



## HEXZA CORPORATION BERHAD (8705-K)

### Interim Report on Consolidated Results for the Third Quarter ended 31<sup>st</sup> March 2013

#### 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 paid during the quarter under review.



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#### A8. Segment revenue and segment result

Information on business segments for the financial period ended 31<sup>st</sup> March 2013 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	88,489	1,397	2,077	-	-	91,963
Inter-segment sales	1,553	2,430	14,410	-	(18,393)	-
Total revenue	90,042	3,827	16,487	-	(18,393)	91,963
<b>RESULT</b>						
Operating profit	827	4,112	397	56	(2,419)	2,973
Interest expense						(34)
Interest income						587
Taxation						(729)
Profit after tax						2,797

#### 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> March 2013.

#### 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) 3<sup>rd</sup> Quarter FY 2013 compared with 3<sup>rd</sup> Quarter FY 2012**

Group revenue of RM30.48 million for the current quarter was 18.1% lower than RM37.20 million in the previous corresponding quarter. Consequently, group profit before tax decreased 36.3% to RM1.30 million from RM2.05 million previously.

Performance of the respective operating business segments for the current quarter is as follows:

Manufacturing segment – Revenue decreased by 18.0% to RM6.48 million in the current quarter mainly due to drop in 15.7% in sales volume of resins products coupled with 11.6% decline in selling prices. The sales volume of ethanol was also lower by 12.6%, however, the reduction was mitigated by the higher selling prices. Profit before tax was lower by 61.2% mainly due to lower profit contribution from the resins division.

Investment segment – Revenue increased by RM0.23 million and profit before tax improved by RM0.09 million contributed by higher dividend income received from quoted investments.

Trading segment – Revenue was lower by RM0.47 million and profit before tax was also marginally lower mainly due to substantial reduction in ethanol sales volume by 61.1%.

###### **(b) Year-to-date 3<sup>rd</sup> Quarter FY 2013 compared with year-to-date 3<sup>rd</sup> Quarter FY 2012**

Group revenue of RM91.96 million was 17.3% lower than RM111.22 million in the previous corresponding period. Group profit before tax of RM3.53 million was also lower, a reduction of 47.7% as compared to RM6.75 million previously.

Performance of the respective operating business segments for the current year-to-date period is as follows:

Manufacturing segment – Revenue of RM88.49 million decreased by RM17.39 million or 16.4% in the period mainly due to drop in sales volume of resins products by 11.6% aggravated by 12.6% decline in selling prices, partly mitigated by higher turnover of ethanol contributed by 12.1% higher selling prices. Profit before tax of RM0.95 million was lower by 72.5% mainly due to lower profit contribution from the resins division.



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

Investment segment – Revenue increased by RM0.22 million contributed by higher dividend income received from quoted investments. Profit before tax was however, lower by RM0.41 million as there was a gain on disposal of quoted investments of RM0.47 million in the previous corresponding period.

Trading segment – Revenue and profit before tax were lower by RM2.09 million and RM0.29 million respectively mainly due to reduction in ethanol sales volume by 45.9%.

#### **B2. Comparison of results for the 3<sup>rd</sup> Quarter FY 2013 against immediate preceding 2<sup>nd</sup> Quarter FY 2012**

The Group revenue for the current quarter at RM30.48 million was marginally higher than the immediate preceding quarter. Group profit before tax at RM1.30 million was however lower by 28.5% when compared with RM1.82 million previously. The lower performance of the quarter was mainly due to depressed selling prices of the resins division and lower production yield of the ethanol division. Investment segment reported a lower profit before tax by RM0.29 million on lower dividend income from quoted investments.

#### **B3. Prospects**

The Board of Directors expects the Group to show improvement in its operations for the remaining quarter 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 31/03/2013	Current year to date 31/03/2013
	RM'000	RM'000
Estimated current Malaysian taxation	731	1,481
Deferred taxation	(318)	(752)
	<u>413</u>	<u>729</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 31/03/2013	Current year to date 31/03/2013
	RM'000	RM'000
Depreciation and amortisation	1,401	4,226
Inventories written off	12	194
Interest expense	6	34
Interest income	(186)	(587)
Gain on disposal of other investment	-	(48)
Income from financial assets designated as at FVTPL	(228)	(805)
Loss on foreign exchange	1	6
Write off of other receivables	12	12

Other than the above items, there were no provision for receivables, gain or loss on disposal of unquoted investment or properties, impairment of assets, gain or loss on derivatives 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**

The Group's short-term borrowing as at 31<sup>st</sup> March 2013 was due to the utilisation of trade facility from a licensed bank bearing interest at rate of 3.73% per annum.

#### **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 31/03/2013	Current year to date 31/03/2013
Net profit attributable to ordinary shareholders (RM'000)	<u>773</u>	<u>2,445</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>0.4</u>	<u>1.2</u>





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

	As at 31/03/2013 RM'000	As at 30/06/2012 RM'000 (RESTATED)
Total retained profits of the Company and its subsidiaries:		
- Realised	102,532	103,267
- Unrealised	6,307	5,772
Total group retained profits as per consolidated accounts	<u>108,839</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 22<sup>nd</sup> May 2013.