



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

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

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 investment portfolio to be measured at Fair Value through Other



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

Comprehensive Income (FVTOCI). For investment 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 RM13.4 million fair value loss in equity instruments designated as at FVTOCI.

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.



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

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 March 2019 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	57,634	19,853	1,839	551	536	-	80,413
Inter-segment sales	-	501	5,535	-	-	(6,036)	-
Total revenue	57,634	20,354	7,374	551	536	(6,036)	80,413
RESULT							
Operating profit/(loss)	2,794	3,176	6,193	(59)	81	(5,535)	6,650
Interest expense							(14)
Interest income							73
Taxation							(1,484)
Profit after tax							5,225



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

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 2019.

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) 3rd Quarter of FY 2019 compared with 3rd Quarter of FY 2018

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



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

	Quarter ended		Variance	
	31/03/2019	31/03/2018	RM'000	%
	RM'000	RM'000		
Revenue				
- Resin	17,662	16,327	1,335	8.2
- Ethanol	6,591	5,993	598	10.0
- Investment	235	321	(86)	(26.8)
- Trading	84	-	84	not applicable
- Others	233	118	115	97.5
	<u>24,805</u>	<u>22,759</u>	<u>2,046</u>	

	Quarter ended		Variance	
	31/03/2019	31/03/2018	RM'000	%
	RM'000	RM'000		
Profit/(Loss) before tax				
- Resin	1,146	973	173	17.8
- Ethanol	1,226	1,236	(10)	(0.8)
- Investment	(266)	(3,563)	3,297	not applicable
- Trading	6	(43)	49	not applicable
- Others	38	5	33	660.0
	<u>2,150</u>	<u>(1,392)</u>	<u>3,542</u>	

The Group recorded a 9.0% increase in turnover to RM24.81 million from RM22.76 million in the corresponding quarter last year. Profit before tax of RM2.15 million was recorded this quarter as compared to a loss before tax of RM1.39 million in the corresponding quarter last year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the quarter increased 8.2% to RM17.66 million from RM16.33 million in the corresponding quarter last year mainly due to increase in average selling price and higher sales volume.



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

Profit before tax for resins segment increased 17.8% to RM1.15 million from RM0.97 million mainly due to higher volume and a recovery from previous compression in margins.

Ethanol Segment

Turnover for the quarter increased 10.0% to RM6.59 million from RM5.99 million in the corresponding quarter last year mainly due to increase in sales volume.

Profit before tax for ethanol segment was flat at RM1.23 million compared to the corresponding quarter last year despite increase in turnover mainly due to higher production costs.

Investment segment

Our investment segment only recorded dividend income for the period under review as any gain or loss on disposal and foreign exchange movement for our investment portfolio is no longer reported in the profit or loss statement as the Group and the Company have elected to designate investment portfolio to be measured at Fair Value through Other Comprehensive Income (FVTOCI) from FY2019 onwards.

(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:



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

	9 months ended		Variance	
	31/03/2019	31/03/2018	RM'000	%
Revenue				
- Resin	57,634	53,851	3,783	7.0
- Ethanol	19,853	17,517	2,336	13.3
- Investment	1,839	2,285	(446)	(19.5)
- Trading	551	-	551	not applicable
- Others	536	382	154	40.3
	80,413	74,035	6,378	

	9 months ended		Variance	
	31/03/2019	31/03/2018	RM'000	%
Profit/(Loss) before tax				
- Resin	2,683	5,548	(2,865)	(51.6)
- Ethanol	3,371	3,496	(125)	(3.6)
- Investment				
- investment in securities	517	(3,407)	3,924	not applicable
- Trading	57	(101)	158	not applicable
- Others	81	17	64	376.5
	6,709	5,553	1,156	
- Investment				
- investment in finance lease	-	(28,536)	28,536	not applicable
	6,709	(22,983)	29,692	

The Group recorded an 8.6% increase in turnover to RM80.41 million from RM74.04 million in the corresponding period last year. A profit before tax of RM6.71 million was recorded for the period under review versus a loss before tax of RM22.98 million in the corresponding period last year.

The performance of the operating business segments is as follows:



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

Resins segment

Turnover for the period increased 7.0% to RM57.63 million from RM53.85 million in the corresponding period last year mainly due to increase in average selling price. There was only a marginal increase in sales volume.

Profit before tax for resins segment decreased 51.6% to RM2.68 million from RM5.55 million mainly due to margin compression.

Ethanol segment

Turnover for the period increased 13.3% to RM19.85 million from RM17.52 million in the corresponding period last year mainly due to increase in sales volume.

Profit before tax for ethanol segment decreased 3.6% to RM3.37 million from RM3.50 million despite the increase in sales volume mainly due to higher production costs.

Investment segment

Our investment segment only recorded dividend income for the period under review as any gain or loss on disposal and foreign exchange movement for our investment portfolio is no longer reported in the profit or loss statement as the Group and the Company have elected to designate investment portfolio to be measured at Fair Value through Other Comprehensive Income (FVTOCI) from FY2019 onwards.

Our investment segment included the full provision for impairment loss of finance lease receivable amounting to RM28.54 million in the corresponding period last year.



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

B2. Comparison of results for the 3rd Quarter of FY 2019 against immediate preceding 2nd Quarter of FY 2019

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

	Quarter ended		Variance	
	31/03/2019	31/12/2018	RM'000	%
	RM'000	RM'000		
Revenue				
- Resin	17,662	19,446	(1,784)	(9.2)
- Ethanol	6,591	6,497	94	1.4
- Investment	235	819	(584)	(71.3)
- Trading	84	193	(109)	(56.5)
- Others	233	200	33	16.5
	<u>24,805</u>	<u>27,155</u>	<u>(2,350)</u>	

	Quarter ended		Variance	
	31/03/2019	31/12/2018	RM'000	%
	RM'000	RM'000		
Profit/(Loss) before tax				
- Resin	1,146	591	555	93.9
- Ethanol	1,226	737	489	66.4
- Investment	(266)	326	(592)	(181.6)
- Trading	6	31	(25)	(80.6)
- Others	38	45	(7)	not applicable
	<u>2,150</u>	<u>1,730</u>	<u>420</u>	

Turnover for the quarter under review decreased 8.7% to RM24.80 million from RM27.15 million in the immediate preceding quarter.



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

Profit before tax for the quarter under review increased 24.3% to RM2.15 million from RM1.73 million in the immediate preceding quarter. Our ethanol segment recorded a 66.4% increase in profit before tax mainly due to lower production costs. Our resins segment recorded a 93.9% increase in profit before tax mainly due to a recovery from previous compression in margins.

B3. Prospects

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. With the current unresolved trade war and tit-for-tat tariff increase between the United States and China, the Group is susceptible to the volatile share market as the Group is invested in domestic and foreign quoted shares.

B4. Comparison with profit forecast

This note is not applicable.

B5. Income tax

Taxation comprises:

	3 months ended		9 months ended	
	31/03/2019	31/03/2018	31/03/2019	31/03/2018
	RM'000	RM'000	RM'000	RM'000
Estimated current Malaysian taxation	763	651	1,971	2,438
Deferred taxation	(106)	(144)	(405)	(359)
	<u>657</u>	<u>507</u>	<u>1,566</u>	<u>2,079</u>
Over provision in prior years				
- income tax	(82)	-	(82)	-
	<u>575</u>	<u>507</u>	<u>1,484</u>	<u>2,079</u>



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

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		9 months ended	
	31/03/2019	31/03/2018	31/03/2019	31/03/2018
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation	729	804	2,313	2,394
Loss on disposal of available-for-sale investments	-	1,298	-	1,298
Property, plant and equipment written off	-	4	12	5
Interest expense	10	3	14	13
Interest income	(16)	(36)	(73)	(81)
Impairment loss of finance lease receivable	-	-	-	28,536
Net (gain) arising from financial assets designated as FVTPL	(116)	(324)	(294)	(1,091)
Net unrealized loss/(gain) on foreign exchange	-	2,187	(69)	4,320

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.



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

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 (Pete Tin)

Reference is made to the court litigation brought by the Company against Tembusu and Pete Tin 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 financial period under review.

B11. Earnings per share

The basic and diluted earnings/(loss) per share are calculated as follows:



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2019

	3 months ended		9 months ended	
	31/03/2019	31/03/2018	31/03/2019	31/03/2018
Net profit/(loss) attributable to Owners of the Company (RM'000)	1,406	(2,025)	4,826	(25,794)
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	(1.0)	2.4	(12.9)

B12. Disclosure of realised and unrealised profits

	As at 31/03/2019 RM'000	As at 30/06/2018 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	93,352	103,380
- Unrealised	2,734	2,414
Total group retained profits as per consolidated accounts	96,086	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 29 May 2019.