



## HEXZA CORPORATION BERHAD (8705-K)

### Interim Report on Consolidated Results for the Second Quarter ended 31<sup>st</sup> December 2012

#### A NOTES TO THE INTERIM FINANCIAL REPORT

##### A1. Accounting policies and method of computation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS 134”) and the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

The audited financial statements of the Group for the financial year ended 30<sup>th</sup> June 2012 were prepared in accordance with Financial Reporting Standards (“FRS”). As the requirements under FRS and MFRS are similar, the significant accounting policies adopted in preparing the condensed interim financial statements are consistent with those of the audited financial statement for the financial year ended 30<sup>th</sup> June 2012 except for the following:

##### a) Business combination

MFRS 1 provides the option to apply MFRS 3 Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

##### Acquisition before date of transition

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisition prior to the date of transition,

- (i) The classification of former business combinations under FRS is maintained;
- (ii) There is no re-measurement of original fair values determined at the time of business combination; and
- (iii) The carrying amount of goodwill recognised under FRS is not adjusted.

##### b) Property, plant and equipment

The Group has previously adopted the MASB Approved Accounting Standard IAS 16 (Revised) Property, Plant and Equipment which was effective for accounting periods ending on or after 1<sup>st</sup> September 1998. Except for certain leasehold land of the Group, which are carried at valuation, all other property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The leasehold land of the Group had not been revalued since they were first revalued in 1985 and the Group had not adopted a policy of regular revaluation of the land.



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#### A1. Accounting policies and method of computation (continued)

##### b) Property, plant and equipment (continued)

Upon transition to MFRS, the Group has elected to measure all its property, plant and equipment using the cost model under MFRS 116, Property, Plant and Equipment. At the date of transition to MFRS, the Group elected to apply the “deemed cost” transition exemption and use the fair value of leasehold land as deemed cost. The financial impact is as follows:

- (i) Increase of RM15.76 million and RM15.47 million for leasehold land was recognised in property, plant and equipment as of 1<sup>st</sup> July 2011 and 30<sup>th</sup> June 2012 respectively;
  - (ii) Reclassification of revaluation surplus of RM15.76 million to retained earnings as of 1<sup>st</sup> July 2011; and
  - (iii) Increase in deferred taxation liability of RM3.94 million and RM3.87 million upon revaluation of the leasehold land and adjustment of RM3.94 million and RM3.87 million to retained earnings as of 1<sup>st</sup> July 2011 and 30<sup>th</sup> June 2012 respectively.
- c) The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods at the date of transition under MFRS are as follows:

##### (i) Reconciliation of Statement of Financial Position as at 1<sup>st</sup> July 2011

	As previously <u>reported</u> RM'000	Effect of Transition to <u>MFRS</u> RM'000	<u>As restated</u> RM'000
<u>As at 1<sup>st</sup> July 2011</u>			
Property, Plant and Equipment	60,663	15,756	76,419
Retained earnings	100,070	11,022	111,092
Non-controlling interests	7,064	795	7,859
Deferred taxation	7,093	3,939	11,032

##### (ii) Reconciliation of Statement of Financial Position as at 30<sup>th</sup> June 2012

	As previously <u>reported</u> RM'000	Effect of Transition to <u>MFRS</u> RM'000	<u>As restated</u> RM'000
<u>As at 30<sup>th</sup> June 2012</u>			
Property, Plant and Equipment	56,077	15,469	71,546
Retained earnings	98,213	10,826	109,039
Non-controlling interests	6,707	776	7,483
Deferred taxation	6,530	3,867	10,397



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#### **A2. Audit report**

The audit report for the financial year ended 30<sup>th</sup> June 2012 was not subject to any qualification.

#### **A3. Seasonal or cyclical factors**

The business operations of the Group were not significantly affected by any seasonal or cyclical factors.

#### **A4. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence**

There are no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence for the current financial quarter.

#### **A5. Changes in estimates of amounts reported**

There were no changes in the estimates of amounts reported previously that have a material effect in the current quarter.

#### **A6. Issuances, cancellations, repurchases, resale and repayments of debt and equity securities**

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial period to date.

#### **A7. Dividend paid**

No dividend was proposed during the quarter under review. The final dividend proposed by the Board of Directors of 8% less tax plus 2% tax-exempt in respect of previous financial year ended 30<sup>th</sup> June 2012 was approved by the shareholders at the 43<sup>rd</sup> Annual General Meeting on 24<sup>th</sup> November 2012. The dividend was paid on 3<sup>rd</sup> January 2013.



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#### A8. Segment revenue and segment result

Information on business segments for the financial period ended 31<sup>st</sup> December 2012 is as follows:-

	Manufacturing RM'000	Investment RM'000	Trading RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>REVENUE</b>						
External sales	59,060	916	1,505	-	-	61,481
Inter-segment sales	1,135	-	8,839	-	(9,974)	-
Total revenue	60,195	916	10,344	-	(9,974)	61,481
<b>RESULT</b>						
Operating profit	342	1,199	267	37	4	1,849
Interest expense						(28)
Interest income						401
Taxation						(316)
Profit after tax						1,906

#### A9. Material subsequent event

There are no material events subsequent to the end of period reported on to the date of this report which have not been reflected in the financial statement for the quarter ended 31<sup>st</sup> December 2012.

#### A10. Change in composition of the Group

There are no changes in the composition of the Group for the current financial period to date including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations except for the following:

On 30<sup>th</sup> October 2012, a Final Meeting was held in connection with the Members' Voluntary Winding-Up of Summit Imaging Technologies Sdn. Bhd. (SIT), a 49% associate of the Company to conclude the Members' Voluntary Winding-Up of SIT. The dissolution of the associate does not have any material effect on the Group earnings.

#### A11. Contingent liabilities or contingent assets

There is no change in contingent liabilities or contingent assets since the last annual statement of financial position to the date of this report.



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#### **B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

##### **B1. Review of performance**

###### **(a) Quarter ended 31 December 2012 (2Q 2013) compared with quarter ended 31 December 2011 (2Q 2012)**

The Group registered a lower pre-tax profit of RM1.82 million on the back of lower revenue of RM30.15 million, down by 36.8% and 21.8% respectively compared with the previous corresponding quarter.

Performance of the respective operating business segments for the current quarter compared with the previous corresponding quarter is analysed as follows:

Manufacturing segment – Revenue decreased by RM7.12 million or 19.8% in the current quarter mainly due to lower selling prices of resins products and aggravated by lower ethanol sales volume due to poor demand. The result of the previous corresponding quarter was mitigated by a recovery of doubtful debt of RM0.90 million.

Investment segment - Revenue and pre-tax profit increased marginally by RM0.11 million and RM0.05 million respectively in the current quarter contributed by higher dividend income received from quoted investments.

Trading segment – Revenue and pre-tax profit dropped by RM1.39 million and RM0.11 million respectively in the current quarter mainly due to lower sales volume by 49.9%.

###### **(b) Financial period for the six months ended 31 December 2012 (YTD 2Q 2013) compared with the six months ended 31 December 2011 (YTD 2Q 2012)**

The Group registered a lower pre-tax profit of RM2.22 million on the back of lower revenue of RM61.48 million, down by 52.8% and 16.9% respectively compared with the previous corresponding period.

Performance of the respective operating business segments for the current year-to-date period compared with the previous corresponding period is analysed as follows:

Manufacturing segment – Revenue decreased by RM10.92 million or 15.6% in the current year-to-date period mainly due to lower sales volume and selling prices by 9.4% and 13.2% in the resins division, partly mitigated by higher turnover in the Ethanol division by 11.0% resulting in overall reduced operating profit by RM1.80 million.



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#### **B1. Review of performance (Cont'd)**

##### **(b) Financial period for the six months ended 31 December 2012 (YTD 2Q 2013) compared with the six months ended 31 December 2011 (YTD 2Q 2012) (Cont'd)**

Investment segment - Pre-tax profit was lower by RM0.37 million compared with the corresponding period last year which included a gain on disposal of quoted investments of RM0.44 million.

Trading segment – Revenue and pre-tax profit dropped by RM1.62 million and RM0.31 million respectively in the current quarter mainly due to lower sales volume by 37.9%.

#### **B2. Comparison of results for the current quarter (2Q 2013) against immediate preceding quarter (1Q 2013)**

Revenue for the current quarter at RM30.15 million when compared with the immediate previous quarter was lower by 3.8% whereas profit before tax rose to RM1.82 million from RM0.40 million during the current quarter. The improved performance of the quarter was mainly due to lower cost of key raw materials for resins and better production yield of the ethanol division. Investment segment contributed a higher pre-tax profit of RM0.38 million on higher dividend income from quoted investments.

#### **B3. Prospects**

The Board of Directors expects the Group to show improvement in its financial results for the second half of the financial year ending 30<sup>th</sup> June 2013.

#### **B4. Comparison with profit forecast**

This note is not applicable.



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#### B5. Income tax

Taxation comprises:-

	Current quarter ended 31/12/2012	Current year to date 31/12/2012
	RM'000	RM'000
Estimated current Malaysian taxation	498	750
Deferred taxation	130	(434)
	<u>628</u>	<u>316</u>

The effective tax rate of the Group for the current period to date is lower than the statutory tax rate mainly due to non-taxable income.

#### B6. Profit before taxation

Profit before tax is arrived at after charging/(crediting):

	Current quarter ended 31/12/2012	Current year to date 31/12/2012
	RM'000	RM'000
Depreciation and amortisation	1,410	2,825
Inventories written off	23	182
Interest expense	6	28
Interest income	(202)	(401)
Gain on disposal of other investment	(48)	(48)
Income from financial assets designated as at FVTPL	(297)	(577)
Loss on foreign exchange	4	5

Other than the above items, there were no provision for and write off of receivables, gain or loss on disposal of unquoted investment or properties, impairment of assets and exceptional items for the current quarter and financial year-to-date.

#### B7. Status of corporate proposals

There are no corporate proposals announced as at the date of this report.



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#### **B8. Group borrowings and debt securities**

There were no group borrowings and debt securities as at the end of the reporting period.

#### **B9. Changes in material litigation**

There were no material changes in litigation since the end of the last reporting period.

#### **B10. Dividend**

No interim dividend has been declared.

#### **B11. Earnings per share**

The basic and diluted earnings per ordinary share of RM0.50 each are calculated as follows:

	Current quarter ended 31/12/2012	Current year to date 31/12/2012
Net profit attributable to ordinary shareholders (RM'000)	<u>1,000</u>	<u>1,672</u>
Weighted average number of ordinary shares of RM0.50 each	200,380,036	200,380,036
Basic/Diluted earnings per ordinary share of RM0.50 each (sen)	<u>0.5</u>	<u>0.8</u>





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#### B12. Disclosure of realised and unrealised profits

	As at 31/12/2012 RM'000	As at 30/06/2012 RM'000 (RESTATED)
Total retained profits of the Company and its subsidiaries:		
- Realised	96,634	103,267
- Unrealised	6,062	5,772
Total group retained profits as per consolidated accounts	<u>102,696</u>	<u>109,039</u>

The disclosure of realised and unrealised profits is made solely for complying with the disclosure requirements as stipulated in the directives of Bursa Malaysia Securities Berhad and is not made for any other purposes.

#### B13. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 26<sup>th</sup> February 2013.