



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the First Quarter ended 30 September 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 2018 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 2018:

News MFRSs:

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers

Amendments/Improvements to the following MFRSs:

MFRS 1	First-time Adoption of MFRSs
MFRS 2	Share-based payment
MFRS 140	Investment Property



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The adoption of the above did not have any material impact on this report upon their initial application except for MFRS 9 whereby the Group and the Company have elected to designate investments portfolio to be measured at Fair Value through Other Comprehensive Income (FVTOCI). For investments portfolio designated as at FVTOCI, all fair value gains and losses including foreign exchange movement will be reported in other comprehensive income. No impairment losses will be recognised in profit or loss and no gains or losses will be reclassified to profit or loss on disposal of these investments.

A2. Audit report

The audit report for the financial year ended 30 June 2018 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.



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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

There was no dividend paid 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 2018 will be paid on 18 December 2018, subject to the approval by the shareholders at the forthcoming Annual General Meeting to be held on 24 November 2018.



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A8. Segment revenue and segment result

Information on business segments for the financial period ended 30 September 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
REVENUE							
External sales	20,526	6,765	785	273	103	-	28,452
Inter-segment sales	-	253	-	-	-	(253)	-
Total revenue	20,526	7,018	785	273	103	(253)	28,452
RESULT							
Operating profit/(loss)	968	1,239	602	20	(3)	-	2,826
Interest expense							(28)
Interest income							30
Taxation							(575)
Profit after tax							2,253

A9. Material subsequent event

Subsequent to 30 September 2018, the Group's investment in quoted shares was impacted by the market sentiments and drop in market price. As at 22 November 2018, the aggregate value of our investment portfolio was RM27 million lower as compared to the reported value as at 30 September 2018.

Save for the above, 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 30 September 2018.



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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

1st Quarter of FY 2019 compared with 1st Quarter of FY 2018

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

	Quarter ended		Variance	
	30/09/2018	30/09/2017	RM'000	%
Revenue				
- Resin	20,526	18,571	1,955	10.5
- Ethanol	6,765	5,947	818	13.8
- Investment	785	416	369	88.7
- Trading	273	-	273	-
- Others	103	99	4	4.0
	<u>28,452</u>	<u>25,033</u>	<u>3,419</u>	



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	Quarter ended		Variance	
	30/09/2018	30/09/2017	RM'000	%
Profit/(Loss) before tax				
- Resin	946	2,630	(1,684)	(64.0)
- Ethanol	1,408	1,325	83	6.3
- Investment				
- investment in securities	456	580	(124)	(21.4)
- Trading	20	(28)	48	171.4
- Others	(2)	-	(2)	-
	2,828	4,507	(1,679)	
- Investment				
- investment in finance lease	-	(28,536)	28,536	not applicable
	2,828	(24,029)	26,857	

The Group recorded a higher turnover of RM28.45 million as compared to RM25.03 million in the corresponding quarter last year. Profit before tax of RM2.83 million was recorded this quarter as compared to a loss before tax of RM24.03 million in the previous corresponding quarter.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the quarter was higher at RM20.53 million compared to RM18.57 million in the corresponding quarter last year mainly due to an increase in average selling price and higher sales volume.

Our resins segment's profit before tax was 64.0% lower at RM0.95 million versus RM2.63 million mainly due to margin compression as the increase in average raw material costs outpaced the increase in average selling price for our resin products. Higher raw material prices in the quarter under



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review resulted in a 19.3% increase in average raw material costs for our resins segment.

Ethanol Segment

Turnover for the quarter was higher at RM6.76 million compared to RM5.95 million in the corresponding quarter last year mainly due to higher sales volume by 15.7%.

Profit before tax for ethanol segment increased slightly by RM0.08 million or 6.3% to RM1.41 million from RM1.32 million as higher sales volume was largely offset by an increase in average raw material costs.

Investment segment

Our investment segment recorded a profit before tax of RM0.46 million as compared to loss before tax of RM27.96 million in the corresponding quarter last year mainly due to the full provision for impairment loss of finance lease receivable amounting to RM28.54 million recognised in the corresponding quarter last year.

B2. Comparison of results for the 1st Quarter of FY 2019 against immediate preceding 4th Quarter of FY 2018

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



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	Quarter ended		Variance	
	30/09/2018	30/06/2018	RM'000	%
	RM'000	RM'000		
Revenue				
- Resin	20,526	19,324	1,202	6.2
- Ethanol	6,765	6,188	577	9.3
- Investment	785	287	498	173.5
- Trading	273	211	62	29.4
- Others	103	99	4	4.0
	28,452	26,109	2,343	

	Quarter ended		Variance	
	30/09/2018	30/06/2018	RM'000	%
	RM'000	RM'000		
Profit/(Loss) before tax				
- Resin	946	510	436	85.5
- Ethanol	1,408	1,394	14	1.0
- Investment	456	4,355	(3,899)	(89.5)
- Trading	20	(27)	47	not applicable
- Others	(2)	(17)	15	not applicable
	2,828	6,215	(3,387)	

Turnover for the quarter under review was RM28.45 million as compared to RM26.11 million in the immediate preceding quarter.

A profit before tax of RM2.83 million was recorded for the quarter under review as compared to RM6.22 million in the immediate preceding quarter. For the quarter under review, our investment segment recorded lower profit before tax of RM0.46 million as compared to RM4.36 million mainly due to a reversal of unrealised foreign exchange loss in the immediate preceding quarter.



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B3. Prospects

The operating environment for both our ethanol and resin businesses became increasingly more challenging over the last few months. For the current financial year, the Board of Directors expects the combined profit before tax of the Group's resins and ethanol division to be slightly lower than previous year. As the Group has invested in domestic and foreign quoted shares, under the current market conditions, the Group will continue to be affected by share price volatility.

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	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
	RM'000	RM'000	RM'000	RM'000
Estimated current Malaysian taxation	716	1,007	716	1,007
Deferred taxation	(141)	(100)	(141)	(100)
	<u>575</u>	<u>907</u>	<u>575</u>	<u>907</u>

The effective tax rate of the Group for the current year to date is lower than the statutory rate of tax applicable mainly due to non-taxable income.



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B6. Profit/(Loss) before taxation

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

	Quarter ended		Year to date	
	3 months ended	3 months ended	3 months ended	3 months ended
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation	794	797	794	797
Property, plant and equipment written off	12	3	12	3
Interest expense	28	6	28	6
Interest income	(30)	(13)	(30)	(13)
Impairment loss of finance lease receivable	-	28,536	-	28,536
Net (gain) arising from financial assets designated as FVTPL	(81)	(396)	(81)	(396)
Net unrealized (gain)/loss on foreign exchange	(69)	582	(69)	582

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 or properties, impairment of assets, 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.



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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

Save for the following, there were no material changes in litigation since the end of the last reporting period:

In the High Court of the Republic of Singapore between Hexza Corporation Berhad (the Company) and Tembusu Industries Pte Ltd (Tembusu) and Tin Maung Kyin (collectively, the “Defendants”)

Reference is made to the court litigation brought by the Company against the Defendants in the High Court of the Republic of Singapore (the “Court”) as announced previously .The hearing of the Company’s summary judgment application was held on 29 October 2018. The Court has ordered summary judgment in favour of the Company. The Company is working on enforcing the Court Order.

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:



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	Quarter ended		Year to date	
	3 months ended		3 months ended	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Net profit/(loss) attributable to Owners of the Company(RM'000)	2,116	(25,283)	2,116	(25,283)
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)	1.1	(12.6)	1.1	(12.6)

B12. Disclosure of realised and unrealised profits

	As at 30/09/2018 RM'000	As at 30/06/2018 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	105,335	103,380
- Unrealised	2,575	2,414
Total group retained profits as per consolidated accounts	107,910	105,794

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 23 November 2018.