



HEXZA CORPORATION BERHAD (8705-K)

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



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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:

- (i) the gain on disposal of non-current asset classified as held for sale by a subsidiary company amounting to RM6.63 million announced previously, and
- (ii) Our investment in Myanmar continues to experience delays in lease rental collection and the Company is currently reassessing its options. We met up with the lessee to discuss possible exit options but nothing has been finalised to date. The Company has made a provision for impairment loss for the total finance lease installments due but not yet paid as at 30th June 2017.

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.



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A7. Dividend paid

No dividend was paid during the quarter under review.

A final single-tier dividend of 9.0% amounting to RM9.017 million in respect of the previous financial year ended 30 June 2016 was paid on 8th December 2016.

A8. Segment revenue and segment result

Information on business segments for the financial period ended 30th June 2017 is as follows:

	Manufacturing RM'000	Investment RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
REVENUE						
External sales	109,370	3,407	-	-	-	112,777
Inter-segment sales	93	10,395	24,152		(34,640)	-
Total revenue	109,463	13,802	24,152		(34,640)	112,777
RESULT						
Operating profit	16,982	10,701	125	(97)	(10,375)	17,336
Interest expense						(20)
Interest income						8,106
Taxation						(2,261)
Profit after tax						23,161

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 30th June 2017.



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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) 4th Quarter of FY 2017 compared with 4th Quarter of FY 2016

The Group recorded a lower turnover of RM25.70 million as compared to RM35.38 million in the same quarter last year. Loss before tax at RM0.07 million was recorded this quarter as compared to a profit before tax of RM5.07 million in the previous corresponding quarter.

The performance of the operating business segments is as follows:



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Manufacturing segment

Turnover for the quarter was lower at RM24.29 million compared to RM34.06 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 26.6% lower.

Due to lower sales volume and 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 revenue, which previously included excise duty for potable alcohol, was 66.1% lower.

Resins division's turnover increased by 7.9% mainly due to an increase in average selling price but partially offset by lower sales volume.

Profit before tax for manufacturing segment decreased by RM1.66 million. Our ethanol division's profit before tax was 27.1% lower mainly due to sales volume that was 26.6% lower and lower average selling price. Our resins division's profit before tax was 55.1% lower, mainly due to higher average raw material costs. Sharp spike in prices of our raw materials for resin products coupled with weaker Ringgit resulted in 31.6% higher average raw material cost for our resins division. The increase in average raw material costs outpaced the increase in average selling price for our resin products, hence causing a margin compression.



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Investment segment

Our investment segment registered a loss before tax mainly due to an additional provision for impairment loss of finance lease receivable amounting to RM2.92 million. There was also a reversal of unrealised foreign exchange gain amounting to RM1.72 million.

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

The Group registered a lower turnover of RM112.78 million compared to RM141.43 million in the last financial year. However, profit before tax was higher at RM25.42 million as compared to RM20.70 million in the last financial year.

The performance of the operating business segments is as follows:

Manufacturing segment

Turnover declined 20.1% or RM28.91 million to RM109.37 million from RM138.28 million in the last financial year.

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 slightly mainly due to increase in sales volume by 1.2%.

Profit before tax for the segment increased by RM4.46 million to RM17.85 million from RM13.39 million.



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Profit before tax for the ethanol division was lower due to a fall in sales volume by 15.3% and higher raw material cost. Profit before tax for the resins division was higher, mainly due to the RM6.56 million one-off gain on disposal of non-current asset classified as held for sale by Norsechem Resins Sdn Bhd, partially offset by higher average raw material costs.

Investment segment

The Group's investment segment registered a marginal increase of RM0.11 million in profit before tax mainly due to gain on disposal of available-for-sale financial assets of RM3.60 million and unrealised foreign exchange gain of RM2.58 million as compared to unrealised foreign exchange gain of RM1.05 million recognised a year ago. The Group also recognised RM7.05 million in finance lease income interest this financial year as compared to RM5.74 million last year. However, the increase in profitability was largely offset by higher provision for impairment loss of finance lease receivable amounting to RM6.95 million as compared to a fair value adjustment on reassessment of financial asset amounting to RM1.70 million last year.

B2. Comparison of results for the 4th Quarter of FY 2017 against immediate preceding 3rd Quarter of FY 2017

Turnover for the quarter under review was RM25.70 million as compared to RM25.92 million in the immediate preceding quarter. A loss before tax of RM0.07 million was recorded in the quarter under review as compared to a loss before tax of RM0.72 million in the immediate preceding quarter.



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B3. Prospects

The impact of the steep hike in excise duty for potable alcohol is still being felt as manufacturers of locally bottled alcohol products continued to adjust to the new market dynamics. In view of the challenges in the potable alcohol market, our strategy is to intensify our marketing efforts and deepen customer relationship. Our potable alcohol sales may be affected by new regulation introduced by the government but we expect our ethanol division to remain profitable during the financial year ending 30th June 2018.

Our resins division is expected to continue to operate in a challenging environment due to relatively weak Ringgit and volatile raw material prices that may affect our profit margin. We expect the resins division to remain challenging but stay profitable for the financial year ending 30th June 2018.

B4. Comparison with profit forecast

This note is not applicable.

B5. Income tax

Taxation comprises:

	Current quarter ended 30/06/2017 RM'000	Current year to date 30/06/2017 RM'000
Estimated current Malaysian taxation	472	3,182
Deferred taxation	1,720	265



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	2,192	3,447
Under/(Over) provision in prior years:		
- income tax	111	65
- deferred tax	(1,407)	(1,407)
Real Property Gain Tax	156	156
	<u>1,052</u>	<u>2,261</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. (Loss)/Profit before taxation

(Loss)/profit before tax is arrived at after charging/(crediting):

	Current quarter ended 30/06/2017 RM'000	Current year to date 30/06/2017 RM'000
Depreciation and amortisation	814	3,265
Reclassification of previously recognized fair value changes of available-for-sale financial assets	(9)	1,793
Gain on disposal of available-for-sale financial assets	26	(5,396)
Gain on disposal of property, plant and equipment / non-current asset classified as held for sale	35	(6,693)
Property, plant and equipment written off	(19)	139
Inventories written off	2	2
Interest expense	2	20
Finance lease income	(1,764)	(7,054)
Interest income	(112)	(1,052)
Impairment loss of finance lease receivable	2,919	6,948



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Net gain arising from financial assets designated as FVTPL	(364)	(452)
Net unrealized loss/(gain) on foreign exchange	1,724	(2,584)

Other than the above items, there were no provision for and write off of receivables, provision for 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

- (a) A first and final dividend of 5.0 sen per share in respect of the financial year ended 30 June 2017 has been recommended by the Directors which is subject to the approval of the shareholders at the forthcoming Annual General Meeting.



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- (b) The first and final dividend paid for the previous financial year ended 30 June 2016 was 4.5 sen per share comprising single-tier dividend of 9.0%.
- (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 (loss)/earnings per share are calculated as follows:

	Current quarter ended 30/06/2017	Current year to date 30/06/2017
Net (loss)/profit attributable to Owners of the Company (RM'000)	<u>(1,223)</u>	<u>22,227</u>
Weighted average number of ordinary shares	200,380,036	200,380,036
Basic/Diluted (loss)/earnings per share	<u>(0.6)</u>	<u>11.1</u>



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B12. Disclosure of realised and unrealised profits

	As at 30/06/2017 RM'000	As at 30/06/2016 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	131,011	114,626
- Unrealised	4,764	7,939
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Total group retained profits as per consolidated accounts	135,775	122,565
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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 25th August 2017.