



## **HEXZA CORPORATION BERHAD** (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31<sup>st</sup> March 2017

### **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<sup>th</sup> 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 30<sup>th</sup> 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.



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### **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.

### **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 47<sup>th</sup> Annual General Meeting on 19<sup>th</sup> November 2016. The dividend amounting to RM9.017 million was paid on 8<sup>th</sup> December 2016.



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**A8. Segment revenue and segment result**

Information on business segments for the financial period ended 31<sup>st</sup> March 2017 is as follows:

	Manufacturing RM'000	Investment RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
<b>REVENUE</b>						
External sales	85,078	2,001	-	-	-	87,079
Inter-segment sales	-	2,430	14,602	-	(17,032)	-
Total revenue	85,078	4,431	14,602	-	(17,032)	87,079
<b>RESULT</b>						
Operating profit	14,671	7,000	29	(61)	(2,363)	19,276
Interest expense						(18)
Interest income						6,230
Taxation						(1,209)
Profit after tax						24,279

**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<sup>st</sup> March 2017.

**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.



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### **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) 3<sup>rd</sup> Quarter of FY 2017 compared with 3<sup>rd</sup> Quarter of FY 2016**

The Group recorded a lower turnover of RM25.92 million as compared to RM32.69 million in the same quarter last year. Loss before tax at RM0.72 million was recorded this quarter as compared to a profit before tax of RM2.71 million in previous corresponding quarter.

The performance of the operating business segments is as follows:

#### **Manufacturing segment**

Turnover for the quarter was lower at RM25.58 million compared to RM32.33 million in the corresponding quarter last year. The excise duty hike in October 2016 continued to affect the production level of all manufacturers of locally bottled alcohol products. As a result of ongoing market adjustment for potable alcohol, sales volume for our ethanol division was 22.2% lower.

Taking into consideration the Excise Duties (Amendment) Order 2016, whereby the excise duty of potable alcohol will be levied on the finished products and paid by the bottlers, our ethanol division's



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revenue, which previously included excise duty for potable alcohol, was 63.6% lower.

Resins division's turnover increased by 15.9% mainly due to an increase of 10.4% and 4.9% in sales volume and average selling price respectively.

Profit before tax for manufacturing segment decreased by RM3.64 million. Our ethanol division recorded a lower profit before tax mainly due to sales volume that was 22.2% lower and higher raw material cost. Sharp spike in prices of our raw material for resin products coupled with weaker Ringgit resulted in 29.1% higher average raw material cost for our resin division. However, increase in average selling price for our resin products depends on ongoing price negotiation with our customers and typically lag behind the prices of raw material movements. Consequently, our resins division recorded a loss before tax.

### **Investment segment**

Our investment segment registered a loss before tax mainly due to fair value adjustment on reassessment of financial asset amounting to RM4.03 million. Our investment in Myanmar experience delays in lease rental collection and the Company is currently reassessing its option. However, this was mitigated by the gain on disposal of available-for-sale financial assets amounting to RM3.48 million recognized in the current quarter.

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

The Group registered a lower turnover of RM87.08 million compared to RM106.61 million in the same period last year. However, profit before tax was higher at RM25.49 million as compared to RM15.63 million previously.



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The performance of the operating business segments is as follows:

### **Manufacturing segment**

We registered segmental revenue of RM85.08 million, 18.8% or RM19.70 million lower compared to RM104.78 million a year ago.

Our alcohol division reported lower revenue mainly attributable to the Excise Duties (Amendment) Order 2016, whereby the excise duty of potable alcohol will be levied on the finished products and paid by the bottlers. The new duty tariff for compounded hard liquor was more than double that of the original tariff rate, which resulted in lower sales volume for our ethanol division.

Resins division's turnover improved marginally mainly due to increase in sales volume but offset by a lower average selling price achieved.

Profit before tax for the segment increased by RM6.11 million to RM15.55 million from RM9.44 million, mainly due to RM6.63 million one-off gain on disposal of non-current asset classified as held for sale by Norsechem Resins Sdn Bhd were recognized during the current year to date.

Profit before tax for ethanol division was lower due to a fall in sales volume by 14.0% and higher raw material cost. Profit before tax for resins division was also lower due to lower average selling price.



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### **Investment segment**

The Group's investment segment registered an increase of RM3.75 million in profit before tax during the nine-month period under review, mainly due to gain on disposal of available-for-sale financial assets of RM3.62 million and unrealized foreign exchange gain of RM4.31 million as compared to unrealized foreign exchange gain of RM1.35 million recognized a year ago. However, this was partly set off by the fair value adjustment on reassessment of financial asset amounting to RM4.03 million.

### **B2. Comparison of results for the 3<sup>rd</sup> Quarter of FY 2017 against immediate preceding 2<sup>nd</sup> Quarter of FY 2017**

Revenue for the quarter under review was RM25.92 million, a decrease of 3.5% from RM26.86 million achieved last quarter. However, loss before tax of RM0.72 million was recorded in the quarter under review as compared to profit before tax of RM10.74 million previously due to a reversal of unrealized foreign exchange gain of RM2.06 million in the current quarter as compared to unrealized foreign exchange gain of RM4.75 million recognized in the immediate preceding quarter. A fair value adjustment on reassessment of financial asset amounting to RM4.03 million was also provided for in this quarter. Resins division recorded a loss before tax in the current quarter as compared to a profit before tax in the immediate preceding quarter mainly due to a 33.9% increase in raw material cost.

### **B3. Prospects**

The impacts of steep hike in excise duty are still being felt as manufacturers of locally bottled alcohol products continued to adjust to the new market dynamics.



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Our resins division will continue to deal with cost pressure and work with our customers to pass on the additional cost arising from higher raw material prices and weakened Ringgit, although the strengthening of Ringgit in April 2017 would help to partially offset such cost impacts. The gradual decline in raw material prices in the recent months are expected to contribute positively to our resins division. As such, we expect our resins division to be profitable for the fourth quarter ending 30th June 2017.

Despite the challenging operating environment and volatile raw material prices, the Board of Directors expect the core manufacturing businesses of the Group to remain profitable for the fourth quarter ending 30th June 2017.

#### B4. Comparison with profit forecast

This note is not applicable.

#### B5. Income tax

Taxation comprises:

	Current quarter ended 31/03/2017 RM'000	Current year to date 31/03/2017 RM'000
Estimated current Malaysian taxation	325	2,710
Deferred taxation	(101)	(1,455)
	<hr/> 224	<hr/> 1,255
Over provision in prior years - income tax	(46)	(46)
	<hr/> 178	<hr/> 1,209





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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 31/03/2017 RM'000	Current year to date 31/03/2017 RM'000
Depreciation and amortisation	802	2,451
Reclassification of previously recognized fair value changes of available-for- sale financial assets	1,927	1,802
Gain on disposal of available-for-sale financial assets	(5,411)	(5,422)
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	8	18
Finance lease income	(1,875)	(5,290)
Fair value adjustment on reassessment of financial assets	4,029	4,029
Interest income	(112)	(940)
Net gain arising from financial assets designated as FVTPL	(39)	(88)
Net unrealized loss/(gain) on foreign exchange	2,063	(4,308)



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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.

### **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:



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	Current quarter ended 31/03/2017	Current year to date 31/03/2017
Net (loss)/profit attributable to ordinary shareholders (RM'000)	<u>(839)</u>	<u>23,451</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>11.7</u>

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

	As at 31/03/2017 RM'000	As at 30/06/2016 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	124,566	114,626
- Unrealised	<u>12,433</u>	<u>7,939</u>
Total group retained profits as per consolidated accounts	<u>136,999</u>	<u>122,565</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.



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### **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 24<sup>th</sup> May 2017.