HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Second Quarter ended 31 December 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 quarterly financial statements under review have been prepared based on the same accounting policies and methods of computation adopted in the most recent Audited Financial Statements for the year ended 30 June 2013 except for the newly-issued Malaysian Financial Reporting Standards ("MFRS"), Amendments to MFRS and IC Interpretations ("IC Int.") that are applicable to the Group for financial period beginning 1 July 2013:

MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interest in Other Entities
MFRS 13	Fair Value Measurements

Amendments to the following MFRSs:

MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
MFRS 7	Disclosure– Offsetting Financial Assets and Financial Liabilities
MFRS 10	Consolidated Financial Statements: Transition Guidance
MFRS 11	Joint Arrangements: Transition Guidance
MFRS 12	Disclosure of Interest in Other Entities: Transition Guidance
MFRS 101	Presentation of Financial Statements (Annual Improvements 2009-2001 Cycle)
MFRS 116	Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
MFRS 119	Employee Benefits (IAS 19 as amended by IASB in June 2011)
MFRS 127	Separate Financial Statements (IAS 27 as amended by IASB in May 2011)
MFRS 128	Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)
MFRS 132	Financial Instruments: Presentation (Annual Improvements 2009- 2011 Cycle)
MFRS 134	Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)

The adoption of the above did not have any material impact on this report upon their initial application.

A2. Audit report

The audit report for the financial year ended 30 June 2013 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 financial 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 8.0% less tax plus 2.0% tax-exempt in respect of the financial year ended 30 June 2013 was approved by the shareholders at the 44th Annual General Meeting on 23 November 2013. The dividend amounting to RM8.015 million was paid on 11 December 2013.

A8. Segment revenue and segment result

Information on business segments for the financial period ended 31 December 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	65,517	813	1,395	-	-	67,725
Inter-segment sales	1,175	1,620	10,162	-	(12,957)	-
Total revenue	66,692	2,433	11,557	-	(12,957)	67,725
RESULT						
Operating profit	2,779	2,606	314	39	(1,566)	4,172
Interest expense						(11)
Interest income						440
Taxation						(843)
Profit after tax						3,758

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 statements for the quarter ended 31 December 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.

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) 2nd Quarter of FY 2014 compared with 2nd Quarter of FY 2013

The Group registered higher turnover of RM36.29 million compared to RM30.15 million in the same quarter last year. Profit before tax was higher at RM3.41 million as compared to RM1.82 million previously.

The performance of the operating business segments is as follows:

Manufacturing segment – Turnover for the quarter was RM6.29 million higher mainly attributable to a substantial 88.7% improvement in ethanol sales. Consequently, the improvement in profit before tax was mainly contributed by the improved results of the ethanol division.

Investment segment – Profit before tax of RM0.77 million was lower mainly due to lower dividend income from quoted investments.

Trading segment – Turnover rose 16.0% to RM0.68 million and profit before tax increased to RM0.16 million.

(b) Current year-to-date compared with year-to-date of FY 2013

The Group registered higher turnover of RM67.73 million compared to RM61.48 million in the same period last year. Profit before tax was higher at RM4.60 million as compared to RM2.22 million previously.

The performance of the operating business segments is as follows:

Manufacturing segment – Turnover for the half year was RM6.46 million higher mainly attributable to a substantial 55.4% improvement in turnover of the ethanol division. The turnover of the Resins division was however lower due to the lower average selling prices. Consequently, the improvement in profit before tax was mainly contributed by the ethanol division.

Investment segment – Profit before tax of RM1.39 million was lower mainly due to lower dividend income from quoted investments.

Trading segment – Profit before tax increased by RM66 thousands despite 7.3% reduction in turnover, mainly due to improved margins.

B2. Comparison of results for the 2nd Quarter of FY 2014 against 1st Quarter of FY 2014

The Group recorded a higher turnover and profit before tax of RM36.29 million and RM3.41 million for the second quarter, representing an improvement of about 15% and 185% respectively when compared to the first quarter. The improvement was substantially contributed by the ethanol division due to higher turnover and better production yield.

B3. Prospects

The remaining half year for the Resins division will be challenging in view of the impact of higher raw material prices and competitive market environment. The ethanol division is expected to show improvement in its operation and maintain its higher contribution to the Group's performance. The Board expects the performance for the current financial year to be better than the previous financial year.

B4. Comparison with profit forecast

This note is not applicable.

B5. Income tax

Taxation comprises:

	Current quarter ended 31/12/2013	Current year to date 31/12/2013
	RM'000	RM'000
Estimated current Malaysian taxation	717	892
Deferred taxation	(40)	(49)
	677	843

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 31/12/2013 RM'000	Current year to date 31/12/2013 RM'000
Depreciation and amortisation	1,347	2,844
Inventories written off	15	63
Interest expense	8	11
Interest income	(255)	(440)
Income from financial assets designated as at FVTPL	(266)	(603)
Net foreign exchange gain	(2)	(8)

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, 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

The Group's short-term borrowing as at 31 December 2013 was due to the utilisation of trade facility from a licensed bank bearing interest at rate of 3.80% 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 was declared for the current financial period to date.

B11. Earnings per share

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

	Current quarter ended 31/12/2013	Current year to date 31/12/2013
Net profit attributable to ordinary shareholders (RM'000)	2,609	3,629
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)	1.3	1.8

B12. Disclosure of realised and unrealised profits

	As at 31/12/2013 RM'000	As at 30/06/2013 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	99,347	103,638
- Unrealised	5,766	5,861
Total group retained profits as per consolidated accounts	105,113	109,499

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 February 2014.