



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Second Quarter ended 31 December 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 except for RM33.3 million fair value loss in equity instruments designated as at FVTOCI.



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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

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 2018 was approved by the shareholders at the 49th Annual General Meeting on 24 November 2018. The dividend amounting to RM10.019 million was paid on 18 December 2018.

A8. Segment revenue and segment result

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



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	Resins RM'000	Ethanol RM'000	Investment RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
REVENUE							
External sales	39,972	13,262	1,604	466	303	-	55,607
Inter-segment sales	-	472	5,535	-	-	(6,007)	-
Total revenue	39,972	13,734	7,139	466	303	(6,007)	55,607
RESULT							
Operating profit/(loss)	1,605	1,955	6,464	(26)	43	(5,535)	4,506
Interest expense							(5)
Interest income							57
Taxation							(910)
Profit after tax							3,648

A9. Material subsequent event

As at 26 February 2019, the aggregate value of our investment portfolio was RM13.6 million higher as compared to the reported value as at 31 December 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 31 December 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.



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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) 2nd Quarter of FY 2019 compared with 2nd Quarter of FY 2018

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

	Quarter ended		Variance	
	31/12/2018	31/12/2017	RM'000	%
	RM'000	RM'000		
Revenue				
- Resin	19,446	18,953	493	2.6
- Ethanol	6,497	5,577	920	16.5
- Investment	819	1,548	(729)	(47.1)
- Trading	193	-	193	not applicable
- Others	200	165	35	21.2
	<u>27,155</u>	<u>26,243</u>	<u>912</u>	



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	Quarter ended		Variance	
	31/12/2018	31/12/2017	RM'000	%
Profit/(Loss) before tax				
- Resin	591	1,945	(1,354)	(69.6)
- Ethanol	737	935	(198)	(21.2)
- Investment	326	(424)	750	not applicable
- Trading	31	(30)	61	not applicable
- Others	45	12	33	275.0
	<u>1,730</u>	<u>2,438</u>	<u>(708)</u>	

The Group recorded a 3.5% increase in turnover to RM27.15 million from RM26.24 million in the corresponding quarter last year. Profit before tax decreased 29.0% to RM1.73 million from RM2.44 million in the corresponding quarter last year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the quarter increased 2.6% to RM19.45 million from RM18.95 million in the corresponding quarter last year mainly due to an increase in average selling price, in line with higher raw material costs, partially offset by lower sales volume.

Profit before tax for resins segment decreased 69.6% to RM0.59 million from RM1.95 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 and lower sales volume.



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Ethanol Segment

Turnover for the quarter increased 16.5% to RM6.50 million from RM5.58 million in the corresponding quarter last year mainly due to an increase in sales volume.

Profit before tax for ethanol segment decreased 21.2% to RM0.74 million from RM0.94 million mainly due to higher production costs.

Investment segment

Our investment segment recorded a profit before tax of RM0.33 million versus a loss before tax of RM0.42 million in the corresponding quarter last year mainly due to unrealised loss on foreign exchange amounting to RM1.55 million was recorded in the corresponding quarter last year.

(b) Current year-to-date compared with year-to-date of FY 2018

The Group's performance for the current period compared to the corresponding period last year is as follows:

	6 months ended		Variance	
	31/12/2018	31/12/2017	RM'000	%
	RM'000	RM'000		
Revenue				
- Resin	39,972	37,524	2,448	6.5
- Ethanol	13,262	11,523	1,739	15.1
- Investment	1,604	1,964	(360)	(18.3)
- Trading	466	-	466	not applicable
- Others	303	265	38	14.3
	<u>55,607</u>	<u>51,276</u>	<u>4,331</u>	



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	6 months ended		Variance	
	31/12/2018	31/12/2017	RM'000	%
Profit/(Loss) before tax				
- Resin	1,537	4,575	(3,038)	(66.4)
- Ethanol	2,145	2,260	(115)	(5.1)
- Investment				
- investment in securities	783	156	627	401.9
- Trading	51	(58)	109	not applicable
- Others	42	12	30	250.0
	<u>4,558</u>	<u>6,945</u>	<u>(2,387)</u>	
- Investment				
- investment in finance lease	-	(28,536)	28,536	not applicable
	<u>4,558</u>	<u>(21,591)</u>	<u>26,149</u>	

The Group recorded an 8.4% increase in turnover to RM55.61 million from RM51.28 million in the corresponding period last year. A profit before tax of RM4.56 million was recorded for the period under review versus a loss before tax of RM21.59 million in the corresponding period last year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the period increased 6.5% to RM39.97 million from RM37.52 million in the corresponding period last year mainly due to an increase in average selling price, in line with higher raw material costs, partially offset by lower sales volume.

Profit before tax for resins segment decreased 66.4% to RM1.54 million from RM4.57 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.



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Ethanol segment

Turnover for the period increased 15.1% to RM13.26 million from RM11.52 million in the corresponding period last year mainly due to an increase in sales volume.

Profit before tax for ethanol segment decreased 5.1% to RM2.14 million from RM2.26 million despite the 14.8% increase in sales volume mainly due to higher production costs.

Investment segment

Our investment segment recorded a profit before tax of RM0.78 million versus a loss before tax of RM28.38 million in the corresponding period last year mainly due to the full provision for impairment loss of finance lease receivable amounting to RM28.54 million in Q1 FY2018.

B2. Comparison of results for the 2nd Quarter of FY 2019 against immediate preceding 1st Quarter of FY 2019

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

	Quarter ended		Variance	
	31/12/2018	30/09/2018	RM'000	%
Revenue				
- Resin	19,446	20,526	(1,080)	(5.3)
- Ethanol	6,497	6,765	(268)	(4.0)
- Investment	819	785	34	4.3
- Trading	193	273	(80)	(29.3)
- Others	200	103	97	94.2
	<u>27,155</u>	<u>28,452</u>	<u>(1,297)</u>	



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	Quarter ended		Variance	
	31/12/2018	30/09/2018	RM'000	%
	RM'000	RM'000	RM'000	%
Profit/(Loss) before tax				
- Resin	591	946	(355)	(37.5)
- Ethanol	737	1,408	(671)	(47.7)
- Investment	326	456	(130)	(28.5)
- Trading	31	20	11	55.0
- Others	45	(2)	47	not applicable
	<u>1,730</u>	<u>2,828</u>	<u>(1,098)</u>	

Turnover for the quarter under review decreased 4.6% to RM27.15 million from RM28.45 million in the immediate preceding quarter.

Profit before tax for the quarter under review decreased 38.8% to RM1.73 million from RM2.83 million in the immediate preceding quarter. Our ethanol segment recorded a 47.7% decrease in profit before tax mainly due to normalisation of sales volume compared to the high base in the immediate preceding quarter and higher production costs. Our resins segment recorded a 37.5% decrease in profit before tax mainly due to lower sales volume.

B3. Prospects

The operating environment for both our ethanol and resin segments became increasingly more challenging over the last six months. For the current financial year, the Board of Directors expects the combined profit before tax of the Group's resins and ethanol segments to be lower than the previous year. While the equity markets have recovered from the lows of 2018, the Group is still susceptible to share price volatility as the Group is still invested in domestic and foreign quoted shares.



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B4. Comparison with profit forecast

This note is not applicable.

B5. Income tax

Taxation comprises:

	3 months ended		6 months ended	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	RM'000	RM'000	RM'000	RM'000
Estimated current Malaysian tax	492	780	1,209	1,787
Deferred taxation	(158)	(115)	(299)	(215)
	<u>334</u>	<u>665</u>	<u>910</u>	<u>1,572</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.

B6. Profit/(Loss) before taxation

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

	3 months ended		6 months ended	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation	790	793	1,584	1,590
Property, plant and equipment written off	-	(2)	12	1
Interest expense	(24)	4	5	10
Interest income	(27)	(32)	(57)	(45)
Impairment loss of finance lease receivable	-	-	-	28,536
Net (gain) arising from financial assets designated as FVTPL	(97)	(371)	(178)	(767)
Net unrealized loss/(gain) on foreign exchange	-	1,551	(69)	2,133



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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 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.

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.



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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:

	3 months ended		6 months ended	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Net profit/(loss) attributable to Owners of the Company (RM'000)	1,303	1,514	3,418	(23,769)
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)	0.7	0.8	1.7	(11.9)

B12. Disclosure of realised and unrealised profits

	As at 31/12/2018 RM'000	As at 30/06/2018 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	92,130	103,380
- Unrealised	2,680	2,414
Total group retained profits as per consolidated accounts	94,810	105,794



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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 27 February 2019.