



HEXZA CORPORATION BERHAD 196901000339 (8705-K)

Interim Report on Consolidated Results for the Second Quarter ended 31 December 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 2020 except for the new 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 2020:

MFRS 17 Insurance Contracts

Annual improvements to MFRS Standards 2018 - 2020

Amendments to the following MFRSs:

MFRS 3	Reference to the Conceptual Framework
MFRS 16	Covid-19 Related Rent Concessions
MFRS 9,139,7,4 and 16	Interest Rate Benchmark Reform-Phase 2
MFRS 101	Classification of Liabilities as Current or Non-Current
MFRS 10 and 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
MFRS 116	Property, Plant and Equipment-Proceeds before Intended Use
MFRS 137	Onerous Contracts – Cost of Fulfilling a Contract



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A2. Audit report

The audit report for the financial year ended 30 June 2020 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 RM22.22 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.

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.



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A7. Dividend paid

The proposed final dividend of 5.0 sen per share and a special dividend of 2.5 sen per share by the Board of Directors in respect of the financial year ended 30 June 2020 were approved by the shareholders at the 51st Annual General Meeting on 01 December 2020. The dividend amounting to RM15.029 million was paid on 18 December 2020.

A8. Segment revenue and segment result

Information on business segments for the financial period ended 31 December 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	17,775	19,072	595	623	536	-	38,601
Inter-segment sales	-	452	2,768	-	-	(3,220)	-
Total revenue	17,775	19,524	3,363	623	536	(3,220)	38,601
RESULT							
Operating profit/(loss)	761	6,427	2,988	93	206	(2,768)	7,707
Interest expense							(2)
Interest income							907
Taxation							(1,797)
Profit after tax							6,815

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 December 2020.



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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) 2nd Quarter of FY 2021 compared with 2nd Quarter of FY 2020

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

	Quarter ended		Variance	
	31/12/2020	31/12/2019	RM'000	%
Revenue				
- Resin	8,762	11,456	(2,694)	(23.5)
- Ethanol	9,177	6,972	2,205	31.6
- Investment	433	697	(264)	(37.9)
- Trading	285	235	50	21.3
- Others	265	124	141	113.7
	<u>18,922</u>	<u>19,484</u>	<u>(562)</u>	



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	Quarter ended		Variance	
	31/12/2020	31/12/2019	RM'000	%
Profit before tax				
- Resin	3	585	(582)	(99.5)
- Ethanol	3,083	1,601	1,482	92.6
- Investment	588	(211)	799	(378.7)
- Trading	55	31	24	77.4
- Others	113	15	98	653.3
	<u>3,842</u>	<u>2,021</u>	<u>1,821</u>	

The Group recorded a 2.9% decrease in turnover to RM18.92 million from RM19.48 million in the corresponding quarter last year. Profit before tax for the quarter under review increased 90.1% to RM3.84 million from RM2.02 million in the corresponding quarter last year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the quarter decreased 23.5% to RM8.76 million from RM11.45 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 99.5% to RM3 thousand from RM0.58 million primarily due to lower sales volume of 12.8% and margin compression. Additionally, a loss allowance on trade receivables of RM0.20 million during the current quarter under review further impacted profit before tax.

Ethanol segment

Turnover for the quarter increased 31.6% to RM9.18 million from RM6.97 million in the corresponding quarter last year mainly due to



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higher sales volume by 25.1% and increase in average selling price.

Profit before tax for ethanol segment increased by RM1.48 million to RM3.08 million from RM1.60 million mainly due to the higher turnover.

Investment segment

Profit before tax of RM0.59 million was recorded in the current quarter under review as compared to a loss before tax of RM0.21 million in the corresponding quarter last year mainly due to higher interest income from other investments in the current quarter under review. An unrealised loss on foreign exchange of RM0.68 million was also recorded in the corresponding quarter last year.

(b) Current year-to-date compared with year-to-date of FY 2020

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

	6 months ended		Variance	
	31/12/2020	31/12/2019	RM'000	%
Revenue				
- Resin	17,775	26,693	(8,918)	(33.4)
- Ethanol	19,072	15,230	3,842	25.2
- Investment	595	995	(400)	(40.2)
- Trading	623	447	176	39.4
- Others	536	288	248	86.1
	<u>38,601</u>	<u>43,653</u>	<u>(5,052)</u>	



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	6 months ended		Variance	
	31/12/2020	31/12/2019	RM'000	%
Profit before tax				
- Resin	770	2,058	(1,288)	(62.6)
- Ethanol	6,571	3,220	3,351	104.1
- Investment	931	18	913	5,072.2
- Trading	134	70	64	91.4
- Others	206	45	161	357.8
	<u>8,612</u>	<u>5,411</u>	<u>3,201</u>	

The Group recorded an 11.6% decrease in turnover to RM38.60 million from RM43.65 million in the corresponding period last year. Profit before tax for the current period under review increased 59.2% to RM8.61 million from RM5.41 million in the corresponding period last year.

The performance of the operating business segments is as follows:

Resins segment

Turnover for the period decreased 33.4% to RM17.77 million from RM26.69 million in the corresponding period last year mainly due to lower sales volume of 24.0% and a decrease in average selling price.

Profit before tax for resins segment decreased 62.6% to RM0.77 million from RM2.06 million mainly due to lower sales turnover and margin compression.

Ethanol segment

Turnover for the period increased 25.2% to RM19.07 million from RM15.23 million in the corresponding period last year mainly due to an increase in sales volume by 11.0% and increase in average selling price.



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Profit before tax for ethanol segment increased by RM3.35 million to RM6.57 million from RM3.22 million mainly due to an increase in sales volume and lower unit production costs from higher production volumes.

Investment segment

Profit before tax for our investment segment increased to RM0.93 million from RM0.02 million mainly due to higher interest income from other investments recorded in the current period under review and an unrealised loss on foreign exchange amounting to RM0.54 million was recorded in the corresponding period last year.

B2. Comparison of results for the 2nd Quarter of FY 2021 against immediate preceding 1st Quarter of FY 2021

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

	Quarter ended		Variance	
	31/12/2020	30/9/2020	RM'000	%
Revenue				
- Resin	8,762	9,013	(251)	(2.8)
- Ethanol	9,177	9,895	(718)	(7.3)
- Investment	433	162	271	167.3
- Trading	285	338	(53)	(15.7)
- Others	265	271	(6)	(2.2)
	<u>18,922</u>	<u>19,679</u>	<u>(757)</u>	



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	Quarter ended		Variance	
	31/12/2020	30/9/2020	RM'000	%
	RM'000	RM'000	RM'000	%
Profit before tax				
- Resin	3	767	(764)	(99.6)
- Ethanol	3,083	3,488	(405)	(11.6)
- Investment	588	343	245	71.4
- Trading	55	79	(24)	(30.4)
- Others	113	93	20	21.5
	<u>3,842</u>	<u>4,770</u>	<u>(928)</u>	

Turnover for the quarter under review decreased 3.8% to RM18.92 million from RM19.68 million in the immediate preceding quarter.

Profit before tax for the quarter under review decreased 19.5% to RM3.84 million from RM4.77 million in the immediate preceding quarter. Our resins segment recorded a 99.6% decrease in profit before tax mainly due to margin compression. Our ethanol segment recorded a 11.6% decrease in profit before tax mainly due to normalisation of sales volume compared to the high base since the start of the Covid-19 pandemic and higher production cost.

B3. Prospects

The re-imposition of MCO 2.0 across much of Malaysia is expected to have an adverse impact on the local economy, albeit not as severely as during the first MCO last year. Sales and profit of the Group's ethanol business is expected to experience a decline in the second half of the financial year versus the first half as operating conditions continue to decrease from levels reached during last year's peak Covid-19 period. In the resin business, much will depend on economic conditions in our customers' main markets. If conditions improve, plywood/MDF producers should benefit, resulting in a similarly positive impact on our resin business for the balance of the year.



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Given continued uncertainty in the macro environment globally, stock markets could remain volatile during the second half of the financial year.

B4. Comparison with profit forecast

This note is not applicable.

B5. Income tax

Taxation comprises:

	Quarter		Year to date	
	3 months ended		6 months ended	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
	RM'000	RM'000	RM'000	RM'000
Estimated current Malaysian taxation	837	650	1,959	1,507
Deferred taxation	(75)	(86)	(162)	(172)
	<u>762</u>	<u>564</u>	<u>1,797</u>	<u>1,335</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		6 months ended	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation	600	602	1,203	1,204
Loss allowance on trade receivables	204	-	204	-
Inventories written off	10	-	10	-
Interest expense	-	-	2	14
Interest income	(429)	(37)	(907)	(78)
Net (gain) arising from financial assets designated as at FVTPL	(10)	-	(22)	-
Net unrealised loss on foreign exchange	4	676	10	540

Other than the above items, there was no 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.

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

The Group is not subject to any material litigation. There is no change to this position since the end of the last reporting period up to the date of this report.



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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 per share are calculated as follows:

	Quarter		Year to date	
	3 months ended		6 months ended	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Net profit attributable to Owners of the Company(RM'000)	3,086	1,371	6,706	3,768
Weighted average number of ordinary shares	200,380,036	200,380,036	200,380,036	200,380,036
Basic/Diluted earning per share(sen)	1.6	0.7	3.4	1.9

B12. Disclosure of realised and unrealised profits

	As at 31/12/2020 RM'000	As at 30/06/2020 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	104,463	112,943
- Unrealised	3,044	2,887
Total group retained profits as per consolidated accounts	107,507	115,830

The disclosure of realised and unrealised profits is made solely for complying with the disclosure requirements as stipulated in the



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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 19 February 2021.