additional liability incurred by Ceres and accordingly recorded an expense of RM6.454 million in the income statement for the current period. The negative impact of this additional liability attributable to Owners of the Company shall be 51% while 49% will be absorbed by NCI.

Other than the above, 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 2021.

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 2021				
Revenue				
External	1,532,441	25,200	0	1,557,641
Inter segment revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenue	<u><u>1,532,441</u></u>	<u><u>25,200</u></u>	<u><u>0</u></u>	<u><u>1,557,641</u></u>
Results				
Segment results	8,169	(2,402)	1,038	6,805
Finance costs				(11,685)
Tax expense				<u>2,212</u>
Net profit for the financial period				<u><u>(2,668)</u></u>
As at 30 June 2021				
Net assets				
Segment assets	1,430,510	403,817	(11,435)	1,822,892
Segment liabilities	1,173,368	304,449	(109,812)	1,368,005
Other Information				
- Depreciation	5,074	4,195	0	9,269
- Capital expenditure	4,347	330	0	4,677
- Interest income	(2,013)	(157)	124	(2,046)
- Interest expense	6,199	5,610	(124)	11,685
- Stamp duty & registration fee	0	6,454	0	6,454

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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenue	<u><u>784,848</u></u>	<u><u>22,732</u></u>	<u><u>0</u></u>	<u><u>807,580</u></u>
Results				
Segment results	2,196	309	(2,380)	125
Finance costs				(17,966)
Tax expense				<u>(489)</u>
				<u><u>(18,330)</u></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

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 2020.

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 2021, 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 2021 is as follows:

	RM'000
Property, plant and equipment :-	
• Authorised and contracted for	2,000
• Authorised but not contracted for	6,100
Total :	8,100

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	Change	Cumulative Period		Change	Change
	Current Year Quarter	Preceding year corresponding quarter			Current Year to Date	Preceding year corresponding period		
	30/6/2021	30/6/2020			30/6/2021	30/6/2020		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	816,460	290,340	526,120	181%	1,557,641	807,580	750,061	93%
E.B.I.T.D.A. *	2,464	52	2,412	4638%	14,028	7,739	6,289	81%
Profit before depreciation, amortisation, difference in fair value on foreign exchange derivatives and exchange translation on the investment in CCD	-4,318	-4,893	575	-12%	8,654	1,564	7,090	453%
Profit before tax	-7,570	-11,849	4,279	-36%	-4,880	-17,841	12,961	-73%
Profit after tax	-5,808	-13,471	7,663	-57%	-2,668	-18,330	15,662	-85%
Profit for the financial period attributable to :								
- Owners of the Company	656	-6,941	7,597	-109%	1,256	-13,426	14,682	-109%
- Non-controlling interest	-6,464	-6,530	66	-1%	-3,924	-4,904	980	-20%

* Earnings before Interest, Taxes, Depreciation and Amortisation

The COVID-19 pandemic continues to have a negative impact on the Group's Copper and Hospitality business segments. Business in the second quarter of the current year was hit hard due to the resurgence of the pandemic in key markets namely Malaysia and India. Rising shipping costs and high copper prices continued to put pressure on margins in Copper business. Additionally, absence of major Government tenders, delays in mega projects in Malaysia aggravated the challenges. Competition arising from over capacity remained intense. Credit, commercial and security risks remained high due to the difficult conditions in financial markets and high and volatile copper prices. LME copper prices remain high.

The second wave of the COVID -19 pandemic in India resulted into near closure of the Hospitality Business during the second quarter of this year. Entire focus shifted to cost savings and cash preservation without compromising on the upkeep of the property.

Loss before tax for the current quarter was lower at RM7.570 million (cumulative pre-tax loss RM4.880 million) as compared to preceding year's corresponding quarter loss of RM 11.849 million (cumulative pre-tax loss RM17.841 million). Pre-tax loss for the current quarter and cumulative period includes a negative impact of RM 6.454 million on account of stamp duty and registration fee of prior year relating to Hotel Properties in the Hospitality business segment (as elaborated in Note 4). It also includes a net positive impact of RM1.549 million (cumulative net negative impact of RM4.265 million) arising from and fair value loss on foreign exchange derivatives and exchange translation gain on the investment in Compulsory Convertible Debentures (CCD) of a subsidiary, as compared to a net negative impact of RM1.168 million (cumulative net negative impact of RM7.889 million) in previous year's corresponding period.

Despite all the challenges, the Group registered a cumulative EBITDA of RM14.028 million as compared to previous year's EBITDA of RM7.739 million.

Revenue for the quarter was higher as compared to previous year's corresponding period mainly due to higher volumes and higher 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	Change RM'000	Change %
	30/6/2021	31/3/21		
	RM'000	RM'000		
Revenue	816,460	741,181	75,279	10%
E.B.I.T.D.A. *	2,464	11,564	-9,100	-79%
Profit before depreciation, amortisation, difference in fair value on foreign exchange derivatives and exchange translation on the investment in CCD	-4,318	12,972	-17,290	-133%
Profit before tax	-7,570	2,690	-10,260	-381%
Profit after tax	-5,808	3,140	-8,948	-285%
Profit for the financial period attributable to :				
- Owners of the Company	656	600	56	9%
- Non-controlling interest	-6,464	2,540	-9,004	-354%

The Group reported a pre-tax loss for the quarter of RM7.570 million as compared to preceding quarter's pre-tax profit of RM2.690 mainly due to the losses in the hospitality segment arising from intense second wave of COVID-19 in India in the current quarter as well as the negative impact on account of stamp duty and registration fees of prior year relating to Hotel Properties in the hospitality segment (as elaborated in Note 4).

16) **Current Year Prospects**

The global economy continues to be impacted due to resurgence 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.

Amidst the resurging Covid-19 cases, Malaysia has been placed under various movement control orders (MCOs) since May 2021 though the economy is now being gradually opened with the successful vaccination drive. Though essential economic sectors have been allowed to operate during this period, the economic momentum is likely to remain subdued due to its impact on supply chain. Malaysia's Economic Recovery Plan, various initiatives taken under the Economic Stimulus Packages, and the recent Budget 2021 announcing the continuity of certain mega projects may help the Copper Business in due course.

Effective January 2020 Director General of Trade Remedies (DGTR) under Ministry of Commerce, Government of India had imposed a Countervailing duty (CVD) for the export of copper wires from Malaysia, Indonesia, Thailand and Vietnam though at a lower rate on Metrod. Metrod had appealed for the same to Customs Excise & Service Tax Appellate Tribunal New Delhi (CESTAT). The principal bench of CESTAT pronounced an order in the open court on 8th March 2021 setting aside the imposition of CVD on Metrod. An appeal by domestic industry was heard in the Supreme Court (SC) of India against the decision of CESTAT and has been listed for final disposal in the third week of October 2021. No stay was granted.

LME copper prices have more than doubled since March 2020, at the start of the pandemic. The price increase has been sharp since beginning of this year. Having hit an all time high, the LME copper prices continue to remain close to USD10,000/MT, a level not seen over last ten years.

The said unprecedented increase in copper prices has significantly increased the working capital funding requirement. The Group is optimizing the working capital cycle while working with banks to secure additional financing. The high copper prices are also putting tremendous pressure on the ability of our customers to purchase copper and consequently the underlying demand.

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 continues to manage the copper and exchange exposure due to its hedging policies.

As stated above, the second wave of COVID-19 in India impacted the hospitality business severely. Since countries are regularly facing new waves of COVID-19 infections, visibility of the business remains poor. Performance of the hotel and flow of guests in the remaining part of the year is therefore very uncertain due to pandemic. However, business is expected to perform well, if the aggressive vaccination strategy of the Government brings down the infections and so long as the country does not face further lockdowns.

The global and regional economy continues to remain in uncharted territory with the occurrence and reoccurrence of COVID-19 pandemic. The immediate outlook for 2021 remains uncertain, though sentiment is expected to improve towards later part of the year as the vaccination program is rolled out progressively in the key markets in which the Group operates. Going forward, the headwinds surrounding the Group's business segments persists depending on the longevity of the pandemic and the risks from potential reoccurrences of COVID-19. The Group continues to implement various austerity measures, cost optimization, improving operational efficiencies and internal processes which have started yielding results. This will help to mitigate the impact of current challenges while we continue to pursue all business opportunities.

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 30/06/2021 RM'000	Comparative Quarter 30/06/2020 RM'000	Current year YTD 30/06/2021 RM'000	Comparative YTD 30/06/2020 RM'000
In respect of current period				
- Income tax	67	76	329	973
- Deferred tax	(1,829)	1,546	(2,541)	(484)
Total	(1,762)	1,622	(2,212)	489

Effective tax rate for the period is lower mainly due to profits of a subsidiary not subject to tax.

19) Corporate proposals (status as at 21 September 2021)

There are no corporate proposals announced but not completed as at 21 September 2021.

20) Group Borrowings and Debt Securities

Group borrowings as at 30 June 2021 are as follows:-

As at quarter ended 30 June 2021

		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	896,652	50,009	87,510	4,881	984,162	54,890
Term Loan	USD	14,338	59,259	1,555	6,447	15,893	65,706
Unsecured							
Term Loan	RM	0	39,244	0	16,200	0	55,444
Foreign Currency Trade Loan	USD	0	0	218,741	908,213	218,741	908,213
Compulsorily Convertible Debenture	INR	1,227,450	68,459	0	0	1,227,450	68,459
Total			216,971		935,741		1,152,712

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

21) Material litigation

As on 21 September 2021, 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 30/06/2021	Comparative Year Quarter 30/06/2020	Current Year To Date 30/06/2021	Comparative Year To Date 30/06/2020
Basic				
Net profit/(loss) for the period attributable to Owners of the Company (RM'000)	656	-6,941	1,256	-13,426
Weighted average number of ordinary shares in issue ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	0.55	-5.78	1.05	-11.19

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 RM1,499,000 in debit (30.6.2020: RM2,696,000 in credit) 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 30/06/2021	Comparative Year Quarter 30/06/2020	Current Year To Date 30/06/2021	Comparative Year To Date 30/06/2020
	RM'000	RM'000	RM'000	RM'000
Interest income	(838)	(1,691)	(2,046)	(3,902)
Other income	(209)	(312)	(1,490)	(1,005)
Interest expense	6,071	7,804	11,685	17,966
Depreciation and amortisation	4,801	5,788	9,269	11,516
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) #	4,597	3,425	14,073	26,508
(Gain) / loss on derivatives (net)	(2,625)	781	5,276	6,991
Other material items:				
Stamp duty and registration fees (Note 4)	6,454	0	6,454	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 28 September 2021.