



HEXZA CORPORATION BERHAD (8705-K)

Interim Report on Consolidated Results for the Fourth Quarter ended 30 June 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

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 year except for RM29.87 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 year 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 year ended 30 June 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	48,922	38,432	1,769	857	527	-	90,507
Inter-segment sales	-	688	13,163	-	-	(13,851)	-
Total revenue	48,922	39,120	14,932	857	527	(13,851)	90,507
RESULT							
Operating profit	3,767	10,872	17,066	2	95	(13,243)	18,559
Interest expense							(6)
Interest income							1,137
Taxation							(3,665)
Profit after tax							16,025



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A9. Material subsequent event

As at 24 August 2020, the aggregate value of our investment portfolio was RM19.94 million higher as compared to the reported value as at 30 June 2020.

Save for the above, there are no material events subsequent to the end of year reported on to the date of this report which have not been reflected in the financial statements for the quarter ended 30 June 2020.

A10. Change in composition of the Group

There are no changes in the composition of the Group for the current financial year 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) 4th Quarter of FY 2020 compared with 4th 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



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Government has imposed nationwide Movement Control Order (MCO) on 18 March 2020 and subsequently conditional MCO from 4 May 2020. Although both of our businesses were given permission to operate, we were nevertheless indirectly impacted by the MCO as well. The ethanol division experienced a shortage of wood chips used as fuel for the factory's boiler resulting in a brief interruption to operations. Wood chips were in short supply because plywood mills were not allowed to operate during the MCO. Furthermore, our potable customers were also not given permission to operate, which impacted ethanol sales to that segment.

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

	Quarter ended		Variance	
	30/6/2020	30/6/2019	RM'000	%
	RM'000	RM'000		
Revenue				
- Resin	10,854	18,442	(7,588)	(41.1)
- Ethanol	9,845	6,444	3,401	52.8
- Investment	621	708	(87)	(12.3)
- Trading	197	181	16	8.8
- Others	142	67	75	111.9
	<u>21,659</u>	<u>25,842</u>	<u>(4,183)</u>	

	Quarter ended		Variance	
	30/6/2020	30/6/2019	RM'000	%
	RM'000	RM'000		
Profit/(Loss) before tax				
- Resin	808	2,491	(1,683)	(67.6)
- Ethanol	3,482	1,295	2,187	168.9
- Investment	830	465	365	78.5
- Trading	36	13	23	176.9
- Others	15	(39)	54	(138.5)
	<u>5,171</u>	<u>4,225</u>	<u>946</u>	



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The Group recorded a 16.2% decrease in turnover to RM21.66 million from RM25.84 million in the corresponding quarter last year. Profit before tax for the quarter under review increased 22.4% to RM5.17 million from RM4.22 million in the corresponding quarter last year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the quarter decreased 41.1% to RM10.85 million from RM18.44 million in the corresponding quarter last year mainly due to decrease in average selling price and lower sales volume by 32.4%.

Profit before tax for resins segment decreased by RM1.68 million to RM0.81 million from RM2.49 million mainly due to margin compression and lower sales volume.

Ethanol segment

Turnover for the quarter increased 52.8% to RM9.84 million from RM6.44 million in the corresponding quarter last year mainly due to increase in sales volume by 37.3% and increase in average selling price by 11.3%.

Profit before tax for ethanol segment increased by RM2.19 million to RM3.48 million from RM1.29 million mainly due to lower production costs and increases in sales volume and average selling price.



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Investment segment

Profit before tax for our investment segment increased to RM0.83 million from RM0.46 million.

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

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

	12 months ended		Variance	
	30/6/2020	30/6/2019	RM'000	%
	RM'000	RM'000		
Revenue				
- Resin	48,922	76,076	(27,154)	(35.7)
- Ethanol	38,432	26,297	12,135	46.1
- Investment	1,769	2,547	(778)	(30.5)
- Trading	857	732	125	17.1
- Others	527	603	(76)	(12.6)
	<u>90,507</u>	<u>106,255</u>	<u>(15,748)</u>	

	12 months ended		Variance	
	30/6/2020	30/6/2019	RM'000	%
	RM'000	RM'000		
Profit/(Loss) before tax				
- Resin	3,788	5,174	(1,386)	(26.8)
- Ethanol	11,075	4,666	6,409	137.4
- Investment	4,596	983	3,613	367.5
- Trading	136	69	67	97.1
- Others	95	42	53	126.2
	<u>19,690</u>	<u>10,934</u>	<u>8,756</u>	

The Group recorded a 14.8% decrease in turnover to RM90.51 million from RM106.26 million in the last financial year. Profit before tax for the current financial year under review increased



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80.1% to RM19.69 million from RM10.93 million in the last financial year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the current financial year decreased 35.7% to RM48.92 million from RM76.08 million in the last financial year mainly due to decrease in average selling price and lower sales volume by 27.7%.

Profit before tax for resins segment decreased 26.8% to RM3.79 million from RM5.17 million mainly due to lower sales volume. However, this was mitigated by the drop in average raw material costs.

Ethanol segment

Turnover for the current financial year increased 46.1% to RM38.43 million from RM26.30 million in the last financial year mainly due to an increase in sales volume by 46.8%.

Profit before tax for ethanol segment increased 137.4% to RM11.08 million from RM4.67 million mainly due to increase in sales volume and lower production costs.

Investment segment

Profit before tax for our investment segment increased to RM4.60 million from RM0.98 million in the last financial year mainly due to a realised gain on foreign exchange amounting to RM3.15 million recorded in the current financial year under review.



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Other comprehensive income arising from net fair value changes during the current financial year was RM29.87 million as compared to a loss of RM10.39 million in the last financial year.

During the current financial year, the Group and the Company disposed of certain quoted investments at a total consideration of RM47.59 million. Current financial year gain arising from the investments disposed amounted to RM3.47 million. Cumulative gain on disposal of the quoted investments as compared to the original cost amounting to RM11.58 million as compared to a cumulative loss of RM4.75 million last financial year has been transferred to retained earnings.

B2. Comparison of results for the 4th Quarter of FY 2020 against immediate preceding 3rd 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	
	30/6/2020	31/3/2020	RM'000	%
	RM'000	RM'000	RM'000	%
Revenue				
- Resin	10,854	11,375	(521)	(4.6)
- Ethanol	9,845	13,357	(3,512)	(26.3)
- Investment	621	153	468	305.9
- Trading	197	212	(15)	(7.1)
- Others	142	98	44	44.9
	<u>21,659</u>	<u>25,195</u>	<u>(3,536)</u>	



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	Quarter ended		Variance	
	30/6/2020	31/3/2020	RM'000	%
	RM'000	RM'000	RM'000	%
Profit/(Loss) before tax				
- Resin	808	921	(113)	(12.3)
- Ethanol	3,482	4,372	(890)	(20.4)
- Investment	830	3,748	(2,918)	(77.9)
- Trading	36	30	6	20.0
- Others	15	38	(23)	(60.5)
	<u>5,171</u>	<u>9,109</u>	<u>(3,938)</u>	

Turnover for the quarter under review decreased 14.0% to RM21.66 million from RM25.20 million in the immediate preceding quarter.

Profit before tax for the quarter under review decreased by RM3.94 million to RM5.17 million from RM9.11 million in the immediate preceding quarter mainly due to a realised gain on foreign exchange of RM3.15 million was recorded in the immediate preceding quarter.

In the ethanol business, demand from sanitizer manufacturers, a feature in the third quarter, weakened this quarter due primarily to an increase in supply of sanitizer products in the market. Moreover, operations were briefly interrupted during the fourth quarter due to a shortage of fuel for the factory's boiler.

In the investment segment, other comprehensive income arising from net fair value changes during the current financial quarter was RM20.78 million as compared to a loss of RM6.42 million in the immediate preceding quarter.



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B3. Prospects

Given increasing uncertainty around the world, from the worsening relationship between China and the US to the continued impact of Covid-19, FY2021 looks to be another challenging year. However, despite these difficulties, the Board of Directors expects the Group's businesses to remain profitable.

For the ethanol segment, revenue and profit before tax are expected to see a small increase, driven by general industry demand. Feedback from our customers indicate that ethanol demand should remain buoyant for the coming year.

Conditions in the resins business continue to be difficult given the tough logging environment in Sarawak. Additionally, some customers have indicated their intention to reduce resin orders due to the current economic slowdown, particularly in their largest market, Japan. As a result, revenue and profit before tax for the resin division are expected to be lower than in FY2020.

The Group remains susceptible to volatility in share markets given the Group's investments in domestic and foreign quoted shares.

B4. Comparison with profit forecast

This note is not applicable.

B5. Income tax

Taxation comprises:



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	Quarter		Year to date	
	3 months ended		12 months ended	
	30/6/2020	30/6/2019	30/6/2020	30/6/2019
	RM'000	RM'000	RM'000	RM'000
Estimated current Malaysian taxation	1,164	968	4,004	2,939
Deferred taxation	(40)	(84)	(321)	(489)
	<u>1,124</u>	<u>884</u>	<u>3,683</u>	<u>2,450</u>
Under/(Over) provision in prior years				
- income tax	-	4	45	(78)
- deferred tax	(63)	(20)	(63)	(20)
	<u>1,061</u>	<u>868</u>	<u>3,665</u>	<u>2,352</u>

The effective tax rate of the Group for the current financial year 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):

	Quarter		Year to date	
	3 months ended		12 months ended	
	30/6/2020	30/6/2019	30/6/2020	30/6/2019
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation	601	617	2,407	2,930
Warrants expired designated as at FVTOCI	1	-	1	-
Gain on disposal of property, plant and equipment	-	(1)	-	(1)
Property, plant and equipment written off	9	4	9	16
Inventories written off	64	-	64	-
Interest expense	(9)	3	6	17
Interest income	(1,013)	(336)	(1,137)	(409)
Net (gain) arising from financial assets designated as at FVTPL	(69)	212	(69)	(82)
Net realised (gain) on foreign exchange	(21)	-	(3,170)	(81)
Net unrealised loss/(gain) on foreign exchange	5	(6)	5	(75)



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Other than the above items, there were no provision for and write off of receivables, provision for 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 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

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

B10. Dividend

- (a) The following dividend in respect of the financial year ended 30 June 2020 has been recommended by the Directors which is subject to the approval of the shareholders at the forthcoming Annual General Meeting:-
- (i) A final dividend of 5.0 sen per share, and
 - (ii) A special dividend of 2.5 sen per share
- (b) The final dividend paid for the last financial year ended 30 June 2019 was 5.0 sen per share.



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- (c) The date of payment of the recommended final dividend shall be determined by the Directors and announced at a later date.

B11. Earnings per share

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

	Quarter		Year to date	
	3 months ended		12 months ended	
	30/6/2020	30/6/2019	30/6/2020	30/6/2019
Net profit attributable to Owners of the Company(RM'000)	3,986	2,968	15,453	7,794
Weighted average number of ordinary shares	200,380,036	200,380,036	200,380,036	200,380,036
Basic/Diluted earning per share(sen)	2.0	1.5	7.7	3.9

B12. Disclosure of realised and unrealised profits

	As at 30/06/2020 RM'000	As at 30/06/2019 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	112,943	96,028
- Unrealised	2,887	2,786
Total group retained profits as per consolidated accounts	115,830	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.



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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 25 August 2020.