HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Fourth Quarter ended 30 June 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 30th 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 30th 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.

<u>Acquisition before date of transition</u>
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 1st 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.

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 1st July 2011 and 30th June 2012 respectively;
(ii) Reclassification of revaluation surplus of RM15.76 million to retained earnings as of 1st 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 1st July 2011 and 30th 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 1st July 2011

	As previously reported RM'000	Effect of Transition to MFRS RM'000	As restated RM'000
As at 1st July 2011			
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 30th June 2012

	As previously reported RM'000	Effect of Transition to MFRS RM'000	As restated RM'000
As at 30th June 2012			
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

A2. Audit report

The audit report for the financial year ended 30 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 year.

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 financial year.

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 year to date.

A7. Dividend paid

No dividend was paid during the quarter under review.

A first and final dividend of 8.0%, less tax and a tax-exempt dividend of 2.0% in respect of the previous financial year ended 30 June 2012 was paid by the Company on 3 January 2013.

A8. Segment revenue and segment result

Information on business segments for the financial period ended 30 June 2013 is as follows:

	Manufacturing RM'000	Investment RM'000	Trading RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
REVENUE						
External sales	118,861	2,943	2,753	-	-	124,557
Inter-segment sales	2,057	6,323	17,458	-	(25,838)	-
Total revenue	120,918	9,266	20,211	-	(25,838)	124,557
RESULT						
Operating profit	1,447	13,721	474	54	(6,373)	9,323
Interest expense						(37)
Interest income						787
Taxation						(1,191)
Profit after tax						8,882

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 year ended 30 June 2013.

A10. Change in composition of the Group

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

On 30 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.

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

B1. Review of performance

(a) 4th Quarter FY 2013 compared with 4th Quarter FY 2012

Group revenue of RM32.59 million for the current quarter was 12.8% lower than RM37.39 million in the previous corresponding quarter. However, Group profit before tax increased to RM6.55 million from RM2.23 million previously.

The performance of the operating business segments for the current quarter is as follows:

Manufacturing segment – Revenue decreased by 14.4% to RM30.37 million in the current quarter mainly due to 27.6% reduction in sales volume of the Resins division coupled with 5.4% decline in selling prices. The reduction was partly mitigated by the higher turnover of the Ethanol division which shows an improvement of 62.4% in sales volume. Consequently, profit before tax was lower by 18.9% in view of the poor contribution from the Resins division.

Investment segment – Revenue decreased by RM0.52 million, however, profit before tax improved by RM4.55 million mainly contributed by gains on disposal of quoted investments amounting to RM4.14 million.

Trading segment – Revenue of RM0.68 million and profit before tax of RM0.07 million were lower mainly due to reduction in ethanol sales volume.

(b) Year-to-date 4th Quarter FY 2013 compared with year-to-date 4th Quarter FY 2012

Group revenue of RM124.56 million was 16.2% lower than RM148.62 million in the previous financial year. However, Group profit before tax increased to RM10.07 million from RM8.98 million previously.

The performance of the operating business segments for the current financial year is as follows:

Manufacturing segment – Revenue of RM118.86 million decreased by RM22.50 million or 15.9% mainly due to the poorer performance of the Resins division, sales volume was down by 15.9% and selling prices also declined by 10.8%. The poorer performance of the Resins division was partly mitigated by the improved performance of the Ethanol division which registered an improvement in turnover of 23.1%. Profit before tax of RM1.52 million was substantially lower than RM4.16 million previously in view of the poorer results from the Resins division.

B1. Review of performance (Cont'd)

Investment segment – This segment contributed a higher profit before tax of RM8.05 million mainly due to gains on disposal of quoted investments amounting to RM4.19 million.

Trading segment – Revenue and profit before tax were lower by RM2.31 million and RM0.38 million respectively mainly due to lower ethanol sales.

B2. Comparison of results for the 4th Quarter FY 2013 against immediate preceding 3rd Quarter FY 2013

The Group revenue for the current quarter at RM32.59 million showed an improvement of 6.9%. Group profit before tax at RM6.55 million was higher than RM1.30 million previously. The improved results were mainly due to gains on disposal of quoted investments amounting to RM4.14 million. The manufacturing segment's profit before tax improved marginally mainly due to the improved performance of the Ethanol division. The Ethanol division recorded a higher profit before tax of RM1.09 million attributable to higher production yield, but the segment profit was substantially reduced by the loss suffered by the Resins division for the quarter.

B3. Prospects

The Board anticipates a better performance for the Group for the financial year ending 30 June 2014.

B4. Comparison with profit forecast

This note is not applicable.

B5. Income tax

Taxation comprises:

	Current quarter ended 30/06/2013	Current year to date 30/06/2013
	RM'000	RM'000
Estimated current Malaysian taxation	88	1,569
Deferred taxation	374	(378)
	462	1,191

The effective tax rate of the Group for the current year 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 30/06/2013	Current year to date 30/06/2013
	RM'000	RM'000
Depreciation and amortisation	1,431	5,657
Inventories written off	49	243
Interest expense	3	37
Interest income	(200)	(787)
Gain on disposal of available-for-sale investments	(4,141)	(4,189)
Income from financial assets designated as at FVTPL	(229)	(1,034)
Gain on foreign exchange	(9)	(3)
Allowance for doubtful debts	378	378
Write off of trade and other receivables	119	131

Other than the above items, there were no 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.

B8. Group borrowings and debt securities

There were no group borrowing and debt securities as at the end of the current financial year.

B9. Changes in material litigation

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

B10. Dividend

(a) A first and final dividend of 4.0 sen net per ordinary share of 50 sen each comprising dividend of 8.0%, less tax and a tax-exempt dividend of 2.0% in respect of the financial year ended 30 June 2013 has been recommended by the Directors which are subject to the approval of the shareholders at the forthcoming Annual General Meeting.

(b) The first and final dividend paid for the previous financial year ended 30 June 2012 was 4.0 sen net per ordinary share of 50 sen each comprising dividend of 8.0%, less tax and a tax-exempt dividend of 2.0%.

(c) The date of payment of the recommended final dividend shall be determined by the Directors and announced at a later date.

B11. Earnings per share

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

	Current quarter ended 30/06/2013	Current year to date 30/06/2013
Net profit attributable to ordinary shareholders (RM’000)	6,030	8,475
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)	3.0	4.2

B12. Disclosure of realised and unrealised profits

	As at 30/06/2013 RM'000	As at 30/06/2012 RM'000 (RESTATED)
Total retained profits of the Company and its subsidiaries:		
- Realised	103,638	103,267
- Unrealised	5,861	5,772
Total group retained profits as per consolidated accounts	109,499	109,039

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 28 August 2013.