



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Second Quarter ended 31st December 2016

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 30th June 2016.

The Group has adopted all applicable accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) except for those which are not yet effective. The initial adoption of the accounting standards, amendments and interpretations that are effective in the current financial period does not have any significant impact on the Group’s financial statements.

A2. Audit report

The audit report for the financial year ended 30th June 2016 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 period to date other than the gain on disposal of non-current asset classified as held for sale by a subsidiary company amounting to RM6.63 million announced previously.

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.



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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 proposed final single-tier dividend of 9.0% by the Board of Directors in respect of the financial year ended 30 June 2016 was approved by the shareholders at the 47th Annual General Meeting on 19th November 2016. The dividend amounting to RM9.017 million was paid on 8th December 2016.

A8. Segment revenue and segment result

Information on business segments for the financial period ended 31st December 2016 is as follows:

	Manufacturing RM'000	Investment RM'000	Trading RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
REVENUE						
External sales	59,496	1,666	-	-	-	61,162
Inter-segment sales	-	2,430	7,533	-	(9,963)	-
Total revenue	59,496	4,096	7,533	-	(9,963)	61,162
RESULT						
Operating profit	14,641	9,748	(17)	(37)	(2,363)	21,972
Interest expense						(10)
Interest income						4,243
Taxation						(1,031)
Profit after tax						25,174

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 31st December 2016.



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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 2017 compared with 2nd Quarter of FY 2016

The Group recorded a lower turnover of RM26.86 million as compared to RM36.65 million in the same quarter last year. Profit before tax at RM10.74 million was higher against RM3.83 million in previous corresponding quarter.

The performance of the operating business segments is as follows:

Manufacturing segment – Turnover for the quarter was lower at RM25.71 million compared to RM35.60 million in the previous corresponding quarter. A new excise duty amendment order 2016 came into effect on 10 October 2016, whereby the excise duty on potable alcohol used in the manufacture of locally bottled alcohol is no longer paid by the distillers but levied on the finished products and to be paid by the bottlers. On top of the transfer of excise duty payment from the distillers to the bottlers, the excise duty rate has more than doubled with this new amendment order. In addition, the bottlers were seeking clarification and had put their bottling operations on hold for approximately two months before the revision in the standard operating procedure of the Royal Malaysian Customs Department was issued. This has affected the sales of potable alcohol by the Group for the two-month period. Subsequently, the bottlers resumed normal operations as at 31 December 2016 but at a lower production level as they go through a market adjustment period. This directly resulted in the drop for ethanol division's turnover by 55.0% and decrease in sales volume by 23.2%. Resins division's turnover dropped by 5.4% mainly due to a drop in average selling price and cessation of manufacturing operation of a subsidiary company as announced previously. Profit before tax for manufacturing segment increased by RM0.63 million contributed from resins division mainly due to lower average raw material cost.

Investment segment – profit before tax was higher mainly due to the unrealized foreign exchange gain of RM4.75 million recognized in the current quarter as compared to a reversal of an unrealized foreign exchange gain of RM0.83 million in the previous corresponding period.



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(b) Current year-to-date compared with year-to-date of FY 2016

The Group registered a lower turnover of RM61.16 million compared to RM73.92 million in the same period last year. However, profit before tax was higher at RM26.20 million as compared to RM12.92 million previously.

The performance of the operating business segments is as follows:

Manufacturing segment – Turnover for the first half year declined by 17.8% or RM12.95 million from RM72.45 million to RM59.50 million. The drop in turnover for ethanol division was mainly attributable to the excise duty exemption order that came into effect on 10th October 2016 and drop in both sales volume and average selling price. Resins division's turnover declined by 9.0% mainly due to a drop in average selling price and cessation of manufacturing operation of a subsidiary company as announced previously. Profit before tax for the segment increased by RM9.76 million from RM5.41 million to RM15.17 million mainly due to gain on disposal of non-current asset classified as held for sale as the sale transactions by Norsechem Resins Sdn Bhd amounting to RM6.63 million were recognized during the current year to date.

Investment segment – Profit before tax was higher by RM3.61 million mainly due to recognition of unrealized foreign exchange gain of RM6.37 million in the current year to date as compared to unrealized foreign exchange gain of RM3.86 million recognized in the previous corresponding period.

B2. Comparison of results for the 2nd Quarter of FY 2017 against immediate preceding 1st Quarter of FY 2017

The Group recorded a decrease in revenue by 21.7% from RM34.30 million to RM26.86 million. Profit before tax was lower at RM10.74 million compared to RM15.47 million previously mainly due to gain on disposal of property, plant and equipment and non-current asset classified as held for sale of RM6.66 million recognized in the immediate preceding quarter.

B3. Prospects

With the recent steep hike in excise duty for locally bottled alcohol products, the alcohol industry is facing uncertainty in the future market demand for their finished products. Furthermore, the Ringgit Malaysia remains volatile and weak against US Dollar. The Group is expected to deal with cost challenges as most of its raw materials are imported. Despite the challenging business environment faced by the Group, the Board of Directors expects the Group to remain profitable for the rest of the financial year ended 30th June 2017.

B4. Comparison with profit forecast

This note is not applicable.



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B5. Income tax

Taxation comprises:

	Current quarter ended 31/12/2016 RM'000	Current year to date 31/12/2016 RM'000
Estimated current Malaysian taxation	996	2,385
Deferred taxation	(95)	(1,354)
	<u>901</u>	<u>1,031</u>

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 31/12/2016 RM'000	Current year to date 31/12/2016 RM'000
Depreciation and amortisation	825	1,649
Reclassification of previously recognized fair value changes of available-for-sale-investments	-	(125)
Gain on disposal of available-for-sale investment	-	(11)
Gain on disposal of property, plant and equipment / non-current asset classified as held for sale	-	(6,658)
Property, plant and equipment written off	-	158
Interest expense	5	10
Finance lease income	(1,784)	(3,415)
Interest income	(495)	(828)
Net gain arising from financial assets designated as FVTPL	(51)	(49)
Net unrealized gain on foreign exchange	(4,751)	(6,371)

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



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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 quarter.

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 quarter under review.

B11. Earnings per share

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

	Current quarter ended 31/12/2016	Current year to date 31/12/2016
Net profit attributable to ordinary shareholders (RM'000)	<u>9,481</u>	<u>24,291</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>4.7</u>	<u>12.1</u>



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B12. Disclosure of realised and unrealised profits

	As at 31/12/2016 RM'000	As at 30/06/2016 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	123,372	114,626
- Unrealised	14,467	7,939
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Total group retained profits as per consolidated accounts	137,839	122,565

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 16th February 2017.