

HPP HOLDINGS BERHAD

Registration No: 201801043588 (1305620-D)
(Incorporated in Malaysia)

Unaudited Condensed Consolidated Interim Financial Report for the First Quarter Ended 31 August 2022

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 AUGUST 2022⁽¹⁾

		Individual Quarter ended 31 August		Cumulative Quarter ended 31 August	
	NOTE	2022	2021	2022	2021
		RM'000	RM'000	RM'000	RM'000
Revenue	A12	24,058	18,387	24,058	18,387
Cost of sales		(16,640)	(13,776)	(16,640)	(13,776)
Gross profit		7,418	4,611	7,418	4,611
Other income		693	411	693	411
Administrative expenses		(2,077)	(2,188)	(2,077)	(2,188)
Profit from operations		6,034	2,834	6,034	2,834
Finance costs		(115)	(179)	(115)	(179)
Profit before tax	B11	5,919	2,655	5,919	2,655
Tax expense	B6	(1,498)	(688)	(1,498)	(688)
Profit and total comprehensive income for the financial period		4,421	1,967	4,421	1,967
Total comprehensive income for the financial period attributable to:					
- Owners of the Company		4,283	1,977	4,283	1,977
- Non-controlling interests		138	(10)	138	(10)
		4,421	1,967	4,421	1,967
Earnings Per Share					
Basic (Sen)	B10(A)	1.10	0.51	1.10	0.51
Diluted (Sen)	B10(B)	-	-	-	-

Note:

- (1) The basis of preparation of the Unaudited Consolidated Statement of Comprehensive Income is disclosed in Note A1 and should be read in conjunction with the Group's Audited Consolidated Financial Statements for the financial year ended ("FYE") 31 May 2022 and the accompanying explanatory notes attached to this condensed consolidated interim financial report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2022⁽¹⁾

	NOTE	Unaudited As at 31 August 2022 RM'000	Audited As at 31 May 2022 RM'000
ASSETS			
Non-current asset			
Property, plant and equipment		60,984	60,086
		<u>60,984</u>	<u>60,086</u>
Current assets			
Inventories		16,827	15,904
Trade receivables		26,823	25,003
Other receivables		777	917
Tax recoverable		2,571	3,479
Short-term fund		(2)13,604	(2)13,529
Fixed deposits with licensed banks		11,008	15,000
Cash and bank balances		16,332	13,288
		<u>87,942</u>	<u>87,120</u>
TOTAL ASSETS		<u>148,926</u>	<u>147,206</u>
EQUITY AND LIABILITIES			
Equity			
Share capital		90,208	90,208
Retained earnings		80,825	76,542
Share-based payment reserve		3,189	3,189
Restructuring reserve		(54,452)	(54,452)
Total equity attributable to owners of the Company		<u>119,770</u>	<u>115,487</u>
Non-controlling interests		1,958	1,820
Total equity		<u>121,728</u>	<u>117,307</u>
Non-current liabilities			
Borrowings	B7	7,055	7,873
Lease liabilities	B7	225	214
Deferred tax liabilities		8,132	8,041
		<u>15,412</u>	<u>16,128</u>
Current liabilities			
Borrowings	B7	2,806	2,678
Lease liabilities	B7	198	283
Trade payables		5,967	8,426
Other payables		2,731	2,297
Amount due to holding company		14	18
Tax payable		70	69
		<u>11,786</u>	<u>13,771</u>
Total liabilities		<u>27,198</u>	<u>29,899</u>
TOTAL EQUITY AND LIABILITIES		<u>148,926</u>	<u>147,206</u>
Number of issued shares ('000)		388,430	388,430
Net asset per share attributable to owners of the Company (RM)		0.31	0.30

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2022 (CONT'D)

Notes:

- (1) The basis of preparation of the Unaudited Condensed Consolidated Statement of Financial Position are disclosed in Note A1 and should be read in conjunction with the Audited Consolidated Financial Statements for the FYE 31 May 2022 and the accompanying explanatory notes attached to the condensed consolidated interim financial report.
- (2) Short-term fund represents investment in highly liquid money market instrument and deposits with financial institution in Malaysia. The short-term fund is subject to an insignificant risk of change in value. The distribution income from this fund is tax exempted up to 31 December 2021 and is being treated as interest income by the Group and the Company.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FIRST QUARTER ENDED 31 AUGUST 2022⁽¹⁾

	←──────────────────┬───────────────────▶ Attributable to owners of the Company						
	←──────────▶ Non-distributable		←──────────▶ Distributable				
	Share capital RM'000	Restructuring reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	Total RM'000	Non- controlling interests RM'000	Total equity RM'000
Unaudited As at 1 June 2021	90,208	⁽²⁾ (54,452)	-	74,809	110,565	2,061	112,626
Profit and total comprehensive income for the financial period	-	-	-	1,977	1,977	(10)	1,967
Unaudited As at 31 August 2021	90,208	(54,452)	-	76,786	112,542	2,051	114,593
Unaudited As at 1 June 2022	90,208	⁽²⁾ (54,452)	3,189	76,542	115,487	1,820	117,307
Profit and total comprehensive income for the financial period	-	-	-	4,283	4,283	138	4,421
Unaudited As at 31 August 2022	90,208	(54,452)	3,189	80,825	119,770	1,958	121,728

Notes:

- (1) The basis of preparation of the Unaudited Condensed Consolidated Statement of Changes in Equity is disclosed in Note A1 and should be read in conjunction with the Audited Consolidated Financial Statements for the FYE 31 May 2022 and the accompanying explanatory notes attached to the condensed consolidated interim financial report.
- (2) This restructuring reserve of RM54,452,000 arose from the restructuring exercise that was undertaken in conjunction with the IPO. The restructuring reserve arose from the difference between the carrying value of the investment and the nominal value of the shares of subsidiaries upon consolidation under the merger accounting principles.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE FIRST QUARTER ENDED 31 AUGUST 2022⁽¹⁾

	Unaudited Cumulative Quarter ended 31 August	
	2022	2021
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	5,919	2,655
<i>Adjustment for:</i>		
Depreciation of property, plant and equipment	1,139	1,101
Gain on disposal of property, plant and equipment	-	(35)
Finance costs:		
- Term loans	109	174
- Lease liabilities	6	5
Interest income	(142)	(125)
Realised gain on foreign exchange	(225)	(11)
Unrealised loss on foreign exchange	25	10
Operating profit before working capital changes	6,831	3,774
Change in working capital:		
Inventories	(924)	(160)
Receivables	(1,579)	5,746
Payables	(2,025)	(8,252)
Amount due to holding company	(4)	(4)
Cash generated from operations	2,299	1,104
Interest paid	(115)	(179)
Interest received	142	125
Tax paid	(666)	(1,000)
Tax refunded	168	-
Net cash from operating activities	1,828	50
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	-	35
Purchase of property, plant and equipment	(2,037)	(640)
Net cash used in investing activities	(2,037)	(605)
Cash flow from financing activities		
Drawdown of bank borrowings	-	860
Repayment of borrowings	(690)	(861)
Repayment of lease liabilities	(75)	(67)
Net cash used in financing activities	(765)	(68)
Net decrease in cash and cash equivalents	(974)	(623)
Cash and cash equivalents at the beginning of the financial period	41,818	48,717
Effect of exchange rate changes on cash and cash equivalents	100	(10)
Cash and cash equivalents at the end of the financial period	40,944	48,084

Note:

- (1) The basis of preparation of the Unaudited Condensed Consolidated Statements of Cash Flows is disclosed in Note A1 and should be read in conjunction with the Audited Consolidated Financial Statements for the FYE 31 May 2022 and the accompanying explanatory notes attached to the condensed consolidated interim financial report.

A. NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of Preparation

The condensed consolidated interim financial report is unaudited and have been prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”) 134 *Interim Financial Reporting* and Rule 9.22 and Appendix 9B of the ACE Market Listing Requirements (“**Listing Requirements**”).

The condensed consolidated interim financial report should be read in conjunction with the Audited Consolidated Financial Statements for the FYE 31 May 2022 and the accompanying explanatory notes attached to the condensed consolidated interim financial report. The explanatory notes attached to the condensed consolidated interim financial report provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the FYE 31 May 2022.

A2. Significant Accounting Policies

Except as described below, the same accounting policies and methods of computation are followed in this condensed consolidated interim financial report as compared with the audited consolidated financial statements for the FYE 31 May 2022.

The Group has also considered the new accounting pronouncements in the preparation of the financial statements.

(i) Accounting pronouncements that are effective and adopted during the financial year

Amendments to MFRS 3	Reference to the Conceptual Framework
Amendments to MFRS 116	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to MFRS 137	Onerous Contracts - Cost of Fulfilling a Contract
Annual Improvements to MFRSs 2018 - 2020	

The adoption of the above accounting pronouncements did not have any significant effect on the financial statements of the Group.

(ii) Accounting pronouncements that are issued but not yet effective and have not been early adopted

The Group has not adopted the following accounting pronouncements that have been issued as at the date of authorisation of these financial statements but are not yet effective for the Group:

Effective for financial periods beginning on or after 1 January 2023

MFRS 17	Insurance Contracts
Amendments to MFRS 17	Insurance Contracts
Amendments to MFRS 17	Initial Application of MFRS 17 and MFRS 9 — Comparative Information
Amendments to MFRS 101	Classification of Liabilities as Current or Non-Current
Amendments to MFRS 101 and MFRS Practice Statement 2	Disclosure of Accounting Policies

Amendments to MFRS 108

Definition of Accounting Estimates

Amendments to MFRS 112

Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Effective date to be announced

Amendments to MFRS 10 and MFRS 128

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group will adopt the above accounting pronouncements when they become effective in the respective financial periods. These accounting pronouncements are not expected to have any effect to the financial statements of the Group upon their initial application.

A3. Auditors' Report

There was no qualified audit report issued by the auditors in the audited consolidated financial statements for the FYE 31 May 2022.

A4. Seasonal or Cyclical Factors

The nature of the Group's business was not subject to any significant seasonal and cyclical factors.

A5. Exceptional items

There were no material exceptional items during the current financial quarter under review.

A6. Material Changes in Accounting Estimates

There were no material changes in estimates for the current financial quarter under review.

A7. Material Events Subsequent to the Statement of Financial Position Date

There were no material events subsequent to the financial period under review.

A8. Changes in Composition of the Group

There were no changes in the composition of the Group for the current financial quarter under review.

A9. Capital Commitments

Save as disclosed below, there were no other material capital commitments incurred or known to be incurred:

	Unaudited As at 31 August 2022 RM'000	Audited As at 31 May 2022 RM'000
Approved but not contracted for:		
Purchase of property, plant and equipment	<u>6,499</u>	<u>6,499</u>
Approved and contracted for:		
Purchase of property, plant and equipment	<u>-</u>	<u>1,620</u>

A10. Debt and Equity Securities

There was no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current financial quarter under review.

A11. Dividend Paid

There were no dividends paid during the current financial quarter under review.

A12. Segmental Revenue Information

	Unaudited Individual Quarter ended 31 August		Unaudited Cumulative Quarter ended 31 August	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Corrugated packaging	6,598	7,442	6,598	7,442
Non-corrugated packaging	13,150	7,397	13,150	7,397
Rigid box				
– Trading	2,273	2,287	2,273	2,287
– Production	988	518	988	518
Others (brochure, leaflet, label, paper bag)	1,049	743	1,049	743
Total	<u>24,058</u>	<u>18,387</u>	<u>24,058</u>	<u>18,387</u>

A13. Valuation of Property, Plant and Equipment

There was no valuation of the property, plant and equipment in the current financial quarter review.

A14. Contingent Liabilities

There were no contingent assets and contingent liabilities as at the date of this condensed consolidated interim financial report.

A15. Related Party Transactions

	Unaudited Individual Quarter ended 31 August		Unaudited Cumulative Quarter ended 31 August	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Transactions				
A. Directors/ substantial shareholders				
Purchase of sub-printing, binding and folding services	1	-	1	-
B. Holding Company				
Hostel rental	13	13	13	13

A16. Fair value information

The carrying amounts of cash and cash equivalents, short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments and insignificant impact of discounting.

The carrying amounts of long-term floating rate borrowings approximate their fair value as the borrowings will be repriced to market interest rate on or near reporting date.

There was no gain or loss arising from fair value changes of the Group's financial liabilities for the current quarter and financial period under review.

A17. Holding Company

The Directors regard Aurora Meadow Sdn Bhd, a company incorporated in Malaysia, as the holding company.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS**B1. Review of Financial Performance**

The Group recorded revenue of approximately RM24.06 million in the current financial quarter ended 31 August 2022. The Group's revenue was mainly contributed by the sales of paper-based packaging.

The Group recorded a profit before tax of approximately RM5.92 million in the current financial quarter ended 31 August 2022.

B2. Variation of Results Against Corresponding Quarter

The Group registered a higher revenue of approximately RM24.06 million in the current financial quarter as compared to approximately RM18.39 million in the corresponding financial quarter. The increase in revenue by approximately 30.84% in the current financial quarter against its revenue for the corresponding financial quarter was mainly due to higher contribution from the non-corrugated packaging and manufacturing of rigid box segments, in particular for the contraceptive and food and beverage industries. In line with the increase in revenue, the revenue contribution from Others segment also increased by approximately 41.18% to RM1.05 million as compared to the corresponding financial quarter.

The overall gross profit margin increased from approximately 25.08% in the corresponding financial quarter to approximately 30.83% in the current financial quarter. This was mainly due to increase in sales to Mexico and Thailand as compared to the corresponding financial quarter. As the sales to these 2 countries are mainly denominated in United States Dollar, which has appreciated against the Ringgit Malaysia during the financial quarter, the Group has benefitted from such appreciation.

In line with the higher revenue recorded in the current financial quarter, the Group recorded a higher profit before tax of RM5.92 million in the current financial quarter as compared to approximately RM2.66 million in the corresponding financial quarter. In addition, there was also a higher interest income received on the Group's investment in short-term funds and fixed deposits as well as higher sales of scrap paper and gain on foreign exchange.

B3. Variation of Results Against Immediate Preceding Quarter

The Group registered a higher revenue of approximately RM24.06 million in the current financial quarter as compared to approximately RM21.06 million in the preceding financial quarter. The increase in revenue was due to higher sales of paper-based packaging to its customers, in particular the electrical and electronics ("E&E"), contraceptive and pharmaceutical industries. However, the increase in revenue was partially offset by the decrease in revenue from trading and manufacturing of rigid box to its customers in the E&E industry.

The overall gross profit margin increased from approximately 28.16% in the preceding financial quarter to approximately 30.83% in the current financial quarter mainly due to increase in local sales of corrugated packaging to the E&E industry as compared to the preceding financial quarter. The Group's profit before tax also increased from approximately RM4.56 million in the preceding financial quarter to RM5.92 million in the current financial quarter mainly due to higher gross profit recorded for the financial quarter.

B4. Commentary on Prospects

The global growth is projected to slow down in 2022 where the International Monetary Fund forecasted Malaysia's economic growth rate at 5.1% in 2022 while Bank Negara Malaysia has projected the growth rate at the range of 5.3% to 6.3%. Malaysia's economic recovery is underpinned by the continued expansion in external demand upon the reopening of international borders on 1 April 2022. The Group believes that the growth of external demand for goods will remain stable, especially for consumer E&E products. The Group has also been actively expanding its clientele to diversify customers in other industries instead of overreliance on certain customers in the consumer E&E industry.

While fulfilling local market demand continues to be the mainstay of our business, the Group continues to explore for more business opportunities within the ASEAN region where most countries are currently in endemic phase. With all these initiatives and consistency in execution of the Group's strategies to manage both the top and bottom lines, the Board of Directors of the Company ("**Board**") is confident that the Group is well positioned to increase the volume of our overseas orders. Nevertheless, personal spending in Malaysia is improving in FYE 2023 and such increase is predominantly due to the radical shift in consumers' behaviour to shop online as online shopping has become the norm during the pandemic. The Group had seized such opportunities to secure sales orders from merchandisers who sell through the online platforms. Moving forward, the Group will further explore new business opportunities by expanding its packaging product range and offering innovative solutions to existing and potential new customers such as online merchants.

In line with the abovementioned strategy, the Group is looking into expanding its revenue base by venturing into paper pulp moulded tray segment. The Group has received various requests / inquiries on such product from its existing customers as they are having difficulties in sourcing it from other local suppliers.

Looking at rising oil prices and interest rates, implementation of minimum wage, and rising inflation, all of which will significantly increase the Group's operating costs, the Group will continue to cushion such impact through prudent cost optimisation and tight management of internal efficiencies.

As part of the Group's expansion plan, the Group has acquired two (2) pieces of land in Taman Teknologi Cheng, Melaka in August 2022. The Group plans to construct a 4-storey factory on the newly acquired land, and is currently in the process of engaging with the relevant authorities and professional advisers on this matter. The construction will be funded through a combination of internally generated funds and bank borrowings.

B5. Profit Forecast

Not applicable as the Group does not publish any profit forecast.

B6. Tax Expense

	Unaudited Individual Quarter ended 31 August		Unaudited Cumulative Quarter ended 31 August	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Recognised in profit or loss				
Current tax expense				
Current financial period	1,407	688	1,407	688
Deferred tax expense				
Current financial period	85	-	85	-
Underprovision in prior year	6	-	6	-
Total	1,498	688	1,498	688
Effective tax rate (%) ⁽¹⁾	25.31	25.91	25.31	25.91

Note:

- (1) The effective tax rate for the individual quarter and cumulative quarter ended 31 August 2022 is higher than the statutory tax rate of 24% mainly due to certain expenses which are not allowed for tax deduction purposes.

B7. Loans and Borrowings

The details of the Group's borrowings are as follows:

	Unaudited As at 31 August 2022 RM'000	Audited As at 31 May 2022 RM'000
Non-current		
Term loans	7,055	7,873
Lease liabilities	225	214
	7,280	8,087
Current		
Term loans	2,806	2,678
Lease liabilities	198	283
	3,004	2,961
Total	10,284	11,048

All the borrowings are secured and denominated in Ringgit Malaysia.

B8. Material Litigation

There is no material litigation pending as at the date of this interim financial report.

B9. Dividends

No interim dividend was declared during the current financial quarter under review.

On 22 July 2022, the Board proposed a final single-tier dividend of 0.75 sen per ordinary share totalling RM2,913,225 payable on 30 November 2022 in respect of the FYE 31 May 2022. This final single-tier dividend is subject to the approval of the shareholders at the forthcoming 4th Annual General Meeting of the Company.

B10. Basic and Diluted Earnings Per Share

The earnings per share for the current financial quarter and cumulative financial quarter ended 31 August 2022 and 31 August 2021 is based on the profit attributable to owners of the Company and weighted number of ordinary shares in issue of the Company (“Share(s)”) as follows:

A. Basic Earnings per Share

	Unaudited Individual Quarter ended 31 August		Unaudited Cumulative Quarter ended 31 August	
	2022	2021	2022	2021
Profit for the financial period attributable to owners of the Company (RM'000)	4,283	1,977	4,283	1,977
Weighted average number of Shares during the financial period ('000)	388,430	388,430	388,430	388,430
Basic earnings per Share (sen)	1.10	0.51	1.10	0.51

B. Diluted Earnings per Share

Diluted earnings per Share for the financial period is calculated by dividing the profit for the financial period attributable to owners of the Company by the weighted average number of Shares outstanding during the financial period adjusted for the effects of dilutive potential ordinary shares.

The Group has no dilution in earnings per Share as the exercise price of the employee share options has exceeded the average market price of Shares during the financial period and therefore, the employee share options do not have any dilutive effect on the weighted average number of Shares.

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B11. Profit before tax

	Unaudited Individual Quarter ended 31 August		Unaudited Cumulative Quarter ended 31 August	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Material expenses/(income)				
Auditor's remuneration:				
- current year	28	23	28	23
Depreciation of property, plant and equipment	1,139	1,101	1,139	1,101
Directors' remuneration:				
- Directors' fee	150	105	150	105
- Salaries, wages, allowances and bonus	201	179	201	179
- Contributions to defined contribution plan	38	34	38	34
Finance costs:				
- Term loans	109	174	109	174
- Lease liabilities	6	5	6	5
Gain on disposal of property, plant and equipment	-	(35)	-	(35)
Interest income	(142)	(125)	(142)	(125)
Rental expenses/Short-term lease rental:				
- Equipment	1	1	1	1
- Warehouse	-	6	-	6
- Hostel	17	22	17	22
Right-of-use assets:				
- Lease of low value assets	1	1	1	1
Staff costs:				
- Salaries, wages, allowances and bonus	2,801	2,097	2,801	2,097
- Contributions to defined contribution plan	240	210	240	210
- Contributions to social security	39	28	39	28
Unrealised loss/(gain) on foreign exchange	25	(11)	25	(11)
Realised (gain)/loss on foreign exchange	(225)	10	(225)	10

The Group did not report any other income including investment income, provision for and write off of receivables, provision for and write off of inventories, gain or loss on disposal of quoted or unquoted investments or properties, impairment of assets and gain or loss on derivatives for the financial period under review.

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B12. Utilisation of Proceeds Raised from Public Issue

The utilisation of proceeds from the Public Issue of RM31.92 million is as follows:

Details of utilisation	Proposed utilisation RM'000	Actual utilisation RM'000	Reallocation RM'000	Unutilised amount RM'000	Intended timeframe for utilisation after listing
Capital expenditure and expansion	13,031	6,597	-	6,434	Within 24 months
Repayment of bank borrowings	7,783	7,783	-	-	Within 12 months
Working capital	5,207	5,021	⁽¹⁾ (186)	-	Within 24 months
Sales and marketing expenses	2,000	-	-	2,000	Within 36 months
Estimated listing expenses	3,900	⁽¹⁾ 4,086	⁽¹⁾ 186	-	Within 3 months
Total	31,921	23,487	-	8,434	

The utilisation of the proceeds as disclosed above should be read in conjunction with the Prospectus dated 15 December 2020 ("**Prospectus**").

Notes:

- (1) As the actual amount incurred for listing expenses is higher than estimated, the shortfall has been funded out of the amount allocated for working capital purposes, as set out in Section 2.7.5 of the Prospectus.

By order of the Board of Directors

20 October 2022