

HPP HOLDINGS BERHAD

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

Unaudited Condensed Consolidated Interim Financial Report for the Third Quarter Ended 28 February 2023

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THIRD QUARTER ENDED 28 FEBRUARY 2023⁽¹⁾

		Individual Quarter ended 28 February		Cumulative Quarter ended 28 February	
		2023	2022	2023	2022
	NOTE	RM'000	RM'000	RM'000	RM'000
Revenue	A12	16,699	20,866	62,016	64,705
Cost of sales		(13,173)	(16,803)	(47,080)	(50,666)
Gross profit		3,526	4,063	14,936	14,039
Other income		359	403	1,610	1,469
Administrative expenses		(1,714)	(2,087)	(7,038)	(8,111)
Profit from operations		2,171	2,379	9,508	7,397
Finance costs		(118)	(122)	(357)	(443)
Profit before tax	B11	2,053	2,257	9,151	6,954
Tax expense	B6	(595)	(573)	(2,963)	(1,888)
Profit and total comprehensive income for the financial period		1,458	1,684	6,188	5,066
Total comprehensive income for the financial period attributable to:					
- Owners of the Company		1,531	1,666	6,022	4,914
- Non-controlling interests		(73)	18	166	152
		1,458	1,684	6,188	5,066

Earnings Per Share

Basic (Sen)	B10(A)	0.39	0.43	1.55	1.27
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 Company's and its subsidiaries' ("**Group**") 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 28 FEBRUARY 2023⁽¹⁾

	NOTE	Unaudited As at 28 February 2023 RM'000	Audited As at 31 May 2022 RM'000
ASSETS			
Non-current asset			
Property, plant and equipment		60,563	60,086
		<u>60,563</u>	<u>60,086</u>
Current assets			
Inventories		14,107	15,904
Trade receivables		22,587	25,003
Other receivables		2,560	917
Tax recoverable		3,198	3,479
Short-term fund		(2)13,306	(2)13,529
Fixed deposits with licensed banks		16,334	15,000
Cash and bank balances		14,817	13,288
		<u>86,909</u>	<u>87,120</u>
TOTAL ASSETS		<u>147,472</u>	<u>147,206</u>
EQUITY AND LIABILITIES			
Equity			
Share capital		90,208	90,208
Retained earnings		76,738	76,542
Share-based payment reserve		5,643	3,189
Restructuring reserve		(54,452)	(54,452)
Total equity attributable to owners of the Company		<u>118,137</u>	<u>115,487</u>
Non-controlling interests		1,986	1,820
Total equity		<u>120,123</u>	<u>117,307</u>
Non-current liabilities			
Borrowings	B7	5,919	7,873
Lease liabilities	B7	420	214
Deferred tax liabilities		8,297	8,041
		<u>14,636</u>	<u>16,128</u>
Current liabilities			
Borrowings	B7	2,751	2,678
Lease liabilities	B7	82	283
Trade payables		4,434	8,426
Other payables		5,367	2,297
Amount due to holding company		40	18
Tax payable		39	69
		<u>12,713</u>	<u>13,771</u>
Total liabilities		<u>27,349</u>	<u>29,899</u>
TOTAL EQUITY AND LIABILITIES		<u>147,472</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)		0.30	0.30

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2023 (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 Group's 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 STATEMENTS OF CASH FLOWS FOR THE THIRD QUARTER ENDED 28 FEBRUARY 2023⁽¹⁾

	Unaudited Cumulative	
	Quarter ended 28 February	
	2023	2022
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	9,151	6,954
<i>Adjustment for:</i>		
Depreciation of property, plant and equipment	3,422	3,388
Gain on disposal of property, plant and equipment	-	(35)
Finance costs:		
- Term loans	337	428
- Lease liabilities	20	15
Interest income	(570)	(326)
Realised (gain)/loss on foreign exchange	(213)	9
Unrealised (gain)/loss on foreign exchange	(49)	(9)
Share-based payment	2,454	3,335
Operating profit before working capital changes	14,552	13,759
Change in working capital:		
Inventories	1,797	(151)
Receivables	889	(1,467)
Payables	(3,837)	(2,980)
Amount due to holding company	22	(9)
Cash generated from operations	13,423	9,152
Interest paid	(357)	(443)
Interest received	570	326
Tax paid	(2,624)	(1,137)
Tax refunded	168	-
Net cash from operating activities	11,180	7,898
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	-	35
Purchase of property, plant and equipment	(3,899)	(3,725)
Net cash used in investing activities	(3,899)	(3,690)
Cash flow from financing activities		
Dividend paid to owners of the Company	(2,913)	(6,798)
Dividend paid to non-controlling shareholders of a subsidiary	-	(327)
Drawdown of bank borrowings	245	860
Repayment of borrowings	(1,880)	(5,813)
Repayment of lease liabilities	(240)	(214)
Net cash used in financing activities	(4,788)	(12,292)
Net increase/ (decrease) in cash and cash equivalents	2,493	(8,084)
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	146	(12)
Cash and cash equivalents at the end of the financial period	44,457	40,621

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 Group's 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 Group’s 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 16	Leases - Lease liability in a sale and leaseback
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 for financial periods beginning on or after 1 January 2024

Amendments to MFRS 101

Non-current liabilities with Covenants

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 28 February 2023 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>10,872</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

On 16 January 2023, the Board declared a first single-tier interim dividend of 0.75 sen per ordinary share amounting to RM2,913,225 in respect of FYE 31 May 2023, which was paid on 7 March 2023.

A12. Segmental Revenue Information

	Unaudited Individual Quarter ended 28 February		Unaudited Cumulative Quarter ended 28 February	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Corrugated packaging	2,720	6,029	12,985	23,351
Non-corrugated packaging	11,117	8,137	37,285	24,981
Rigid box				
– Trading	1,706	4,800	6,583	11,552
– Production	154	1,012	1,864	2,249
Others (brochure, leaflet, label, paper bag)	1,002	888	3,299	2,572
Total	16,699	20,866	62,016	64,705

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

Transactions	Unaudited Individual Quarter ended 28 February		Unaudited Cumulative Quarter ended 28 February	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
A. Directors/ substantial shareholders				
Purchase of sub-printing, binding and folding services	3	-	3	-
B. Holding Company				
Hostel rental	13	13	39	39

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 RM16.70 million and RM62.02 million in the current financial quarter and the cumulative financial quarter ended 28 February 2023. The Group's revenue was mainly contributed by the sales of paper-based packaging.

The Group recorded a profit before tax of approximately RM2.05 million and RM9.15 million in the current financial quarter and the cumulative financial quarter ended 28 February 2023.

B2. Variation of Results Against Corresponding Quarter

The Group registered a lower revenue of approximately RM16.70 million and RM62.02 million in the current financial quarter and the cumulative financial quarter as compared to approximately RM20.87 million and RM64.71 million in the corresponding financial quarter and the corresponding cumulative financial quarter respectively. The decrease in revenue by approximately 19.97% in the current financial quarter against its revenue for the corresponding financial quarter was mainly due to lower contribution from the corrugated packaging segment and rigid box segment (both trading and production) especially on the consumer electrical and electronics ("E&E") industry. However, this was partially offset by higher contribution from the non-corrugated packaging segment, in particular the contraceptive, food and beverage and pharmaceutical industries, as well as higher contribution from the others segment.

The overall gross profit margin increased from approximately 19.47% and 21.70% in the corresponding financial quarter and the corresponding cumulative financial quarter to approximately 21.12% and 24.08% in the current financial quarter and the cumulative financial quarter respectively. Such increase was mainly due to a decrease in the cost of raw materials, namely paper, which was offset by the revision of selling price with its customers during the financial period under review.

Due to lower revenue, the Group also recorded a lower profit before tax of approximately RM2.05 million in the current financial quarter as compared to approximately RM2.26 million in the corresponding financial quarter. Notwithstanding this, the Group's profit before tax for the current cumulative financial quarter is higher at approximately RM9.15 million as compared to approximately RM6.95 million in the corresponding cumulative financial quarter mainly due to lower share-based payment expenses.

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B3. Variation of Results Against Immediate Preceding Quarter

The Group registered a lower revenue of approximately RM16.70 million in the current financial quarter as compared to approximately RM21.26 million in the preceding financial quarter. The decrease in revenue was mainly due to lower sales of paper-based packaging to its customers, in particular the consumer E&E, contraceptive and food and beverage industries. However, the decrease in revenue was partially offset by the increase in revenue from pharmaceutical industry.

The overall gross profit margin increased from approximately 18.78% in the preceding financial quarter to approximately 21.12% in the current financial quarter. Such increase was mainly due to a decrease in the cost of raw materials, namely paper, which was offset by the revision of selling price with its customers during the financial period under review.

The Group recorded a higher profit before tax of approximately RM2.05 million in the current financial quarter as compared to approximately RM1.18 million in the preceding financial quarter as there was no share-based payment expenses for the financial quarter under review.

B4. Commentary on Prospects

Considering that most countries have returned to normalcy i.e. pre-COVID-19, the Group believes that the growth of external demand for goods will remain stable in the coming years, especially for consumer E & E products. Personal spending in Malaysia is also expected to improve in FYE 2023 with the reopening of international borders since April 2022. On this basis, the Group will continue to explore new business opportunities by expanding its packaging product range and offering innovative solutions to existing and potential new customers.

Notwithstanding the above, the Group will continue to cushion the impact of rising operating costs arising from rising oil prices and interest rates, implementation of minimum wage and rising inflation through prudent cost optimisation and tight management of internal efficiencies.

As part of the Group's expansion plan, the Group has:

- (i) acquired two (2) pieces of land in Taman Teknologi Cheng, Melaka in August 2022. The Group plans to construct a 4-storey factory and foreign workers' hostel on the newly acquired land. The building plan for this land has been approved by the relevant authorities on 12 December 2022 and construction is currently ongoing. The construction will be funded through a combination of internally generated funds and bank borrowings and is expected to be completed in the 2nd half of 2023; and
- (ii) entered into a conditional sale and purchase agreement ("**SPA**") to acquire a piece of leasehold land together with a double storey office and a single storey warehouse erected thereon ("**Property**") for a cash consideration of RM7.70 million on 19 December 2022. The Group plans to convert the warehouse into a factory for the paper pulp moulded segment and construct a new factory for the rigid boxes manufacturing segment on this Property. The acquisition of this Property and relevant construction/ renovation costs will be funded through a combination of internally generated funds and bank borrowings. The SPA is expected to be completed by the 2nd half of 2023.

B5. Profit Forecast

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

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B6. Tax Expense

	Unaudited Individual Quarter ended 28 February		Unaudited Cumulative Quarter ended 28 February	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Recognised in profit or loss				
Current tax expense				
Current financial period	525	239	2,706	1,554
Deferred tax expense				
Current financial period	70	334	251	334
Underprovision in prior year	-	-	6	-
Total	595	573	2,963	1,888
Effective tax rate (%) ⁽¹⁾	28.97	25.39	32.38	27.15

Note:

- (1) The effective tax rates for the individual quarter and cumulative quarter ended 28 February 2023 are higher than the statutory tax rate of 24% mainly due to certain expenses which are not allowed for tax deduction purposes, in particular depreciation.

B7. Loans and Borrowings

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

	Unaudited As at 28 February 2023 RM'000	Audited As at 31 May 2022 RM'000
Non-current		
Term loans	5,919	7,873
Lease liabilities	420	214
	6,339	8,087
Current		
Term loans	2,751	2,678
Lease liabilities	82	283
	2,833	2,961
Total	9,172	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

There were no dividends declared for the current financial quarter under review.

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B10. Basic and Diluted Earnings Per Share

The earnings per share for the current financial quarter and cumulative financial quarter ended 28 February 2023 is based on the profit attributable to owners of the Company and weighted average number of Shares as follows:

A. Basic Earnings per Share

	Unaudited Individual Quarter ended 28 February		Unaudited Cumulative Quarter ended 28 February	
	2023	2022	2023	2022
Profit for the financial period attributable to owners of the Company (RM'000)	1,531	1,666	6,022	4,914
Weighted average number of Shares during the financial period ('000)	388,430	388,430	388,430	388,430
Basic earnings per Share (sen)	0.39	0.43	1.55	1.27

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 earnings per Share of the Company is not expected to be diluted as the exercise price of the ESOS options has exceeded the average market price of Shares during the financial period and therefore, the ESOS 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 28 February		Unaudited Cumulative Quarter ended 28 February	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Material expenses/(income)				
Auditor's remuneration:				
- current year	28	25	84	74
Depreciation of property, plant and equipment	1,149	1,160	3,422	3,388
Directors' remuneration:				
- Directors' fee	150	150	450	375
- Salaries, wages, allowances and bonus	100	117	508	487
- Contributions to defined contribution plan	18	21	94	89
Finance costs:				
- Term loans	110	117	337	428
- Lease liabilities	8	5	20	15
Gain on disposal of property, plant and equipment	-	-	-	(35)
Interest income	(252)	(85)	(570)	(326)
Rental expenses/Short-term lease rental:				
- Equipment	1	1	3	2
- Warehouse	1	3	3	13
- Hostel	18	24	53	69
Right-of-use assets:				
- Lease of low value assets	-	-	1	1
Staff costs:				
- Salaries, wages, allowances and bonus	2,818	2,437	8,345	6,927
- Contributions to defined contribution plan	261	200	750	624
- Contributions to social security	41	36	121	97
- Share-based payment expense	-	-	2,454	3,335
Unrealised gain on foreign exchange	(112)	(10)	(49)	(9)
Realised loss/(gain) on foreign exchange	205	6	(213)	9

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 36 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**”) and the announcement in relation to the extension of time for the utilisation of proceeds raised from the Public Issue dated 16 December 2022.

Note:

- (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 April 2023