



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

**Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018**

### **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 2017.

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 June 2017 was not subject to any qualification.



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

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

### **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 except for the impairment loss of finance lease receivable amounting to RM28.54 million as announced on 7 November 2017.

Hexza had on 30 January 2015 entered into a sale & purchase and lease agreement with Singapore-incorporated Tembusu Industries Pte Ltd (Tembusu). The investment was affected by two reschedules of payment at Tembusu's request and subsequent delay in payments.

Representatives of the Company have met up with the directors of Tembusu over several occasions to discuss on repayment matters, including a proposed sale of assets.

After the proposed sale of assets did not materialise after the given deadline, our representatives have attempted to contact the Singaporean directors of Tembusu, namely Mr Tin Maung Kyin (Pete Tin) and Mr Heng Teck Meng (Harry Heng) before and after the issuance of notice of default to Tembusu and letter of demand to Pete Tin pursuant to his personal guarantee on 7 November 2017. Both Pete Tin and Harry Heng did not respond to our electronic mails, telephone calls and letters delivered by courier.



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

### **Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018**

Due to the default by Tembusu and being prudent, the Board of Directors of Hexza has decided to suspend further finance lease interest recognition. The Board of Directors of Hexza has also decided to make a full provision for impairment loss of finance lease receivable amounting to RM28.54 million. The Company had commenced arbitration proceeding in Singapore against Tembusu and Pete Tin on 1 March 2018 as 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 other than the finance lease receivable amounting to RM28.54 million, which has now been fully provided.

#### **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 5.0 sen per share by the Board of Directors in respect of the financial year ended 30 June 2017 was approved by the shareholders at the 48<sup>th</sup> Annual General Meeting on 25 November 2017. The dividend amounting to RM10.019 million was paid on 8 December 2017.



## HEXZA CORPORATION BERHAD (8705-K)

**Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018**

### **A8. Segment revenue and segment result**

Information on business segments for the financial period ended 31 March 2018 is as follows:

	Resins RM'000	Ethanol RM'000	Investment RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
<b>REVENUE</b>							
External sales	53,851	17,517	2,285	-	382	-	74,035
Inter-segment sales	-	67	11,970	2,398	-	(14,435)	-
Total revenue	53,851	17,584	14,255	2,398	382	(14,435)	74,035
<b>RESULT</b>							
Operating profit/(loss)	5,440	3,472	(20,021)	(100)	16	(11,858)	(23,051)
Interest expense							(13)
Interest income							81
Taxation							(2,079)
Loss after tax							(25,062)

### **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 March 2018.

### **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.



## HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

### 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 2018 compared with 3<sup>rd</sup> Quarter of FY 2017

The Group's performance for the current quarter compared to previous corresponding quarter is as follows:

	Quarter ended		Variance	
	31/03/2018 RM'000	31/03/2017 RM'000	RM'000	%
Revenue				
- Resin	16,327	20,052	(3,725)	(18.6)
- Ethanol	5,993	5,411	582	10.8
- Investment	321	335	(14)	(4.2)
- Trading	-	-	-	-
- Others	118	119	(1)	(0.8)
	<u>22,759</u>	<u>25,917</u>	<u>(3,158)</u>	



## HEXZA CORPORATION BERHAD (8705-K)

### Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

	Quarter ended		Variance	
	31/03/2018	31/03/2017	RM'000	%
Profit/(Loss) before tax				
- Resin	973	(146)	1,119	not applicable
- Ethanol	1,236	508	728	143.3
- Investment				
- investment in securities	(3,563)	1,573	(5,136)	(326.5)
- Trading	(43)	39	(82)	(210.3)
- Others	5	1	4	400.0
	<u>(1,392)</u>	<u>1,975</u>	<u>(3,367)</u>	
- Investment				
- investment in finance lease	-	(2,691)	2,691	not applicable
	<u>(1,392)</u>	<u>(716)</u>	<u>(676)</u>	

The Group recorded a lower turnover of RM22.76 million for the current quarter as compared to RM25.92 million in the previous corresponding quarter. Loss before tax of RM1.39 million was recorded this quarter as compared to a loss before tax of RM0.72 million in the previous corresponding quarter.

The performance of the operating business segments is as follows:

#### **Resins segment**

Turnover for the quarter was lower at RM16.33 million compared to RM20.05 million in the corresponding quarter last year mainly due to a decrease in sales volume. However, this was partially mitigated by an increase in average selling price.

Our resins segment recorded a profit before tax of RM0.97 million as compared to a loss before tax of RM0.15 million in the corresponding quarter last year as we managed to pass through higher raw material costs to our customers over the past few quarters.



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

**Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018**

### **Ethanol segment**

Revenue increased by 10.8% mainly due to an increase in sales volume, which was partially offset by a decrease in average selling price arising from a change in product mix.

Profit before tax for ethanol segment increased by RM0.73 million mainly due to better production efficiency.

### **Investment segment**

Loss before tax of RM3.56 million was recorded this quarter as compared to a loss before tax of RM1.12 million in the corresponding quarter last year. Loss on disposal of quoted shares of RM1.30 million was recorded this quarter as opposed to gain on disposal of quoted shares of RM3.48 million previously. An unrealized loss on foreign exchange amounting to RM2.19 million recorded by the Company also contributed to the loss before tax this quarter.

Our investment in power generation equipment in Myanmar reported RM2.69 million loss before tax in Q3 2017, mainly as a result of impairment loss for finance lease receivable of RM4.03 million in Q3 2017, partially offset by finance lease interest of RM1.87 million. The Board of Directors has in Q1 2018 decided to suspend further finance lease interest recognition after making a full provision for impairment loss of finance lease receivable due to default by Tembusu Industries Pte Ltd.

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

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

**(b) Current year-to-date compared with year-to-date of FY 2017**

	Year ended		Variance	
	9 months ended		RM'000	%
	31/03/2018	31/03/2017		
	RM'000	RM'000		
Revenue				
- Resin	53,851	56,272	(2,421)	(4.3)
- Ethanol	17,517	28,483	(10,966)	(38.5)
- Investment	2,285	2,001	284	14.2
- Trading	-	-	-	-
- Others	382	323	59	18.3
	<u>74,035</u>	<u>87,079</u>	<u>(13,044)</u>	
	Year ended		Variance	
	9 months ended		RM'000	%
	31/03/2018	31/03/2017		
	RM'000	RM'000		
Profit/(Loss) before tax				
- Resin	5,548	12,105	(6,557)	(54.2)
- Ethanol	3,496	3,381	115	3.4
- Investment				
- investment in securities	(3,407)	6,039	(9,446)	(156.4)
- Trading	(101)	11	(112)	(1,018.2)
- Others	17	7	10	142.9
	<u>5,553</u>	<u>21,543</u>	<u>(15,990)</u>	
- Investment				
- investment in finance lease	(28,536)	3,945	(32,481)	(823.3)
	<u>(22,983)</u>	<u>25,488</u>	<u>(48,471)</u>	

The Group recorded a lower turnover of RM74.03 million as compared to RM87.08 million in the previous corresponding period. Loss before tax of RM22.98 million was recorded this current year to date as compared to a profit before tax of RM25.49 million in the previous corresponding period.





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

**Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018**

The performance of the operating business segments is as follows:

### **Resins segment**

Turnover was lower at RM53.85 million compared to RM56.27 million in the corresponding period last year, mainly due to a decrease in sales volume. However, the impact from the decrease in sales volume was partially mitigated by an increase in average selling price, as we adjusted our average selling price to reflect higher raw material costs.

Our resins segment's profit before tax was 54.2% lower at RM5.55 million as compared to RM12.11 million mainly due to the absence of a one-off gain of RM6.63 million on disposal of non-current asset classified as held for sale recorded in the corresponding period last year. The operating profit for our resins segment was slightly lower due to lower sales volume.

### **Ethanol segment**

The Excise Duties (Amendment) Order 2016 came into effect on 10 October 2016, whereby the excise duty of potable alcohol is now levied on the finished products and paid by the bottlers. Correspondingly, our ethanol segment's revenue, which previously included excise duty for potable alcohol, was 38.5% lower at RM17.52 million compared to RM28.48 million in the corresponding period last year.

Profit before tax for ethanol segment increased marginally to RM3.50 million as a result of lower costs and higher other income.



## HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

### Investment segment

For the period under review, our investment segment recognised the full provision for impairment loss of finance lease receivable amounting to RM28.54 million for our investment in power generation equipment in Myanmar. Excluding items related to the finance lease, our investment segment registered a loss before tax of RM3.41 million as compared to a profit before tax of RM6.04 million in the corresponding period last year. The Group recorded unrealised loss on foreign exchange of RM4.32 million as opposed to unrealised gain on foreign exchange of RM1.61 million in the corresponding period last year. Loss on disposal of quoted shares of RM1.30 million was recorded as opposed to gain on disposal of quoted shares of RM3.62 million in the corresponding period last year.

### **B2. Comparison of results for the 3<sup>rd</sup> Quarter of FY 2018 against immediate preceding 2<sup>nd</sup> Quarter of FY 2018**

The Group's performance for the current quarter compared to immediate preceding quarter is as follows:

	Quarter ended		Variance	
	31/03/2018	31/12/2017	RM'000	%
	RM'000	RM'000	RM'000	%
Revenue				
- Resin	16,327	18,953	(2,626)	(13.9)
- Ethanol	5,993	5,577	416	7.5
- Investment	321	1,548	(1,227)	(79.3)
- Trading	-	-	-	-
- Others	118	165	(47)	(28.5)
	<u>22,759</u>	<u>26,243</u>	<u>(3,484)</u>	



## HEXZA CORPORATION BERHAD (8705-K)

### Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

	Quarter ended		Variance	
	31/03/2018	31/12/2017	RM'000	%
Profit/(Loss) before tax				
- Resin	973	1,945	(972)	(50.0)
- Ethanol	1,236	935	301	32.2
- Investment				
- investment in securities	(3,563)	(424)	(3,139)	not applicable
- Trading	(43)	(30)	(13)	not applicable
- Others	5	12	(7)	(58.3)
	<u>(1,392)</u>	<u>2,438</u>	<u>(3,830)</u>	
- Investment				
- investment in finance lease	-	-	-	-
	<u>(1,392)</u>	<u>2,438</u>	<u>(3,830)</u>	

Turnover for the third quarter under review was RM22.76 million as compared to RM26.24 million in the immediate preceding second quarter.

The Group registered a loss before tax of RM1.39 million as compared to a profit before tax of RM 2.44 million in the immediate preceding quarter. The immediate preceding quarter recorded a higher profit before tax mainly due to higher dividend income by RM1.23 million and lower unrealised loss on foreign exchange by RM0.64 million.

### B3. Prospects

Our resins segment is expected to operate in a challenging environment due to lower sales volume arising from logs supply availability issues faced by our customers involved in plywood manufacturing. Nevertheless, our margins have stabilised as our pricing strategy managed to cushion the impact of higher raw material prices. For the current financial year, we expect the resins segment to maintain more or less the same level of operating profit as the financial year ended 30 June 2017.



## HEXZA CORPORATION BERHAD (8705-K)

### Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

In order for our ethanol segment to offset the impact of the excise duty hike imposed in October 2016, we have been working on developing new products as well as exploring certain initiatives to lower our input cost. We will also continue to intensify our marketing efforts and work on increasing sales of higher margin products. For the current financial year, we expect the ethanol segment to achieve a better profit before tax than as the financial year ended 30 June 2017.

#### B4. Comparison with profit forecast

This note is not applicable.

#### B5. Income tax

Taxation comprises:

	Quarter ended		Year to date	
	3 months ended	3 months ended	9 months ended	9 months ended
	31/03/2018	31/03/2017	31/03/2018	31/03/2017
	RM'000	RM'000	RM'000	RM'000
Estimated current Malaysian taxation	651	325	2,438	2,710
Deferred taxation	(144)	(101)	(359)	(1,455)
	507	224	2,079	1,255
Over provision in prior years				
- income tax	-	(46)	-	(46)
	507	178	2,079	1,209

The effective tax rate of the Group for the current year to date is higher than the statutory rate of tax applicable mainly due to the losses suffered by the Company.



## HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

### B6. Profit/(Loss) before taxation

Profit/(loss) before tax is arrived at after charging/(crediting):

	Quarter ended		Year to date	
	3 months ended		9 months ended	
	31/03/2018	31/03/2017	31/03/2018	31/03/2017
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation	804	802	2,394	2,451
Reclassification of previously recognized fair value changes of availables-for-sale investments	-	1,927	-	1,802
Loss/(gain) on disposal of available-for-sale investment	1,298	(5,411)	1,298	(5,422)
Gain on disposal of property, plant and equipment	-	-	-	(6,658)
Property, plant and equipment written off	4	-	5	158
Interest expense	3	8	13	18
Interest income	(36)	(112)	(81)	(940)
Impairment loss of finance lease receivable	-	4,029	28,536	4,029
Finance lease income	-	(1,875)	-	(5,290)
Net gain arising from financial assets designated as FVTPL	(324)	(39)	(1,091)	(88)
Net unrealized loss/(gain) on foreign exchange	2,187	2,063	4,320	(4,308)

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.



## HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

### 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/(loss) per share are calculated as follows:

	Quarter ended 3 months ended		Year to date 9 months ended	
	31/03/2018	31/03/2017	31/03/2018	31/03/2017
	RM'000	RM'000	RM'000	RM'000
Net profit/(loss) attributable to Owners of the Company(RM'000)	(2,025)	(839)	(25,794)	23,451
Weighted average number of ordinary shares	200,380,036	200,380,036	200,380,036	200,380,036
Basic/Diluted earning/(loss) per share(sen)	(1.0)	(0.4)	(12.9)	11.7



## HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2018

### B12. Disclosure of realised and unrealised profits

	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	101,898	131,011
- Unrealised	(1,936)	4,764
	<hr/>	<hr/>
Total group retained profits as per consolidated accounts	99,962	135,775
	<hr/> <hr/>	<hr/> <hr/>

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 30 May 2018.