

HPP HOLDINGS BERHAD

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

Unaudited Condensed Consolidated Interim Financial Report for the First Quarter Ended 31 August 2023

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 AUGUST 2023⁽¹⁾

		Individual Quarter ended 31 August		Cumulative Quarter ended 31 August	
		2023	2022	2023	2022
	NOTE	RM'000	RM'000	RM'000	RM'000
Revenue	A12	19,014	24,058	19,014	24,058
Cost of sales		(14,567)	(16,640)	(14,567)	(16,640)
Gross profit		4,447	7,418	4,447	7,418
Other income		672	693	672	693
Administrative expenses		(1,782)	(2,077)	(1,782)	(2,077)
Profit from operations		3,337	6,034	3,337	6,034
Finance costs		(125)	(115)	(125)	(115)
Profit before tax	B11	3,212	5,919	3,212	5,919
Tax expense	B6	(927)	(1,498)	(927)	(1,498)
Profit and total comprehensive income for the financial period		2,285	4,421	2,285	4,421
Total comprehensive income for the financial period attributable to:					
- Owners of the Company		2,292	4,283	2,292	4,283
- Non-controlling interests		(7)	138	(7)	138
		<u>2,285</u>	<u>4,421</u>	<u>2,285</u>	<u>4,421</u>
Earnings Per Share					
Basic (Sen)	B10(A)	0.59	1.10	0.59	1.10
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 2023 and the accompanying explanatory notes attached to this condensed consolidated interim financial report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2023⁽¹⁾

	NOTE	Unaudited As at 31 August 2023 RM'000	Audited As at 31 May 2023 RM'000
ASSETS			
Non-current asset			
Property, plant and equipment		64,378	60,783
		<u>64,378</u>	<u>60,783</u>
Current assets			
Inventories		12,038	14,219
Trade receivables		23,590	22,125
Other receivables		5,546	2,379
Tax recoverable		3,254	3,295
Short-term fund		⁽²⁾ 12,309	⁽²⁾ 9,213
Fixed deposits with licensed banks		22,297	22,321
Cash and bank balances		11,047	13,828
		<u>90,081</u>	<u>87,380</u>
TOTAL ASSETS		154,459	148,163
EQUITY AND LIABILITIES			
Equity			
Share capital		90,208	90,208
Retained earnings		82,379	80,087
Share-based payment reserve		5,648	5,648
Restructuring reserve		(54,452)	(54,452)
Total equity attributable to owners of the Company		123,783	121,491
Non-controlling interests		1,788	1,795
Total equity		125,571	123,286
Non-current liabilities			
Borrowings	B7	9,010	703
Lease liabilities	B7	242	289
Deferred tax liabilities		7,869	7,789
		<u>17,121</u>	<u>8,781</u>
Current liabilities			
Borrowings	B7	1,997	7,360
Lease liabilities	B7	281	315
Trade payables		4,967	5,033
Other payables		4,488	3,348
Amount due to holding company		10	18
Tax payable		24	22
		<u>11,767</u>	<u>16,096</u>
Total liabilities		28,888	24,877
TOTAL EQUITY AND LIABILITIES		154,459	148,163
Number of issued shares ('000)		388,430	388,430
Net asset per share attributable to owners of the Company (RM)		0.32	0.31

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 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 Audited Consolidated Financial Statements for the FYE 31 May 2023 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 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 2023⁽¹⁾

	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 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
Unaudited As at 1 June 2023	90,208	⁽²⁾ (54,452)	5,648	80,087	121,491	1,795	123,286
Profit and total comprehensive income for the financial period	-	-	-	2,292	2,292	(7)	2,285
Unaudited As at 31 August 2023	90,208	(54,452)	5,648	82,379	123,783	1,788	125,571

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 2023 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 2023⁽¹⁾

	Unaudited Cumulative Quarter ended 31 August	
	2023 RM'000	2022 RM'000
Cash flows from operating activities		
Profit before tax	3,212	5,919
<i>Adjustment for:</i>		
Depreciation of property, plant and equipment	1,136	1,139
Finance costs:		
- Term loans	116	109
- Lease liabilities	9	6
Interest income and Fair value gain on investment from money market	(305)	(142)
Realised gain on foreign exchange, net	(72)	(225)
Unrealised (gain)/loss on foreign exchange	(58)	25
Operating profit before working capital changes	4,038	6,831
Change in working capital:		
Inventories	2,181	(924)
Receivables	(4,543)	(1,579)
Payables	1,074	(2,025)
Amount due to holding company	(8)	(4)
Cash generated from operations	2,742	2,299
Interest paid	(125)	(115)
Interest received	305	142
Tax paid	(804)	(666)
Tax refunded	-	168
Net cash from operating activities	2,118	1,828
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,731)	(2,037)
Net cash used in investing activities	(4,731)	(2,037)
Cash flow from financing activities		
Drawdown of bank borrowings	3,542	-
Repayment of borrowings	(597)	(690)
Repayment of lease liabilities	(82)	(75)
Net cash used in financing activities	2,863	(765)
Net increase/ (decrease) in cash and cash equivalents	250	(974)
Cash and cash equivalents at the beginning of the financial period	45,362	41,818
Effect of exchange rate changes on cash and cash equivalents	41	100
Cash and cash equivalents at the end of the financial period	45,653	40,944

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 2023 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 2023 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 2023.

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 2023.

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

Annual Improvements to MFRS Standards 2018 - 2020

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

The adoption of the above Standards and Amendments did not have any material effect on the financial performance or position of the Group and the Company.

(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 2024

Amendments to MFRS 16	Lease liability in a Sale and Leaseback
Amendments to MFRS 101	Classification of Liabilities as Current or Non-Current
Amendments to MFRS 101	Non-current Liabilities with Covenants
Amendments to MFRS 107 and MFRS 7	Supplier Finance Arrangements
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to MFRS 112

International Tax Reform – pillar Two Model
Rules

Effective for financial periods beginning on or after 1 January 2025

Amendments to MFRS 121

Lack of Exchangeability

The Group and the Company are in the process of assessing the impact of implementing these Standards, since the effects would only be observable for future financial years.

A3. Auditors' Report

There was no qualified audit report issued by the auditors in the audited consolidated financial statements for the FYE 31 May 2023.

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.

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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 2023 RM'000	Audited As at 31 May 2023 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>10,791</u>	<u>11,529</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	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Corrugated packaging	4,596	6,598	4,596	6,598
Non-corrugated packaging	11,249	13,150	11,249	13,150
Rigid box				
– Trading	1,604	2,273	1,604	2,273
– Production	242	988	242	988
Others (brochure, leaflet, label, paper bag)	1,323	1,049	1,322	1,049
Total	<u>19,014</u>	<u>24,058</u>	<u>19,014</u>	<u>24,058</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	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 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 RM19.01 million in the current financial quarter ended 31 August 2023. The Group's revenue was mainly contributed by the sales of paper-based packaging.

The Group recorded a profit before tax of approximately RM3.21 million in the current financial quarter ended 31 August 2023.

B2. Variation of Results Against Corresponding Quarter

The Group registered a lower revenue of approximately RM19.01 million in the current financial quarter as compared to approximately RM24.06 million in the corresponding financial quarter. The decrease in revenue by approximately 20.97% in the current financial quarter against its revenue for the corresponding financial quarter was mainly due to lower contribution from the corrugated and non-corrugated packaging segment and rigid box segments (both trading and production), especially on the consumer electrical and electronics ("E&E"), contraceptive and food and beverages ("F&B") industries. The Group also recorded lower sales to Mexico, Thailand and Singapore as compared to the corresponding financial quarter.

The overall gross profit margin decreased from approximately 30.83% in the corresponding financial quarter to approximately 23.39% in the current financial quarter. Such decrease was mainly due to timing differences in selling price adjustment against movement in raw material prices. The overall gross profit margin has normalised in this current quarter.

In line with the lower revenue for the current financial quarter, the Group recorded a lower profit before tax of RM3.21 million as compared to approximately RM5.92 million in the corresponding financial quarter.

B3. Variation of Results Against Immediate Preceding Quarter

The Group registered a higher revenue of approximately RM19.01 million in the current financial quarter as compared to approximately RM18.79 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 consumer E&E and other segment industries. However, the increase in revenue was partially offset by the decrease in revenue from contraceptive, pharmaceutical and F&B.

The overall gross profit margin decreased from approximately 30.51% in the preceding financial quarter to approximately 23.39% in the current financial quarter. Such decrease was mainly due to timing differences in selling price adjustment against movement in raw material prices. The overall gross profit margin has normalised in this current quarter.

The Group recorded a lower profit before tax of approximately RM3.21 million in the current financial quarter as compared approximately RM3.70 million in the preceding financial quarter.

B4. Commentary on Prospects

The year ahead is likely to see continued inflationary pressures, uncertain geopolitical landscape and persistent vulnerabilities in the global supply chain weighing on the global economy. The International Monetary Fund has forecasted global growth to slow down to 4.5% in 2023. Bank Negara Malaysia had forecasted a growth of between 4% to 5%, amid the global slowdown from its high of 8.7% achieved in year 2022.

We will continue to broaden and deepen our product offerings and services to our customers, and pursue new business opportunities to grow our client base, across all industries, both locally and overseas. Under the current economic climate, we also take cognizance of the need in exercising prudent credit management, cost optimization and tight management of internal efficiencies, towards growing both our top and bottom-line results this financial year.

Recycling and environmental awareness has increased significantly globally, and we have received requests or inquiries on recyclable packaging from our existing customers as they are having difficulties in sourcing it locally. As such, our Group has expanded our product range to include paper pulp moulded packaging. Production is expected to commence by November 2023. The European Union-wide rule in preventing packaging waste by boosting reuse and refill, and making all packaging recyclable by 2030 is expected to boost demand for our Group's new product.

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	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Recognised in profit or loss				
Current tax expense				
Current financial period	846	1,407	846	1,407
Deferred tax expense				
Current financial period	81	85	81	85
Underprovision in prior year	-	6	-	6
Total	927	1,498	927	1,498
Effective tax rate (%) ⁽¹⁾	28.86	25.31	28.86	25.31

Note:

- (1) The effective tax rate for the individual quarter and cumulative quarter ended 31 August 2023 is higher than the statutory tax rate of 24% as certain expenses are non-deductible for tax purposes.

B7. Loans and Borrowings

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

	Unaudited As at 31 August 2023 RM'000	Audited As at 31 May 2023 RM'000
Non-current		
Term loans	9,010	703
Lease liabilities	242	289
	9,252	992
Current		
Term loans	1,997	7,360
Lease liabilities	281	315
	2,278	7,675
Total	11,530	8,667

All the borrowings are secured and denominated in Ringgit Malaysia.

The Group's borrowings are subject to certain financial covenants to be complied, which among others, includes the requirement to seek the respective bank's approval for declaration of dividend above certain threshold of profit after tax of certain subsidiaries. Certain subsidiaries of the Group did not fulfil the abovementioned covenants as at the end of the previous financial year end.

In view of the foregoing, the non-current portion of certain bank borrowings amounted to RM5,075,549 as at 31 May 2023 (as at 31 August 2023: RM6,050,813) was reclassified from non-current liabilities to current liabilities in accordance with MFRS 101 Presentation of Financial Statements.

The Group has obtained written consents from the respective banks subsequent to the financial year ended 31 May 2023. Hence, these bank borrowings have been reclassified to non-current liabilities in the current quarter.

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 21 July 2023, the Board proposed a final single-tier dividend of 0.75 sen per ordinary share totalling RM2,913,225 payable on 30 November 2023 in respect of the FYE 31 May 2023. This final single-tier dividend is subject to the approval of the shareholders at the forthcoming 5th 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 2023 and 31 August 2022 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	
	2023	2022	2023	2022
Profit for the financial period attributable to owners of the Company (RM'000)	2,292	4,283	2,292	4,283
Weighted average number of Shares during the financial period ('000)	388,430	388,430	388,430	388,430
Basic earnings per Share (sen)	0.59	1.10	0.59	1.10

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	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Material expenses/(income)				
Auditor's remuneration:				
- current year	29	28	29	28
Depreciation of property, plant and equipment & right-of-use assets	1,136	1,139	1,136	1,139
Directors' remuneration:				
- Directors' fee	150	150	150	150
- Salaries, wages, allowances and bonus	182	201	182	201
- Contributions to defined contribution plan	34	38	34	38
Finance costs:				
- Term loans	116	109	116	109
- Lease liabilities	9	6	9	6
Interest income and fair value gain on investment from money market	(305)	(142)	(305)	(142)
Rental expenses/Short-term lease rental:				
- Equipment	1	1	1	1
- Hostel	2	17	2	17
Right-of-use assets:				
- Lease of low value assets	-	1	-	1
Staff costs:				
- Salaries, wages, allowances, and bonus	2,973	2,801	2,973	2,801
- Contributions to defined contribution plan	268	240	268	240
- Contributions to social security	42	39	42	39
Unrealised (gain)/loss on foreign exchange	(58)	25	(58)	25
Realised (gain)/loss on foreign exchange, net	(72)	(225)	(72)	(225)

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 ⁽²⁾
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.
- (2) The Company had on 20 October 2022 announced the extension of timeframe for the utilisation of proceeds allocated for capital expenditure and expansion from within 24 months to within 36 months from listing.

By order of the Board of Directors

19 October 2023