



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Second Quarter ended 31 December 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 2019 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 2019:

MFRS 16 Leases

Amendments to the following MRFSS:

MFRS 3	Business Combinations (Annual Improvements 2015-2017 Cycle)
MFRS 9	Prepayment Features with Negative Compensation
MFRS 11	Joint Arrangements (Annual Improvements 2015-2017 Cycle)
MFRS 112	Income Taxes (Annual Improvements 2015-2017 Cycle)
MFRS 119	Plan Amendments, Curtailment or Settlement
MFRS 123	Borrowing Costs (Annual Improvements 2015-2017 Cycle)
MFRS 128	Long-term Interests in Associates and Joint Ventures

IC Interpretation:

IC Int 23 Uncertainty over Income Tax Treatments



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The adoption of the above did not have any material impact on this report upon their initial application.

A2. Audit report

The audit report for the financial year ended 30 June 2019 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 quarter except for RM15.13 million fair value gain 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.



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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 paid during the quarter under review. The proposed final dividend of 5.0 sen per share by the Board of Directors in respect of the financial year ended 30 June 2019 was approved by the shareholders at the 50th Annual General Meeting on 16 November 2019. The dividend amounting to RM10.019 million was paid on 18 December 2019.

A8. Segment revenue and segment result

Information on business segments for the financial period ended 31 December 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	26,693	15,230	995	447	288	-	43,653
Inter-segment sales	-	372	7,965	-	-	(8,337)	-
Total revenue	26,693	15,602	8,960	447	288	(8,337)	43,653
RESULT							
Operating profit	2,049	3,195	7,965	69	34	(7,965)	5,347
Interest expense							(14)
Interest income							78
Taxation							(1,335)
Profit after tax							4,076



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A9. Material subsequent event

On 21 January 2020, the Group and the Company disposed of certain quoted investments at a total consideration of RM16.87 million, which was RM1.00 million higher than their fair value as at 31 December 2019. The gains on disposal of the quoted investments as compared to original cost was RM7.53 million.

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 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



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B1. Review of performance

(a) 2nd Quarter of FY 2020 compared with 2nd Quarter of FY 2019

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

	Quarter ended		Variance	
	31/12/2019	31/12/2018	RM'000	%
Revenue				
- Resin	11,456	19,446	(7,990)	(41.1)
- Ethanol	6,972	6,497	475	7.3
- Investment	697	819	(122)	(14.9)
- Trading	235	193	42	21.8
- Others	124	200	(76)	(38.0)
	<u>19,484</u>	<u>27,155</u>	<u>(7,671)</u>	

	Quarter ended		Variance	
	31/12/2019	31/12/2018	RM'000	%
Profit/(Loss) before tax				
- Resin	585	591	(6)	(1.0)
- Ethanol	1,601	737	864	117.2
- Investment	(211)	326	(537)	(164.7)
- Trading	31	31	-	-
- Others	15	45	(30)	(66.7)
	<u>2,021</u>	<u>1,730</u>	<u>291</u>	

The Group recorded a 28.2% decrease in turnover to RM19.48 million from RM27.15 million in the corresponding quarter last year. Profit before tax for the quarter under review increased 16.8% to RM2.02 million from RM1.73 million in the corresponding quarter last year.

The performance of the operating business segments is as follows:



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Resins segment

Turnover for the quarter decreased 41.1% to RM11.46 million from RM19.45 million in the corresponding quarter last year mainly due to decrease in average selling price and lower sales volume.

Profit before tax for resins segment decreased marginally by RM0.01 million to RM0.58 million from RM0.59 million mainly due to lower sales volume.

Ethanol segment

Turnover for the quarter increased 7.3% to RM6.97 million from RM6.50 million in the corresponding quarter last year mainly due to increase in sales volume.

Profit before tax for ethanol segment increased by RM0.86 million to RM1.60 million from RM0.74 million mainly due to lower production costs and increase in sales volume.

Investment segment

Our investment segment recorded a loss before tax of RM0.21 million versus a profit before tax of RM0.33 million in the corresponding quarter last year mainly due to lower dividend income from quoted investments and unrealised loss on foreign exchange amounting to RM0.68 million was recorded in the current quarter under review.



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(b) Current year-to-date compared with year-to-date of FY 2019

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

	6 months ended		Variance	
	31/12/2019	31/12/2018	RM'000	%
	RM'000	RM'000	RM'000	%
Revenue				
- Resin	26,693	39,972	(13,279)	(33.2)
- Ethanol	15,230	13,262	1,968	14.8
- Investment	995	1,604	(609)	(38.0)
- Trading	447	466	(19)	(4.1)
- Others	288	303	(15)	(5.0)
	<u>43,653</u>	<u>55,607</u>	<u>(11,954)</u>	
	6 months ended		Variance	
	31/12/2019	31/12/2018	RM'000	%
	RM'000	RM'000	RM'000	%
Profit/(Loss) before tax				
- Resin	2,058	1,537	521	33.9
- Ethanol	3,220	2,145	1,075	50.1
- Investment	18	783	(765)	(97.7)
- Trading	70	51	19	37.3
- Others	45	42	3	7.1
	<u>5,411</u>	<u>4,558</u>	<u>853</u>	

The Group recorded an 21.5% decrease in turnover to RM43.65 million from RM55.61 million in the corresponding period last year. Profit before tax for the current period under review increased 18.7% to RM5.41 million from RM4.56 million in the corresponding period last year.

The performance of the operating business segments is as follows:



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Resins segment

Turnover for the period decreased 33.2% to RM26.69 million from RM39.97 million in the corresponding period last year mainly due to decrease in average selling price and lower sales volume.

Profit before tax for resins segment increased 33.9% to RM2.06 million from RM1.54 million mainly due to decrease in average raw material costs.

Ethanol segment

Turnover for the period increased 14.8% to RM15.23 million from RM13.26 million in the corresponding period last year mainly due to an increase in sales volume by 15.9%.

Profit before tax for ethanol segment increased 50.1% to RM3.22 million from RM2.14 million mainly due to lower production costs and increase in sales volume.

Investment segment

Profit before tax for our investment segment decreased to RM0.02 million from RM0.78 million in the corresponding period last year mainly due to lower dividend income from quoted investments and an unrealised loss on foreign exchange amounting to RM0.54 million was recorded in the current period under review.

B2. Comparison of results for the 2nd Quarter of FY 2020 against immediate preceding 1st Quarter of FY 2020

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



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	Quarter ended		Variance	
	31/12/2019	30/9/2019	RM'000	%
	RM'000	RM'000	RM'000	%
Revenue				
- Resin	11,456	15,237	(3,781)	(24.8)
- Ethanol	6,972	8,258	(1,286)	(15.6)
- Investment	697	298	399	133.9
- Trading	235	213	22	10.3
- Others	124	163	(39)	(23.9)
	19,484	24,169	(4,685)	

	Quarter ended		Variance	
	31/12/2019	30/9/2019	RM'000	%
	RM'000	RM'000	RM'000	%
Profit/(Loss) before tax				
- Resin	585	1,474	(889)	(60.3)
- Ethanol	1,601	1,619	(18)	(1.1)
- Investment	(211)	228	(439)	(192.5)
- Trading	31	38	(7)	(18.4)
- Others	15	31	(16)	(51.6)
	2,021	3,390	(1,369)	

Turnover for the quarter under review decreased 19.4% to RM19.48 million from RM24.17 million in the immediate preceding quarter.

Profit before tax for the quarter under review decreased 40.4% to RM2.02 million from RM3.39 million in the immediate preceding quarter. Our resins segment recorded a 60.3% decrease in profit before tax mainly due to decrease in average selling price and lower sales volume.



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B3. Prospects

As prevailing industry conditions remain challenging, our resins segment might see a downturn in both revenue and profits. However, with the current outbreak of a new coronavirus strain, the demand for our ethanol products has increased substantially. Our ethanol segment's financial results is expected to benefit significantly which should help offset any potential downturn from the resins segment. Overall, the Board of Directors expects the Group to remain profitable and the financial results to be comparable to the financial year ended 30 June 2019 premised on the economic conditions remaining relatively unchanged.

With the continued uncertainties in the global economy and the on-going trade war between the United States and China, economic growth is seen slowing into year 2020. The Group is susceptible to the volatile share markets as the Group has invested in domestic and foreign quoted shares.

B4. Comparison with profit forecast

This note is not applicable.

B5. Income tax

Taxation comprises:

	Quarter		Year to date	
	3 months ended	3 months ended	6 months ended	6 months ended
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM'000	RM'000	RM'000	RM'000
Estimated current Malaysian taxation	650	492	1,507	1,209
Deferred taxation	(86)	(158)	(172)	(299)
	<u>564</u>	<u>334</u>	<u>1,335</u>	<u>910</u>



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B6. Profit before taxation

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

	Quarter		Year to date	
	3 months ended	3 months ended	6 months ended	6 months ended
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation	602	790	1,204	1,584
Property, plant and equipment written off	-	-	-	12
Interest expense	-	(24)	14	5
Interest income	(37)	(27)	(78)	(57)
Net (gain) arising from financial assets designated as FVTPL	-	(97)	-	(178)
Net unrealised loss/(gain) on foreign exchange	676	-	540	(69)

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 current financial period 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.



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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 financial period under review.

B11. Earnings per share

The basic and diluted earnings per share are calculated as follows:

	Quarter		Year to date	
	3 months ended		6 months ended	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Net profit attributable to Owners of the Company(RM'000)	1,371	1,303	3,768	3,418
Weighted average number of ordinary shares	200,380,036	200,380,036	200,380,036	200,380,036
Basic/Diluted earning per share(sen)	0.7	0.7	1.9	1.7



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B12. Disclosure of realised and unrealised profits

	As at 31/12/2019 RM'000	As at 30/06/2019 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	94,433	96,028
- Unrealised	2,245	2,786
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Total group retained profits as per consolidated accounts	96,678	98,814

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 21 February 2020.