



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Third Quarter ended 31 March 2020

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 MFRSs:

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

During the current financial period, the Group and the Company disposed of certain quoted investments at a total consideration of RM47.54 million. The gain on disposal of the quoted investments as compared to original cost was RM11.65 million. Current financial period gain arising from the investments disposed amounted to RM3.47 million.

During the current financial quarter, 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 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

No dividend was proposed 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 March 2020 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	38,068	28,587	1,148	660	385	-	68,848
Inter-segment sales	-	536	10,395	-	-	(10,931)	-
Total revenue	38,068	29,123	11,543	660	385	(10,931)	68,848



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RESULT							
Operating profit	2,959	7,556	14,120	100	72	(10,395)	14,412
Interest expense							(16)
Interest income							124
Taxation							(2,604)
Profit after tax							11,916

A9. Material subsequent event

As at 25 June 2020, the aggregate value of our investment portfolio was RM21.66 million higher as compared to the reported value as at 31 March 2020.

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 March 2020.

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.



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B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of performance

(a) 3rd Quarter of FY 2020 compared with 3rd Quarter of FY 2019

The current Covid-19 pandemic has resulted in many countries implementing various lockdown measures as a preventive response to control and curtail the outbreak. Our Malaysian Government has imposed nationwide Movement Control Order (MCO) on 18 March 2020 and subsequently conditional MCO from 4 May 2020. However, these restrictions imposed from the last two weeks of the current reporting quarter have not negatively impacted the Group's performance as both our resin and ethanol segment have been allowed to operate throughout the MCO, under restrictions set by The Ministry of International Trade and Industry (MITI).

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

	Quarter ended		Variance	
	31/3/2020	31/3/2019	RM'000	%
Revenue				
- Resin	11,375	17,662	(6,287)	(35.6)
- Ethanol	13,357	6,591	6,766	102.7
- Investment	153	235	(82)	(34.9)
- Trading	212	84	128	152.4
- Others	98	233	(135)	(57.9)
	<u>25,195</u>	<u>24,805</u>	<u>390</u>	



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	Quarter ended		Variance	
	31/3/2020	31/3/2019	RM'000	%
Profit/(Loss) before tax	RM'000	RM'000	RM'000	
- Resin	921	1,146	(225)	(19.6)
- Ethanol	4,372	1,226	3,146	256.6
- Investment	3,748	(266)	4,014	N/A
- Trading	30	6	24	400.0
- Others	38	38	-	-
	<u>9,109</u>	<u>2,150</u>	<u>6,959</u>	

The Group recorded a 1.6% increase in turnover to RM25.20 million from RM24.81 million in the corresponding quarter last year. Profit before tax for the quarter under review increased 323.7% to RM9.11 million from RM2.15 million in the corresponding quarter last year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the quarter decreased 35.6% to RM11.38 million from RM17.66 million in the corresponding quarter last year mainly due to decrease in average selling price and lower sales volume by 23.9%.

Profit before tax for resins segment decreased by RM0.23 million to RM0.92 million from RM1.15 million mainly due to lower sales volume.

Ethanol segment

Turnover for the quarter increased 102.7% to RM13.36 million from RM6.59 million in the corresponding quarter last year mainly due to increase in sales volume by 117.8%. This was due to the outbreak of the Covid-19. In the absence of a vaccine or effective



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antiviral drugs, ethanol is one of the recommended ingredients for hand sanitiser, hence the demand for our ethanol products has increased substantially from February 2020.

Profit before tax for ethanol segment increased by RM3.14 million to RM4.37 million from RM1.23 million mainly due to significant increase in sales volume.

Investment segment

Our investment segment recorded a profit before tax of RM3.75 million versus a loss before tax of RM0.27 million in the corresponding quarter last year mainly due to a realised gain on foreign exchange amounting to RM3.15 million recorded in the current quarter under review.

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

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

	9 months ended		Variance	
	31/3/2020	31/3/2019	RM'000	%
Revenue				
- Resin	38,068	57,634	(19,566)	(33.9)
- Ethanol	28,587	19,853	8,734	44.0
- Investment	1,148	1,839	(691)	(37.6)
- Trading	660	551	109	19.8
- Others	385	536	(151)	(28.2)
	<u>68,848</u>	<u>80,413</u>	<u>(11,565)</u>	



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	9 months ended		Variance	
	31/3/2020	31/3/2019	RM'000	%
Profit/(Loss) before tax				
- Resin	2,980	2,683	297	11.1
- Ethanol	7,592	3,371	4,221	125.2
- Investment	3,766	517	3,249	628.4
- Trading	100	57	43	75.4
- Others	82	81	1	1.2
	<u>14,520</u>	<u>6,709</u>	<u>7,811</u>	

The Group recorded a 14.4% decrease in turnover to RM68.85 million from RM80.41 million in the corresponding period last year. Profit before tax for the current period under review increased 116.4% to RM14.52 million from RM6.71 million in the corresponding period last year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the period decreased 33.9% to RM38.07 million from RM57.63 million in the corresponding period last year mainly due to decrease in average selling price and lower sales volume by 26.1%.

Profit before tax for resins segment increased 11.1% to RM2.98 million from RM2.68 million mainly due to decrease in average raw material costs.

Ethanol segment

Turnover for the period increased 44.0% to RM28.59 million from RM19.85 million in the corresponding period last year mainly due to an increase in sales volume by 49.7%.



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Profit before tax for ethanol segment increased 125.2% to RM7.59 million from RM3.37 million mainly due to increase in sales volume. The Covid-19 pandemic has positively impacted our ethanol segment's performance from February 2020.

Investment segment

Profit before tax for our investment segment increased to RM3.77 million from RM0.52 million in the corresponding period last year mainly due to a realised gain on foreign exchange amounting to RM3.15 million recorded in the current period under review.

B2. Comparison of results for the 3rd Quarter of FY 2020 against immediate preceding 2nd Quarter of FY 2020

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

	Quarter ended		Variance	
	31/3/2020	31/12/2019	RM'000	%
Revenue				
- Resin	11,375	11,456	(81)	(0.7)
- Ethanol	13,357	6,972	6,385	91.6
- Investment	153	697	(544)	(78.0)
- Trading	212	235	(23)	(9.8)
- Others	98	124	(26)	(21.0)
	<u>25,195</u>	<u>19,484</u>	<u>5,711</u>	



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	Quarter ended		Variance	
	31/3/2020	31/12/2019	RM'000	%
Profit/(Loss) before tax				
- Resin	921	585	336	57.4
- Ethanol	4,372	1,601	2,771	173.1
- Investment	3,748	(211)	3,959	N/A
- Trading	30	31	(1)	(3.2)
- Others	38	15	23	153.3
	<u>9,109</u>	<u>2,021</u>	<u>7,088</u>	

Turnover for the quarter under review increased 29.3% to RM25.19 million from RM19.48 million in the immediate preceding quarter.

Profit before tax for the quarter under review increased by RM7.09 million to RM9.11 million from RM2.02 million in the immediate preceding quarter. Our ethanol segment recorded a 173.1% increase in profit before tax mainly due to increase in sales volume by 114.6% due to the outbreak of Covid-19.

B3. Prospects

As conditions in Sarawak's wood related industries remain challenging, our resins segment is expected to perform at a depressed level for the balance of the current financial year. However, as a result of Covid-19, the demand for our ethanol products has increased substantially. Our ethanol segment's financial results should continue to benefit from this. Due to the impact of the MCO though, results in the 4th quarter are not expected to be as strong as in the 3rd quarter. However, moving into FY2021, we believe demand for ethanol will remain above pre-Covid19 levels, which should continue to benefit ethanol segment.



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Overall, the Board of Directors expects the performance for the remaining quarter to be satisfactory and the performance for the current financial year will be significantly better than that achieved in the previous financial year ended 30 June 2019.

The Group continue to be susceptible to the volatile share markets as the Group has invested in domestic and foreign quoted shares, although exposure has been reduced.

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	9 months ended	9 months ended
	31/3/2020	31/3/2019	31/3/2020	31/3/2019
	RM'000	RM'000	RM'000	RM'000
Estimated current Malaysian taxation	1,333	763	2,840	1,971
Deferred taxation	(108)	(106)	(281)	(405)
	<u>1,225</u>	<u>657</u>	<u>2,559</u>	<u>1,566</u>
Under/(Over) provision in prior years				
- income tax	45	(82)	45	(82)
	<u>1,270</u>	<u>575</u>	<u>2,604</u>	<u>1,484</u>

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

B6. Profit before taxation

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



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	Quarter		Year to date	
	3 months ended		9 months ended	
	31/3/2020	31/3/2019	31/3/2020	31/3/2019
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation Property, plant and equipment written off	602	729	1,806	2,313
Interest expense	1	10	16	14
Interest income	(45)	(16)	(124)	(73)
Net (gain) arising from financial assets designated as FVTPL	-	(116)	-	(294)
Net realised (gain) on foreign exchange	(3,149)	-	(3,149)	-
Net unrealised (gain) on foreign exchange	-	-	-	(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.

B9. Changes in material litigation

There were no material changes in litigation since the end of the last reporting period.



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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	3 months ended	9 months ended	9 months ended
	31/3/2020	31/3/2019	31/3/2020	31/3/2019
Net profit attributable to Owners of the Company(RM'000)	7,698	1,406	11,468	4,826
Weighted average number of ordinary shares	200,380,036	200,380,036	200,380,036	200,380,036
Basic/Diluted earning per share(sen)	3.8	0.7	5.7	2.4

B12. Disclosure of realised and unrealised profits

	As at 31/03/2020 RM'000	As at 30/06/2019 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	109,069	96,028
- Unrealised	2,841	2,786
Total group retained profits as per consolidated accounts	111,910	98,814



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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 26 June 2020.