



HENG HUAT RESOURCES GROUP BERHAD

(Company No. 969678-D)

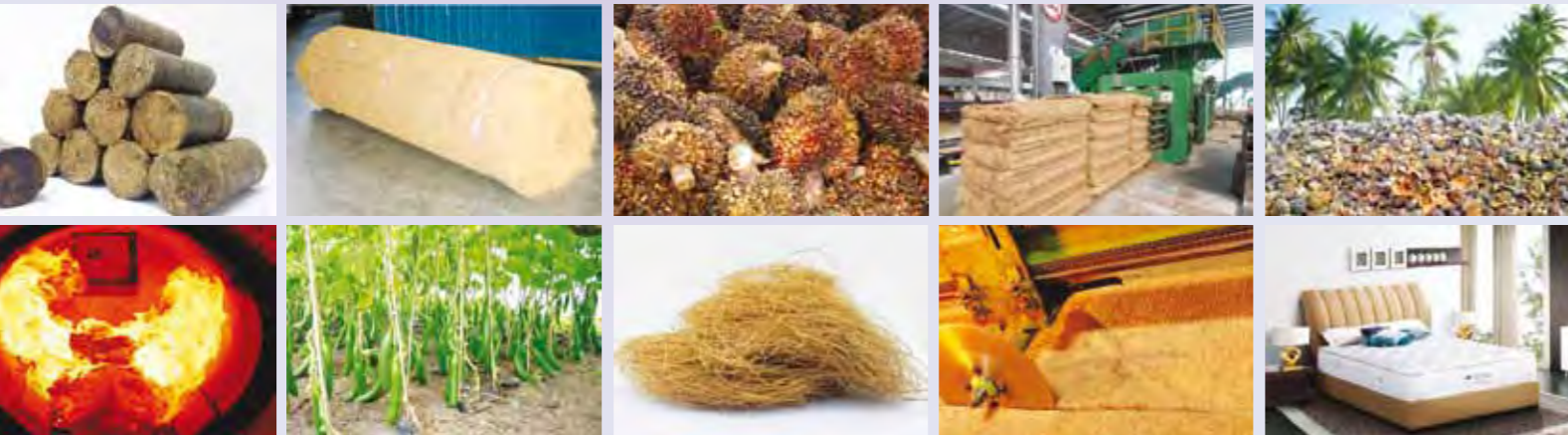
(Incorporated in Malaysia under the Companies Act, 1965)

HENG HUAT RESOURCES GROUP BERHAD



PROSPECTUS

THIS PROSPECTUS IS DATED 30 JUNE 2014



INITIAL PUBLIC OFFERING IN CONJUNCTION WITH OUR LISTING ON THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD COMPRISING:

- (I) PUBLIC ISSUE OF 46,500,000 NEW ORDINARY SHARES OF RM0.10 EACH IN THE FOLLOWING MANNER:
- 7,000,000 NEW ORDINARY SHARES OF RM0.10 EACH AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC;
 - 5,000,000 NEW ORDINARY SHARES OF RM0.10 EACH AVAILABLE FOR APPLICATION BY OUR ELIGIBLE EMPLOYEES AND PERSONS WHO HAVE CONTRIBUTED TO THE SUCCESS OF OUR GROUP;
 - 12,200,000 NEW ORDINARY SHARES OF RM0.10 EACH BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS; AND
 - 22,300,000 NEW ORDINARY SHARES OF RM0.10 EACH BY WAY OF PRIVATE PLACEMENT TO BUMIPUTERA INVESTORS APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY; AND
- (II) OFFER FOR SALE OF 14,660,000 EXISTING ORDINARY SHARES OF RM0.10 EACH BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS;

AT AN ISSUE/OFFER PRICE OF RM0.45 PER SHARE PAYABLE IN FULL UPON APPLICATION.

Adviser, Sponsor, Underwriter and Placement Agent

Kenanga

KENANGA INVESTMENT BANK BERHAD

(Company No.: 15678-H)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Corporate Finance Adviser

WYNCORP

LICENCED INVESTMENT ADVISOR

WYNCORP Advisory Sdn Bhd

(Company Number : 632322-H)

INVESTORS ARE ADVISED TO NOTE THAT COMPANIES LISTED ON THE ACE MARKET MAY BE OF HIGH INVESTMENT RISK. INVESTORS ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.

THERE ARE CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER. PLEASE REFER TO SECTION 4 OF THIS PROSPECTUS FOR "RISK FACTORS".

THIS PROSPECTUS CONTAINS CERTAIN PHOTOGRAPHS AND ILLUSTRATION OF ASSETS WHICH DO NOT BELONG TO OUR GROUP AND ARE INCLUDED HEREIN FOR ILLUSTRATION PURPOSES ONLY.

PROSPECTUS



RESPONSIBILITY STATEMENTS

Our Board, Promoters and Offeror (as defined herein) have seen and approved this Prospectus and they collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm, after having made all reasonable enquiries, that to the best of their knowledge and belief, there is no false or misleading statement or other facts the omission of which would make any statement herein false or misleading.

Kenanga Investment Bank Berhad (“**Kenanga IB**”), being our Adviser, Sponsor, Underwriter and Placement Agent acknowledges that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO (as defined herein).

STATEMENTS OF DISCLAIMER

A copy of this Prospectus has been registered with the Securities Commission Malaysia (“**SC**”). The registration of this Prospectus should not be taken to indicate that the SC recommends our IPO or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Prospectus. The SC has not, in any way, considered the merits of the securities being issued/offered for investment.

The SC is not liable for any non-disclosure on our part and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Prospectus.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT IN OUR COMPANY. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

Approval has been obtained from Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the listing of and quotation for our Shares (as defined herein). Admission to the Official List of Bursa Securities is not to be taken as an indication of the merits of our IPO, our Company or our Shares.

Bursa Securities is not liable for any non-disclosure on our part and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, together with the application form, has also been lodged with the Registrar of Companies of Malaysia who takes no responsibility for its contents.

OTHER STATEMENTS

Companies listed on the ACE Market may have a limited operating history or may not have any profit track record prior to listing. Such companies may be of high investment risk. As with all investments, you should be aware of all potential risks in investing in such companies and should make the decision to invest after giving due and careful consideration by referring to, among others, this Prospectus, our latest financial statements and corporate announcements. You are strongly recommended to seek advice from a securities professional or adviser.

Our IPO is an exempt transaction under Section 212(8) of the Capital Markets and Services Act 2007 (“**CMSA**”) and is therefore not subject to the approval of the SC.

You are advised to note that recourse for false or misleading statements or acts made in connection with this Prospectus is directly available through Sections 248, 249 and 357 of the CMSA.

Securities listed on Bursa Securities are offered to the public premised on full and accurate disclosure of all material information concerning the issue for which any of the persons set out in Section 236 of the CMSA, e.g. Directors and Advisers, are responsible.

This Prospectus is prepared and published solely for our IPO in Malaysia under the laws of Malaysia. Our shares are issued/offered in Malaysia solely based on the contents of this Prospectus. Our Board, Promoters, Offeror, Adviser, Sponsor, Underwriter and Placement Agent have not authorised anyone to provide you with information which is not contained in this Prospectus.

This Prospectus has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia and has not been and will not be lodged, registered or approved pursuant to or under any applicable securities or equivalent legislation or with or by any regulatory authority or other relevant body of any jurisdiction other than Malaysia.

We will not, prior to acting on any acceptance in respect of our IPO, make or be bound to make any enquiry as to whether you have a registered address in Malaysia and will not accept or be deemed to accept any liability in relation thereto whether or not any enquiry or investigation is made in connection therewith.

It shall be your sole responsibility, if you are or may be subject to the laws of any country or jurisdiction other than Malaysia, to consult your legal and/or other professional advisers as to whether your application for our IPO would result in the contravention of any law of such country or jurisdiction.

Further, it shall also be your sole responsibility to ensure that your application for our IPO would be in compliance with the terms of this Prospectus and would not be in contravention of any law of countries or jurisdictions other than Malaysia to which you may be subjected to. We will further assume that you have accepted our IPO in Malaysia and will at all applicable times be subjected only to the laws of Malaysia in connection therewith. However, we reserve the right, in our absolute discretion, to treat any acceptance as invalid if we believe that such acceptance may violate any law or applicable legal or regulatory requirements.

The distribution of this Prospectus and the accompanying documents are subject to Malaysian laws. Our Board, Promoters, Offeror, Adviser, Sponsor, Underwriter and Placement Agent take no responsibility for the distribution of this Prospectus (in preliminary or final form) outside Malaysia. Our Board, Promoters, Offeror, Adviser, Sponsor, Underwriter and Placement Agent have not taken any action to permit an IPO of our Shares based on this Prospectus or the distribution of this Prospectus outside Malaysia.

This Prospectus may not be used for an offer to sell or an invitation to buy our Shares in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised or is unlawful. This Prospectus shall also not be used to make an offer of or invitation to buy our Shares to any person to whom it is unlawful to do so. Our Board, Promoters, Offeror, Adviser, Sponsor, Underwriter and Placement Agent require you to inform yourself and to observe such restrictions.

ELECTRONIC PROSPECTUS

This Prospectus can also be viewed or downloaded from Bursa Securities' website at www.bursamalaysia.com.

The contents of the Electronic Prospectus and the copy of this Prospectus registered with the SC are the same. You may obtain a copy of the Electronic Prospectus from the website of Affin Bank Berhad at www.affinOnline.com, CIMB Bank Berhad at www.cimbclicks.com.my, CIMB Investment Bank Berhad at www.eipocimh.com, Malayan Banking Berhad at www.maybank2u.com.my, Public Bank Berhad at www.pbebank.com, Affin Investment Bank Berhad at www.affinTrade.com and RHB Bank Berhad at www.rhb.com.my.

The internet is not a fully secured medium. Internet applications may be subject to risks in data transmission, computer security threats such as viruses, hackers and crackers, faults with computer software and other events beyond control of the Internet Participating Financial Institutions (as defined herein). These risks cannot be borne by the Internet Participating Financial Institutions.

If you are in doubt about the validity or integrity of an Electronic Prospectus, you should immediately request from us, our Adviser or Equiniti Services Sdn Bhd, a paper/printed copy of this Prospectus. If there is any discrepancy between the contents of the Electronic Prospectus and the paper/printed copy of this Prospectus, the contents of the paper/printed copy of this Prospectus, which is identical to the copy of the Prospectus registered with the SC, shall prevail.

In relation to any reference in this Prospectus to third party internet sites (referred to as "Third Party Internet Sites") whether by way of hyperlinks or by way of description of the third party internet sites, you acknowledge and agree that:

- (i) We do not endorse and are not affiliated in any way to the Third Party Internet Sites. Accordingly, we are not responsible for the availability of, or the content or any data, files or other material provided on the Third Party Internet Sites. You bear all risks associated with the access to or use of the Third Party Internet Sites;

- (ii) We are not responsible for the quality of products or services in the Third Party Internet Sites, particularly in fulfilling any of the terms of any of your agreements with the Third Party Internet Sites. We are also not responsible for any loss or damage or cost that you may suffer or incur in connection with or as a result of dealing with the Third Party Internet Sites or the use of or reliance on any data, files or other material provided by such parties; and
- (iii) Any data, files or other materials downloaded from the Third Party Internet Sites is done at your own discretion and risk. We are not responsible, liable or under obligation for any damage to your computer system or loss of data resulting from the downloading of any such data, information, files or other materials.

Where an Electronic Prospectus is hosted on the website of an Internet Participating Financial Institution, you are advised that:

- (i) The Internet Participating Financial Institution is only liable in respect of the integrity of the contents of the Electronic Prospectus, i.e. to the extent that the content of the Electronic Prospectus on the web server of the Internet Participating Financial Institution may be viewed via web browser or other relevant software. The Internet Participating Financial Institution is not responsible for the integrity of the contents of the Electronic Prospectus, which has been obtained from the web server of the Internet Participating Financial Institution and subsequently communicated or disseminated in any manner to you or other parties; and
- (ii) While all reasonable measures have been taken to ensure the accuracy and reliability of the information provided in the Electronic Prospectus, the accuracy and reliability of the Electronic Prospectus cannot be guaranteed because the internet is not a fully secured medium.

The Internet Participating Financial Institution is not liable (whether in tort or contract or otherwise) for any loss, damage or costs that you or any other person may suffer or incur due to, as a consequence of or in connection with any inaccuracies, changes, alterations, deletions or omissions in respect of the information provided in the Electronic Prospectus which may arise in connection with or as a result of any fault with web browsers or other relevant software, any fault on your or any third party's personal computer, operating system of other software, viruses or other security threats, unauthorised access to information or systems in relation to the website of the Internet Participating Financial Institution, and/or problems occurring during data transmission which may result in inaccurate or incomplete copies of information being downloaded or displayed on your personal computer.

PUBLIC SHAREHOLDING SPREAD

In compliance with the Listing Requirements (as defined herein), we need to have at least 25% of our enlarged issued and paid-up share capital in the hands of a minimum 200 public shareholders holding not less than 100 Shares each upon admission to the ACE Market. We expect to achieve this at the point of Listing (as defined herein). However, in the event that this requirement is not met pursuant to our IPO, we may not be allowed to proceed with our Listing. In this event, monies paid in respect of all applications will be returned in full without interest to the applicants within fourteen (14) days after we become liable to repay it.

INDICATIVE TIMETABLE

The following events are intended to take place on the following tentative dates:

EVENT	TENTATIVE DATE / TIME
Opening of application for our IPO	10.00 a.m., 30 June 2014
Closing of application for our IPO	5.00 p.m., 16 July 2014
Balloting of applications	18 July 2014
Allotment of Shares to successful applicants	23 July 2014
Listing on the ACE Market	25 July 2014

Our Board, Promoters and Offeror, together with Kenanga IB, may mutually decide at their absolute discretion to extend the date of closing of application to a later date or dates. If the date of closing of application is extended, the dates of balloting, allotment and Listing would be extended accordingly. We will publish any extension of the date of closing of application in a widely circulated English and Bahasa Malaysia newspaper in Malaysia prior to the original closing date of application. **Late applications will not be accepted.**

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to “our Company” in this Prospectus are to Heng Huat Resources Group Berhad while references to “our Group” are to our Company and our subsidiary companies. References to “we”, “us”, “our” and “ourselves” are to our Company or our Group or any member of our Group, as the context requires. Unless the context otherwise requires, references to “Management” are to our Executive Directors and our key management and key technical personnel as disclosed in this Prospectus and statements as to our beliefs, expectations, estimates and opinions are those of our Management.

Certain abbreviations, acronyms and technical terms used are defined in the “Definitions” section of this Prospectus. Words denoting the singular shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include companies and corporations.

Unless otherwise stated, any reference to dates and times in this Prospectus shall be a reference to dates and times in Malaysia.

Any reference to any enactment in this Prospectus shall be a reference to that enactment as for the time being amended or re-enacted.

This Prospectus includes statistical data provided by our Management and various third parties and cites third party projections regarding growth and performance of the industry in which our Group operates. This data is taken or derived from information published by industry sources and from our internal data. In each such case, the source is acknowledged in this Prospectus; provided that where no source is acknowledged, it can be assumed that the information originates from us.

In particular, certain information in this Prospectus is extracted or derived from the report prepared by Protégé Associates Sdn Bhd, an independent business and market research consulting firm. We believe that the statistical data and projections cited in this Prospectus are useful in helping you to understand the major trends in the industry in which we operate. However, neither we nor our advisers have independently verified these data. Neither we nor our advisers make any representation as to the correctness, accuracy or completeness of such data, hence accordingly, you should not place undue reliance on the statistical data cited in this Prospectus. Similarly, third party projections cited in this Prospectus are subject to significant uncertainties that could cause actual data to differ materially from the projected figures. We give no assurance that the projected figures will be achieved and you should not place undue reliance on the third party projections cited in this Prospectus.

The information on our website or any website directly or indirectly linked to our website does not form part of this Prospectus and you should not rely on it.

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FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements, which include all statements other than those of historical facts including, among others, those regarding our financial position, business strategies, prospects, plans and objectives of our Management for future operations. Some of these statements can be identified by the use of forward-looking terminology such as the words “may”, “will”, “would”, “could”, “believe”, “expect”, “anticipate”, “intend”, “estimate”, “aim”, “plan”, “forecast” or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. As such, we cannot assure you that the forward-looking statements in this Prospectus will be realised.

Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we operate. Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to those discussed in Section 4 - Risk Factors and Section 12 - Management Discussion and Analysis of Financial Condition, Results of Operations and Prospects of this Prospectus.

These forward-looking statements are based on information available to us as at the date of this Prospectus. Subject to the provisions of Section 238 of the CMSA, we expressly disclaim any obligation or undertaking to release publicly any update or revision to any forward-looking statement contained in this Prospectus to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

You will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forward looking statements that are contained herein.

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DEFINITIONS

Unless otherwise defined or the context otherwise requires, the following definitions shall apply throughout this Prospectus:

Act	: Companies Act, 1965, as amended from time to time, and any re-enactment thereof
ADAs	: Authorised Depository Agents
ACE Market	: ACE Market of Bursa Securities
Acquisitions	: Acquisition of HH Industries, Acquisition of Fibre Star and Acquisition of Fibre Star Marketing, collectively
Acquisition of Fibre Star	: Acquisition by Heng Huat of the entire equity interests in Fibre Star comprising 1,650,003 ordinary shares of RM1.00 each for a purchase consideration of RM1,650,000, which was fully satisfied by the issuance of 16,500,000 new Heng Huat Shares
Acquisition of Fibre Star Marketing	: Acquisition by Heng Huat of the entire equity interests in Fibre Star Marketing comprising 3 ordinary shares of RM1.00 each for a cash consideration of RM3
Acquisition of HH Industries	: Acquisition by Heng Huat of the entire equity interests in HH Industries comprising 9,095,000 ordinary shares of RM1.00 each for a purchase consideration of RM14,280,000, which was fully satisfied by the issuance of 142,800,000 new Heng Huat Shares
Acquisition of Assets from HH Manufacturer	: Acquisition by Fibre Star of assets of HH Manufacturer for a purchase consideration of RM1,650,000, which was fully satisfied by the issuance of 1,650,000 ordinary shares of RM1.00 each in Fibre Star
Acquisition of HK Kitaran	: Acquisition by HH Industries of 49% of the equity interests in HK Kitaran comprising 490,000 ordinary shares of RM1.00 each for a purchase consideration of RM3,871,000, which was fully satisfied by the issuance of 3,871,000 ordinary shares of RM1.00 each in HH Industries
Acquisition of HK Mega	: Acquisition by HH Industries of 10% of the equity interests in HK Mega comprising 10,000 ordinary shares of RM1.00 each for a nominal cash consideration of RM2
Acquisition of HK Palm Fibre	: Acquisition by HH Industries of 50% of the equity interests in HK Palm Fibre comprising 100,000 ordinary shares of RM1.00 each for a purchase consideration of RM2,262,000, which was fully satisfied by the issuance of 2,262,000 ordinary shares of RM1.00 each in HH Industries
Acquisition of Property from HH Furniture	: Acquisition of a piece of freehold land held under No. H.S.(D) 8763, Lot No. 2489, Mukim 05, Seberang Perai Selatan, Pulau Pinang, together with a single storey factory building erected on the land by Fibre Star from HH Furniture for a cash purchase consideration of RM2,800,000
AKSB	: Arah Kawasan Sdn Bhd (353399-M)
ATM(s)	: Automated teller machine(s)

DEFINITIONS (Cont'd)

Application Form(s)	: The printed application form(s) for the application of our IPO Shares accompanying this Prospectus
Board or Directors	: Board of Directors of Heng Huat
BDO or Reporting Accountants	: BDO (AF 0206)
BLR	: Base lending rate
Bursa Depository	: Bursa Malaysia Depository Sdn Bhd (165570-W)
Bursa Securities	: Bursa Malaysia Securities Berhad (635998-W)
CAGR	: Compound annual growth rate
CCC	: Certificate of Completion and Compliance
CCM	: Companies Commission of Malaysia
CDS	: Central Depository System
CDS Account	: An account established by Bursa Depository for a depositor for the recording of deposits or withdrawals of securities and for dealings in such securities by the depositor
Central Depositories Act	: Securities Industry (Central Depositories) Act, 1991, as amended from time to time and any re-enactment thereof
CMSA	: Capital Markets and Services Act 2007, as amended from time to time and any re-enactment thereof
EBITDA	: Earnings before interest, taxation, depreciation and amortisation
EPS	: Earnings per share
Electronic Prospectus	: Copy of this Prospectus that is issued, circulated or disseminated via the Internet, and/or an electronic storage medium, including but not limited to CD-ROMs or floppy disks
ESA or Electronic Share Application	: Application for our Public Issue Shares through a Participating Financial Institution's ATM
Fibre Star	: Fibre Star (M) Sdn Bhd (973296-M)
Fibre Star Reorganisation	: Acquisition of Property from HH Furniture, Acquisition of Assets from HH Manufacturer, Transfer of Trademark from HH Furniture and Transfer of Trademark from HH Manufacturer, collectively
Fibre Star Marketing	: Fibre Star Marketing Sdn Bhd (973299-X)
FYE	: Financial year ended/ending
GP	: Gross profit
40 HC	: 40 High cube refers to a container with a 40 feet length, 8 feet width and 9 feet six inches external dimension
HK Fibre	: HK Fibre Sdn Bhd (765548-H)

DEFINITIONS (Cont'd)

Heng Huat	: Heng Huat Resources Group Berhad (969678-D)
HH Furniture	: Heng Huat Furniture Sdn Bhd (224301-V)
HH Manufacturer	: Heng Huat Manufacturer Sdn Bhd (430950-A)
Heng Huat Group or Group	: Heng Huat and its subsidiary companies, collectively
Heng Huat Share(s) or Share(s)	: Ordinary share(s) of RM0.10 each in Heng Huat
HH Industries	: Heng Huat Industries Holdings Sdn Bhd (779222-P)
HH Industries Reorganisation	: Acquisition of HK Palm Fibre, Acquisition of HK Kitaran and Acquisition of HK Mega, collectively
HK Kitaran	: HK Kitaran Sdn Bhd (881898-X)
HK Mega	: HK Mega Industries Sdn Bhd (776763-X)
HK Palm Fibre	: HK Palm Fibre Manufacturer Sdn Bhd (859511-M)
IMR Report	: Independent Market Research Report titled 'Strategic Analysis of Malaysian Biomass Materials Market- Coconut and Oil Palm EFB Fibres'
IP	: Intellectual Property
IPO	: Initial public offering comprising the Public Issue and Offer for Sale, collectively
IPO Price	: RM0.45 per IPO Share
IPO Share(s)	: Public Issue Shares and Offer Shares, collectively
Internet Participating Financial Institution	: The participating financial institution for Internet Share Application
Internet Share Application or ISA	: Application for our Public Issue Shares through an Internet Participating Financial Institution
ISO	: International Organisation for Standardisation
Issuing House or Equiniti	: Equiniti Services Sdn Bhd (I1324-H)
Kenanga IB or Adviser or Sponsor or Underwriter or Placement Agent	: Kenanga Investment Bank Berhad (15678-H)
kg	: Kilogram
Listing	: Admission to the Official List of Bursa Securities and the listing of and quotation for Heng Huat's entire enlarged issued and paid-up share capital of RM20,580,003 comprising 205,800,030 Shares on the ACE Market of Bursa Securities
Listing Requirements	: ACE Market Listing Requirements of Bursa Securities, as amended from time to time

DEFINITIONS (Cont'd)

LPD	: 31 May 2014, being the latest practicable date prior to the issuance of this Prospectus
Market Day	: A day on which Bursa Securities is open for trading of securities
MDBB	: Majlis Daerah Bandar Baharu
MIDA	: Malaysian Investment Development Authority
MITI	: Ministry of International Trade and Industry
MPSP	: Majlis Perbandaran Seberang Perai
mt	: Metric tonne
MYIPO	: Intellectual Property Corporation of Malaysia
NA	: Net assets
NBV	: Net book value
NTA	: Net tangible assets
OC	: Certificate of Fitness for Occupation
OEM	: Original Equipment Manufacturer
Offer for Sale	: Offer for sale of 14,660,000 Shares by the Offeror at the IPO Price payable in full upon application subject to the terms and conditions of this Prospectus
Offer Shares	: 14,660,000 Shares, being the subject of the Offer for Sale
Offeror	: Kee Swee Lai
Participating Financial Institution(s)	: Participating financial institution(s) for the ESA as listed in Section 16 of this Prospectus
PAT	: Profit after taxation
PBT	: Profit before taxation
PE Multiple	: Price-earnings multiple
Plant 1	: A piece of freehold land held under No. H.S.(D) 6714, Lot 2940, Mukim 4, Daerah Seberang Perai Selatan, Pulau Pinang together with a double storey office building annexed with a single storey detached factory building, owned by HK Kitaran
Plant 2	: A piece of freehold land held under No. H.S.(D) 6719, Lot 2945, Mukim 4, Daerah Seberang Perai Selatan, Pulau Pinang together with a double storey office building annexed with a single storey detached factory building, owned by HK Kitaran
Plant 3	: A property bearing address No. 3843 (Lot 1223), Mk. 11, Luar Desa Jawi, 14200 Sungai Jawi, Seberang Perai Selatan, Pulau Pinang, rented by Fibre Star from HH Furniture

DEFINITIONS (Cont'd)

Plant 4	: A piece of freehold land held under No. H.S.(D) 8763, Lot No. 2489, Mukim 5, Daerah Seberang Perai Selatan, Pulau Pinang together with a single storey factory building, owned by Fibre Star
Plant 5	: A property bearing address Lot 713, Mukim Sungai Batu, 09810 Daerah Bandar Baharu, Selama, Kedah Darul Aman, rented by HK Palm Fibre from AKSB
Plant 6	: A piece of leasehold land held under HSM 2/97A, PT345, Kg Kemayang, Mukim Senak, Jajahan Bachok, Kelantan Darul Naim together with a portable cabin and a single storey detached factory, owned by HK Fibre
Promoter(s)	: H'ng Choon Seng, Kee Swee Lai, Khor Mooi Kim, Teh Cbai Luang, Khor Teik Boon and HH Manufacturer
Prospectus	: This prospectus dated 30 June 2014 in relation to our IPO
Protégé Associates	: Protégé Associates Sdn Bhd (675767-H)
Public	: All persons or members of the public but excluding directors of our Group, our substantial shareholders and persons connected or associated with them (as defined in the Listing Requirements)
Public Issue	: Public Issue of 46,500,000 new Heng Huat Shares, at the IPO Price payable in full upon application, subject to the terms and conditions of this Prospectus
Public Issue Share(s)	: New Heng Huat Shares, being the subject of the Public Issue
QC	: Quality control
Reorganisations	: Fibre Star Reorganisation and HH Industries Reorganisation, collectively
RM and sen	: Ringgit Malaysia and sen, respectively
RMB	: China Renminbi
SC	: Securities Commission Malaysia
Share Split	: Sub-division of every one (1) ordinary share of RM1.00 each into ten (10) ordinary shares of RM0.10 each in Heng Huat
SME	: Small and medium enterprises
Sq ft	: Square feet
Transfer of Trademark from HH Furniture	: Transfer of trademark 'Xiong Mao®' from HH Furniture to Fibre Star for a nominal cash consideration of RM10
Transfer of Trademark from HH Manufacturer	: Transfer of trademark 'Fibre Star®' from HH Manufacturer to Fibre Star for a nominal cash consideration of RM10
USA or US	: United States of America
USD	: US Dollar
Underwriting Agreement	: Underwriting agreement dated 27 June 2014 entered into between the Company and the Underwriter for the underwriting of 7,000,000 Public Issue Shares

DEFINITIONS (Cont'd)**Technical References**

Biomass	: Biological material which is derived from living, or recently living organisms
Briquette	: Briquette/pellet refers to a block of compressed loose biomass materials used as fuel. Briquette is similar to pellet but is physically larger
EFB	: Empty fruit bunch
Fertigation	: Fertigation refers to the application of nutrients using an irrigation system
Geotextile	: A textile-structured material which is used in a variety of civil engineering and agricultural applications
Hammer mill	: A machine that de-fiberise biomass wastes for easier processing in the production process of coconut and oil palm EFB fibres
Horticulture	: Horticulture is a part of the agriculture practice concerned with growing plants that are used for food, medicine purposes or aesthetic gratification
Kiln	: A thermally insulated chamber, or a type of oven, used for the processing of a substance by burning, firing or drying
Needle punching	: A technique of repeatedly punching a threaded needle into a fabric to produce a design on the fabric
Peat moss	: Peat moss is used in agriculture, horticulture and forestry to regulate moisture and air around plant roots
Pongee	: A type of thin, soft fabric of Chinese origin
Press hot roller	: Press hot roller is used to compress the sheet into a more compact form in the production process of coconut fibre sheets
Puller machine	: Puller machine is used for pulling fibre sheets forward while cutting fibre sheets or trimming their edges in the production process of coconut fibre sheets
Rolling dryer	: Rolling dryer is used to remove the moisture content of fibres in the production process of coconut fibre sheets
Sifter	: Sifter is used to filter out short fibres in the production process of coconut and oil palm EFB fibres

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1. CORPORATE DIRECTORY**BOARD OF DIRECTORS**

Name	Address	Profession	Nationality
Dato' Juzilman Bin Basir <i>Independent Non-Executive Chairman</i>	No. 56, Jalan USJ 2/5H 47600 Subang Jaya Selangor	Company Director	Malaysian
H'ng Choon Seng <i>Managing Director</i>	No. 2457, Kampung Jawi 14200 Sungai Bakap Penang	Company Director	Malaysian
Kee Swee Lai <i>Deputy Managing Director</i>	No. 1051, Jalan Besar Permatang Tinggi 14000 Bukit Mertajam Penang	Company Director	Malaysian
Lim Ghim Chai <i>Executive Director</i>	1107 Mk 20, Kubang Ulu 14400 Bukit Mertajam Penang	Company Director	Malaysian
Khor Mooi Kim <i>Executive Director</i>	No. 2457, Kampung Jawi 14200 Sungai Bakap Penang	Company Director	Malaysian
Teh Chai Luang <i>Executive Director</i>	No. 2457, Kampung Jawi 14200 Sungai Bakap Penang	Company Director	Malaysian
Khor Teik Boon <i>Executive Director</i>	82, Lorong Bukit Panchor 3 Taman Bukit Panchor 14300 Nibong Tebal Penang	Company Director	Malaysian
Ng Boon Kang <i>Independent Non-Executive Director</i>	No. 3, Lorong Desa Palma 10 Taman Desa Palma 14000 Bukit Mertajam Penang	Tax Partner and Audit Principal	Malaysian
Lo Liang Kheng <i>Independent Non-Executive Director</i>	12-A, Jalan Bayan Mutiara 3 D' Residence 11700 Gelugor Penang	Consultant	Malaysian

1. CORPORATE DIRECTORY (Cont'd)**AUDIT COMMITTEE**

Name	Designation	Directorship
Ng Boon Kang	Chairman	Independent Non-Executive Director
Lo Liang Kheng	Member	Independent Non-Executive Director
Dato' Juzilman Bin Basir	Member	Independent Non-Executive Chairman

NOMINATION COMMITTEE

Name	Designation	Directorship
Dato' Juzilman Bin Basir	Chairman	Independent Non-Executive Chairman
Ng Boon Kang	Member	Independent Non-Executive Director
Lo Liang Kheng	Member	Independent Non-Executive Director

REMUNERATION COMMITTEE

Name	Designation	Directorship
Lo Liang Kheng	Chairman	Independent Non-Executive Director
Dato' Juzilman Bin Basir	Member	Independent Non-Executive Chairman
Ng Boon Kang	Member	Independent Non-Executive Director

COMPANY SECRETARY : Ooi Yoong Yoong (MAICSA: 7020753)
51-9-A, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Tel: (604) 210 9828
Fax: (604) 210 9827

REGISTERED OFFICE : 51-9-A, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Tel: (604) 210 9828
Fax: (604) 210 9827

HEAD OFFICE : Lot 2945 (Plot A2), Jalan Sungai Baong
Kawasan Perindustrian Perabut
Sungai Baong, Mukim 5
14200 Seberang Perai Selatan, Penang
Tel: (604) 582 5888
Fax: (604) 582 1888
Email: henghuatgroup@henghuat.com.my
Website: www.henghuat.com.my

AUDITORS AND REPORTING ACCOUNTANTS : BDO (AF 0206)
51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Tel: (604) 227 6888
Fax: (604) 229 8118

1. CORPORATE DIRECTORY (Cont'd)

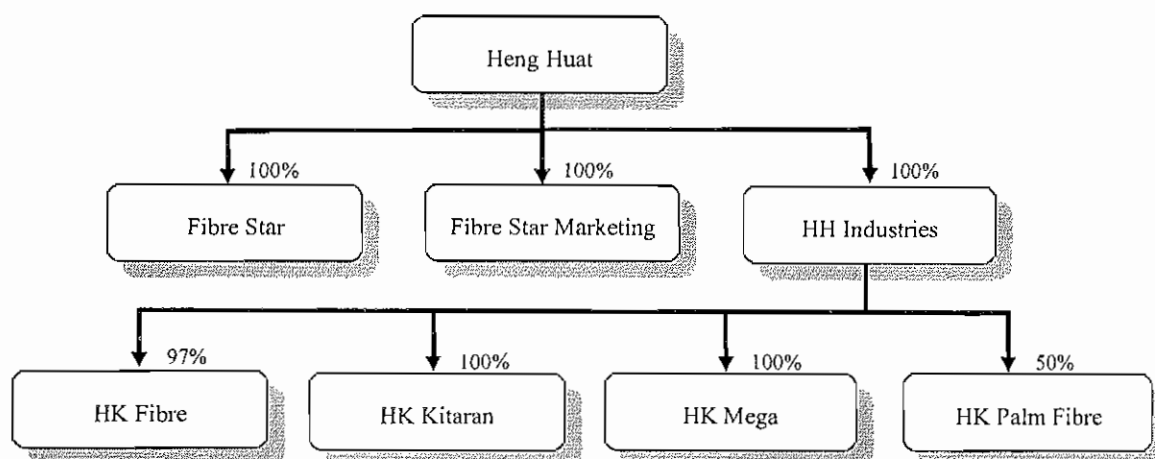
- SOLICITORS** : Azman Davidson & Co.
Suite 13.03, 13th Floor
Menara Tan & Tan
207 Jalan Tun Razak
50400 Kuala Lumpur
Tel: (603) 2164 0200
Fax: (603) 2164 0280
- INDEPENDENT MARKET RESEARCHER** : Protégé Associates Sdn Bhd (675767-H)
Suite C-06-06 Plaza Mont' Kiara
2, Jalan Kiara, Mont' Kiara
50480 Kuala Lumpur
Tel: (603) 6201 9301
Fax: (603) 6201 7302
- PRINCIPAL BANKERS** : AmBank (M) Berhad (8515-D)
Level 8
37, Jalan Sultan Ahmad Shah
10050 Penang
Tel: (604) 226 1818
Fax: (604) 229 7488
- Public Bank Berhad (6463-H)
3619 & 3620, Jalan Che Ahmad
14300 Nibong Tebal, Penang
Tel: (604) 593 1433
Fax: (604) 593 1590
- ISSUING HOUSE** : Equiniti Services Sdn Bhd (11324-H)
Level 8, Menara MIDF
82, Jalan Raja Chulan
50200 Kuala Lumpur
Tel: (603) 2166 0933
Fax: (603) 2166 0688
- SHARE REGISTRAR** : AGRITEUM Share Registration Services Sdn Bhd (578473-T)
2nd Floor, Wisma Penang Garden
42, Jalan Sultan Ahmad Shah
10050 Penang
Tel: (604) 228 2321
Fax: (604) 227 2391
- ADVISER, SPONSOR, UNDERWRITER AND PLACEMENT AGENT** : Kenanga Investment Bank Berhad (15678-H)
8th Floor, Kenanga International
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: (603) 2027 5555
Fax: (603) 2164 6690
- CORPORATE FINANCE ADVISER** : WYNCORP Advisory Sdn Bhd (632322-H)
Suite 50-5-3A, Level 5
Wisma UOA Damansara
50, Jalan Dungun, Damansara Heights
50490 Kuala Lumpur
Tel: (603) 2096 2286 / 2289
Fax: (603) 2011 2821
- LISTING SOUGHT** : ACE Market of Bursa Securities

2. INFORMATION SUMMARY

THIS INFORMATION SUMMARY SETS OUT THE SALIENT INFORMATION CONTAINED IN THIS PROSPECTUS. YOU SHOULD READ AND UNDERSTAND THIS INFORMATION SUMMARY TOGETHER WITH THE FULL TEXT OF THIS PROSPECTUS BEFORE DECIDING WHETHER TO INVEST IN OUR SHARES. YOU ARE ADVISED TO READ THE RISK FACTORS DESCRIBED IN SECTION 4 OF THIS PROSPECTUS FOR AN UNDERSTANDING OF THE RISKS ASSOCIATED WITH AN INVESTMENT IN OUR COMPANY.

2.1 OUR HISTORY AND BUSINESS

Heng Huat was incorporated in Malaysia under the Act on 25 November 2011 as a private limited company under the name of Heng Huat Resources Group Sdn Bhd. We were subsequently converted into a public limited company and assumed our present name on 18 June 2012 to facilitate our Listing on the ACE Market. Prior to our IPO, we undertook the HH Industries Reorganisation, Fibre Star Reorganisation and Acquisitions as detailed in Sections 5.4.1, 5.4.2 and 5.4.4 of this Prospectus to reorganise our structure and streamline the operations of our subsidiary companies under our Company. Our Group structure after the HH Industries Reorganisation, Fibre Star Reorganisation and Acquisitions is as follows:



The details of our principal activities are as follows:

Company	Principal Activities
Heng Huat	Investment holding
Fibre Star	Manufacturing of mattresses and related products
Fibre Star Marketing	Marketing of mattresses and related products
HH Industries	Investment holding
<u>Subsidiary Companies of HH Industries</u>	
HK Fibre	Manufacturing and trading of coconut biomass materials and value-added products
HK Kitaran	Manufacturing and trading of oil palm biomass materials and value-added products
HK Mega	Dormant
HK Palm Fibre	Manufacturing and trading of oil palm biomass materials

2. INFORMATION SUMMARY *(Cont'd)*

The history of our Group can be traced back to the establishment of HK Fibre in 2007 by our co-founders, H'ng Choon Seng and Kee Swee Lai for the manufacturing of coconut fibre and coconut peat. In the same year, our co-founders also established HK Mega and HH Industries. HK Mega was principally involved in the trading of third party biomass materials while HH Industries is an investment holding company for HK Fibre and HK Mega.

In 2009, following our successful endeavour to design and custom-built a production line for the manufacture of oil palm EFB fibre, we established HK Palm Fibre in collaboration with the directors and shareholders of AKSB, a palm oil mill operator, to manufacture oil palm EFB fibre with oil palm EFB supply from AKSB. In the same year, we also established HK Kitaran to manufacture oil palm EFB fibre with oil palm EFB supply from its surrounding oil palm plantations and palm oil mills in Seberang Perai Selatan, Penang.

In 2011, we incorporated Fibre Star and Fibre Star Marketing, and ventured downstream to undertake the manufacturing and marketing of mattresses and related products respectively through the Fibre Star Reorganisation in May 2012.

To further strengthen our competitive edge, we ventured into the manufacture of value-added oil palm EFB fibre product, namely Briquette, in 2012 and successfully introduced Briquette as part of our product offerings in January 2013.

As at the LPD, we have a total of two (2) coconut fibre production lines, twenty (20) oil palm EFB fibre production lines, two (2) Briquette production lines and three (3) coconut fibre sheet production lines.

Our future plans and business strategies are as follows:

- (i) Expansion of our product offerings;
- (ii) Enhancement of our product offerings;
- (iii) Green power generation utilising short fibre;
- (iv) Expansion of our production facility;
- (v) Obtaining ISO certification for our subsidiary companies; and
- (vi) Market expansion.

Further details on our Group's history and business, and future plans and strategies are set out in Sections 5 and 6 respectively of this Prospectus.

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2. INFORMATION SUMMARY (Cont'd)**2.2 OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL**

Our Promoters, substantial shareholders, Directors, key management and key technical personnel are as follows:

Name	Designation
Promoters and substantial shareholders	
H'ng Choon Seng	Managing Director
Kee Swee Lai	Deputy Managing Director
Khor Mooi Kim	Executive Director
Teh Chai Luang	Executive Director
Khor Teik Boon	Executive Director
HH Manufacturer	-
Directors	
Dato' Juzilman Bin Basir	Independent Non-Executive Chairman
H'ng Choon Seng	Managing Director
Kee Swee Lai	Deputy Managing Director
Lim Ghim Chai	Executive Director
Khor Mooi Kim	Executive Director
Teh Chai Luang	Executive Director
Khor Teik Boon	Executive Director
Ng Boon Kang	Independent Non-Executive Director
Lo Liang Kheng	Independent Non-Executive Director
Key Management and Key Technical Personnel	
Cheng Pek Tong	Chief Finance Officer
Khor Mui Kee	Senior Administrative Manager
Lim Poh Aun	Human Resources Manager
H'ng Ai Choo	Sales Manager
Oon Bee Pheng	Procurement & Sourcing Manager
Sim Kok Siang	Factory Manager of HK Kitaran
Wong Chee Wei	Factory Manager of HK Palm Fibre
Tan Chee Seng	Senior Export Marketing Manager
Boo Chin Weng	Factory Manager of Fibre Star
Ch'ng Chee Yeong	Process Development Engineer

Details of our Promoters, substantial shareholders, Directors, key management and key technical personnel are set out in Section 8 of this Prospectus.

2. INFORMATION SUMMARY (Cont'd)

2.3 FINANCIAL HIGHLIGHTS

2.3.1 Consolidated Statements of Comprehensive Income

The following table sets out our pro forma consolidated statement of comprehensive income for the FYE 31 December 2011 and our audited consolidated statements of comprehensive income for the FYE 31 December 2012 and 2013. There were no consolidated financial statements prepared for our Company for the FYE 31 December 2011 as our Group was not in existence as at the end of the financial year. Accordingly, we have presented our consolidated statement of comprehensive income for the FYE 31 December 2011 on a pro forma basis, which has been prepared for illustrative purposes only based on the audited financial statements of the companies in our Group and on the assumption that our current Group structure has been in existence throughout the financial year.

You should read this consolidated statements of comprehensive income in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter on Pro Forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus and the Accountants' Report as set out in Section 13 of this Prospectus.

	Pro Forma	<----- Audited ----->	
	<----- FYE 31 December ----->		
	2011	2012	2013
	RM'000	RM'000	RM'000
Revenue	31,702	62,965	73,740
Cost of sales	(14,137)	(32,389)	(41,762)
GP	17,565	30,576	31,978
Other income	235	741	812
Selling and distribution expenses	(1,758)	(9,810)	(12,746)
Administrative and other expenses	(1,806)	(6,513)	(6,360)
Finance costs	(521)	(1,366)	(2,302)
PBT	13,715	13,628	11,382
Tax expense	(25)	(993)	(1,490)
PAT	13,690	12,635	9,892
Other comprehensive income	-	-	-
Total comprehensive income	13,690	12,635	9,892
Profit for the financial year/ Total comprehensive income attributable to:			
- Owners of Heng Huat	10,536	12,163	9,740
- Non-controlling interest	3,154	472	152
	13,690	12,635	9,892
EBITDA ⁽¹⁾	15,790	18,356	18,626
GP margin (%)	55.41	48.56	43.37
PBT margin (%)	43.26	21.64	15.44
PAT margin (%)	43.18	20.07	13.41
Effective tax rate (%)	0.18	7.29	13.09
Gross EPS (sen) ⁽²⁾	8.61	8.55	7.15
Net EPS (sen) ⁽³⁾	6.61	7.64	6.11
Diluted Net EPS (sen) ⁽⁴⁾	5.12	5.91	4.73
Number of Shares assumed to be in issue ('000)	159,300 ⁽⁵⁾	159,300	159,300
NA	7,429	27,606	37,346
NA per Share (RM) ⁽⁶⁾	0.05	0.17	0.23

2. INFORMATION SUMMARY (Cont'd)

Notes:

- (1) Calculated based on PAT with finance costs, tax expense, depreciation and amortisation added back as set out below:

	<----- FYE 31 December ----->		
	2011 RM'000	2012 RM'000	2013 RM'000
PAT	13,690	12,635	9,892
Add: Finance costs	521	1,366	2,302
Tax expense	25	993	1,490
Depreciation	1,554	3,305	4,886
Amortisation	-	57	56
EBITDA	15,790	18,356	18,626

- (2) Calculated based on PBT divided by our existing issued and paid-up share capital of 159,300,030 Shares.
- (3) Calculated based on PAT attributable to owners of Heng Huat divided by our existing issued and paid-up share capital of 159,300,030 Shares.
- (4) Calculated based on PAT attributable to owners of Heng Huat divided by our enlarged issued and paid-up share capital after our IPO of 205,800,030 Shares.
- (5) Based on our existing issued and paid-up share capital of 159,300,030 Shares.
- (6) Calculated based on NA divided by our existing issued and paid-up share capital of 159,300,030 Shares.

There was no share of profits of associated companies or joint ventures, and no exceptional or extraordinary items throughout the financial years under review.

The audited financial statements of our Group for the financial years under review were not subject to any qualification or modification.

2.3.2 Pro Forma Consolidated Statements of Financial Position

The following table sets out our pro forma consolidated statements of financial position as at 31 December 2013, which have been prepared for illustrative purposes only based on the assumption that our Public Issue and utilisation of proceeds had been effected as at that date, and should be read in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro Forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	Audited as at 31 December 2013 RM'000	<-----Pro Forma ----->	
		I After Public Issue RM'000	II After Pro Forma I and Utilisation of Proceeds RM'000
Non-Current Asset			
Property, plant and equipment	59,247	59,247	63,247
Intangible assets	325	325	325
	<u>59,572</u>	<u>59,572</u>	<u>63,572</u>
Current Assets			
Inventories	4,218	4,218	4,218
Trade and other receivables	19,387	19,387	19,387
Current tax assets	267	267	267
Cash and cash equivalents	5,537	26,462	10,084
	<u>29,409</u>	<u>50,334</u>	<u>33,956</u>
TOTAL ASSETS	88,981	109,906	97,528

2. INFORMATION SUMMARY (Cont'd)

	Audited As At 31 December 2013 RM'000	Pro Forma	
		I After Public Issue RM'000	II After Pro Forma I and Utilisation of Proceeds RM'000
Equity			
Share capital	15,930	20,580	20,580
Share premium	-	16,275	16,275
Reorganisation reserve	(5,185)	(5,185)	(5,185)
Retained earnings	26,601	26,601	23,601
	37,346	58,271	55,271
Non-controlling interests	2,502	2,502	2,502
Total Equity	39,848	60,773	57,773
Non-Current Liabilities			
Borrowings	22,960	22,960	13,582
Deferred tax liabilities	1,103	1,103	1,103
	24,063	24,063	14,685
Current Liabilities			
Trade and other payables	11,225	11,225	11,225
Borrowings	13,841	13,841	13,841
Current tax liabilities	4	4	4
	25,070	25,070	25,070
TOTAL LIABILITIES	49,133	49,133	39,755
TOTAL EQUITY AND LIABILITIES	88,981	109,906	97,528
Number of Shares assumed to be in issue ('000)	159,300	205,800	205,800
NA	37,346	58,271	55,271
NTA	37,021	57,946	54,946
NA per Share (RM)	0.23	0.28	0.27
NTA per Share (RM)	0.23	0.28	0.27

2. INFORMATION SUMMARY (Cont'd)**2.3.3 Pro Forma Consolidated Statement of Cash Flows**

The following table sets out our pro forma consolidated statement of cash flows for the FYE 31 December 2013, which have been prepared for illustrative purposes only based on the assumption that our Public Issue and utilisation of proceeds had been effected on that date.

You should read this pro forma consolidated statement of cash flows in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro Forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
PBT	11,382
Adjustments for:	
Amortisation of intangible assets	
- Development costs	56
- Trademarks	60
Bad debts written off	4,886
Depreciation of property, plant and equipment	(6)
Gain on disposal of property, plant and equipment	4
Loss on disposal of property, plant and equipment	2,302
Interest expense	(54)
Interest income	
Operating profit before working capital changes	18,630
Increase in inventories	(1,539)
Increase in trade and other receivables	(2,936)
Increase in trade and other payables	769
	14,924
Tax paid	(1,365)
Interest paid	(2,302)
Net cash from operating activities	11,257
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	54
Changes in fixed deposits pledged with licensed banks	(887)
Development costs incurred	(112)
Purchase of property, plant and equipment	(10,814)
Proceeds from disposal of property, plant and equipment	33
Net cash used in investing activities	(11,726)

2. INFORMATION SUMMARY (Cont'd)

(cont'd)	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Public Issue	20,925
Payment of listing expenses	(3,000)
Drawdown of term loans	738
Drawdown of bankers' acceptance (net)	2,569
Repayment of term loans	(8,191)
Net repayment of hire purchase payables	(7,709)
Net cash from financing activities	5,332
Net changes in cash and cash equivalents	4,863
Cash and cash equivalents at beginning of the financial year	1,867
Cash and cash equivalents at end of the financial year	6,730
Cash and cash equivalents comprise the following:	
Cash and bank balances	7,960
Fixed deposits pledged to financial institutions	2,124
	10,084
Less: Bank overdraft	(1,230)
Less: Fixed deposits pledged to financial institutions	(2,124)
	6,730

Note:

* Represents amount less than RM1,000.

2.4 DIVIDEND POLICY

Our Company presently does not have any formal dividend policy. The declaration of interim dividends and the recommendation of any final dividends are subject to the discretion of our Board and any final dividend proposed is subject to our shareholders' approval.

Upon Listing, our Board intends to adopt a stable and sustainable dividend policy to allow our shareholders to participate in the profits of our Group while maintaining an optimal capital structure and ensuring sufficient funds for our future growth. In this regard, we envisage a dividend payout ratio of up to 20% of our future net profits to our shareholders in each financial year.

You should take note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our Company's future dividends, which are subject to our Board's absolute discretion.

Our ability to pay future dividends to our shareholders is subject to various factors including but not limited to our financial performance, cash flow requirements, availability of distributable reserves and capital expenditure plans.

2. INFORMATION SUMMARY (Cont'd)

As our Company is an investment holding company, our income and therefore, our ability to pay dividends is dependent upon the dividends and other distributions that we receive from our subsidiary companies. The payment of dividends or other distributions by our subsidiary companies will depend on their operational results, financial condition, capital expenditure plans and other factors that their respective board of directors deems relevant.

2.5 PRINCIPAL DETAILS OF OUR PUBLIC ISSUE AND LISTING

Size of our Public Issue : 46,500,000 new Heng Huat Shares, representing approximately 22.59% of our Company's enlarged issued and paid-up share capital, which will be allocated as follows:

- (i) 7,000,000 new Shares available for application by the Malaysian public;
- (ii) 5,000,000 new Shares available for application by our eligible employees and persons who have contributed to the success of our Group;
- (iii) 12,200,000 new Shares by way of private placement to selected investors; and
- (iv) 22,300,000 new Shares by way of private placement to Bumiputera investors approved by MITI

Size of our Offer for Sale : 14,660,000 Heng Huat Shares, representing approximately 7.12% of our Company's enlarged issued and paid-up share capital to be offered for sale by the Offeror to selected investors

IPO Price : RM0.45 per IPO Share

Utilisation of proceeds from the Public Issue : The gross proceeds from the Public Issue amounting to RM20.93 million is intended to be utilised in the following manner:

Purpose	RM'000	%	Estimated Timeframe
			for Use
Capital expenditure	4,000	19.11	Within 36 months
Repayment of borrowings	9,378	44.82	Within 12 months
Working capital	4,547	21.73	Within 12 months
Estimated listing expenses	3,000	14.34	Upon Listing
Total gross proceeds	20,925	100.00	

Total enlarged issued and paid-up share capital after Listing : RM20,580,003 comprising 205,800,030 Shares

Market capitalisation upon Listing : RM92,610,014

The detailed information on our IPO, utilisation of proceeds from our Public Issue are set out in Sections 3.1 and 3.6 respectively of this Prospectus.

2. INFORMATION SUMMARY (Cont'd)

2.6 RISK FACTORS

Before investing in our Shares, you should carefully consider, along with other matters in this Prospectus, the risks and investment considerations set out in Section 4 of this Prospectus (which may not be exhaustive), and are summarised below:

Risks relating to our business and the industry in which our Group operates:

- We face competition from other market players comprising coconut and oil palm EFB processors/ manufacturers and oil palm mills;
- We are dependent on our major customers;
- We do not have any long term contracts with our customers;
- We are dependent on our major suppliers for the supply of raw materials;
- We are dependent on the continued employment and performance of our Executive Directors and key management and key technical personnel;
- We are subject to the risk of disruptions to our production facilities and business operations and we may not have adequate insurance coverage;
- The loss of pioneer status may affect our profitability and financial performance;
- We are exposed to fluctuations in the foreign exchange rates arising from our exports to China;
- We are exposed to risk of shipping disruptions for our exports to China;
- We are subject to political, economic and regulatory risks;
- Potential liability and/or disruption to our production facilities for late or non-compliance with regulatory requirements;
- We are subject to the risk of losing control of HK Palm Fibre, our 50% owned subsidiary company;
- We are dependent on supply of foreign workers;
- We are exposed to financial risks; and
- We are exposed to the credit risks of our customers.

Risks relating to our IPO:

- There may be a delay in our Listing or our Listing may be aborted;
- There is no prior market for our Shares and our Share price may be volatile;
- Control by our Promoters may limit your ability to influence the outcome of decisions requiring the approval of our shareholders; and
- We are an investment holding company and rely on dividend payments from our subsidiary companies for funding and payment of dividends on our Shares.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF AN INVESTMENT IN OUR COMPANY. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

3.1 OUR IPO

Our IPO is subject to the terms and conditions of this Prospectus, and upon acceptance, will be allocated an aggregate of 61,160,000 Heng Huat Shares in the manner explained below which is subject to clawback and reallocation.

3.1.1 Public Issue

46,500,000 Public Issue Shares at the IPO Price, representing approximately 22.59% of our enlarged issued and paid-up share capital, will be allocated in the following manner:

(i) **Public (“Public Tranche”)**

7,000,000 Public Issue Shares, representing approximately 3.40% of our enlarged issued and paid-up share capital, will be made available for application by the Malaysian Public, of which at least 50% shall be set aside for Bumiputera investors, including individuals, companies, societies, co-operatives and institutions.

Any Public Issue Shares reserved under the Public Tranche which are not fully subscribed for by the Public will be made available for subscription by our eligible employees and persons who have contributed to the success of our Group under the Pink Form Tranche as described in Section 3.1.1(ii) below. Any remaining Public Issue Shares will subsequently be made available for subscription by our selected investors under the Placement Tranche as described in Section 3.1.1(iii) below and if undersubscribed, such Public Issue Shares will be subscribed by our Underwriter based on the terms of the Underwriting Agreement.

(ii) **Our Eligible Employees and Persons Who Have Contributed to the Success of Our Group (“Pink Form Tranche”)**

In recognition of their contributions to the success of our Group, we have reserved 5,000,000 Public Issue Shares, representing approximately 2.43% of our enlarged issued and paid-up share capital, for subscription by our eligible employees and persons who have contributed to the success of our Group.

We will allocate the Public Issue Shares to our eligible employees and persons who have contributed to the success of our Group in the following manner:

Eligibility	No. of Eligible Persons/Corporations	No. of Shares Allocated
Our eligible employees ⁽¹⁾	65	2,000,000
Eligible persons who have contributed to the success of our Group ⁽²⁾	87	3,000,000
Total	152	5,000,000

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

Notes:

- (1) *As approved by our Board, the criteria for allocation to our eligible employees are based on, amongst others, length of service and job grade in our Group.*
- (2) *The criteria for allocation to eligible persons who have contributed to the success of our Group are based on, amongst others, volume of transaction and length of relationship with our Group. The persons who have contributed to the success of our Group include our business contacts, suppliers and customers.*

The Public Issue Shares reserved under the Pink Form Tranche will not be underwritten as written irrevocable undertakings to subscribe for these Public Issue Shares have been procured from the respective eligible employees and persons who have contributed to the success of our Group.

(iii) Selected Investors via Placement (“Placement Tranche”)

12,200,000 Public Issue Shares, representing approximately 5.93% of our Company’s enlarged issued and paid-up share capital, have been reserved for placement to selected investors.

The Public Issue Shares reserved under the Placement Tranche are not underwritten as written irrevocable undertakings to subscribe for these Public Issue Shares have been procured from the respective selected investors.

(iv) Bumiputera Investors Approved by MITI (“MITI Tranche”)

22,300,000 Public Issue Shares, representing approximately 10.84% of our enlarged issued and paid-up share capital, have been reserved for Bumiputera investors approved by MITI.

The Public Issue Shares available for placement to Bumiputera investors approved by MITI shall be subject to the following reallocation provisions:

- (a) Any of the Public Issue Shares not subscribed by Bumiputera investors under the MITI Tranche shall be made available for application by Bumiputera Public applicants under the Public Tranche;
- (b) Any of the unsubscribed Public Issue Shares pursuant to paragraph (a) above shall be made available for application by the Public applicants under the Public Tranche; and
- (c) Subsequently, any unsubscribed Public Issue Shares pursuant to paragraph (b) above will be made available for subscription by way of placement to selected investors and/or our eligible employees and persons who have contributed to the success of our Group.

The Public Issue Shares reserved under the MITI Tranche are not underwritten as written irrevocable undertakings to subscribe for these Public Issue Shares have been procured from the respective Bumiputera investors.

The basis of allocation for our Public Issue Shares takes into account the desirability of distributing our Public Issue Shares to a reasonable number of applicants with a view of broadening our shareholders base to meet the public spread requirements as per the Listing Requirements and to establish a liquid and adequate market for our Shares.

There is no over-allotment option or “greenshoe” option that will result in an increase in the amount of our Public Issue Shares.

The salient terms of the Underwriting Agreement are set out in Section 3.8 of this Prospectus.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

3.1.2 Offer for Sale

The Offer for Sale comprises 14,660,000 Heng Huat Shares representing approximately 7.12% of our enlarged issued and paid-up share capital which will be offered by our Offeror to selected investors.

Any Offer Shares which are not fully subscribed by the selected investors shall be made available for application by other selected investors. Thereafter, any Offer Shares that are reallocated to the other selected investors which are not subscribed shall be made available for application by the Public and then to our eligible employees and persons who have contributed to the success of our Group. Should the Offer Shares be thereafter undersubscribed, the Offeror will retain the unsubscribed Offer Shares.

The Offer Shares will not be underwritten by our Underwriter.

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3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

The details and shareholdings of our Offeror before and after the Offer for Sale and IPO are as follows:

Offeror/Address	Relationship with our Group for the past three (3) years	Before IPO No. of Shares	% held ⁽¹⁾	Offer for Sale No. of Shares	% held ⁽²⁾	After IPO No. of Shares	% held ⁽²⁾
Kee Swee Lai/ No. 1051, Jalan Besar Permatang Tinggi 14000 Bukit Mertajam Penang	Promoter/Deputy Director/ Substantial Shareholder	69,044,870	43.34	14,660,000	9.20	54,384,870	26.43

Notes:

- (1) Based on our issued and paid-up share capital of 159,300,030 Heng Huat Shares as at the LPD.
- (2) Based on our enlarged issued and paid-up share capital of 205,800,030 Heng Huat Shares after our IPO.

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3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING *(Cont'd)*

3.1.3 Listing on Bursa Securities

Bursa Securities had, on 10 December 2013 and 10 June 2014, approved-in-principle the admission of our Company to its Official List and the listing of and quotation for our entire enlarged issued and paid-up share capital of RM20,580,003 comprising 205,800,030 Shares on the ACE Market of Bursa Securities.

3.2 SHARE CAPITAL

	RM
<i>Authorised share capital</i>	
500,000,000 ordinary shares of RM0.10 each	50,000,000
<i>Issued and fully paid-up share capital as at the date of this Prospectus</i>	
159,300,030 ordinary shares of RM0.10 each	15,930,003
<i>To be issued and credited as fully paid-up pursuant to our Public Issue</i>	
46,500,000 new ordinary shares of RM0.10 each	4,650,000
<i>Enlarged issued and paid-up share capital upon Listing</i>	
205,800,030 ordinary shares of RM0.10 each	20,580,003
IPO Price	0.45
<i>Market capitalisation upon Listing</i>	92,610,014

We have only one (1) class of shares in our Company, namely ordinary shares of RM0.10 each. The Public Issue Shares will upon allotment rank *pari passu* in all respects with one another and all other existing issued and paid-up share capital in our Company, including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of allotment of the Public Issue Shares.

Subject to any special rights attached to any Shares which we may issue in the future, our shareholders shall, in proportion to the capital paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by us as dividends and other distributions, and in the event of our liquidation, our shareholders shall be entitled to any surplus in proportion to the capital paid-up at the commencement of the liquidation, in accordance with our Articles of Association and the provisions of the Act.

Each shareholder is entitled to vote at our general meetings in person or by proxy or by attorney and on a show of hands, every person present who is a shareholder or authorised representative or proxy or attorney of a shareholder shall have one (1) vote, and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each Share held. There shall be no restriction as to the qualification of the proxy and Section 149(1)(b) and (c) of the Act shall not apply to our Company. A proxy or attorney shall be entitled to vote both on a show of hands and on a poll. On a show of hands, any member who is a proxy for another member and any person who is a proxy for more than one (1) member shall have only one (1) vote.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING *(Cont'd)*

3.3 PURPOSE OF OUR PUBLIC ISSUE AND LISTING

The purpose of our Public Issue and Listing is:

- (i) to enable us to gain access to the capital market to raise funds for our future expansion and growth when the need arises in the future, through other forms of capital raising avenues;
- (ii) to provide an opportunity for investors and institutions to participate in the continuing growth of our Group; and
- (iii) to enhance our stature and heighten our public profile as well as increase market awareness of our products so as to assist us in expanding our customer base.

3.4 PRICING OF OUR PUBLIC ISSUE SHARES

The IPO Price was determined and agreed upon by our Directors, Promoters and Kenanga IB after taking into account the prevailing market conditions and the following factors:

- (i) A net PE multiple of 7.36 times based on our Group's net EPS of 6.11 sen, computed based on our Group's audited PAT attributable to owners of Heng Huat of RM9.74 million for the FYE 31 December 2013 and our issued and paid-up share capital before our Public Issue of 159,300,030 Shares;
- (ii) Our consolidated NA per Share of RM0.23, computed based on our Group's audited NA of RM37.35 million as at 31 December 2013 and our issued and paid-up share capital before our Public Issue of 159,300,030 Shares; and
- (iii) Our competitive strengths in terms of:
 - Consistent and reliable supply;
 - Process and product development initiatives;
 - Strategic location of operations;
 - Experienced management team; and
 - Reusing waste to generate biomass energy.

Further details of our competitive strengths are described in Section 6.11 of this Prospectus.

You should note that the market price of our Shares upon and subsequent to our Listing is subject to the vagaries of market forces and other uncertainties, which may affect the price of our Shares being traded. You should bear in mind the risk factors as set out in Section 4 of this Prospectus and form your own views on the valuation of our Public Issue Shares before deciding on whether to invest in our Shares.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

3.5 DILUTION

Dilution is the amount by which the IPO Price to be paid by applicants for our IPO Shares exceeds our NA per Share after our Public Issue as follows:

	RM
IPO Price	0.45
Pro forma consolidated NA per Share as at 31 December 2013 before our IPO	0.23
Increase in pro forma consolidated NA per Share contributed by new investors	0.04
Pro forma consolidated NA per Share after our IPO (after adjusting the effect of utilisation of proceeds)	0.27
Dilution in the pro forma consolidated NA per Share to new investors	0.18
Dilution in the pro forma consolidated NA per Share as a percentage of the IPO Price	40.00%

The following table summarises the total number of Shares received by our Directors, substantial shareholders, key management and key technical personnel during the past three (3) years prior to the date of this Prospectus and the average cost per Share to them and to the new investors who subscribe for our IPO Shares pursuant to our IPO:

Directors, Substantial Shareholders, Key Management and Key Technical Personnel	No. of Shares Before IPO	No. of Shares From IPO ⁽¹⁾	Total Consideration RM	Average Cost Per Share RM
H'ng Choon Seng	72,970,110	-	7,297,011	0.10
Kee Swee Lai	69,044,870	-	6,904,487	0.10
HH Manufacturer	16,500,000	-	1,650,000	0.10
Khor Mooi Kim	392,520	-	39,252	0.10
Teh Chai Luang	392,520	-	39,252	0.10
Cheng Pek Tong	-	50,000	22,500	0.45
Khor Mui Kee	-	160,000	72,000	0.45
Lim Poh Aun	-	-	-	-
H'ng Ai Choo	-	100,000	45,000	0.45
Oon Bee Pheng	-	50,000	22,500	0.45
Sin Kok Siang	-	100,000	45,000	0.45
Wong Chee Wei	-	50,000	22,500	0.45
Tan Chee Seng	-	70,000	31,500	0.45
Boo Chin Weng	-	100,000	45,000	0.45
Ch'ng Chee Yeong	-	50,000	22,500	0.45
Other investors				
New investors from Public Issue	-	45,770,000 ⁽²⁾	20,596,500	0.45
New investors from Offer for Sale	-	14,660,000	6,597,000	0.45

Notes:

(1) Assuming full subscription of his/her Pink Form Tranche allocation.

(2) After netting off the Pink Form Tranche allocation to our key management and key technical personnel totalling 730,000 Public Issue Shares.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

3.6 USE OF PROCEEDS

Based on the IPO Price, gross proceeds of RM20.93 million will be raised from our Public Issue. The proceeds shall accrue entirely to our Company who will bear all expenses relating to the Listing and are intended to be utilised in the following manner:

Purpose	RM'000	%	Estimated Time Frame for Use (from the listing date)
(i) Capital expenditure	4,000	19.11	Within 36 months
(ii) Repayment of borrowings	9,378	44.82	Within 12 months
(iii) Working capital	4,547	21.73	Within 12 months
(iv) Estimated listing expenses	3,000	14.34	Upon Listing
Total gross proceeds	<u>20,925</u>	<u>100.00</u>	

Notes:

(i) Capital expenditure

The details for the capital expenditure of RM4.00 million are as follows:

Details	Estimated Commitment RM'000
(a) Extension of our production facility	3,200
(b) Refurbishment of production facility	800
Total capital expenditure	<u>4,000</u>

- (a) Our Group has earmarked RM3.20 million of the proceeds from our Public Issue for the extension of our production facility through the construction of a new production facility adjacent to Plant 1. The new production facility will be a single storey factory building with a built-up area of approximately 80,000 sq ft and will be used as a warehouse and/or to house new production lines. For further details on the said production facility, please refer to Section 6.18.1(iv) of this Prospectus.
- (b) Our Group has earmarked RM0.80 million of the proceeds from our Public Issue for the refurbishment of Plant 1 to improve and enhance its existing structures and layout ("Refurbishment"). The Refurbishment is expected to cost approximately RM0.86 million, of which RM0.80 million is intended to be financed from our Public Issue proceeds and the remaining RM0.06 million from our internally generated funds.

As disclosed in Sections 4.1(xi) and 6.17.1 of the Prospectus, in the event that the application for a variation of the express condition of Plant 1 is not approved by the Pentadbir Tanah Daerah, we shall relocate our Plant 1's operations to a fully compliant rented property. In such unlikely event, the proceeds from our Public Issue which have been earmarked for the abovementioned capital expenditure will be utilised for working capital purposes.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

(ii) Repayment of borrowings

We plan to utilise RM9.38 million of the proceeds from our Public Issue to repay the following borrowings obtained to finance our capital expenditure incurred prior to the receipt of our Public Issue proceeds:

	Banking facility	Maturity date	Interest rates	Balance as at the LPD RM'000	Amount to be repaid from Public Issue proceeds RM'000
(a)	Term loan	September 2019	2.75% above effective cost of funds	4,164	3,777
(b)	Term loan	March 2023	2.0% above effective cost of funds	1,970	1,840
(c)	Hire purchase	July 2017	6.18% per annum	364	303
	Hire purchase	September 2017	6.18% per annum	976	820
	Hire purchase	November 2017	6.18% per annum	2,023	1,716
				3,363	2,839
(d)	Hire purchase	July 2017	6.18% per annum	1,112	922
Total				10,609	9,378

- (a) We intend to utilise RM3.78 million of our Public Issue proceeds to repay the bank borrowings used to finance the acquisition of Plant 1, which we had previously rented to house three (3) of our oil palm EFB fibre production lines. Plant 1 is adjacent to our head office cum production facility (Plant 2). The acquisition of Plant 1 was completed on 17 August 2012 and was financed via internally generated funds and bank borrowings prior to the receipt of our Public Issue proceeds. The acquisition of Plant 1 has enabled our Group to save on rental expenses as well as facilitate the expansion of Plant 1 as detailed in item (i)(a) above. For further details on Plant 1, please refer to Section 6.17.1 of this Prospectus.

We will incur a one-off early repayment penalty of approximately RM0.08 million for the repayment of the term loan. Nevertheless, the repayment of the term loan is expected to have a positive financial impact on our Group by resulting in total interest savings of approximately RM0.64 million based on the existing prevailing interest rate of 6.66%.

- (b) We intend to utilise RM1.84 million of our Public Issue proceeds to repay the bank borrowings used to finance the acquisition of Plant 4. The acquisition of Plant 4 was completed on 7 February 2013 and was financed via internally generated funds and bank borrowings prior to the receipt of our Public Issue proceeds. Plant 4 is used to house our mattress production lines, which was previously housed in a factory rented from HH Furniture. The acquisition of Plant 4 has enabled our Group to save on rental expenses as well as enabled our mattress production lines to be housed in our own premises. For further details on Plant 4, please refer to Section 6.17.1 of this Prospectus.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

We will incur a one-off early repayment penalty of approximately RM0.07 million for the repayment of the term loan. Nevertheless, the repayment of the term loan is expected to have a positive financial impact on our Group by resulting in total interest savings of approximately RM0.56 million based on the existing prevailing interest rate of 5.84%.

- (c) We intend to utilise RM2.84 million of our Public Issue proceeds to repay bank borrowings used to finance the installation of two new (2) Briquette production lines in 2012 for the expansion of our product offering. The repayment of such borrowings is expected to have a positive financial impact on our Group by resulting in total interest savings of approximately RM0.25 million based on the abovementioned banking facilities' prevailing interest rates.
- (d) We intend to utilise RM0.92 million of our Public Issue proceeds to repay bank borrowings used to finance the installation of two (2) additional oil palm EFB fibre production lines in 2012 for the expansion of our production capacity. The repayment of such borrowings is expected to have a positive financial impact on our Group by resulting in total interest savings of approximately RM0.07 million based on the abovementioned banking facility's prevailing interest rate.

The use of our Public Issue proceeds to repay the bank borrowings obtained to finance the capital expenditure highlighted in items (a) to (d) above, which were incurred prior to the receipt of our Public Issue proceeds, is expected to have a positive financial impact on our Group by reducing the finance costs to be incurred by our Group. For illustration purposes, a summary of the potential savings on finance costs (net of early repayment penalties) are as set out below:

Details	Estimated Total Interest Savings RM'000	Estimated Early Repayment Penalty RM'000	Estimated Total Net Savings RM'000
(a) Term loan	639	(76)	563
(b) Term loan	561	(67)	494
(c) Hire purchase	251	-	251
(d) Hire purchase	74	-	74
	1,525	(143)	1,382

(iii) Working capital

Our requirement for working capital will increase in tandem with the expansion in our production capacity. Therefore, we expect to utilise approximately RM4.55 million of the proceeds from our Public Issue as additional working capital to finance our day-to-day operations including inter-alia, purchase of raw materials, and defrayment of operational and administrative expenses as detailed below:

Purposes	RM'000
Purchase of raw materials and defrayment of operational expenses ⁽¹⁾	3,400
Defrayment of administrative expenses ⁽²⁾	1,117
	4,547

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

Notes:

- (1) Purchase of raw materials and payment of labour costs as well as production overheads for our biomass materials value-added products, namely Briquette and Geotextile.
- (2) Defrayment of administrative expenses comprise mainly additional costs to be incurred upon our Listing for compliance with the Listing Requirements, as well as payment of staff salaries and related expenses for our finance, human resource and administration department due to additional headcount.

(iv) Estimated listing expenses

Our Company will bear all the expenses and fees incidental to our Listing which is estimated to be RM3.00 million as follows:

	RM'000
Professional advisory fees	1,523
Fees to the authorities	44
Underwriting and placement commission and brokerage fees	675
Printing and advertising cost	300
Other incidental charges	458
Total	3,000

Pending the eventual utilisation of the proceeds from our Public Issue for the above purposes, the proceeds will be placed in short-term deposits with licensed financial institutions and/or short-term money market instruments.

Our Offer for Sale is expected to raise gross proceeds of approximately RM6.60 million, which will accrue entirely to our Offeror and we will not receive any of the proceeds. Our Offeror shall bear all the expenses such as placement fee, registration fee and share transfer fee relating to the Offer Shares estimated to be approximately RM0.17 million.

3.7 BROKERAGE, UNDERWRITING COMMISSION AND PLACEMENT FEE**Brokerage**

Brokerage relating to our Public Issue Shares made available for application by the Malaysian Public is payable by us at the rate of one percent (1%) of the IPO Price, in respect of successful applications bearing the stamp of Kenanga IB, a participating organisation of Bursa Securities, a member of the Association of Banks in Malaysia, a member of the Malaysian Investment Banking Association or the Issuing House.

Underwriting Commission

Kenanga IB, as our Underwriter, has agreed to underwrite up to 7,000,000 Public Issue Shares, which is reserved for application under the Public Tranche as set out in Section 3.1.1(i) of this Prospectus. Underwriting commission is payable by us to our Underwriter at the rate of 2.50% of the total value of the underwritten Shares at the IPO Price.

Placement Fee

Kenanga IB has arranged for the placement of 49,160,000 IPO Shares at a rate of between 1.0% and 2.50% of the value of the IPO Shares based on the IPO Price. The Offeror will bear the expenses incurred in relation to the Offer for Sale.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING *(Cont'd)*

3.8 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

We have entered into an underwriting agreement with Kenanga IB on 27 June 2014 (“**Underwriting Agreement**”) to underwrite up to 7,000,000 Public Issue Shares as set out in Section 3.1.1(i) of this Prospectus. The following salient terms are summarised from the Underwriting Agreement:

3.8.1 CONDITIONS

- (i) The obligations of the Underwriter under the Underwriting Agreement are conditional on the performance by the Company of all its obligations under the Underwriting Agreement and upon, inter alia:
 - (a) no material adverse change in the condition (financial, business, operations or otherwise) of the Company or its subsidiary companies, which is material nor the occurrence of any event or the discovery of any fact which is inaccurate, untrue or incorrect to any extent which makes any of the representations and warranties contained in Clause 4 of the Underwriting Agreement untrue and incorrect nor the occurrence of any breach of the undertakings contained in Clause 4 of the Underwriting Agreement;
 - (b) the IPO not being prohibited or impeded by any statute, order, rule, regulation, directive or guideline promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia;
 - (c) the Underwriter having been satisfied that the Company has complied with and that the IPO is in compliance with the CMSA, policies, guidelines and requirements of the relevant authorities;
 - (d) the acceptance for registration by the SC of the Prospectus and the lodgement of the Prospectus with the CCM;
 - (e) the approval of Bursa Securities for the admission of the Company to the Official List and the listing of and quotation for its entire enlarged issued and paid-up share capital being obtained and that all conditions precedent to the approval have been complied with and such approval has not been withdrawn;
 - (f) all necessary approvals, consents or exemptions required in relation to the IPO having been obtained and that all conditions to the approvals have been complied with; and
- (ii) If any of the conditions is not satisfied by the closing date or such later date as consented to in writing by the Underwriter, the Underwriter shall thereupon be entitled to terminate the Underwriting Agreement.

3.8.2 TERMINATION

- (i) the Underwriter may at any time before the Closing Date, terminate, cancel or withdraw its commitment to underwrite the underwritten shares if:
 - (a) there is any breach by the Company of any of the representations, warranties or undertakings; or
 - (b) there is withholding of information which is required to be disclosed to the Underwriter pursuant to the Underwriting Agreement, which would have a material adverse effect on the business or operations of the Group, the success of the IPO, or the distribution or sale of the Public Issue Shares; or

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

- (c) there shall have occurred, happened or come into effect any circumstances which would have a material adverse effect on the success of the IPO, or the distribution or sale of the Public Issue Shares, or which have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms; or
 - (d) there is failure on the part of the Company to perform any of its obligations herein contained; or
 - (e) if the closing date is more than two (2) calendar months from the date of the Underwriting Agreement or any later date as the Company and the Underwriter may mutually agree upon, the Underwriting Agreement will automatically lapse.
- (ii) Subject to prior consultation with the Company, the Underwriter may at any time before the closing date, terminate, cancel or withdraw its commitment to underwrite the underwritten shares if, inter alia, any of the following occurs:
- (a) there is a material change in any law which seriously affects the business or financial condition of the Company and/or any company in the Group;
 - (b) the imposition of any moratorium, suspension or material restriction on trading in all securities generally on Bursa Securities for three (3) or more consecutive Market Days;
 - (c) any commencement of legal proceedings or action against the Company or any of its directors which would have a material adverse effect; or
 - (d) there is any breach by the Company of any of its obligations under the Underwriting Agreement.

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4. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS BEFORE INVESTING IN OUR SHARES.

If you are in any doubt as to the information contained in this section, you should consult your stockbroker, bank manager, solicitors, accountants or other professional adviser.

4.1 RISKS RELATING TO OUR BUSINESS AND THE INDUSTRY IN WHICH OUR GROUP OPERATES

(i) We face competition from other market players comprising coconut and oil palm EFB processors/ manufacturers and oil palm mills

The biomass materials market for coconut and oil palm EFB fibres is still at a relatively nascent stage and given the recent emergence and acceptance of oil palm EFB fibre as a viable biomass material, the level of competition remains moderate with over thirty (30) market participants comprising coconut and oil palm EFB processors/manufacturers and oil palm mills. Characterising a nascent and growing market, the market may see an increase in participations given the huge potentials on offer in addition to the favourable support from the government. However, new market participants are subjected to various barriers to entry.

(Source: IMR Report by Protégé Associates)

Our competitive edge lies in our ability to produce large quantities of quality coconut and oil palm EFB fibres at competitive prices. As at the LPD, we have two (2) coconut fibre production lines and twenty (20) oil palm EFB fibre production lines with a total monthly production capacity of 546 mt of coconut fibre and 8,372 mt of oil palm EFB fibre respectively. Due to our custom-built production lines and our quality assurance, we are able to produce quality coconut and oil palm EFB fibres which are not only long, clean and fine, but also with great uniformity. This has provided us with a competitive advantage which facilitated the growth and development of our Group.

Nevertheless, there can be no assurance that a significant change in the competitive environment would not have an adverse impact on our market positioning and/or share.

(ii) We are dependent on our major customers

For the FYE 31 December 2013, we have one (1) major customer (who contributed more than 10% of our Group's revenue) that is, Shenzhen Yuemao Imports & Exports Co., Ltd ("Shenzhen Yuemao") who accounted for approximately 30.14% of our Group's total revenue.

For the FYE 31 December 2011 to 2013, our export of oil palm EFB fibre and Briquette to China accounted for approximately 59.13%, 62.88% and 55.22% of our Group's total revenue respectively. For the FYE 31 December 2013, all of our nine (9) China customers, including Shenzhen Yuemao, are intermediaries who do not have any contractual arrangements with our Group and transactions are carried out under normal commercial terms.

Whilst Shenzhen Yuemao has been our customer for approximately two (2) years only, we have eight (8) other China intermediaries in our customer base for sales of our oil palm EFB fibre and Briquette to China. Of these eight (8) China intermediaries, one (1) of the intermediaries has been our customer for approximately five (5) years, while the remaining seven (7) intermediaries have been our customers for approximately one (1) to two (2) years. As such, we are not dependent on Shenzhen Yuemao for sales of our oil palm EFB fibre and Briquette to China.

4. RISK FACTORS (Cont'd)

Although we regularly engage the end users in China, these end users generally purchase our products through intermediaries who possess the relevant licenses for the import of goods into China in accordance with the import regulations in China. Nevertheless, we intend to set up a subsidiary company in China by the first quarter of 2015 to facilitate our direct sales to the China end users and hence, mitigate the risk of dependency on intermediaries.

In addition, we have been continuously increasing our efforts to expand our customer base. Our customers for biomass materials and value-added products have increased from 110 customers in 2011 to 139 customers in 2013. Further, pursuant to the Fibre Star Reorganisation, we have garnered 875 customers in 2012 for our mattresses and related products division, which has increased to 1,242 customers in 2013. As at the LPD, our Group has not experienced any loss of major customers and/or intermediaries that had a material adverse effect on our Group's financial performance or operations.

Although we seek to limit our dependency on our major customers and/or intermediaries through the efforts mentioned above, no assurance can be given that any loss of our major customers and/or intermediaries will not have a material adverse effect on our Group's future performance.

(iii) We do not have any long term contracts with our customers

We do not have any long term contracts with our customers as the majority of our sales are based on order-by-order basis, which is the norm in the industry. We also seek to establish good business relationships with our customers and have been improving our product quality and expanding our product range through our process and product development initiatives to ensure repeat orders from our customers.

As at the LPD, we have not experienced any material effect from the absence of long term contracts that had a material adverse effect on our Group's operations or financial performance. However, there can be no assurance that our customers will continue placing orders for our products.

(iv) We are dependent on our major suppliers for the supply of raw materials

The major raw materials used by our Group are oil palm EFB that is, biomass wastes, which are all sourced locally. For the FYE 31 December 2011, we purchased a substantial portion of oil palm EFB fibre from our major suppliers, AKSB and Yip Shun Trading, who accounted for approximately 19.52% and 16.80% of our Group's total purchases respectively. However, for the FYE 31 December 2012 and 2013, we do not have any major suppliers who individually contributed more than 10% of our Group's total purchases mainly due to the increase in supplier base from our mattresses and related products division pursuant to the Fibre Star Reorganisation in 2012.

Save for the collaboration entered into between HK Palm Fibre and AKSB, we do not have any long term contract with our suppliers. Under the terms of the agreement, AKSB, a palm oil miller, undertakes to supply all its oil palm EFB to HK Palm Fibre and shall not supply to any third party unless with a written consent from HK Palm Fibre. Notwithstanding that we do not have any long term supply contract with other suppliers, we have established good working relationships with our other suppliers. In addition, we do not foresee any major difficulty in sourcing our oil palm EFB from other suppliers as our production facilities are situated strategically within the vicinity of multiple oil palm plantations and palm oil mills. As at the LPD, our Group has not experienced any material disruption in the supply of oil palm EFB that had a material adverse effect on our Group's operations or financial performance.

Although we do not foresee any difficulty in the procurement of our raw materials and have not previously experienced any material disruption in the supply of these materials, no assurance can be given that we can continue to source sufficient quantities of oil palm EFB at competitive prices.

4. **RISK FACTORS (Cont'd)**

(v) **We are dependent on the continued employment and performance of our Executive Directors and key management and key technical personnel**

Our continued success depends on the continued efforts of our Executive Directors and key management and key technical personnel who are responsible for our manufacturing operations, sales and marketing efforts and/or formulation of strategies. The loss of any of our Executive Directors or members of our key management and key technical personnel could adversely affect our performance.

We strive to minimise this risk by ensuring that we have the ability to retain our existing employees. This is achieved by having in place human resource plans that includes suitable compensation packages, career development and training and development for our employees. Good working relationships have also been fostered amongst our employees as we provide a healthy working environment, practice good workplace culture and uphold good work ethics to create a sense of belonging amongst our employees.

Further, in conjunction with our Listing, we have allocated a portion of our Public Issue Shares to our eligible employees, including our key management and key technical personnel. Should these employees subscribe for our Shares, they will become shareholders of our Company and may therefore be further motivated to contribute to our Group's success.

Nonetheless, there can be no assurance that the above measures will be successful in attracting and retaining our Executive Directors and key management and key personnel or ensuring a smooth transition should changes occur.

(vi) **We are subject to the risk of disruptions to our production facilities and business operations and we may not have adequate insurance coverage**

Our manufacturing activities are dependent on the continued operation of our production facilities. Any disruptions to our production facilities, such as breakdowns, failure, sub-standard performance of our machineries, fire or power failure, will have an adverse impact on our business operations. To mitigate this risk, we carry out regular maintenance of our machineries as well as timely replacement of components which are subject to daily wear and tear.

As at the LPD, we have not encountered any major disruptions to our production facilities that had a material adverse effect on our Group's operations or financial performance. However, there can be no assurance that any breakdowns in our machineries in the future would not severely disrupt our production and operations.

We are aware of the adverse consequences arising from inadequate insurance coverage for accidents and outbreaks which could disrupt our business operations. As part of our effort in limiting the above risks, we have taken up fire insurance policies for our office equipment, plant, machinery, premises and all-risks policies for our machinery. We ensure the continuity of our insurance by renewing all the insurance policies annually and reviewing the adequacy of our existing insurance coverage for all our assets.

Whilst we have taken the necessary steps to ensure that our assets are adequately covered by insurance, there can be no assurance that the insurance coverage would be adequate for the replacement cost of our assets as well as its related consequential costs. Furthermore, there are also risks such as natural disasters, riots, general strikes, acts of terrorism and any other risks that cannot reasonably be insured against, which may adversely affect our operations. Thus far, our operations have not been affected by any of such events.

4. RISK FACTORS (Cont'd)**(vii) The loss of pioneer status may affect our profitability and financial performance**

As at the LPD, HK Kitaran and HK Fibre have been granted pioneer status by MITI. Pursuant thereto, HK Kitaran's statutory income is exempted from tax for a period of ten (10) years ending 30 June 2020, while 70% of HK Fibre's statutory income is exempted from tax for a period of five (5) years ending 31 March 2017, as detailed in Section 12.1 of this Prospectus.

Whilst we have taken the necessary steps to ensure that our Group is in compliance with the condition imposed by MITI for the pioneer status, there can be no assurance that subsequent to the granting of the incentive, MITI/MIDA may not revoke such exemption, renew the incentive or modify the incentive in any way in the future. For illustration purposes, assuming that HK Kitaran and HK Fibre were to lose their pioneer status arising from the expiry or withdrawal of the incentive with effect from 1 January 2013, it is estimated that our effective tax rate would be 33.83% as compared to the actual effective tax rate of 13.09%.

(viii) We are exposed to fluctuations in the foreign exchange rates arising from our exports to China

For the FYE 31 December 2013, our sales to China accounted for approximately 55.22% of our Group's total revenue, whereby the majority of these sales are denominated in RMB. However, our results for the FYE 31 December 2013 were not adversely affected by foreign exchange fluctuations as the RM generally moved in line with the RMB during the financial year as illustrated below:

	Monthly Average * RMB/RM
2013	
January	0.4885
February	0.4969
March	0.5000
April	0.4930
May	0.4913
June	0.5132
July	0.5201
August	0.5361
September	0.5311
October	0.5208
November	0.5253
December	0.5349

(Source: Bank Negara Malaysia)

Note:

* Calculated based on the middle rate at 1200 session of the daily market price for the respective months.

During the financial years under review, we have not experienced any material adverse effect arising from foreign exchange fluctuations that had a material adverse effect on our financial performance. The net realised foreign exchange gains or losses registered by our Group for the past three (3) FYE 31 December 2011 to 2013 are disclosed in Section 12.2.4(iv) of this Prospectus.

As part of our strategy moving forward, we plan to increase our market presence in China as detailed in Section 6.18.1(vi) of this Prospectus. As such, we may face higher exposure to foreign exchange fluctuations. To mitigate this risk, we constantly monitor the fluctuations in exchange rates and will take steps through appropriate hedging instrument(s) to minimise the effect of foreign exchange on our Group, should the need arises. Nevertheless, there is no assurance that any significant exchange rate fluctuations or changes in foreign exchange control regulations will not have a material and adverse impact on our results in the future.

4. RISK FACTORS *(Cont'd)*

(ix) We are exposed to risk of shipping disruptions for our exports to China

We are reliant on marine transportation for the export of our products to China, who collectively contributed approximately 55.22% of our Group's total revenue for the FYE 31 December 2013. Hence, we are exposed to shipping disruptions that may arise as a result of weather conditions, political turmoil, pirate attacks, social unrest, port strikes, oil spills, delayed or lost shipments, which may have an adverse impact to our business. As at the LPD, our Group has not experienced any shipping disruptions that had material adverse effect on our business or finance performance.

To mitigate this risk, we procure transportation insurance coverage for our shipping activities to indemnify us against any potential disruptions and to minimise the impact of any potential cost or liability arising therefrom.

Whilst we have taken the necessary steps to ensure that our products are adequately covered by insurance, there can be no assurance that our results would not be materially affected in the event of such incidences occurring.

(x) We are subject to political, economic and regulatory risks

Like all other business entities, adverse developments in the political, economic and regulatory conditions in Malaysia and China could materially and adversely affect our financial results and business prospects. These risks include, among others, changes in political leadership, risk of war, changes in economic conditions, changes in interest rates, methods of taxation and unfavourable changes in government policies such as introduction of new regulations, import duties and tariffs.

Whilst we strive to continue to take effective measures such as prudent financial management and efficient operating procedures, there is no assurance that adverse political, economic and regulatory factors will not materially affect our operations, financial performance and future prospects.

(xi) Potential liability and/or disruption to our production facilities for late or non-compliance with regulatory requirements

Our premises and operations are governed by the relevant laws and regulations in Malaysia (including land rules and building regulations) as well as the conditions set forth in our processing licences and manufacturing licences imposed by the relevant authorities as follows:

(a) Plant 1

HK Kitaran has been operating in Plant 1 since 30 June 2010, and has obtained a processing licence on 25 August 2011 and a manufacturing licence on 8 May 2012 in respect of its operations in Plant 1.

The express condition in the land title of Plant 1 states that the land shall be used for the purpose of furniture (wood) factory only. Notwithstanding the above, the use of Plant 1 for the manufacturing of our oil palm EFB fibre is in accordance with the permitted category of land use, that is, Industrial (*Perusahaan/Perindustrian*), the OC for Plant 1 has been obtained and a processing licence has also been issued by MPSP to HK Kitaran.

We have on 20 March 2014, through our land surveyor/consultant, written and are awaiting a formal reply from the Pentadbir Tanah Daerah ("PTD") to clarify whether HK Kitaran is allowed to use the land for the manufacturing of oil palm EFB Fibre. Based on the discussions between our land surveyor/consultant with PTD to date, HK Kitaran's operations is not expected to be affected as the permitted land use under the land title is 'Industrial'.

4. RISK FACTORS (Cont'd)

Under Section 127 of the National Land Code 1965, where there is a breach of express condition, the State Authority may forfeit the land, or impose a fine for the breach, or require the land owner to take action to remedy the breach. Based on the circumstances as disclosed above, it is unlikely that Plant 1 will be forfeited. Further, HK Kitaran has undertaken to apply for a variation of the express condition, if required by PTD, and pay the necessary costs, including the premium which is not expected to be material (that is, approximately RM0.22 million based on 5% of the market value of the said land).

However, in the event the application for a variation of the express condition is not approved by the PTD, we shall relocate our operations in Plant 1 to a fully compliant rented property (“Relocation”). The Relocation is estimated to take approximately three (3) months and the costs to be incurred for the Relocation (comprising mainly the costs for the set up of the rented property and installation of the machineries and equipment, as well as transportation costs) is estimated to be approximately RM0.50 million. The Relocation is not expected to have any material impact on our Group’s operations as Plant 1’s operations is not the main contributor to our Group’s revenue. Besides, during the Relocation period, we will be able to temporarily undertake our Plant 1’s manufacturing operations in Plant 5. HK Kitaran has further undertaken to promptly rectify any non-compliance in relation to Plant 1 and do all such things necessary to ensure that Plant 1 will be in compliance with all such conditions attached to the land title of Plant 1 as well as the National Land Code 1965 and other applicable laws, rules and regulation. HK Kitaran has also undertaken not to undertake any expansion on Plant 1 until all non-compliance in relation to Plant 1 has been rectified.

(b) Plant 2

In November 2011, HK Kitaran expanded its operations to Plant 2 and commenced operations since then. HK Kitaran obtained a CCC in respect of Plant 2 on 4 April 2012 and has also obtained the processing licence and a manufacturing licence for Plant 2 on 3 August 2012 and 8 May 2012 respectively. HK Kitaran has subsequently constructed an extended shed attached to Plant 2’s factory building (“Extension”). Approval for the Extension has been obtained vide MPSP’s letter dated 23 October 2013 as detailed in Section 6.17.1 of this Prospectus.

(c) Plant 3

Plant 3 which is currently rented by Fibre Star from HH Furniture to house our mattress manufacturing activities does not have an OC. Our landlord, HH Furniture, has on 15 October 2012 applied to MPSP for planning permission for Plant 3. HH Furniture has subsequently on 4 March 2013 received a conditional approval from MPSP for the planning permission. As at the LPD, HH Furniture is in the process of fulfilling the conditions imposed. This will be followed by application for OC upon obtaining the approval from MPSP for the planning permission. In this regard, the OC is estimated to be issued within six (6) to nine (9) months from the date of submission of application, i.e. by December 2014. In the event that an OC is issued, we will continue to rent and operate in Plant 3, failing which, we will relocate our operations from Plant 3 to Plant 4.

Further, in the event that we are required to vacate Plant 3 by MPSP pending the issuance of the OC while Plant 4 is not ready for occupation and operations, we will relocate our operations in Plant 3 to a fully compliant rented property, if necessary.

We have been operating in Plant 3 since 16 June 2012. In view of the estimated length of time that Fibre Star would be occupying Plant 3, we had consulted MPSP and applied for the transfer of the processing licence which was originally issued under HH Manufacturer’s name to Fibre Star’s name. The processing licence was transferred to Fibre Star on 14 August 2012. In addition, Fibre Star has obtained a manufacturing licence for Plant 3 on 6 September 2012.

4. RISK FACTORS (Cont'd)**(d) Plant 5**

HK Palm Fibre has been operating in Plant 5 since 25 July 2009. HK Palm Fibre has obtained a manufacturing licence on 25 July 2012, but has yet to obtain a processing licence for Plant 5. HK Palm Fibre had been advised by the local authority, MDBB that they are required to obtain a planning permission followed by a CCC for the section of the premise of AKSB used for HK Palm Fibre's operations, prior to applying for a processing licence.

HK Palm Fibre has, on 19 November 2012 applied to MDBB for planning permission for Plant 5 and has subsequently on 5 March 2013 received the conditional approval from MDBB for the planning permission. As at the LPD, HK Palm Fibre is in the process of fulfilling the conditions imposed. This will be followed by the application for a CCC. The CCC is estimated to be issued within six (6) to nine (9) months from the date of submission of application, i.e. by December 2014. Upon obtaining the CCC, HK Palm Fibre will apply for the processing licence which is expected to be issued within three (3) months from the date of submission of application. In the event that we are required to vacate Plant 5 by MDBB pending the issuance of the CCC or a CCC is not issued for Plant 5, we will relocate our operations in Plant 5 to a fully compliant rented property, if necessary.

The licence for processing is different from a manufacturing licence. The licence for processing is issued by a local authority (in this case, MPSP and MDBB), whereas a manufacturing licence is a licence issued by MITI under the Industrial Co-Ordination Act, 1975 ("ICA"). With the aim to maintain an orderly development and growth in the country's manufacturing sector, the ICA requires manufacturing companies with shareholders' funds of RM2.5 million and above or engaging 75 or more full-time paid employees to apply for a manufacturing licence from MITI.

In relation to the processing licence, it is stated under Section 107 (5) & (6) of the Local Government Act 1976 that any person who fails to exhibit his licence at all times in some prominent place on the licensed premise or to produce such licence of required to do so by any officer of the local authority authorised to demand the same shall on conviction be liable to a fine not exceeding five hundred ringgit (RM500.00) or to imprisonment for a term not exceeding six (6) months or to both.

In relation to HK Palm Fibre, HK Palm Fibre has been made to understand that based on the standard By-Laws issued by the State Government of Kedah, i.e. the Undang-Undang Kecil Perlesenan Perdagangan, Perniagaan dan Perusahaan Pihak-Pihak Berkuasa Tempatan Negeri Kedah 1985, for any non-compliance with the By-Laws which include operating without applying for and obtaining a (processing) licence, MDBB has the power to issue a compound to the company of not more than three hundred ringgit (RM300.00). Failure to pay the compound despite repeated notices from MDBB and failure to comply with notices and warning letters from MDBB repeatedly would then subject the defaulting company to court action. MDBB can also, subject to approval by the state prosecutor, bring court action against HK Palm Fibre in which event on conviction, HK Palm Fibre may be subjected to a penalty of the sum of not more than two thousand ringgit (RM2,000.00) or imprisonment of not more than one (1) year, or to both.

Section 3(1) of the ICA prohibits any person to engage in any manufacturing activity unless the person is issued a licence in respect of such manufacturing activity. As stated in Section 3(2) of the ICA, a maximum penalty for the non-compliance of the Section 3(1) of the ICA would carry a two thousand ringgit (RM2,000.00) fine or six (6) months imprisonment and to a further fine not exceeding one thousand ringgit (RM1,000.00) for every day during which such default continues.

We only applied for and obtained the manufacturing licences mentioned above after fulfilment of the requirement to apply for one under the ICA. There is no specific provision under the ICA providing for a timeframe within which the company has to apply for a manufacturing licence, nor is there a provision which deals with the delay in application for manufacturing licences and there is no precedent case law in relation to the application of Section 3(2) of the ICA for the imposition of penalties on companies which have delayed in their application for such manufacturing licences. The essence of the ICA is to promote an orderly development of manufacturing activities in Malaysia.

4. RISK FACTORS (Cont'd)

Although we commenced our operations in Plant 1, Plant 2, Plant 3 and Plant 5 prior to the issuance and/or transfer of the processing and manufacturing licences, and prior to obtaining CCC/OC for Plant 2, Plant 3 and Plant 5, we have subsequently been granted the processing and manufacturing licences for Plant 1, Plant 2 and Plant 3, manufacturing licence for Plant 5 and the CCC for Plant 2, without any fine nor penalties imposed by the relevant authorities. In addition, as mentioned above, our landlord and HK Palm Fibre have received conditional approvals from MPSP and MDBB for the planning permission on 4 March 2013 and 5 March 2013 for Plant 3 and Plant 5 respectively. As at the LPD, there were no actions being taken by any of the relevant authorities pursuant to the above. Nevertheless, there can be no assurance that the relevant authorities will not impose any penalties for any non-compliance in the future.

Save as disclosed above, we have complied with all the relevant laws and regulations in Malaysia (including land rules and building regulations) as well as the conditions set forth in our processing and manufacturing licences imposed by the relevant authorities. Whilst we continuously ensure compliance with relevant government regulations, there can be no assurance that any penalties, if imposed, will not adversely affect our Group's performance and profitability.

(xii) **We are subject to the risk of losing control of HK Palm Fibre, our 50% owned subsidiary company**

HK Palm Fibre, our 50% owned subsidiary company, adopts Table A in the Fourth Schedule of the Act ("Table A") as its Articles of Association. Regulation 49 of Table A provides for the Chairman of the Board of Directors of HK Palm Fibre to preside as Chairman at every general meeting of the company, while Regulations 53 and 80 of Table A provide for the Chairman of the meeting to have a second or casting vote in the case of an equality of votes at any of the general or board meeting. In addition, Regulations 49 and 85 of Table A provide that, if at any meeting, the Chairman is not present within fifteen (15) minutes after the time appointed for holding the general meeting or ten (10) minutes after the time appointed for holding the board meeting, the members or directors present may choose one of their number to be the Chairman of the meeting.

As explained in Section 5.3.7(iii) of this Prospectus, we are able to exercise control of HK Palm Fibre by virtue of the appointment of our Managing Director, H'ng Choon Seng, as the Chairman of the Board of Directors of the company with effect from 5 October 2009. In this regard, HK Palm Fibre is deemed as our subsidiary company.

Nevertheless, there is no assurance that the Chairmanship in HK Palm Fibre will remain with H'ng Choon Seng or any of our representatives, or H'ng Choon Seng is able to attend all the general or board meetings, or any of our representatives is appointed as the Chairman of any of the general or board meetings in the absence of H'ng Choon Seng. In the event that H'ng Choon Seng or any of our representatives is removed/ not appointed as the Chairman of HK Palm Fibre at the general or board meeting, we will lose control of HK Palm Fibre.

Should we lose control of HK Palm Fibre through the above, we would no longer be able to consolidate the financials of HK Palm Fibre into our financial statements as our investment in HK Palm Fibre would be accounted for using the equity method in accordance with Malaysian Financial Reporting Standard 128 Investments in Associates and Joint Ventures. The deconsolidation of HK Palm Fibre's financials would result in non-recognition of HK Palm Fibre's revenue and expenses as well as total assets and total liabilities, as our investment in HK Palm Fibre would then be represented by a single item shown separately in our consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, that is share of profits in an associate and investment in an associate respectively. However, our Board is of the opinion that such loss in control of HK Palm Fibre would not have any material impact on the PAT attributable to the owners of our Company and accordingly, shareholders' equity of our Company and our Group as it is not expected to give rise to any significant gain or loss to our Company and our Group in view that there is no change in our 50% equity interest in HK Palm Fibre. In addition, such loss in control of HK Palm Fibre should have no impact on our financial results in the future as we can continue to recognise 50% of HK Palm Fibre's PAT through share of profits in an associate in our consolidated statement of profit or loss and other comprehensive income.

4. RISK FACTORS (Cont'd)

(xiii) We are dependent on supply of foreign workers

Our operations are dependent on the supply of foreign workers. As at the LPD, we have 549 employees, of which 331 or approximately 60.29% of our total employees are foreign workers, mainly from Nepal. As such, inadequate supply of foreign workers as well as any revision in policy in relation to hiring of foreign workers by the Malaysian Government may disrupt our operations.

As part of our efforts to manage our dependency on our foreign workers, we work closely with our recruitment agencies for the recruitment and renewal of work permits for the foreign workers. To date, we have not experienced any material adverse effect on our operations as a result of shortage in the supply of foreign workers for our operations nor were there any interruptions in our operations during the past twelve (12) months due to shortage of foreign workers.

Notwithstanding the above, in the event of any shortage in the supply of foreign workers, we are able to hire local workers. However, in such an event, our profitability may be affected as the costs of utilising local workers in our operations would be higher as compared to utilising foreign workers.

(xiv) We are exposed to financial risks

Our working capital and capital expenditure requirements are funded by internally generated funds and/or bank borrowings. As at 31 December 2013, our Group's total borrowings amounted to approximately RM36.80 million. All our bank borrowings are interest bearing with 62.39% of these borrowings based on variable rates. As such, any fluctuation in interest rates could have a material effect on our finance costs. Presently, we enjoy good credit standing with our bankers and have adequate credit facilities.

Notwithstanding the above, our Board is confident of our ability to meet our financial obligations when they become due and payable, after taking into consideration our cash and cash equivalents, the banking facilities currently available to us and the net proceeds to be raised from our Public Issue. In addition, our Listing will enable us to tap the capital market in the future to meet our long-term funding requirements when the need arises.

However, there is no assurance that future fluctuations in interest rates will not adversely impact our Group's performance and profitability.

(xv) We are exposed to the credit risks of our customers

We are exposed to the risk of default by our customers. We may experience delays in payment for our products, or in more severe cases, we may not be able to collect payments from our customers. In the event of payment defaults, we would have to impair or write-off the debts, which will have an adverse impact on our profitability.

In mitigating our exposure to credit risk, we will assess the financial and credit position of prospective customers prior to accepting their orders, while for existing customers, we will continually assess and review their credit positions and maintain close contact with these customers. In addition, we regularly review our trade receivables ageing and monitor subsequent collection of debts. In situations where our customer is unable to adhere to the agreed credit terms, we will examine the reasons for the delay. If there is sufficient commercial justification, we will negotiate for settlement, which could include granting our customer an extension of time for payment. Should the negotiations fail, we will initiate legal actions or proceedings to recover the amount owed to us by the customers. As at the LPD, we have not experienced any instances of significant bad debts.

We strive to reduce this risk through our various credit control measures. Nevertheless, there is no assurance that our customers' credit risk will not have an adverse impact on our Group's future financial performance.

4. RISK FACTORS (Cont'd)

4.2 RISKS RELATING TO OUR IPO

(i) There may be a delay in our Listing or our Listing may be aborted

Our Listing may be potentially delayed or aborted in the event of the following:

- (a) our Underwriter exercising its rights pursuant to the Underwriting Agreement to discharge itself from its obligations; or
- (b) we are unable to meet the public spread requirement of at least 25% of our enlarged issued and paid-up share capital to be held by a minimum of 200 public shareholders holding not less than 100 Shares each, at the time of Listing.

We expect to meet the public shareholding requirement at the point of Listing by allocating the Public Issue Shares to the required number of public shareholders during the balloting/private placement processes. However, should the events stipulated in (a) and/or (b) above occur, monies paid in respect of any application accepted will be returned to you without interest within fourteen (14) days after we become liable to repay it, failing which the provision of sub-section 234(2) of the CMSA will apply and we will be liable to repay the monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

In the event that our Listing is aborted but our Shares have been allotted to investors, a return of monies to such investors could only be achieved by way of cancellation of share capital as provided under the Act. Such cancellation requires the sanction of our shareholders by special resolution in a general meeting, consent of our creditors (unless dispensation with such consent has been granted by the High Court of Malaysia) and the confirmation of the High Court of Malaysia. Thus, there can be no assurance that such monies can be recovered within a short period of time or at all in such circumstances.

Nonetheless, our Board will endeavour to ensure compliance with the various requirements for our successful Listing.

(ii) There is no prior market for our Shares and our Share price may be volatile

There is no prior market for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or if developed, that such market will be sustained. In addition, our Shares could trade at prices that may be lower than the IPO Price as a result of many factors, some of which are not within our control and may be unrelated or disproportionate to our operating results. These include, amongst others, prevailing economic and financial conditions in Malaysia and/or China, the depth and liquidity of the market for our Shares and investors' individual perceptions of our Group.

(iii) Control by our Promoters may limit your ability to influence the outcome of decisions requiring the approval of our shareholders

Upon Listing, our Promoters will collectively hold approximately 70.29% of our enlarged issued and paid-up share capital. As a result, they will still be able to, in the foreseeable future, effectively control the business direction and management of our Group as well as influence the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting by law and/or as required by the relevant authorities.

Nevertheless, as a step towards good corporate governance, we have appointed three (3) Independent Non-Executive Directors and set up an Audit Committee to ensure that, *inter-alia*, any future transactions involving related parties are entered into on an arm's length basis, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to our minority shareholders.

4. RISK FACTORS (Cont'd)

- (iv) **We are an investment holding company and rely on dividend payments from our subsidiary companies for funding and payment of dividends on our Shares**

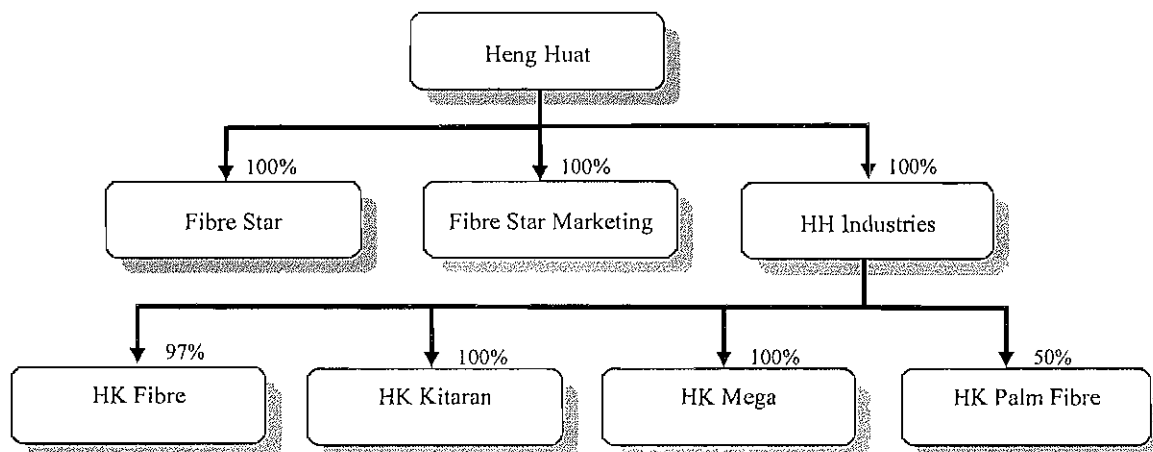
Our Company, being an investment holding company derives income mainly from dividends received from our subsidiary companies. Hence, our ability to pay future dividends and our ability to sustain our dividend policy in the future are largely dependent on the performance of our subsidiary companies. In determining the size of any dividend recommendation, we will also take into consideration a number of factors, including but not limited to our financial performance, cash flow requirements, debt servicing and financing commitments, future expansion plans, loan covenants and compliance with regulatory requirements.

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5. INFORMATION ON OUR GROUP

5.1 OUR HISTORY

Heng Huat was incorporated in Malaysia under the Act on 25 November 2011 as a private limited company under the name of Heng Huat Resources Group Sdn Bhd. We were subsequently converted into a public limited company and assumed our present name on 18 June 2012 to facilitate our listing on the ACE Market. Prior to our IPO, we undertook the HH Industries Reorganisation, Fibre Star Reorganisation and Acquisitions as detailed in Sections 5.4.1, 5.4.2 and 5.4.4 of this Prospectus to reorganise our structure and streamline the operations of our subsidiary companies under our Company. Our Group structure after the HH Industries Reorganisation, Fibre Star Reorganisation and Acquisitions is as follows:



The details of our principal activities are as follows:

Company	Principal Activities
Heng Huat	Investment holding
Fibre Star	Manufacturing of mattresses and related products
Fibre Star Marketing	Marketing of mattresses and related products
HH Industries	Investment holding
<u>Subsidiary Companies of HH Industries</u>	
HK Fibre	Manufacturing and trading of coconut biomass materials and value-added products
HK Kitaran	Manufacturing and trading of oil palm biomass materials and value-added products
HK Mega	Dormant
HK Palm Fibre	Manufacturing and trading of oil palm biomass materials

5. INFORMATION ON OUR GROUP (Cont'd)

In 1986, our co-founder, H'ng Choon Seng started Chiang Wei Enterprise and Heng Huat Industries Enterprise, both home-based businesses which were principally involved in the manufacturing and trading of rattan furniture, cushion products, bolsters and pillows. This eventually led to the establishment of HH Furniture and HH Manufacturer in 1991 and 1997 respectively. HH Furniture was principally involved in the sewing and marketing of cushions, pillows and mattresses, while HH Manufacturer was principally involved in the manufacturing of fibre coconut sheet mattress. Over the years, his businesses flourished and expanded from a home based premise to a factory building at Sungai Jawi in 2001. Recognising the growing demand for coconut fibre mattresses, he decided to venture into the manufacturing of fibre mattress using imported coconut fibre from Indonesia and Thailand in 2002.

Despite his early success, H'ng Choon Seng realised the need to chart a new business course in order to ensure sustainable growth moving forward. A combination of factors such as inconsistent supply and high cost of imported coconut fibre necessitated a rethink in business model.

Thus, in 2007, H'ng Choon Seng together with Kee Swee Lai established HK Fibre, which is primarily engaged in the manufacturing of coconut fibre and coconut peat. HK Fibre's operations are based in Kelantan due to its close proximity to coconut plantations. HK Fibre began its operations from a rented premise situated on Lots 344 & 345, Kg. Kemayang Tawang, Bachok, Kelantan with two (2) production lines and a total monthly production capacity of 546 mt of coconut fibre.

Our co-founders also established HK Mega and HH Industries in 2007. HK Mega was principally involved in the trading of third party biomass materials while HH Industries is an investment holding company for HK Fibre and HK Mega.

In 2008, as a result of limited supply of coconut husks for the expansion of our coconut fibre production, we explored the production of other biomass materials, such as oil palm EFB fibre. In 2009, following our successful endeavour to design and custom-built a production line for the manufacture of oil palm EFB fibre, we established HK Palm Fibre in collaboration with Kuah Choon Hoay and Liew Chai Hook, the directors and shareholders of AKSB, a palm oil mill operator, to manufacture oil palm EFB fibre with oil palm EFB supply from AKSB. HK Palm Fibre began with one (1) production line with a monthly production capacity of 234 mt of oil palm EFB fibre, which was increased to eight (8) production lines with a total monthly production capacity of 2,340 mt of oil palm EFB fibre by end 2010.

In 2009, we also established HK Kitaran to manufacture oil palm EFB fibre with oil palm EFB supply from its surrounding oil palm plantations and palm oil mills in Sebrang Perai Selatan, Penang. HK Kitaran began its operation with three (3) production lines and a total monthly production capacity of 1,560 mt of oil palm EFB fibre, which was increased to ten (10) production lines and a total monthly production capacity of 4,914 mt of oil palm EFB fibre subsequent to our plant expansion in 2011.

In tandem with our overall strategic plan and direction to focus on sales of internally produced biomass materials, particularly oil palm EFB fibre, HK Mega ceased its trading activities (i.e. trading of third party biomass materials) in 2011.

In the fourth quarter of 2011, we incorporated two (2) subsidiary companies namely, Fibre Star and Fibre Star Marketing, and ventured downstream to undertake the manufacturing and marketing of mattresses and related products respectively through Fibre Star Reorganisation in May 2012. The Fibre Star Reorganisation involved the acquisition by Fibre Star of HH Manufacturer's mattresses manufacturing business and assets, including machineries and equipment used for the manufacturing of mattresses and related products, as well as the trademarks for the brands of these products, 'Fibre Star®' and 'Xiong Mao®' from HH Manufacturer and HH Furniture respectively. Fibre Star commenced its operations in June 2012, and thereafter to better manage and support its marketing efforts, Fibre Star Marketing commenced operations in September 2012 as the marketing arm of Fibre Star. Please refer to Section 5.4.2 of this Prospectus for further details of the Fibre Star Reorganisation.

5. INFORMATION ON OUR GROUP (Cont'd)

In the third quarter of 2012, as part of our expansion plans, HK Kitaran installed two (2) additional production lines with a total monthly production capacity of 1,118 mt of oil palm EFB fibre. To further strengthen our competitive edge, we ventured into the manufacture of value-added oil palm EFB fibre product, namely Briquette, by installing two (2) production lines with a total monthly production capacity of 3,016 mt of Briquette in the fourth quarter of 2012 and successfully introduced Briquette as part of our product offerings in January 2013. Our Briquette is mainly supplied to local end users as an alternative fuel to firewood and charcoal for boilers.

As at the LPD, we have a total of two (2) coconut fibre production lines, twenty (20) oil palm EFB fibre production lines, two (2) Briquette production lines and three (3) coconut fibre sheet production lines with a total monthly production capacity of 546 mt of coconut fibre, 8,372 mt of oil palm EFB fibre, 3,016 mt of Briquette and 491,400 meters of coconut fibre sheet respectively.

In recognition of our management and financial performance, HH Industries was awarded the Golden Bull Award for Emerging SMEs in 2010. We also received a Certificate of Achievement for the SME 100 Award – Fast Moving Companies in 2011, an annual recognition award programme organised by SME & Entrepreneurship Magazine that recognises the achievements of Malaysia's SMEs. As a testament to our commitment to quality, HK Kitaran was also awarded the ISO 9001:2008 certification on 18 May 2012 for its quality management system in the manufacturing of oil palm EFB fibre.

5.2 SHARE CAPITAL

The present authorised share capital of our Company is RM50,000,000 comprising 500,000,000 ordinary shares of RM0.10 each, of which RM15,930,003 comprising 159,300,030 Shares are issued and credited as fully paid-up. Upon completion of our Public Issue, our issued and paid-up share capital will be increased to RM20,580,003 comprising 205,800,030 Shares. The changes in our issued and paid-up share capital since our incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
25.11.2011	2	1	Cash	2
03.05.2012	1	1	Cash	3
16.05.2012	-	0.10	Share Split	3
18.05.2012	142,800,000	0.10	Shares issued as consideration for the Acquisition of HH Industries	14,280,003
18.05.2012	16,500,000	0.10	Shares issued as consideration for the Acquisition of Fibre Star	15,930,003

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in our Company.

5. INFORMATION ON OUR GROUP (Cont'd)

5.3 SUBSIDIARY COMPANIES

5.3.1 Fibre Star

(i) History and Business

Fibre Star was incorporated in Malaysia under its name on 29 December 2011 as a private limited company under the Act and began its operations on 16 June 2012. It is principally involved in the manufacturing of mattresses and related products.

(ii) Share Capital

Fibre Star's present authorised share capital is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which RM1,650,003 comprising 1,650,003 ordinary shares of RM1.00 each have been issued and fully paid-up. The changes in the issued and paid-up share capital of Fibre Star since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
29.12.2011	2	1	Cash	2
13.02.2012	1	1	Cash	3
11.05.2012	1,650,000	1	Shares issued as consideration for the Acquisition of Assets from HH Manufacturer	1,650,003

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Fibre Star.

(iii) Shareholders and Directors

As at the LPD, Fibre Star is our wholly-owned subsidiary company and its directors are H'ng Choon Seng, Khor Teik Boon and Kee Swee Lai.

(iv) Subsidiary and Associated Companies

As at the LPD, Fibre Star does not have any subsidiary or associated company.

5.3.2 Fibre Star Marketing

(i) History and Business

Fibre Star Marketing was incorporated in Malaysia under its name on 29 December 2011 as a private limited company under the Act and began its operations on 1 September 2012. It is principally involved in the marketing of mattresses and related products.

5. INFORMATION ON OUR GROUP (Cont'd)**(ii) Share Capital**

Fibre Star Marketing's present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up. The changes in the issued and paid-up share capital of Fibre Star Marketing since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
29.12.2011	3	1	Cash	3
25.01.2013	249,997	1	Cash	250,000
20.12.2013	250,000	1	Cash	500,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Fibre Star Marketing.

(iii) Shareholders and Directors

As at the LPD, Fibre Star Marketing is our wholly-owned subsidiary company and its directors are H'ng Choon Seng, Khor Mooi Kim and Teh Chai Luang.

(iv) Subsidiary and Associated Companies

As at the LPD, Fibre Star Marketing does not have any subsidiary or associated company.

5.3.3 HH Industries**(i) History and Business**

HH Industries was incorporated in Malaysia under the name of HK Vision Sdn Bhd on 2 July 2007 as a private limited company under the Act and began its operations on 29 September 2007. On 28 June 2011, it changed and assumed its present name. HH Industries is an investment holding company whose subsidiary companies are principally involved in the manufacturing and trading of biomass materials and value-added products.

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5. INFORMATION ON OUR GROUP (Cont'd)**(ii) Share Capital**

HH Industries' present authorised share capital is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which RM9,095,000 comprising 9,095,000 ordinary shares of RM1.00 each have been issued and fully paid-up. The changes in the issued and paid-up share capital of HH Industries since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
02.07.2007	2	1	Cash	2
19.09.2008	499,998	1	Cash	500,000
28.12.2011	2,462,000	1	Capitalisation of advances	2,962,000
11.05.2012	2,262,000	1	Shares issued as consideration for the Acquisition of HK Palm Fibre	5,224,000
11.05.2012	3,871,000	1	Shares issued as consideration for the Acquisition of HK Kitaran	9,095,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HH Industries.

(iii) Shareholders and Directors

As at the LPD, HH Industries is our wholly-owned subsidiary company and its directors are H'ng Choon Seng and Kee Swee Lai.

(iv) Subsidiary and Associated Companies

As at the LPD, HH Industries has four (4) subsidiary companies, namely HK Fibre, HK Kitaran, HK Mega and HK Palm Fibre.

5.3.4 HK Fibre**(i) History and Business**

HK Fibre was incorporated in Malaysia under its name on 13 March 2007 as a private limited company under the Act and began its operations on 1 June 2007. It is principally involved in the manufacturing and trading of coconut biomass materials and value-added products.

5. INFORMATION ON OUR GROUP (Cont'd)

(ii) Share Capital

HK Fibre's present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up. The changes in the issued and paid-up share capital of HK Fibre since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
13.03.2007	2	1	Cash	2
30.04.2007	99,998	1	Cash	100,000
19.09.2008	400,000	1	Cash	500,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HK Fibre.

(iii) Shareholders and Directors

As at the LPD, HK Fibre is a 97% owned subsidiary company of HH Industries and its directors are H'ng Choon Seng, Kee Swee Lai and Ruhani Binti Ismail. The remaining 3% of the shares are owned by Ruhani Binti Ismail.

(iv) Subsidiary and Associated Companies

As at the LPD, HK Fibre does not have any subsidiary or associated company.

5.3.5 HK Kitaran

(i) History and Business

HK Kitaran was incorporated in Malaysia under its name on 8 December 2009 as a private limited company under the Act and began its operations on 30 June 2010. It is principally involved in the manufacturing and trading of oil palm biomass materials and value-added products.

(ii) Share Capital

HK Kitaran's present authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up. The changes in the issued and paid-up share capital of HK Kitaran since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
08.12.2009	2	1	Cash	2
02.02.2010	99,998	1	Cash	100,000
30.12.2010	100,000	1	Cash	200,000
28.02.2011	800,000	1	Capitalisation of shareholders' advances	1,000,000

5. INFORMATION ON OUR GROUP (Cont'd)

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HK Kitaran.

(iii) Shareholders and Directors

As at the LPD, HK Kitaran is a wholly-owned subsidiary company of HH Industries and its directors are H'ng Choon Seng, Kee Swee Lai and Khor Teik Boon.

(iv) Subsidiary and Associated Companies

As at the LPD, HK Kitaran does not have any subsidiary or associated company.

5.3.6 HK Mega**(i) History and Business**

HK Mega was incorporated in Malaysia under the name of HK Mega Trading Sdn Bhd on 12 June 2007 as a private limited company under the Act and began its operations on 5 July 2007. On 27 February 2012, it changed and assumed its present name. It is currently dormant.

(ii) Share Capital

HK Mega's present authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up. The changes in the issued and paid-up share capital of HK Mega since its incorporation are as follows:

Date of Allotment	No. of Shares		Consideration	Cumulative Total RM
	Allotted	Par Value RM		
12.06.2007	2	1	Cash	2
19.09.2008	99,998	1	Cash	100,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HK Mega.

(iii) Shareholders and Directors

As at the LPD, HK Mega is a wholly-owned subsidiary company of HH Industries and its directors are H'ng Choon Seng and Kee Swee Lai.

(iv) Subsidiary and Associated Companies

As at the LPD, HK Mega does not have any subsidiary or associated company.

5. INFORMATION ON OUR GROUP (Cont'd)

5.3.7 HK Palm Fibre

(i) History and Business

HK Palm Fibre was incorporated in Malaysia under its name on 4 June 2009 as private limited company under the Act and began its operations on 25 July 2009. It is principally involved in the manufacturing and trading of oil palm biomass materials.

(ii) Share Capital

HK Palm Fibre's present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which RM200,000 comprising 200,000 ordinary shares of RM1.00 each have been issued and fully paid-up. The changes in the issued and paid-up share capital of HK Palm Fibre since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
04.06.2009	2	1	Cash	2
21.12.2009	99,998	1	Cash	100,000
30.12.2010	100,000	1	Capitalisation of shareholders' advances	200,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HK Palm Fibre.

(iii) Shareholders and Directors

As at the LPD, HK Palm Fibre is a 50% owned subsidiary company of HH Industries and its directors are H'ng Choon Seng, Kee Swee Lai, Kuah Choon Hoay and Liew Chai Hook. The remaining 50% of the shares are owned equally by Kuah Choon Hoay and Liew Chai Hook, the directors and shareholders of AKSB.

We are able to exercise control of HK Palm Fibre, by virtue of the appointment of our Managing Director, H'ng Choon Seng, as the Chairman of the Board of Directors of HK Palm Fibre with effect from 5 October 2009 pursuant to a board resolution of HK Palm Fibre dated 5 October 2009. HK Palm Fibre adopts Table A in the Fourth Schedule of the Act ("Table A") as its Articles of Association. Regulation 49 of Table A provides for the Chairman of the board of directors of HK Palm Fibre to preside as Chairman at every general meeting of the company, while Regulations 53 and 80 of Table A provide for the Chairman of the meeting to have a second or casting vote in the case of an equality of votes at any of the general or board meeting. Therefore, HK Palm Fibre is deemed as our subsidiary company.

(iv) Subsidiary and Associated Companies

As at the LPD, HK Palm Fibre does not have any subsidiary or associated company.

5. INFORMATION ON OUR GROUP (Cont'd)

5.4 REORGANISATIONS, SHARE SPLIT AND ACQUISITIONS

Prior to our IPO, we have undertaken the following exercises, which encompass:

5.4.1 HH Industries Reorganisation

Acquisition of HK Palm Fibre

Pursuant to the Share Purchase Agreement dated 11 May 2012 entered into between HH Industries and the vendors of HK Palm Fibre, HH Industries has acquired 50% of the issued and paid-up share capital in HK Palm Fibre comprising 100,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2,262,000, which was wholly satisfied by the issuance of 2,262,000 new ordinary shares of RM1.00 each in HH Industries at par. The parties had agreed that the effective completion of the Acquisition of HK Palm Fibre is on 1 January 2012.

The vendors of HK Palm Fibre and their respective equity interests acquired by HH Industries and the number of new shares that were issued to them pursuant to the Acquisition of HK Palm Fibre are set out as follows:

Vendors	Numbers of Shares Acquired by HH Industries	% of Issued and Paid-Up Share Capital	Purchase Consideration RM	Number of Shares Issued
H'ng Choon Seng	50,000	25.00	1,131,000	1,131,000
Kee Swee Lai	50,000	25.00	1,131,000	1,131,000

The purchase consideration of RM2,262,000 for the Acquisition of HK Palm Fibre was agreed upon on a "willing-buyer willing-seller" basis after taking into consideration the audited NTA of HK Palm Fibre of RM4,522,914 as at 31 December 2011.

Acquisition of HK Kitaran

HH Industries previously owned 51% of HK Kitaran. However, pursuant to the Share Purchase Agreement dated 11 May 2012 entered into between HH Industries and the vendors of HK Kitaran, HH Industries has acquired the remaining 49% of the issued and paid-up share capital in HK Kitaran comprising 490,000 ordinary shares of RM1.00 each for a total purchase consideration of RM3,871,000, which was wholly satisfied by the issuance of 3,871,000 new ordinary shares of RM1.00 each in HH Industries at par. The parties had agreed that the effective completion of the Acquisition of HK Kitaran is on 1 January 2012.

The vendors of HK Kitaran and their respective equity interests acquired by HH Industries and the number of new shares that were issued to them pursuant to the Acquisition of HK Kitaran are set out as follows:

Vendors	Numbers of Shares Acquired by HH Industries	% of Issued and Paid-Up Share Capital	Purchase Consideration RM	Number of Shares Issued
H'ng Choon Seng	245,000	24.50	1,935,500	1,935,500
Kee Swee Lai	245,000	24.50	1,935,500	1,935,500

5. INFORMATION ON OUR GROUP (Cont'd)

The purchase consideration of RM3,871,000 for the Acquisition of HK Kitaran was agreed upon on a "willing-buyer willing-seller" basis after taking into consideration the audited NTA of HK Kitaran of RM7,884,072 as at 31 December 2011.

Acquisition of HK Mega

HK Mega was formerly a 90%-owned subsidiary company of HH Industries. Subsequently, HH Industries had on 18 May 2012 acquired the remaining 10% of the issued and paid-up share capital in HK Mega comprising 10,000 ordinary shares of RM1.00 each for a nominal cash consideration of RM2.

The vendors of HK Mega and their respective equity interests acquired by HH Industries and the cash consideration issued to them pursuant to the Acquisition of HK Mega are set out as follows:

Vendors	Numbers of Shares Acquired by HH Industries	% of Issued and Paid-Up Share Capital	Cash Consideration RM
H'ng Choon Seng	5,000	5.00	1
Kee Swee Lai	5,000	5.00	1

The nominal purchase consideration of RM2 for the Acquisition of HK Mega was agreed upon on a "willing-buyer willing-seller" basis after taking into consideration the dormant status of HK Mega.

5.4.2 Fibre Star Reorganisation**Acquisition of Property from HH Furniture**

Pursuant to the Sale and Purchase Agreement dated 11 May 2012 entered into between Fibre Star and HH Furniture, Fibre Star has acquired a piece of land held under No. H.S.(D) 8763, Lot No. 2489, Mukim 05, Seberang Perai Selatan, Pulau Pinang, together with a single storey factory building erected on the land, from HH Furniture for a total cash consideration of RM2,800,000. The Acquisition of Property from HH Furniture was completed on 7 February 2013.

The purchase consideration of RM2,800,000 for the Acquisition of Property from HH Furniture was agreed upon on a "willing-buyer willing-seller" basis after taking into consideration the book value of RM2,818,704 of the said property as at 30 April 2012.

Acquisition of Assets from HH Manufacturer

Pursuant to the Sale and Purchase Agreement dated 11 May 2012 entered into between Fibre Star and HH Manufacturer, Fibre Star has acquired the assets of HH Manufacturer comprising machinery and equipment for a total purchase consideration of RM1,650,000, which was wholly satisfied by the issuance of 1,650,000 ordinary shares of RM1.00 each in Fibre Star to HH Manufacturer at par. The Acquisition of Assets from HH Manufacturer was completed on 16 June 2012.

The purchase consideration of RM1,650,000 for the Acquisition of Assets from HH Manufacturer was agreed upon on a "willing-buyer willing-seller" basis after taking into consideration the realisable value of RM1,651,452 of the said assets as at 31 December 2011.

5. INFORMATION ON OUR GROUP (Cont'd)

Transfer of Trademark from HH Furniture

Pursuant to the Assignment Agreement dated 27 May 2012 entered into between Fibre Star and HH Furniture, HH Furniture has agreed to assign and transfer all rights and interests in the trademark 'Xiong Mao®' to Fibre Star for a nominal cash consideration of RM10 on a "willing-buyer willing-seller" basis pursuant to and further to the Acquisition of Assets from HH Manufacturer. The application for the transfer has been approved by MYIPO and the trademark 'Xiong Mao®' is currently registered under the name of Fibre Star.

Transfer of Trademark from HH Manufacturer

Pursuant to the Assignment Agreement dated 27 May 2012 entered into between Fibre Star and HH Manufacturer, HH Manufacturer has agreed to assign and transfer all rights and interests in the trademark 'Fibre Star®' to Fibre Star for a nominal cash consideration of RM10 on a "willing-buyer willing-seller" basis pursuant to and further to the Acquisition of Assets from HH Manufacturer. The application for the transfer has been approved by MYIPO and the trademark 'Fibre Star®' is currently registered under the name of Fibre Star.

5.4.3 Share Split

On 16 May 2012, we effected a share split of every one (1) existing ordinary share of RM1.00 each in our authorised and issued and paid-up share capital into ten (10) Shares, resulting in an authorised share capital of RM100,000 comprising 1,000,000 Shares, and an issued and paid-up share capital of RM3 comprising 30 Shares.

Following the Share Split, we increased our authorised share capital from RM100,000 comprising 1,000,000 Shares to RM50,000,000 comprising 500,000,000 Shares.

5.4.4 Acquisitions

Acquisition of HH Industries

Pursuant to the Share Purchase Agreement dated 18 May 2012 entered into between our Company and the vendors of HH Industries, our Company has acquired HH Industries' entire issued and paid-up share capital of RM9,095,000 comprising 9,095,000 ordinary shares of RM1.00 each for a total purchase consideration of RM14,280,000, which was wholly satisfied by the issuance of 142,800,000 new Heng Huat Shares at par. The parties had agreed that the effective completion of the Acquisition of HH Industries is on 1 February 2012.

The vendors of HH Industries and their respective equity interests acquired by our Company and the number of new Heng Huat Shares that were issued to them pursuant to the Acquisition of HH Industries are set out as follows:

Vendors	Numbers of Shares Acquired by Heng Huat	% of Issued and Paid-Up Share Capital	Purchase Consideration RM	Number of Shares Issued
H'ng Choon Seng	4,647,500	51.10	7,297,010	72,970,100
Kee Swee Lai	4,397,499	48.35	6,904,486	69,044,860
Khor Mooi Kim	25,000	0.275	39,252	392,520
Teh Chai Luang	25,000	0.275	39,252	392,520
Chee Gaik Sim	1	*	-	-

5. INFORMATION ON OUR GROUP (Cont'd)*Note:** *Negligible*

The purchase consideration of RM14,280,000 for the Acquisition of HH Industries was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the following:

- (a) pro forma consolidated NA of HH Industries and its group of companies as at 31 December 2011 of approximately RM13.69 million, after taking into account the effects of the Acquisition of HK Kitaran and Acquisition of HK Palm Fibre as at 11 May 2012 on the assumption that HK Kitaran and HK Palm Fibre have been in existence in HH Industries group as at 31 December 2011; and
- (b) estimated earnings of approximately of RM1.48 million generated by HH Industries and its group of companies for the month of January 2012, which would increase the pro forma consolidated NA of HH Industries and its group of companies, as disclosed in (a) above, to approximately RM15.17 million.

Acquisition of Fibre Star

Pursuant to the Share Purchase Agreement dated 18 May 2012 entered into between our Company and HH Manufacturer, our Company has acquired Fibre Star’s entire issued and paid-up share capital of RM1,650,003 comprising 1,650,003 ordinary shares of RM1.00 each for a total purchase consideration of RM1,650,000 which was wholly satisfied by the issuance of 16,500,000 new Heng Huat Shares at par.

The purchase consideration of RM1,650,000 for the Acquisition of Fibre Star was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the unaudited NTA of Fibre Star of RM1,650,003 as at 18 May 2012.

The Acquisition of Fibre Star was completed on 16 June 2012.

Acquisition of Fibre Star Marketing

Heng Huat has on 18 May 2012 acquired 100% of the issued and paid-up share capital in Fibre Star Marketing comprising 3 ordinary shares of RM1.00 each for a total cash consideration of RM3.

The vendors of Fibre Star Marketing and their respective equity interests acquired by Heng Huat and the cash consideration that were issued to them pursuant to the Acquisition of Fibre Star Marketing are set out as follows:

Vendors	Numbers of Shares Acquired by Heng Huat	% of Issued and Paid-Up Share Capital	Cash Consideration RM
H'ng Choon Seng	1	33.33	1
Khor Mooi Kim	1	33.33	1
Teh Chai Luang	1	33.33	1

The purchase consideration of RM3 for the Acquisition of Fibre Star Marketing was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the unaudited NTA of Fibre Star Marketing of RM3 as at 18 May 2012.

5. INFORMATION ON OUR GROUP *(Cont'd)*

5.5 KEY ACHIEVEMENTS AND MILESTONES

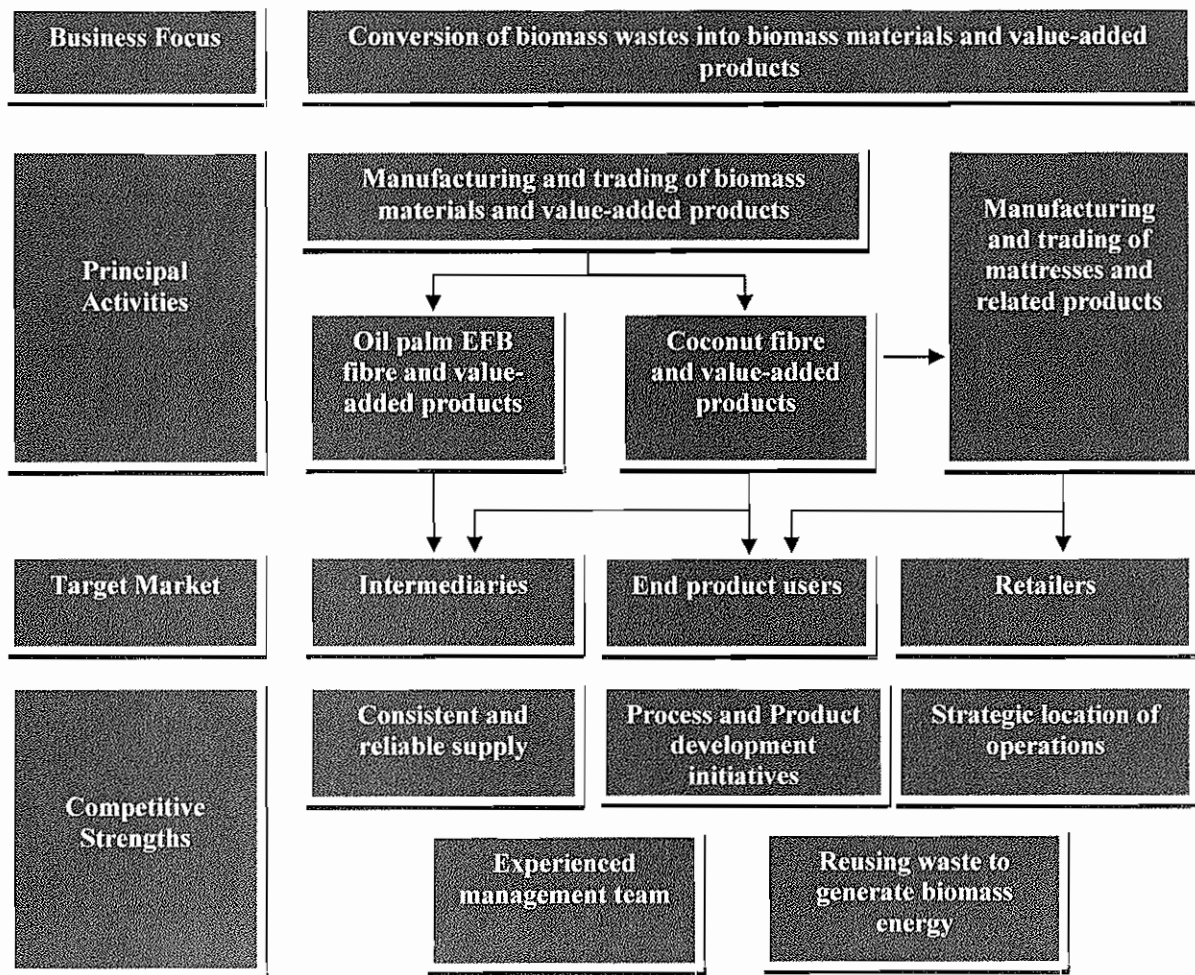
Our key achievements and milestones since inception are as follows:

Year	Key achievements and milestones
2007	<ul style="list-style-type: none"> Establishment of HK Fibre for the manufacturing of coconut fibre and coconut peat with two (2) production lines and a total monthly production capacity of 546 mt of coconut fibre. Establishment of HH Industries as an investment holding company for our biomass businesses.
2009	<ul style="list-style-type: none"> Ventured into the manufacturing of oil palm EFB fibre with the establishment of HK Palm Fibre – a collaboration with AKSB. It started with one (1) production line and a monthly production capacity of approximately 234 mt of oil palm EFB Fibre. Establishment of HK Kitaran for the manufacturing of oil palm EFB fibre with three (3) production lines and a total monthly production capacity of 1,560 mt of oil palm EFB fibre.
2010	<ul style="list-style-type: none"> HH Industries was awarded the Golden Bull Award for Emerging SMEs. HK Palm Fibre expanded its operations with additional seven (7) production lines and a total monthly production capacity of 2,106 mt of oil palm EFB fibre.
2011	<ul style="list-style-type: none"> HK Kitaran received a Certificate of Achievement for the SME 100 Award 2011 - Fast Moving Companies. HK Kitaran expanded its operations by acquiring a new factory with a built-up area of approximately 80,000 sq ft which is currently our head office cum production facility. We have then increased additional seven (7) production lines with a total monthly production capacity of 3,354 mt of oil palm EFB fibre. Establishment of Fibre Star for the manufacturing of mattresses and related products. Establishment of Fibre Star Marketing for the marketing of mattresses and related products.
2012	<ul style="list-style-type: none"> HK Kitaran was awarded ISO 9001:2008 certification for its quality management system in the manufacturing of oil palm EFB fibre. Fibre Star commenced production of mattresses and related products, while Fibre Star Marketing commenced operations as the marketing arm of Fibre Star. HK Kitaran installed two (2) additional production lines with a total monthly production capacity of 1,118 mt of oil palm EFB fibre. HK Kitaran ventured into the manufacture of Briquette by installing two (2) production lines with a total monthly production capacity of 3,016 mt of Briquette.

6. BUSINESS OVERVIEW

6.1 OUR BUSINESS MODEL

Our business model is depicted as follows:



6.2 PRINCIPAL ACTIVITIES

We are principally involved in the manufacturing, and trading of biomass materials and value-added products focusing on:

- (i) Oil palm EFB fibre and value-added products; and
- (ii) Coconut fibre and value-added products.

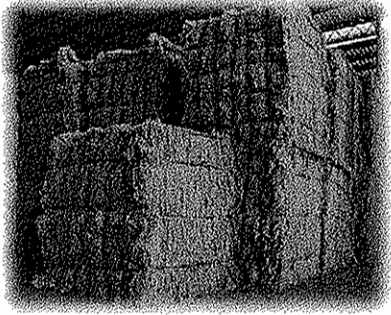
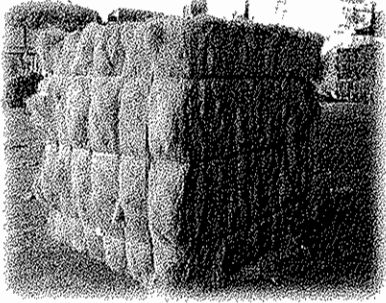

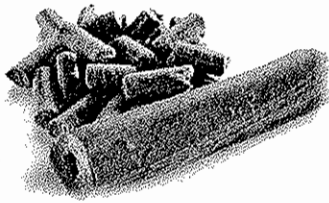
We are also a manufacturer and distributor of our own brands of mattresses and related products.

6.2.1 Biomass Materials and Value-Added Products

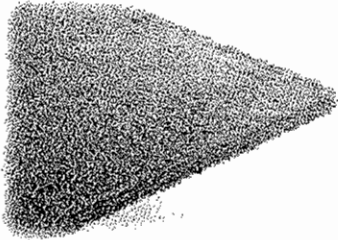
Our core competency is in the manufacturing and trading of biomass materials and value-added products through our subsidiary companies, HK Fibre, HK Kitaran and HK Palm Fibre. We are able to produce large quantities of oil palm EFB fibre of up to 8,372 mt per month, which are not only long, clean and fine, but also in uniformity through our self-designed and installed custom-built production lines.

6. BUSINESS OVERVIEW (Cont'd)

The biomass materials and value-added products that we currently produce comprise the following:

Biomass Materials and Value-Added Products	Specification	Applications
<p>Oil Palm EFB Fibre⁽¹⁾</p> 	<p>Length: >50mm Moisture content: ≤15% Impurity: <3% Oil content: <3% Quantity: 1x40 HC (17-20mt)</p>	<ul style="list-style-type: none"> • Mattress • Briquette • Geotextile • Paper pulp • Landscaping • Horticulture
<p>Coconut Fibre</p> 	<p>Length: >50mm Moisture content: <15% Impurity: <2% Quantity: 1x40 HC (17-18mt)</p>	<ul style="list-style-type: none"> • Coconut fibre sheet • Mattress • Geotextile • Paper pulp • Landscaping • Horticulture
<p>Coconut Peat⁽²⁾</p> 	<p>Weight: 8-10 kg per pack Moisture: < 30%</p>	<p>Alternative to peat moss</p> <ul style="list-style-type: none"> • Fertigation • Soil conditioning
<p>Briquette</p> 	<p>Size: 7 cm diameter Shape: Cylindrical Length: 50 mm to 300 mm Moisture: <12% Ash content: <3.79%</p>	<p>Alternative to firewood and charcoal</p> <ul style="list-style-type: none"> • Industrial boiler • Furnace • Kiln • Residential and commercial steam generation and heating purpose

6. BUSINESS OVERVIEW (Cont'd)

Biomass Materials and Value-Added Products	Specification	Applications
<p>Coconut Fibre Sheet</p> 	<p>Thickness:</p> <ul style="list-style-type: none"> Mattress fibre sheet: 8 mm - 10 mm Needle punched fibre sheet: 20 mm <p>Can be customised according to customers' requirements</p>	Mattress

Notes:

(1) The industry specification MS 1408:1997(P) for oil palm EFB fibre issued by the Department of Standards Malaysia, whereby compliance is on a voluntary basis, prescribes the following:

- (a) Moisture content: $\leq 15\%$
(b) Impurity: $\leq 15\%$
(c) Oil content: $\leq 3\%$

(2) Coconut peat is a by-product produced from the manufacture of coconut fibre.

Our biomass materials and value-added products contributed to approximately 73.43% of our Group's total revenue for the FYE 31 December 2013, of which 58.79% is contributed by our principal product, i.e. oil palm EFB fibre, while the remaining balance of 14.64% is contributed by other biomass materials and value-added products such as coconut fibre, coconut peat, coconut fibre sheet and Briquette.

6.2.2 Mattresses and Related Products

Pursuant to the Fibre Star Reorganisation as detailed in Section 5.4.2 of this Prospectus, Fibre Star commenced manufacturing mattresses and related products under the brands of 'Fibre Star®' and 'Xiong Mao®' on 16 June 2012. For the FYE 31 December 2013, revenue from the mattresses and related products division accounted for approximately 26.57% of our Group's total revenue.

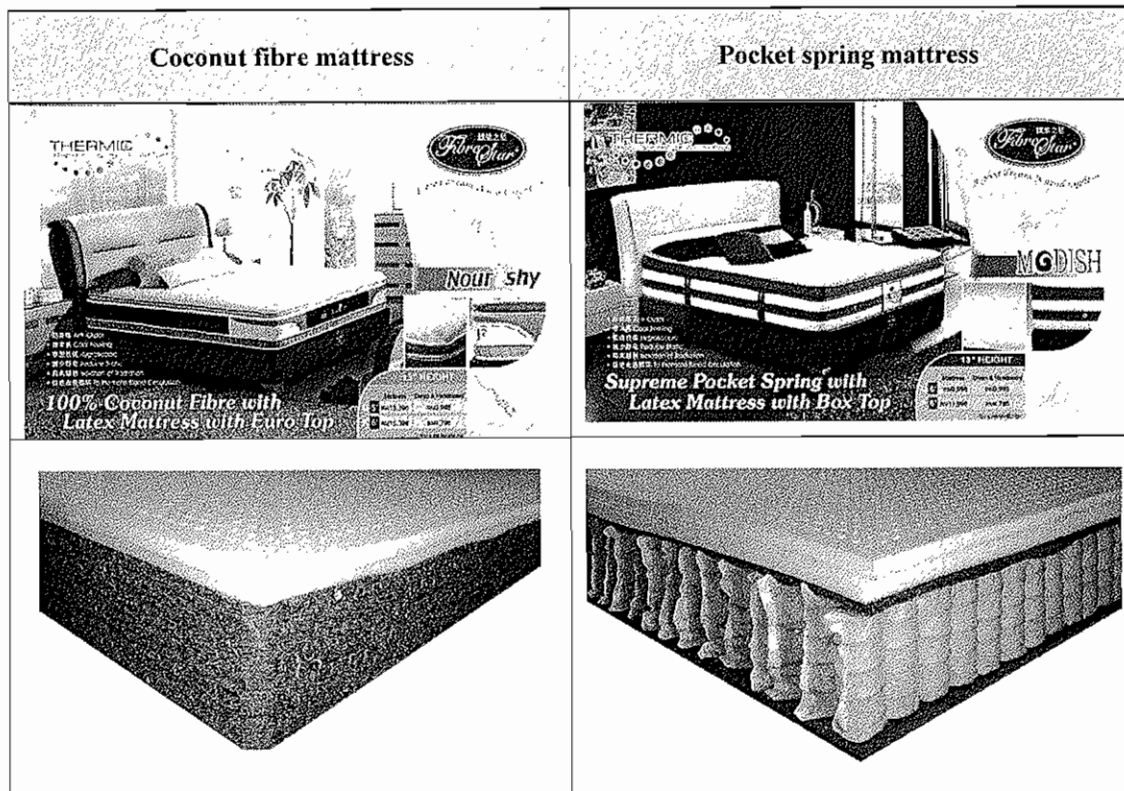
We offer a wide range of mattress in different sizes and dimensions suited towards our customers' preference under the brand of 'Fibre Star®'. We also produce related products such as pillow, bolster, cushion, cushion cover and mattress protector which are marketed under the brand of 'Fibre Star®' and 'Xiong Mao®', as well as divan and headboard to complement our 'Fibre Star®' mattresses series. Currently, we distribute all our fibre and other mattresses and related products to furniture retailers in Malaysia. We are also an OEM of fibre mattress for several local brands.

The principal types and series of mattresses which are produced by our Group and marketed under the brand of 'Fibre Star®' comprise the following:


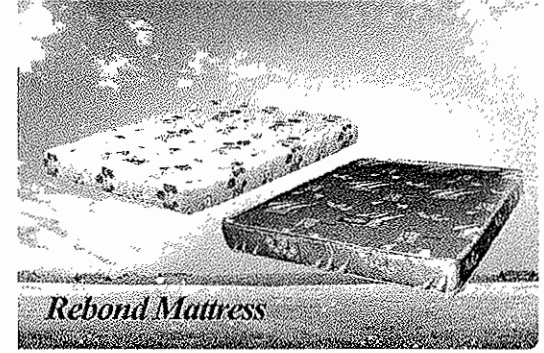
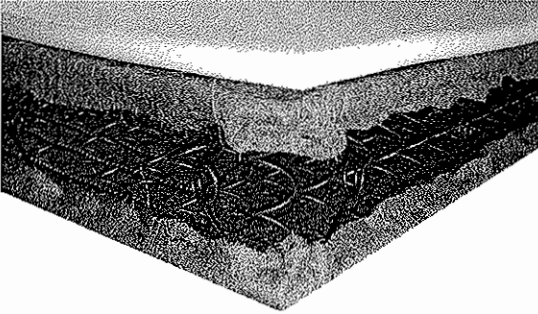
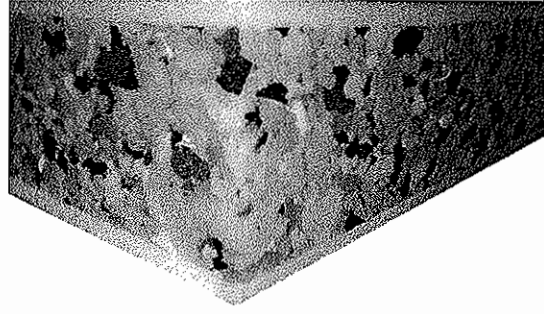

Type of Mattresses	Series
Coconut fibre mattress (Height)	(i) Romance fibre mattress (7") (ii) Palmira coconut fibre mattress with pillow top (9") (iii) Loiusa Fibre mattress with plus top (7") (iv) Dream coconut fibre mattress with pillow top (8") (v) Three foldable mattress (3")

6. BUSINESS OVERVIEW (Cont'd)

Type of Mattresses	Series
Pocket spring mattress (Height)	(i) Audra pocket spring with latex and box top mattress (13") (ii) Gene pocket spring with memory foam and latex mattress with euro top (13") (iii) Sapphire pocket spring mattress with pillow top (10") (iv) Delfina 2000 latex pocket spring mattress with pillow top (12")
Bonnell spring mattress (Height)	(i) Fullrest spring mattress (8") (ii) Hugo spring mattress with plus top (10") (iii) Caterina spring mattress (10") (iv) Scorpio spring mattress with pillow top (8") (v) Andria spring mattress with plus top (12")
Rebond mattress (Height)	(i) Rebond mattress (8") (ii) Rebond mattress QT-JG (8") (iii) Rebond mattress QT (8")
Hotel mattress (Length x height, spring type, fabric type)	(i) Fibre Star EG 1 (75"x9", 2.4 mm supreme spring coil with 5 turns inner spring, damask) (ii) Fibre Star EG 3 (75"x10", 2.4 mm elite spring coil with 5 turns free inner spring, knitted) (iii) Fibre Star TR (75"x10", 2.4 mm supreme spring coil with 5 turns inner spring, damask)



6. BUSINESS OVERVIEW (Cont'd)

Bonnel spring mattress	Rebond mattress
 <p>Bonnel Spring Mattress with Plus Top</p> <p><i>Fibre Star</i> A good dream is good health</p> <p>專為香港特別行政區設計 專為香港特別行政區設計 專為香港特別行政區設計 專為香港特別行政區設計 專為香港特別行政區設計</p> <p>專為香港特別行政區設計 專為香港特別行政區設計 專為香港特別行政區設計 專為香港特別行政區設計 專為香港特別行政區設計</p>	 <p>Rebond Mattress</p>
	
Hotel mattress*	
 <p>Fibre Star EG 1</p> <p>A good dream is good health</p> <p>Mattress Length: 75" (1905mm) Mattress Height: 6" (152mm) Spring: 2 1/2" x 3 1/2" pocket spring coil with 12 coils per foot (see www.fibre.com) Fibre: 100% wool Material: High class top layer EG 1 Fibre Star EG 1 Fibre Star Plus © 2004 FIBRE STAR (1997)</p> <p>www.fibre.com FIBRE STAR FIBRE STAR FIBRE STAR FIBRE STAR FIBRE STAR</p>	

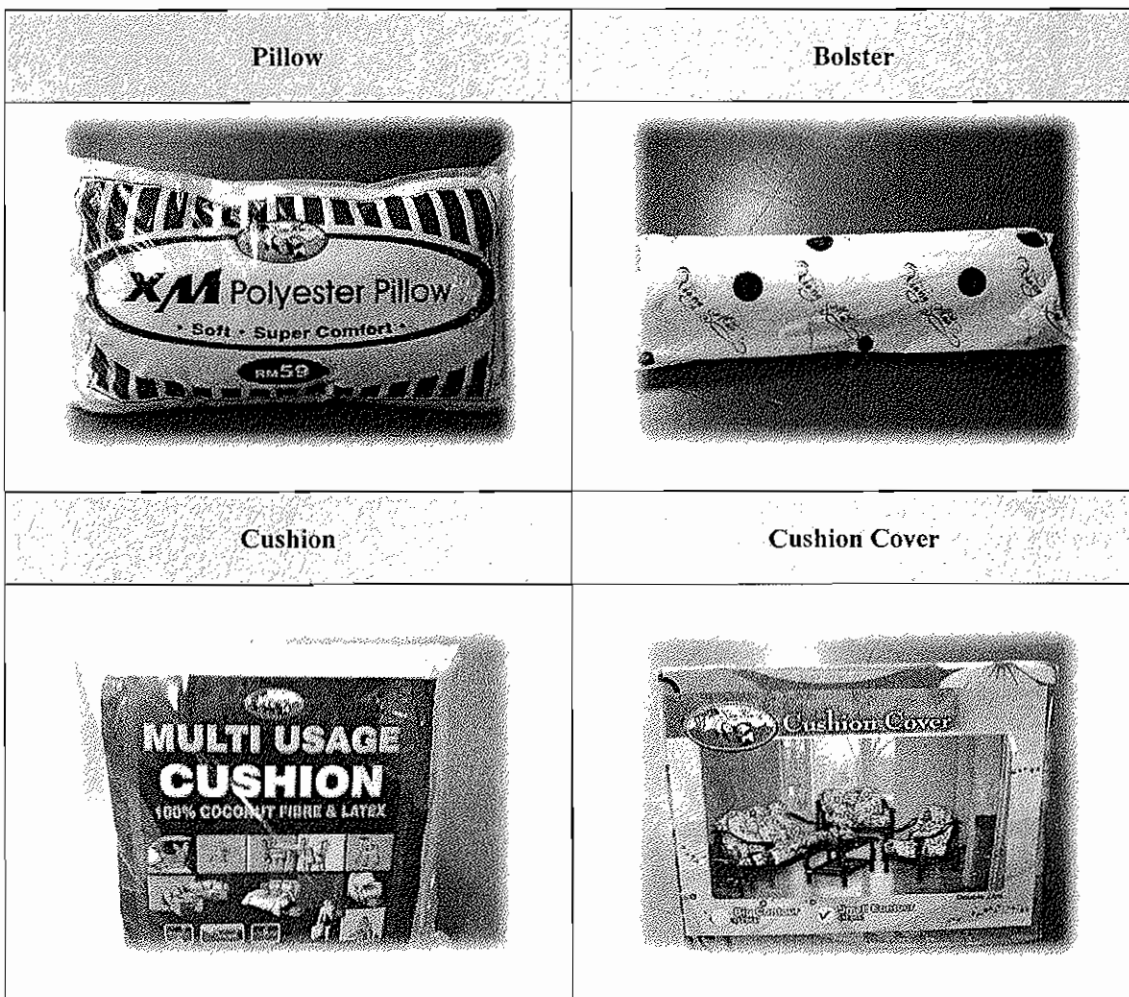
Note:

* Hotel mattresses are coconut fibre mattress, pocket spring mattress, bonnel spring mattress or rebond mattress supplied to hotels.

6. **BUSINESS OVERVIEW (Cont'd)**

The principal types and series of mattresses' related products which are offered by our Group and marketed under the brands of 'Fibre Star®' and 'Xiong Mao®' comprise the following:

Types of Products	Series	Brand
Pillow / Bolster	(i) Fibre Star pillow and bolster (ii) Savina pillow and bolster (iii) Xiong Mao pillow and bolster (iv) XM polyester pillow (v) Jungle Hole Pillow	Fibre Star® Fibre Star® Xiong Mao® Xiong Mao® Fibre Star®
Cushion/Cushion cover	(i) Contour cushion with cover (ii) Square cushion GK (iii) Square cushion JKR	Xiong Mao® Xiong Mao® Xiong Mao®



6. BUSINESS OVERVIEW (Cont'd)

6.3 PRINCIPAL MARKETS

Our principal markets comprise the local and China markets. Our revenue contribution by geographical location for the past three (3) FYE 31 December 2011 to 2013 is as follows:

	Pro Forma		Audited			
	FYE 31 December					
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Local:						
▪ End product users ⁽¹⁾	4,166	13.14	7,511	11.93	9,936	13.47
▪ Intermediaries ⁽²⁾	8,790	27.73	15,768	25.04	22,967	31.15
	12,956	40.87	23,279	36.97	32,903	44.62
Exports:						
▪ China - Intermediaries ⁽³⁾	18,746	59.13	39,590	62.88	40,719	55.22
▪ Singapore - Intermediaries	-	-	96	0.15	118	0.16
	18,746	59.13	39,686	63.03	40,837	55.38
Total Revenue	31,702	100.00	62,965	100.00	73,740	100.00

Notes:

- (1) End product users refer to the following:
- (i) Users of coconut peat such as farmers; and
 - (ii) Companies that are involved in manufacturing of products with our fibres, such as mattress manufacturers, and customers that purchase mattresses and related products during our occasional, one-off sale event such as warehouse sales, etc.
- (2) Intermediaries refer to companies that are involved in trading of our coconut and oil palm EFB fibre, i.e. trading houses.
- (3) Our oil palm EFB fibres were shipped directly to China via China intermediaries.

Further details of our distribution network are set out in Section 6.6.2 of this Prospectus.

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6. BUSINESS OVERVIEW *(Cont'd)*

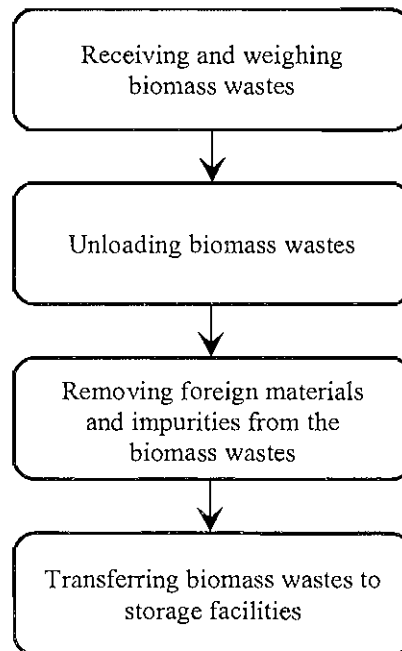
6.4 PRODUCTION PROCESS

Our production process, which are carried out in our Plant 1, Plant 2, Plant 3, Plant 5 and Plant 6, involves a series of thorough and controlled procedures. Stringent quality checks on all our products are conducted at every stage of the production process. The sub-sections below illustrate the production process for our principal products.

6.4.1 Biomass Materials Production Flow

Our biomass materials production can be divided into three (3) stages: material handling, production process and packing system.

(i) Material Handling

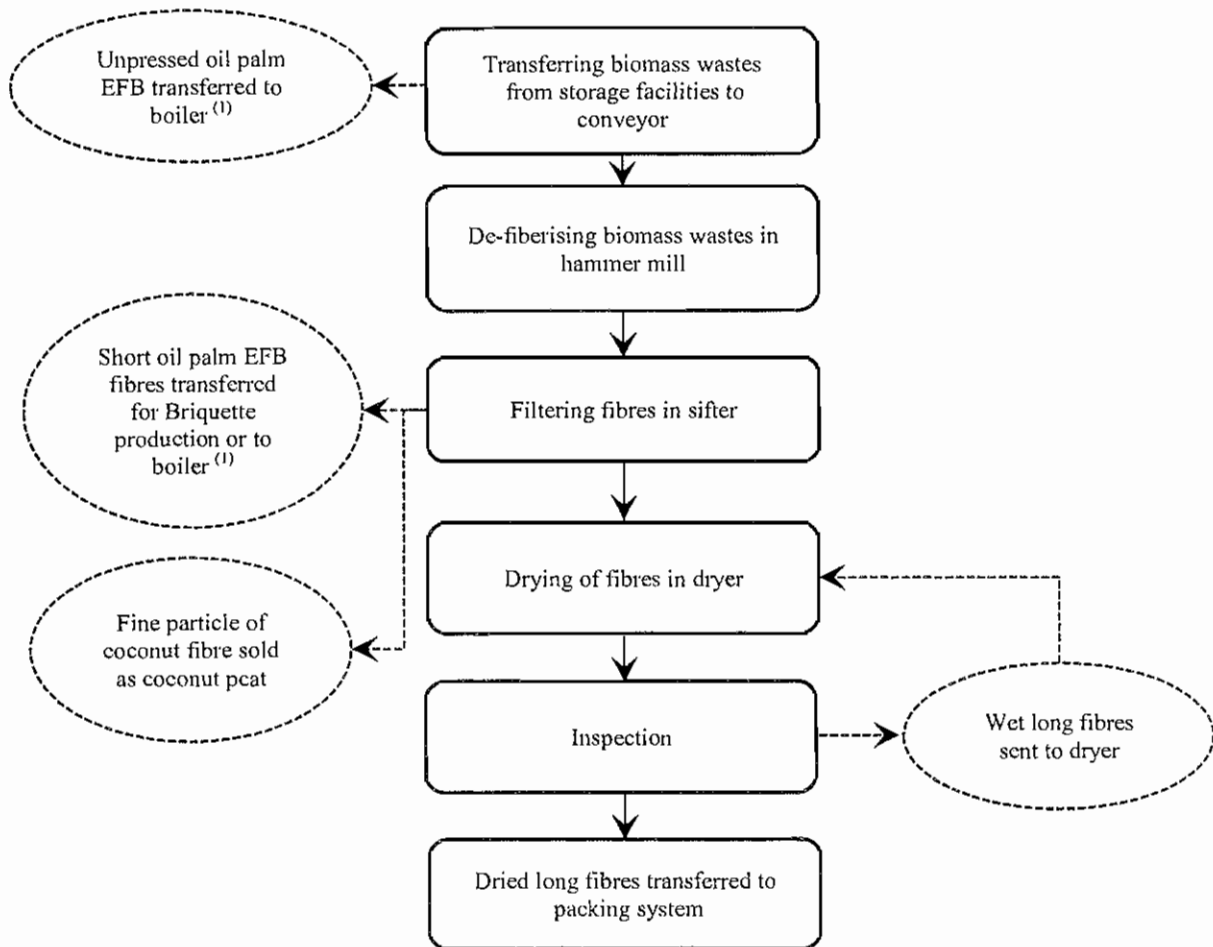


Material handling is the initial stage of our production process. Upon receiving biomass wastes, such as coconut husks and pressed oil palm EFBs from our suppliers, the biomass wastes are weighed to ensure that the incoming volume is accurate. The oil palm EFB biomass wastes that we receive from our suppliers have been pressed by our suppliers to facilitate our production process. The biomass wastes are then unloaded and visually inspected to remove the presence of any foreign materials or impurities.

Thereafter, the biomass wastes are transferred to our storage facilities before being transferred for subsequent processing as depicted in our production process as set out in Section 6.4.1(ii) of this Prospectus.

6. BUSINESS OVERVIEW (Cont'd)

(ii) Production Process

*Notes:*

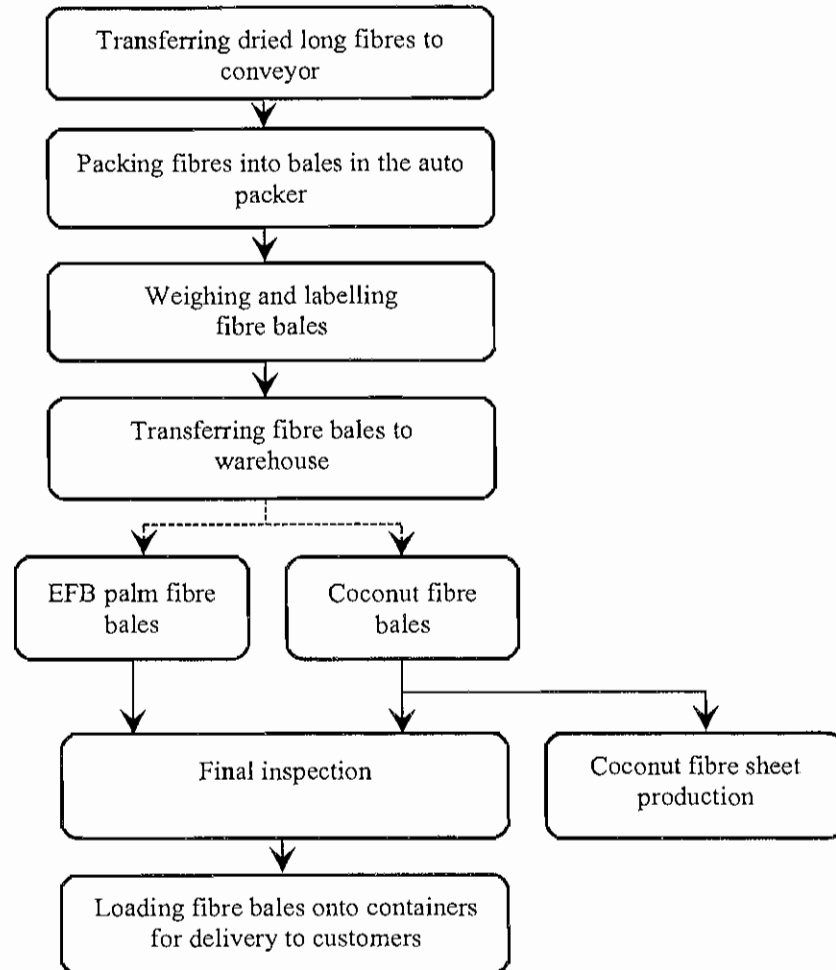
- (1) Boiler is used for power generation for our production process through incineration of unpressed oil palm EFB or rejected short oil palm EFB fibre.
- (2) Currently, approximately 60% of our short oil palm EFB fibres are used for production of Briquette and the remaining 40% for power generation through the boiler.

The operators transfer the biomass wastes from the storage facilities to the production area. While the biomass wastes are shovelled onto the conveyor, the operators will sort the biomass wastes for unpressed oil palm EFB, if any, which are sent to the boiler for power generation through incineration. The rest of the biomass wastes are led to the hammer mill by the conveyor to be de-fiberised. The de-fiberised biomass wastes are then transferred to the sifter, a machine that filters out short fibres. The short oil palm EFB fibres are transferred to storage facilities prior to being used primarily for the production of Briquette, and the remaining for power generation through the boiler⁽²⁾. Meanwhile, the fine particles of coconut fibres from the sifter are transferred to storage facilities prior to being packed and sold as coconut peat to our customers. The rest of the long fibres are sent to the subsequent drying process.

The long fibres are dried in the dryer, which allows us to control the temperature to ensure that the fibres are uniformly dried. Subsequently, the long fibres are inspected on its moisture content, whereby rejected wet fibres are sent to the dryer for re-drying. The dried long fibres are then transferred to the subsequent packing stage as depicted in Section 6.4.1(iii) of this Prospectus.

6. BUSINESS OVERVIEW (Cont'd)

(iii) Packing System

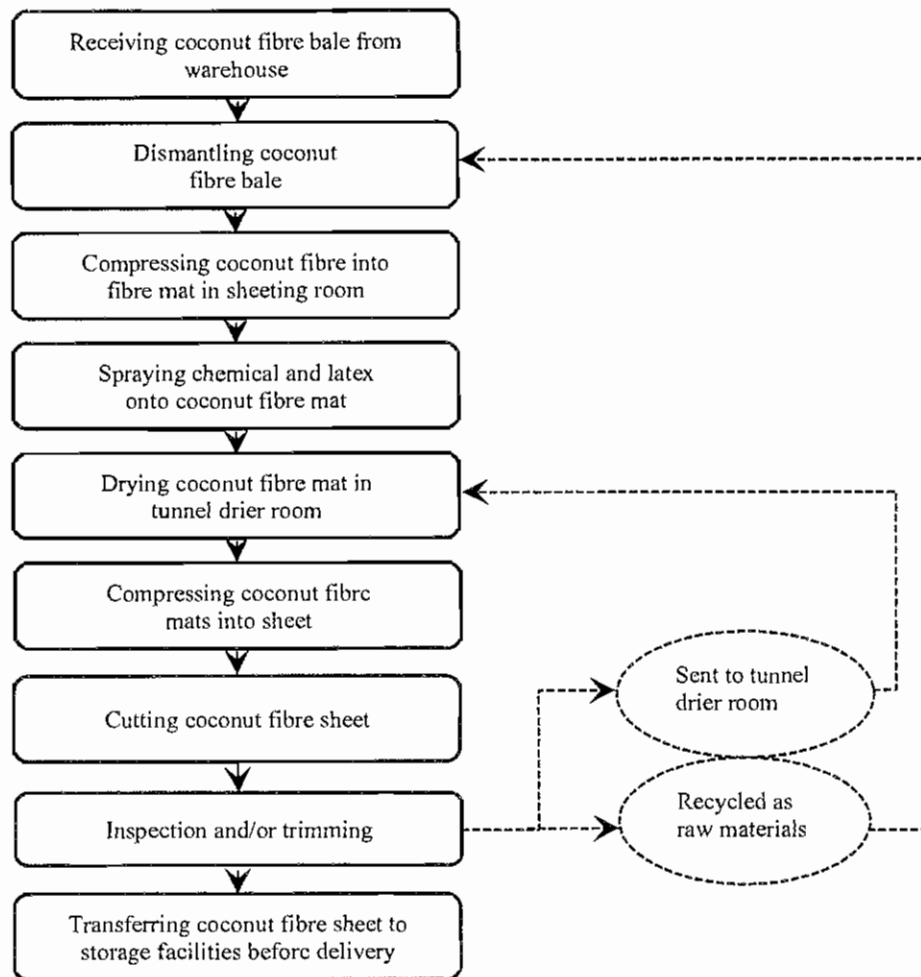


Packing system is the final stage of our coconut or EFB palm fibre production process. The dried long fibres are transferred to the conveyor before being packed into bales in the auto packer. Subsequent to the packing process, the fibre bales are weighed and labelled. Thereafter, the fibre bales, comprising both EFB palm fibre bales and coconut fibre bales, are transferred to our warehouse for storage before delivery to customers or for use in our coconut fibre sheet production as depicted in Section 6.4.2 of this Prospectus. The coconut fibre bales are primarily used for our coconut fibre sheet production, and the remaining sold to our customers. The EFB palm fibre bales and those remaining coconut fibre bales will go through a final inspection for correct weightage before loading onto containers for delivery to our customers.

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6. BUSINESS OVERVIEW (Cont'd)

6.4.2 Coconut Fibre Sheet Production Process



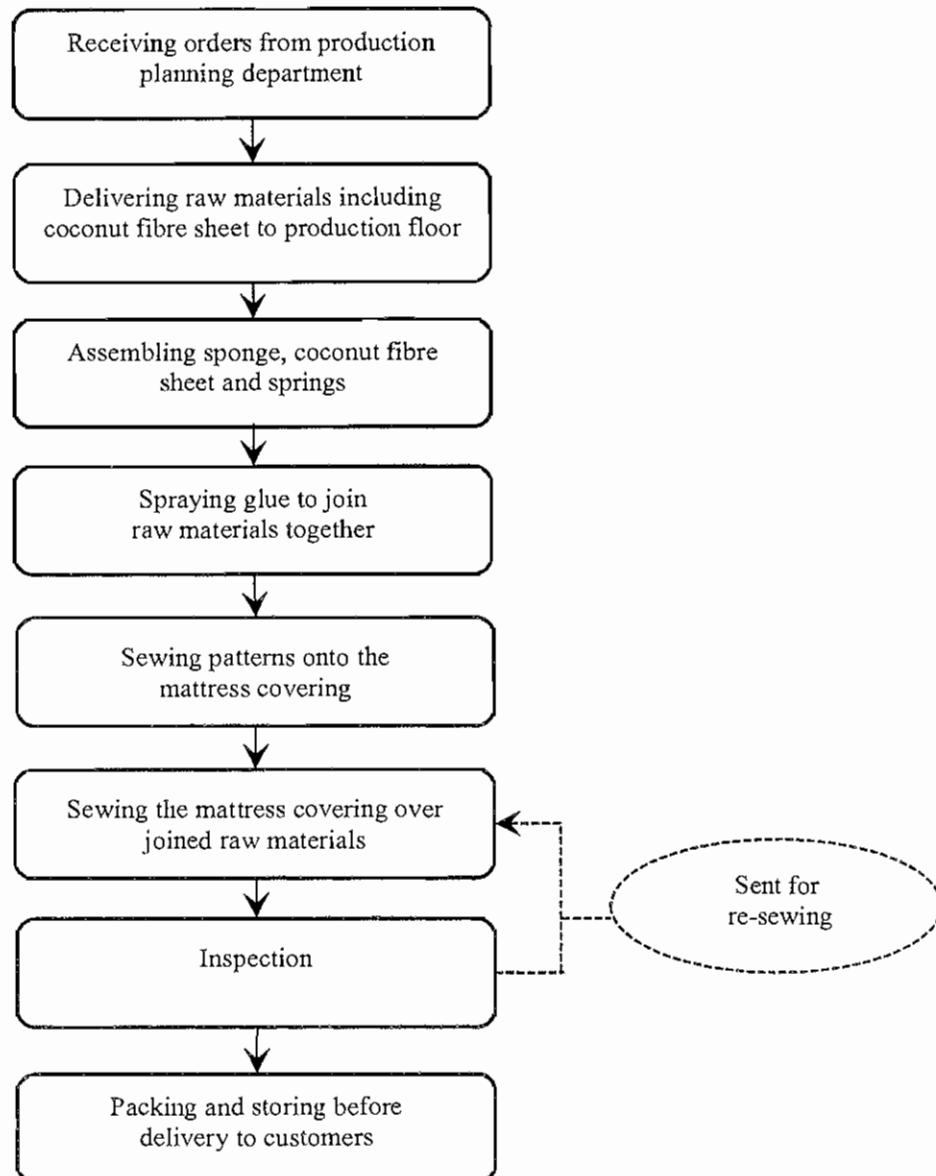
The process begins with receiving coconut fibre bale from our warehouse, which is then dismantled into loose fibre. The coconut fibre is then compressed into a thin layer of mat in the sheeting room. A certain mixture of chemical and latex are sprayed onto the coconut fibre mat as a form of adhesive to make the fibre mat more compact. The fibre mat is then sent to the tunnel drier room for drying. Subsequently, multiple pieces of coconut fibre mats are assembled together and compressed into a thicker sheet by a compressor machine. Thereafter, the coconut fibre sheet is cut into specific width, length and height according to our specifications or customers' preferences. The discarded edges of the cut coconut fibre sheet are recycled as raw materials for our coconut fibre sheet production. The coconut fibre sheet is then inspected for its moisture content, density, thickness and size. Any defects detected during the inspection process would either be:

- (a) Sent to the tunnel drier room for re-drying if the coconut fibre sheet does not meet the required moisture content; or
- (b) Recycled as raw materials if the coconut fibre sheet does not meet the density and/or thickness specifications, which is generally less than 1% of our coconut fibre sheet production. The defective coconut fibre sheet are sent for recycling as raw materials as and when it occurs, whereby the recycled fibres will be mixed together with new fibres from our warehouse. Thus, there is no limit to the number of times the coconut fibre sheet can be recycled as raw materials; or
- (c) Trimmed all around if the coconut fibre sheet does not meet the size specifications, to ensure greater accuracy to the size of the coconut fibre sheet.

After inspection, the coconut fibre sheet is sent to our storage facility before delivery to our customers.

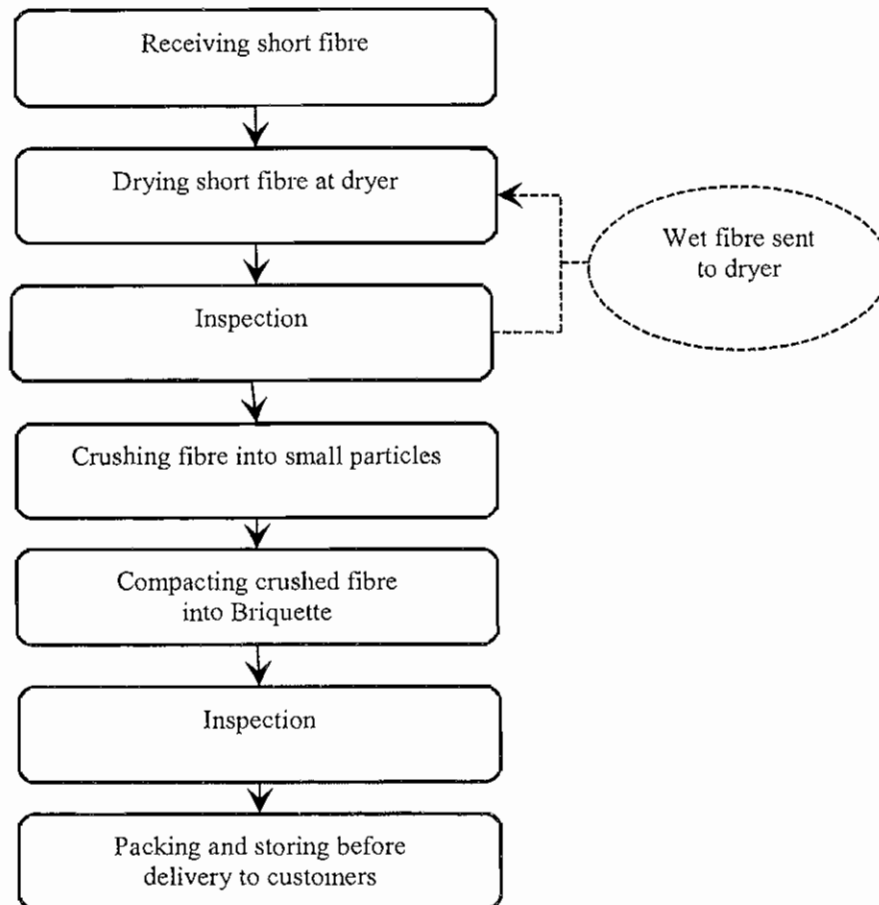
6. BUSINESS OVERVIEW (Cont'd)

6.4.3 Fibre Mattress Production Process



Our fibre mattress production begins with a planning schedule provided by the production planning department. The schedule is planned according to sales orders from our customers. The planning schedule is important because it helps to determine the amount of raw materials needed for our production and also the number of mattresses to produce so as to avoid over stocking. From the planning schedule, the store department will deliver the raw materials, including our manufactured coconut fibre sheet, to the production floor.

Firstly, the sponge, coconut fibre sheet and springs are assembled together. They are then joined together through the glue spraying process. Next, the covering for the mattress is produced with special patterns requested by our customers or our in-house designs sewn onto fabrics. Subsequently, the mattress covering are sewn over the joined materials to produce a mattress. Inspection is then carried out to ensure the overall cleanliness of the mattress and to detect any sewing defect, whereby any defects are sent for re-sewing. Once the inspection is completed, the mattress is packed and stored in our storage facility before delivery to our customers.

6. BUSINESS OVERVIEW (Cont'd)**6.4.4 Briquette Production Process**

The production process begins after receiving short fibre from our biomass materials production process as set out in Section 6.4.I(ii) of this Prospectus. The short fibre is first shovelled onto a conveyor and sent to the dryer to remove the moisture in the short fibre. Thereafter, the short fibre is sent for inspection, whereby any wet fibre detected will be sent to the dryer for re-drying. Next, the short fibre is conveyed to the crushing machine where the fibre is crushed into small particles. Subsequently, the crushed fibre is conveyed to the Briquette machine to produce Briquette by compacting the crushed fibre into high density and uniform Briquette. Samples of Briquette are regularly collected and sent for inspection on its size, moisture content and density, whereby lower grade Briquette (i.e. Briquette of shorter length, higher moisture content or lower density) will be supplied to the local market. After inspection, the Briquette is then packed into jumbo bag and sent to our storage facility before delivery to our customers.

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6. BUSINESS OVERVIEW (Cont'd)

6.5 PRODUCTION FACILITIES

6.5.1 Production Capacity

The monthly production capacity, average production output and utilisation levels for our production of biomass materials and value-added products, and mattresses for the past three (3) FYE 31 December 2011 to 2013 are as follows:

	<----- FYE 31 December ----->		
	2011	2012	2013
<u>Palm fibre</u>			
No. of production lines	18	20	20
Installed production capacity per month (mt) ⁽¹⁾	7,254	8,372	8,372
Average production output per month (mt) ⁽⁶⁾	3,748	6,041	6,200
Capacity utilisation rate (%)	51.67	72.16	74.06
<u>Coconut fibre</u>			
No. of production lines	2	2	2
Installed production capacity per month (mt) ⁽²⁾	546	546	546
Average production output per month (mt) ⁽⁷⁾	312	303	290
Capacity utilisation rate (%)	57.14	55.49	53.11
<u>Coconut fibre sheet</u>			
No. of production lines	-	2	2
Installed production capacity per month (meters) ⁽³⁾	-	312,000	312,000
Average production output per month (meters) ⁽⁸⁾	-	87,717	102,587
Capacity utilisation rate (%)	-	28.11	32.88
<u>Briquette</u>			
No. of production lines	-	-	2
Installed production capacity per month (mt) ⁽⁴⁾	-	-	3,016 ⁽⁹⁾
Average production output per month (mt) ⁽⁸⁾	-	-	1,000
Capacity utilisation rate (%)	-	-	33.16
<u>Mattresses</u>			
Installed production capacity per month (pieces) ⁽⁵⁾	-	15,600	15,600
Average production output per month (pieces) ⁽⁸⁾	-	4,014	4,327
Capacity utilisation rate (%)	-	25.73	27.74

Notes:

- (1) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of approximately 11.63 mt per hour for the FYE 31 December 2011 and 13.42 mt per hour for the FYE 31 December 2012 and 2013.
- (2) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of approximately 0.88 mt per hour for the FYE 31 December 2011 to 2013.
- (3) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of 500 meters per hour for the FYE 31 December 2012 and 2013.
- (4) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of approximately 4.83 mt per hour for the FYE 31 December 2013.
- (5) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of 25 pieces per hour for the FYE 31 December 2012 and 2013.
- (6) Currently runs on two (2) 12-hour shifts per day for 26 days a month.
- (7) Currently runs on one (1) 10-hour shift per day for 26 days a month.
- (8) Currently runs on one (1) 8-hour shift per day for 26 days a month.
- (9) The Briquette production lines were installed in the fourth quarter of 2012 and commenced commercial production in January 2013.

6. BUSINESS OVERVIEW (Cont'd)

6.5.2 Our Material Equipment

The details of our material equipment are as follows:

Equipment	No. of Units/ Lines	Description	Audited NBV as at 31 December 2013 RM'000
<u>HK Fibre</u>			
Coconut fibre and coconut peat production line	2	To produce coconut fibre and coconut peat	382
Packing machine	6	To compress and pack the fibre into bale form	292
Rice husk burner	1	To generate heat for drying the fibre	41
Fibre sheet manufacturing machine	2	To produce coconut fibre sheet	3,196
			3,911
<u>HK Palm Fibre</u>			
Oil palm EFB fibre production line	8	To produce oil palm EFB fibre	2,080
Feeder	1	To transfer oil palm EFB to hammer mill	115
Packing machine	2	To compress and pack the fibre into bale form	441
Steam boiler	1	To generate heat for drying the fibre	1,077
			3,713
<u>HK Kitaran</u>			
Oil palm EFB fibre production line	12	To produce oil palm EFB fibre	5,358
Feeder	2	To transfer oil palm EFB to hammer mill	1,509
Packing machine	3	To compress and pack the fibre into bale form	265
Weighing apparatus	4	To weigh the bale	258
Steam boiler	3	To generate heat for drying the fibre	2,934
Briquette production line	2	To produce Briquette	8,150
			18,474
<u>Fibre Star *</u>			
Foaming machine	1	To produce foam mattresses, cushion and pillow	649
Spring mattress manufacturing machine	3	To produce spring mattress	139
Rebond mattress manufacturing machine	1	To produce rebond mattress	36
Quilting	2	To sew pattern and design on the cover of the mattress	222
Sewing machine	19	To sew the cover of the mattress	24
Other equipment	32	Including saws, spray guns, etc.	94
			1,164

Note:

* Pursuant to the Acquisition of Assets from HH Manufacturer, the equipment has been acquired by Fibre Star at the realisable value with effect from 16 June 2012.

6. BUSINESS OVERVIEW (Cont'd)

6.6 MARKETING AND DISTRIBUTION NETWORK

As at the LPD, we have two (2) dedicated sales and marketing teams collectively comprising seventeen (17) sales and marketing personnel. They are responsible for the sales, marketing and business development of our biomass products, and mattresses and related products respectively. Both teams are led by our Executive Director, Teh Chai Luang.

6.6.1 Marketing Strategies

We have initiated the following marketing strategies to sustain and expand our business:

(i) Marketing activities

The main marketing activities undertaken by the companies within our Group, namely HK Fibre, HK Kitaran, HK Palm Fibre and Fibre Star Marketing to promote our biomass products as well as our 'Fibre Star®' and 'Xiong Mao®' in-house brands and products are as follows:

(a) Advertising

We market and advertise through various medium including:

- Billboards in commercial districts or along the highway;
- Leaflets, pamphlets, newspaper and magazines; and
- Information on our Group and our products on our website.

(b) Tradeshows and exhibition

As at the LPD, we have participated in various tradeshows and exhibition including:

Event	Products and Brands Marketed	Location	Year
Penfumex Exhibition	Furniture and related products	Penang, Malaysia	2010
Export Furniture Exhibition	Furniture and related products	Kuala Lumpur, Malaysia	2010
Penang Furniture Exhibition	Furniture and related products	Penang, Malaysia	2011
Export Furniture Exhibition	Furniture and related products	Kuala Lumpur, Malaysia	2011
Penang Furniture Exhibition	Furniture and related products	Penang, Malaysia	2012
Export Furniture Exhibition	Furniture and related products	Kuala Lumpur, Malaysia	2012
Penang Furniture Exhibition	Furniture and related products	Penang, Malaysia	2013
Malaysia Services Exhibition 2013	Biomass materials and value-added products	Doha, Qatar	2013
10 th The Incorporated Society of Planters ("ISP") National Seminar 2013	Biomass materials and value-added products	Kuala Lumpur, Malaysia	2013

6. BUSINESS OVERVIEW (Cont'd)

Event	Products and Brands Marketed	Location	Year
BalticBuild 2013	Biomass materials and value-added products	Saint Petersburg, Russia	2013
The Big 5 International Building and Construction Show 2013	Biomass materials and value-added products	Dubai, United Arab Emirates	2013
Mosbuild 2014	Biomass materials and value-added products	Moscow, Russia	2014
Palmex Malaysia 2014	Gcotextile	Sandakan, Malaysia	2014
2014 ISP North Sarawak Branch Seminar	Gcotextile	Miri, Malaysia	2014

Some of our other marketing activities include:

- Organising visits to our factories for potential customers; and
 - Conducting regular sales visits to potential customers.
- (ii) Understanding our customers' demand trend and matching our biomass materials and value-added products supply allocation to these trends;
- (iii) Continuous provision of customer services, including after-sales services to foster customer loyalty and be the preferred biomass products supplier of our customers;
- (iv) Developing new business opportunities with existing and potential customers by way of referrals; and
- (v) Keeping abreast of new processes and technological development in the biomass industry to better meet our customer's requirements.

6.6.2 Distribution Network

Our distribution network for the past three (3) FYE 31 December 2011 to 2013 are as follows:

	No. of Customers FYE 31 December								
	2011			2012			2013		
	Interme- diaries	End Users	Total	Interme- diaries	End Users	Total	Interme- diaries	End Users	Total
Local									
▪ Northern region	13	13	26	416	28	444	519	34	553
▪ Central region	4	-	4	264	19	283	374	37	411
▪ Southern region	1	-	1	80	3	83	172	2	174
▪ East Coast region	-	66	66	128	50	178	170	34	204
▪ East Malaysia	-	-	-	14	3	17	24	5	29
	18	79	97	902	103	1,005	1,259	112	1,371
Overseas	13	-	13	17	-	17	10	-	10
Total	31	79	110	919	103	1,022	1,269	112	1,381

(i) Oil palm EFB fibre

Our oil palm EFB fibre is distributed through a network of local and China intermediaries.

6. BUSINESS OVERVIEW *(Cont'd)*

(ii) Coconut fibre, coconut fibre sheet and coconut peat

For the FYE 31 December 2013, we consumed approximately 83.54% of our coconut fibre to produce coconut fibre sheet for our mattress manufacturing business, while the remaining balance of 16.46% was supplied to China intermediaries.

Our coconut peat is distributed through local intermediaries and directly to the local end users.

(iii) Briquette

For the FYE 31 December 2013, approximately 89.21% of our Briquette was supplied to the local market, while the remaining balance of 10.79% was supplied to China intermediaries.

(iv) Mattresses and related products

We distribute our mattresses and related products through local retailers to the end users, except for occasional one-off sales event such as warehouse sales, where it would be sold directly to end consumers.

6.7 SEASONALITY

Save for oil palm EFB fibre, our biomass materials and value-added products are not significantly affected by seasonal/cyclical effects. Demand for our oil palm EFB fibre experience a decline during the Chinese New Year season mainly due to a slowdown in logistics services in China during this period as some of these logistics services are closed during the festive season.

We typically experience higher sales of mattresses and related products prior to major festive season such as Chinese New Year and Hari Raya in tandem with the expected increase in household spending for such items during such periods.

6.8 TECHNOLOGY USED

The production lines used for our biomass materials and value-added products manufacturing operations are custom-built according to our design and specifications arising from our process development initiative as detailed in Section 6.10.1 of this Prospectus.

The machineries used for the production of our biomass materials and value-added products include:

- (i) Coconut and oil palm EFB fibres: feeding conveyor, hammer mill, sifter, dryer, packing machine, weighbridge and boiler;
- (ii) Coconut fibre sheet: fibre separator, conveyor, rolling dryer, press dryer, feeding blower, needle punching machine, press hot roller, puller machine and cutting machine; and
- (iii) Briquette: feeding conveyor, dryer, crusher, briquetting machine.

Our Group also commenced the production of mattresses and related products in June 2012. The production process of mattresses and related products is labour intensive, particularly more so for coconut fibre mattress. The machineries used for the production of mattresses and other products include:

- (i) Foam mattress: foaming machine;
- (ii) Spring mattress: spring mattress manufacturing machine;
- (iii) Rebond mattress: rebond mattress manufacturing machine;

6. BUSINESS OVERVIEW (Cont'd)

- (iv) Cushion, pillow and bolster: foaming machine; and
- (v) Mattress cover: quilting machine, sewing machine.

The application of these machineries in our production processes are detailed in Section 6.4 of this Prospectus.

6.9 QUALITY ASSURANCE

We place strong emphasis on the quality of all products produced and are committed towards ensuring a consistent and reliable supply to our customers according to their requirements. We continually seek to uphold the quality of our products, particularly our biomass products, whereby our subsidiary company, HK Kitaran was accredited with the ISO 9001:2008 in April 2012 for its commitment to quality.

Our entire production process including material handling, fibre production and packing system goes through proper quality checks at various critical points to ascertain that our product quality remain consistent throughout. Please refer to Section 6.4 of this Prospectus for details of our production processes.

In addition, we check all in-coming raw materials to ensure that the materials meet pre-determined standards and to reject materials that do not meet specification.

6.10 PROCESS AND PRODUCT DEVELOPMENT

Although we do not perform any research and development, we have been focusing on our process and product development initiatives in order to, among others:

- Improve the efficiency of our production process and product quality;
- Minimise wastage during the production process;
- Commercialise production of new products; and
- Keep abreast of technologies.

Our process and product development initiatives are spearheaded by our Deputy Managing Director, Kee Swee Lai, who is supported by our Process Development Engineer, Ch'ng Chee Yeong, and other key production personnel.

6.10.1 Process Development Milestones and Achievements

(i) Design and customisation of coconut fibre production machinery

Our co-founder, H'ng Choon Seng, initially relied on the sun to dry coconut fibres. Due to limitations on production capacity arising from, among others, weather fluctuations, H'ng Choon Seng together with Kee Swee Lai began researching on the techniques and testing to automate the drying process.

In 2007, they successfully designed and installed a custom-built dryer that enables coconut fibre to be air-dried in a controlled environment and ensures greater control over the quality of the coconut fibre. This facilitated large scale production of coconut fibre with consistent quality.

6. BUSINESS OVERVIEW (Cont'd)

(ii) Design and customisation of oil palm EFB fibre production machinery

Due to limited expansion opportunities for our coconut fibre production as a result of limited supply of coconut husks, we began testing and redesigning our coconut fibre manufacturing machinery, particularly the hammer mill and boiler, to cater for the manufacturing of oil palm EFB fibre. The redesign of our production machinery was necessary due to the different properties of oil palm EFB, which is softer, contains oil and more moisture, and of a shorter length, as compared to coconut husk. This eventually led to our successful venture into large scale production of oil palm EFB fibre in 2010.

(iii) Process Improvement

Notwithstanding the successful development of our coconut and oil palm EFB fibres production machineries, we continue focusing on our process development initiatives to improve the efficiency of our production process. This led us to link and streamline our production into one continuous process in order to reduce waste and increase our production capacity. Arising from this, the monthly production capacity of an existing oil palm EFB fibre production line was increased from 234 mt in 2009 to 390 mt at the end of 2010.

(iv) Product Improvement

Prior to the introduction of Briquette as our product offering, we have conducted extensive product development and improvement initiatives to the said product. We successfully improved the density of our Briquette from 500kg/m³ to 704kg/m³ by March 2012. Subsequently to this, further improvements were made to the moisture content and the density of our Briquette. By June 2012, we managed to lower the moisture content from 25 percent to 15 percent, and further increased the density of our Briquette from 704kg/m³ to 1,080kg/m³. Further improvements were made to our Briquette in September 2012 whereby its density was increased from 1,080kg/m³ to 1,167kg/m³. We subsequently commenced commercial production of our Briquette in January 2013.

(v) Product Development

Through our continuous product development efforts to widen our product range, we are currently exploring the introduction of Geotextile, a value-added product, as part of our product offering. Accordingly, we have installed one (1) production line with a monthly capacity of 500 mt of Geotextile in Plant 2 as part of our development effort in the manufacturing of Geotextile. Further details on the product development are as disclosed in Section 6.18.1(i) of this Prospectus.

6.11 COMPETITIVE STRENGTHS

We possess a number of key competitive strengths which enable us to compete effectively in our principal markets and provide us with a strong platform to facilitate the continued sustenance of our business expansion and future growth as follows:

(i) Consistent and Reliable Supply

Over the years, we have developed and installed additional production lines which enabled us to provide our customers with consistent, reliable and large quantities of biomass materials. As at the LPD, we have two (2) coconut fibre production lines and twenty (20) oil palm EFB fibre production lines with a total monthly production capacity of 546 mt and 8,372 mt respectively. Our sizeable production capacity coupled with our ability to efficiently and effectively produce biomass materials with consistent quality throughout the year have enabled us to penetrate the overseas market.

6. BUSINESS OVERVIEW (Cont'd)

(ii) Process and Product Development Initiatives

Since our establishment in 2007, we have been focusing on our process and product development initiatives which are spearheaded by our Deputy Managing Director, Kee Swee Lai. Our process development initiatives have led us to design and install our custom-built production lines, which enabled us to commence large-scale production of coconut fibre and oil palm EFB fibre in 2007 and 2010 respectively.

In addition, our process development initiatives have also enabled us to improve our biomass materials and value-added products quality which led to an increase in demand for our biomass materials and value-added products, as well as improve our production efficiency which led to lower cost of production.

Through our continuous process development initiatives, we expect to commence large-scale production of other value-added biomass products as well as further improve our biomass materials quality and production efficiency. Further, through our product development initiatives, we have ventured into the production of Briquette using short oil palm fibre since the fourth quarter of 2012, and is currently exploring the introduction of Geotextile as detailed in Section 6.18.1(i) of this Prospectus.

(iii) Strategic Location of Operations

Our biomass production facilities are situated strategically within the vicinity of multiple oil palm plantations and palm oil mills, which assure us of a sustained and scalable supply of raw materials at lower transportation cost for our production process. In addition, our subsidiary company, HK Kitaran operates within close proximity to Penang Port (approximately 45km) which enables us to have convenient access to shipping services for the export of our oil palm EFB fibre to our China customers.

By locating ourselves strategically, we are able to obtain our raw materials at a lower cost, which ultimately enable us to offer our manufactured biomass materials to our customers at a competitive price.

(iv) Experienced Management Team

Our co-founders, H'ng Choon Seng and Kee Swee Lai, who collectively have an average of 28 years of experience in the furniture as well as biomass materials and value-added products industries, have played pivotal roles in the growth and development of our Group since our inception in 2007.

In addition, our co-founders are supported by our ten (10) key management and key technical personnel, comprising of staff with diverse backgrounds and experience in various industries, including manufacturing and marketing. Their different expertise, experience and ability to collaborate as a team have contributed positively to our operations and growth, which is reflected in our financial performance over the past few years.

(v) Reusing Waste to Generate Biomass Energy

We reuse waste (by-products from our biomass materials production such as foreign waste materials and short fibres) to generate biomass energy. The biomass energy is then used to supplement the power needs of the manufacture of our biomass materials and value-added products. This has resulted in substantial cost savings and has reduced our reliance on firewood, which in turn has reduced our overall cost of production and improved our profit margin.

6. BUSINESS OVERVIEW (Cont'd)

6.12 MAJOR CUSTOMERS

Our major customers (those who contributed 10% or more of our total sales) for the past three (3) FYE31 December 2011 to 2013 are as follows:

Customer	Type of Products Sold	Approximate Length of Relationship Years	FYE 31 December					
			2011		2012		2013	
			RM'000	%	RM'000	%	RM'000	%
Total revenue			31,702	100.00	62,965	100.00	73,740	100.00
Chongqing Justit Industries Co., Ltd	Oil palm EFB fibre	3	4,059	12.81	7,436	11.81	-	-
Jiahua Global (M) Sdn Bhd	Oil palm EFB fibre	5	3,761	11.86	1,337	2.13	106	0.14
L&PC International Ltd	Oil palm EFB fibre	3	3,412	10.76	2,443	3.88	-	-
Guangzhou Yuetai Trade Co Ltd	Oil palm EFB fibre	2	-	-	11,331	18.00	-	-
Shenzhen Yuemao Imports & Exports Co., Ltd ("Shenzhen Yuemao")	Oil palm EFB fibre	2	-	-	12,918	20.52	22,224	30.14
Total			13,579	42.83	35,465	56.34	22,330	30.28
Total no. of customers								
▪ Biomass materials and value-added products			110		147		139	
▪ Mattresses and related products			-		875		1,242	
			110		1,022		1,381	

For the FYE 31 December 2013, our major customer, Shenzhen Yuemao contributed to approximately 30.14% of our Group's total revenue. To mitigate the risk of dependency on our major customers, we have been continuously increasing our marketing efforts to expand our customer base. Our customers for biomass materials and value-added products have increased from 91 customers in 2009 to 139 customers in 2013, while pursuant to the Fibre Star Reorganisation, we have garnered a total of 875 customers for our mattresses and related products division which has increased to 1,242 customers in 2013. Further, we have eight (8) other China intermediaries in our customer base for the FYE 31 December 2013 and as such, we are not dependent on Shenzhen Yuemao or any particular intermediary to supply our oil palm EFB fibre and value-added products to China.

6. BUSINESS OVERVIEW (Cont'd)

6.13 SUPPLIERS

6.13.I Types, Sources and Availability of Materials

The breakdown of our major raw materials purchases, which are all sourced locally, for the past three (3) FYE 31 December 2011 to 2013 are as follows:

Type of Materials	2011		2012		2013	
	Purchases RM'000	% of Group Purchases	Purchases RM'000	% of Group Purchases	Purchases RM'000	% of Group Purchases
<u>Biomass Materials and Value-Added Products</u>						
Coconut husks	1,071	23.30	1,666	11.96	1,640	10.58
Oil palm EFB	2,604	56.66	4,596	33.00	3,848	24.81
Chemicals ⁽¹⁾	-	-	1,707	12.26	1,291	8.32
	3,675	79.96	7,969	57.22	6,779	43.71
<u>Mattresses and Related Products</u>						
Foam and span	-	-	1,205	8.65	2,243	14.46
Chemicals	-	-	800	5.75	1,690	10.90
Fabric	-	-	974	7.00	1,276	8.23
Others ⁽²⁾	-	-	1,531	10.99	1,824	11.77
	-	-	4,510	32.39	7,033	45.36
Packing materials ⁽³⁾	921	20.04	1,447	10.39	1,695	10.93
Total	4,596	100.00	13,926	100.00	15,507	100.00

Notes:

- (1) Chemicals are used in the production of coconut fibre sheet as a form of adhesive to make the fibre sheet more compact.
- (2) Others include spring, divan and headboard, wire, wood, mattress tape, latex, polyester, pongee and other accessories.
- (3) Packing materials are used for the packing of both biomass materials and value-added products as well as mattresses and related products.

The purchase prices of these raw materials have remained fairly stable over the past three (3) years from FYE 31 December 2011 to 2013. In the event that our raw materials costs increase substantially, we are able to pass on the costs to our customers. We have not experienced any major difficulty in sourcing for our raw materials as our production facilities are situated strategically within the vicinity of multiple oil palm plantations and palm oil mills.

6. BUSINESS OVERVIEW *(Cont'd)*

6.13.2 Major Suppliers

Our major suppliers (those who contributed 10% or more of our total purchases) over the past three (3) FYE 31 December 2011 to 2013 are as follows:

Supplier	Type of Materials Purchased	Approximate Length of Relationship Years	FYE 31 December					
			2011		2012		2013	
			RM'000	%	RM'000	%	RM'000	%
Total purchases			4,596	100.00	13,926	100.00	15,507	100.00
AKSB	Oil palm EFB	4	897	19.52	636	4.57	191	1.23
Yip Shun Trading Sdn Bhd	Oil palm EFB	3	772	16.80	701	5.03	664	4.28
Total			1,669	36.32	1,337	9.60	855	5.51
Total no. of suppliers			41		129		134	

AKSB and Yip Shun Trading Sdn Bhd are our major suppliers who accounted for 19.52% and 16.80% respectively of our total purchases for the FYE 31 December 2011. However, for the FYE 31 December 2012 and 2013, we do not have any major suppliers who contributed 10% or more of our Group's total purchases.

We are of the opinion that maintaining a diversified supplier base for our raw materials mitigates our dependence on any single suppliers and have increased our supplier base from 15 suppliers in 2009 to 134 suppliers in 2013. The significant increase in our supplier base for the FYE 31 December 2012 and 2013 was mainly due to the inclusion of supplier base from our mattresses and related products division pursuant to the Fibre Star Reorganisation.

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6. BUSINESS OVERVIEW (Cont'd)

6.14 MAJOR LICENCES, PERMITS AND REGISTRATIONS

Our major licences, permits and registrations as at the LPD together with the conditions attached and the status of compliance are as follows:

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/Permit/Certification	Conditions Imposed	Status of Compliance
HK Fibre	MITI	14.10.2013	01.04.2012 to 31.05.2017	Pioneer Certificate No. 4344 (for 70% tax exemption on statutory income for 5 years for pioneer activity involving coconut fibre sheet)	<ul style="list-style-type: none"> The value-added production of the company must reach at least 67%; The total amount of staff at the management, technical and supervision level must reach at least 15% of the total employment of the company; and 	Complied
HK Fibre	Majlis Daerah Bachok Bandar Pelancongan Islam	02.04.2014	01.01.2014 to 31.12.2014	Factory Premises License (Ref. No. MDB.382/12)	<ul style="list-style-type: none"> The account for the approved production with pioneer status for small industrial scale and the account for the approved production without pioneer status shall be kept separately. 	Complied
HK Kitaran	MITI	12.05.2011	01.07.2010 to 30.06.2015	Pioneer Certificate No. 3729 – (for 100% tax exemption on statutory income for 10 years for pioneer activity involving fibre from palm biomass)	<ul style="list-style-type: none"> The value-added products must achieve at least 80% of the proposed target; and The company must carry out its project using palm biomass. 	Complied
HK Fibre					Nil	Not applicable

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
HK Kitaran	MPSP	19.07.2013	02.08.2012 to 02.08.2014	License for processing palm fibre (Bill No: 06/13/02601)	Nil	Not applicable
HK Kitaran	MPSP	16.08.2013	24.08.2011 to 24.08.2014	License for processing palm fibre (Bill No: 06/13/02708)	Nil	Not applicable
HK Kitaran	MITI	08.05.2012	-	Manufacturing license - No. A018656	<ul style="list-style-type: none"> The Plot No. 2945 (Plot A2), Jalan Sungai Baong, MK 5, 14200 Sungai Bakap, Seberang Perai Selatan, Pulau Pinang is subject to the approval from the relevant State Authority and Department of Environment. Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied
					<ul style="list-style-type: none"> Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied
					<ul style="list-style-type: none"> Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
HK Kitaran	MITI	08.05.2012	-	Manufacturing license – No. A018657	<ul style="list-style-type: none"> The Plot No. A001, Jalan Sungai Baong 14200, Sungai Bakap, Seberang Perai Selatan, Pulau Pinang is subject to the approval from the relevant State Authority and Department of Environment. Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied
					<ul style="list-style-type: none"> Notification must be given to MITI and MIDA for any disposal of shares in the company; 	Noted
					<ul style="list-style-type: none"> Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and 	Complied
					<ul style="list-style-type: none"> The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/Permit/ Certification	Conditions Imposed	Status of Compliance
HK Kitaran	Jabatan Alam Sekitar Pulau Pinang ("DOE Penang")	09.01.2013	-	Approval for installation of Biomass Fired Steam Boiler, multicyclone air pollution control equipment and chimney at No. 2945, Plot A2, Kawasan Perindustrian Perabot Sungai Baong, Mukim 5, 14200 Sungai Bakap, Pulau Pinang	<p>Conditions for installation of fuel burning equipment and chimney are, inter alia, as follows:</p> <ul style="list-style-type: none"> The constructed facilities shall be in accordance with the drawing/plan submitted and certified by the Professional Engineer Ir. Abdul Talib Din (Mechanical – 8908). The concentration of the black smoke shall not exceed the colour No. 1 in the Ringelmann Chart. Smoke density meter and alarm system must be installed. The concentration of dirt, dust and solid particles emitted from the chimney shall not exceed 0.05 gm/Nm³. For other parameters, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. The installation of multicyclone system must be in accordance with the arrangement and specifications submitted by HK Kitaran's consultant, Greentage Sdn Bhd and certified by the Professional Engineer, Ir. Abdul Talib Din (Mechanical – 8908). 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year (4 months once) in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE Penang. The first report shall be submitted within 1 month of the operation of the steam boiler. Any changes made to the chimney in the future shall be subject to prior written consent from the Director General of DOE Penang. 	Complied
					<p>Conditions for installation of multicyclone air pollution control equipment and chimney are, inter alia, as follows:</p> <p><u>Cyclonic air pollution control system specifications</u></p> <ul style="list-style-type: none"> Any new additional factory equipment that causes emission of dust is subject to prior approval from DOE Penang. Any modification made to the centrifugal type fan and fan motor shall not modify the proposed design in the application made by HK Kitaran dated 26 June 2012 which has been accepted and approved by DOE Penang. DOE Penang must be informed within one month of any modification being carried out. 	Noted
					<ul style="list-style-type: none"> Any modification made to the centrifugal type fan and fan motor shall not modify the proposed design in the application made by HK Kitaran dated 26 June 2012 which has been accepted and approved by DOE Penang. DOE Penang must be informed within one month of any modification being carried out. 	Noted

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Performance monitoring equipment such as magnehelic gauge shall be installed as shown in the plan dated June 2012. 	Complied
					<p><u>Operation</u></p> <ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year (4 months once) in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE Penang. The first report shall be submitted within 1 month of the operation of the cyclone. 	Complied
					<ul style="list-style-type: none"> The emission of solid particles from the chimney shall not exceed 0.05 gm/Nm³. For other parameter, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. 	Complied
					<ul style="list-style-type: none"> Competent operator shall be appointed to handle and maintain the operation of the cyclone. The name and qualification of this operator shall be submitted to DOE Penang. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Components that are prone to wear or plugging including component structure, housing and hoods must be inspected every quarter or half a year. Written record of the inspection and any action taken shall be kept for the purpose of inspection. Any changes made to the air pollution control system is subject to prior approval of the Director General of the DOE Penang. 	Complied
HK Kitaran	DOE Penang	04.04.2013	-	Approval for installation of Biomass Fired Steam Boiler, multicyclone air pollution control equipment and chimney at No. 2940, Plot A001, Kawasan Perindustrian Perabot Sungai Baong, Mukim 5, 14200 Sungai Bakap, Pulau Pinang	<p>Conditions for installation of fuel burning equipment and chimney are, inter alia, as follows:</p> <ul style="list-style-type: none"> The constructed facilities shall be in accordance with the drawing/plan submitted and certified by the Professional Engineer Ir. Abdul Talib Din (Mechanical – 8908). The concentration of the black smoke shall not exceed the colour No. 1 in the Ringelmann Chart. Smoke density meter and alarm system must be installed. The concentration of dirt, dust and solid particles emitted from the chimney shall not exceed 0.05 gm/Nm³. For other parameters, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. 	Noted
					<ul style="list-style-type: none"> The constructed facilities shall be in accordance with the drawing/plan submitted and certified by the Professional Engineer Ir. Abdul Talib Din (Mechanical – 8908). The concentration of the black smoke shall not exceed the colour No. 1 in the Ringelmann Chart. Smoke density meter and alarm system must be installed. The concentration of dirt, dust and solid particles emitted from the chimney shall not exceed 0.05 gm/Nm³. For other parameters, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. 	Complied
					<ul style="list-style-type: none"> The concentration of dirt, dust and solid particles emitted from the chimney shall not exceed 0.05 gm/Nm³. For other parameters, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/Permit/Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> The installation of multicyclone system must be in accordance with the arrangement and specifications submitted by HK Kitaran's consultant, Greentage Sdn Bhd and certified by the Professional Engineer, Ir. Abdul Talib Din (Mechanical - 8908). 	Complied
					<ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year (4 months once) in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE Penang. The first report shall be submitted within 1 month of the operation of the steam boiler. 	Complied
					<ul style="list-style-type: none"> Any changes made to the chimney in the future shall be subject to prior written consent from the Director General of DOE Penang. 	Noted
					<p>Conditions for installation of multicyclone air pollution control equipment and chimney are, inter alia, as follows:</p> <p><u>Cyclonic air pollution control system specifications</u></p> <ul style="list-style-type: none"> Any new additional factory equipment that causes emission of dust is subject to prior approval from DOE Penang. 	Noted

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Any modification made to the centrifugal type fan and fan motor shall not modify the proposed design in the application made by HK Kitaran dated 26 June 2012 which has been accepted and approved by DOE Penang. DOE Penang must be informed within one month of any modification being carried out. 	Noted
					<ul style="list-style-type: none"> Performance monitoring equipment such as magnehelic gauge shall be installed as shown in the plan dated June 2012. 	Complied
					<p><u>Operation</u></p> <ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year (4 months once) in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE. The first report shall be submitted within 1 month of the operation of the cyclone. 	Complied
					<ul style="list-style-type: none"> The emission of solid particles from the chimney shall not exceed 0.05 gm/Nm³. For other parameter, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Competent operator shall be appointed to handle and maintain the operation of the cyclone. The name and qualification of this operator shall be submitted to DOE Penang. Components that are prone to wear or plugging including component structure, housing and hoods must be inspected every quarter or half a year. Written record of the inspection and any action taken shall be kept for the purpose of inspection. Any changes made to the air pollution control system shall be subject to prior approval of the Director General of the DOE Penang. 	Complied
HK Kitaran	Department of Occupational Safety and Health	09.09.2013	09.09.2013 to 12.11.2014	Certificate of Fitness for steam boiler (Registration No. : PMD 6476)	Nil	Not applicable
HK Kitaran	Department of Occupational Safety and Health	27.02.2014	27.02.2014 to 02.05.2015	Certificate of Fitness for steam boiler (Registration No. : PMD 8020)	Nil	Not applicable

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
HK Palm Fibre	MITI	02.06.2014 ⁽¹⁾	01.10.2009 to 10.05.2012	Pioneer Certificate No. 3508 (for 100% tax exemption on statutory income for 5 years for pioneer activity involving fibre from oil palm biomass) ⁽¹⁾	<ul style="list-style-type: none"> At least 60% of the company's shares must be acquired and held by Malaysian citizens; The value-added production of the company must reach at least 15%; and Not more than 20% of the shares of this company can be acquired and held by holding company/ related company (whether controlled directly or indirectly) having a shareholder's fund which exceeds RM500,000.00. 	Complied
HK Palm Fibre ⁽²⁾	MITI	25.07.2012	-	Manufacturing license -- No. A018775	<ul style="list-style-type: none"> The Plot Lot 713, Mukim Sungai Batu, 09810 Daerah Bandar Baru, Selama, Kedah is subject to the approval from the relevant State Authority and Department of Environment. Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channelled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/Permit/Certification	Conditions Imposed	Status of Compliance
					<u>Operation</u>	
					<ul style="list-style-type: none"> The emission of dust or solid particles from the chimney shall not exceed Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978 at all times. Sampling of the chimney must be conducted 3 times a year in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE Kedah. Competent operator shall be appointed to handle and maintain the operation of the bag filter. The name and qualification of this operator shall be submitted to DOE Kedah. Any changes made to the air pollution control system shall be subject to prior approval of the Director General of DOE Kedah. 	In progress ⁽³⁾
						In progress ⁽³⁾
Fibre Star	MITI	06.09.2012	-	Manufacturing license -- No. A018830	The Plot No. 3843, MK 11, Luar Desa Jawi, 14200 Sungai Jawi, Pulau Pinang is subject to the approval from the relevant State Authority and Department of Environment.	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
Fibre Star	MPSP	03.01.2014	08.06.2002 to 27.01.2015	License for processing cushion and mattress (Bill No: 06/14/00049)	<ul style="list-style-type: none"> Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Noted Complied
Fibre Star	MPSP	20.02.2014	20.02.2014 to 19.02.2015	License for processing mattress and accessories from fibre products (coconut/ oil palm) (Bill No: 04/13/04459)	Nil	Not applicable





Notes:

- (1) Based on the previous Pioneer Certificate dated 7 May 2010, HK Palm Fibre is entitled to tax exemption for the period from 1 October 2009 to 30 September 2014. However, pursuant to the Acquisition of HK Palm Fibre, the company has not complied with the third condition. In view of that, MIDA has revised the tax exemption period of HK Palm Fibre from 1 October 2009 to 10 May 2012. Hence, HK Palm Fibre no longer enjoys its pioneer status effective 11 May 2012. The revised Pioneer Certificate dated 2 June 2014 was issued to HK Palm Fibre via MIDA's letter dated 4 June 2014.
- (2) HK Palm Fibre has yet to obtain a processing licence for Plant 5 and has been advised by the local authority, MDEB that a planning permission followed by a CCC would need to be obtained prior to applying for a processing licence. HK Palm Fibre has, on 19 November 2012 applied to MDEB for planning permission for Plant 5 and has subsequently obtained MDEB's conditional approval for the planning permission on 5 March 2013. As at the LPD, the company is in the process of fulfilling the conditions imposed under the planning permission. This will then be followed by the application for a CCC. The CCC is estimated to be issued within six (6) to nine (9) months from the date of submission of application. Upon obtaining the CCC, HK Palm Fibre will apply for the processing licence which is expected to be issued within three (3) months from the date of submission of application. Further details are as disclosed in Section 6.17.2 of this Prospectus. As at the LPD, there have been no actions being taken by MDEB pursuant to HK Palm Fibre operating without a processing licence.
- (3) HK Palm Fibre is in the process of installing the chimney and bag filter system. The aforesaid installations are required by DOE Kedah pursuant to its confirmation of no objection to HK Palm Fibre's application for a preliminary site assessment for Plant 5.

6. BUSINESS OVERVIEW (Cont'd)

6.15 INTELLECTUAL PROPERTY RIGHTS

As at the LPD, we own the following trademarks:

Trademark Logo	Applicant	Class No.*	Description of Class Heading of Trademark	Trademark No.	Validity Period
	Heng Huat	Class 22	Padding and stuffing materials of coconut fibres and palm fibres; all included in Class 22.	2012051167	28.02.2012 to 28.02.2022
	Heng Huat	Class 20	Cushion; included in Class 20	2012050532	31.01.2012 to 31.01.2022
	Fibre Star	Class 20	Mattresses, Bolster, Pillow and Cushion; all included in Class 20.	07019842	09.10.2007 to 09.10.2017
	Fibre Star	Class 20	Cushion, Pillow, Bolster and Mattress; all included in Class 20	95000678	20.01.1995 to 20.01.2022

Note:

* Products which fall under Class 20 and Class 22 of the trademark classifications are as follows:

Class	Description
20	Furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.
22	Ropes, sirings, nets, tents, awnings, tarpaulins, sails, sacks and bags (not included in other classes); padding and stuffing materials (except of rubber or plastics); raw fibrous textile materials.

6. BUSINESS OVERVIEW (Cont'd)

6.16 DEPENDENCY ON PATENTS, INTELLECTUAL PROPERTY RIGHTS, LICENCES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS

6.16.1 Dependency on Intellectual Property Rights

Save as disclosed in Section 6.15 of this Prospectus, our Group is not dependent on any patents or intellectual property rights for our business operations.

6.16.2 Dependency on Major Licences

Save as disclosed in Section 6.14 of this Prospectus, our Group is not dependent on any major licences for our business operations.

6.16.3 Dependency on Industrial, Commercial and Financial Contracts

Our Group is not dependent on any material contracts or agreements including industrial, commercial and financial contracts, which are material to our business or profitability.

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6. BUSINESS OVERVIEW (Cont'd)

6.17 PROPERTY

6.17.1 Own Properties

As at the LPD, we own the following properties:

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure	Encumbrances	Land Area/ Built-up Area (sq ft)	Audited NBV as at 31 December 2013 RM'000	Issuance Date of CCC/OC
HK Kitaran (1)(2)(3)	Title: No. H.S.(D) 6714 Lot 2940, Mukim 4 Daerah Seberang Perai Selatan Pulau Pinang Address: No A001, Jalan Sungai Baong Kawasan Perindustrian Perabut Sungai Baong, Mukim 5 14200 Sungai Bakap Seberang Perai Selatan Penang ("Plant 1")	Double storey office building annexed with a single storey detached factory building/ Used for oil palm EFB fibre manufacturing	Freehold	The land is currently charged to United Overseas Bank (Malaysia) Berhad	239,580/ 78,000	8,165	17.05.1999

6. BUSINESS OVERVIEW (Cont'd)

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure	Encumbrances	Land Area/ Built-up Area (sq ft)	Audited NBV as at 31 December 2013 RM'000	Issuance Date of CCC/OC
HK Kitaran ⁽⁴⁾	<u>Title:</u> No. H.S.(D) 6719 Lot 2945, Mukim 4 Daerah Seberang Perai Selatan Pulau Pinang <u>Address:</u> Lot 2945 (Plot A2) Jalan Sungai Baong Kawasan Perindustrian Perabut Sungai Baong, Mukim 5 14200 Seberang Perai Selatan Penang ("Plant 2")	Double storey office building annexed with a single storey detached factory/ Used for oil palm EFB fibre manufacturing	Freehold	The land is currently charged to AmBank (M) Berhad	178,160/ 80,000	7,744	04.04.2012
Fibre Star ⁽⁵⁾	<u>Title:</u> No. H.S.(D) 8763 Lot No. 2489, Mukim 5 Daerah Seberang Perai Selatan Pulau Pinang <u>Address:</u> Lot 2489, Lorong Bakau Kawasan Perindustrian Perabut Sungai Baong, Mukim 5 14200 Sungai Bakap Seberang Perai Selatan Penang ("Plant 4")	Single storey factory building/ Temporarily used as warehouse	Freehold	The land is currently charged to Hong Leong Bank Berhad	69,696/ 30,000	2,857	12.08.2013

6. BUSINESS OVERVIEW (Cont'd)

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure	Encumbrances	Land Area/ Built-up Area (sq ft)	Audited NBV as at 31 December 2013 RM'000	Issuance Date of CCC/ OC
HK Fibre ⁽⁶⁾	Title: HSM 2/97A, PT 345 Kg Kemayang, Mukim Senak Jajahan Bachok Kelantan Darul Naim ("Plant 6") Address: Lot 345, Kg. Kemayang Tawang 16020 Bachok Kelantan Darul Naim	A portable cabin office and a single storey detached factory/ Used for coconut fibre, coconut peat and coconut fibre sheets manufacturing	99 years, Expiring on 18.08.2096	The land is currently charged to Maybank Islamic Berhad	89,690/ 40,483	1,461	14.03.1996

Notes:

- (1) Plant 1 was previously occupied by our Group as a rented factory. Following the signing of a Sale and Purchase Agreement on 9 May 2012 between HK Kitaran and Pracom Sdn Bhd, which was subsequently completed on 17 August 2012, the property is now owned by our Group. As described in Sections 3.6 and 6.18.1(iv) of this Prospectus, we will be constructing a single storey factory building adjacent to the existing Plant 1. The said factory building will have a built-up area of approximately 80,000 sq ft which will be used to accommodate the production and warehousing of our current and future products. We will also refurbish the existing buildings in Plant 1 in conjunction with the construction of the said factory building.
- (2) The express condition in the land title of Plant 1 states that the land shall be used for the purpose of furniture (wood) factory only. Notwithstanding this, the use of Plant 1 for the manufacturing of our oil palm EFB fibre is in accordance with the permitted category of land use, i.e. Industrial (Perusahaan/ Perindustrian), the OC for Plant 1 has been obtained and a processing licence has also been issued by MPSP to HK Kitaran. HK Kitaran has on 20 March 2014, through its land surveyor/consultant, written and are awaiting a formal reply from the Pentadbir Tanah Daerah to clarify whether the company is allowed to use the land for the manufacturing of oil palm EFB fibre. HK Kitaran has undertaken to apply for a variation of the express condition, if required, and in the event the said variation is not approved by the Pentadbir Tanah Daerah, we shall relocate our operations in Plant 1 to a fully compliant rented building. Further, HK Kitaran has undertaken to promptly rectify any non-compliance in relation to Plant 1 and do all such things necessary to ensure that Plant 1 will be in compliance with all such conditions attached to its land title as well as the National Land Code 1965 and other applicable laws, rules and regulation. Further details are as disclosed in Section 4.1(xi) of this Prospectus.
- (3) As at the LPD, there are two (2) movable container cabins which are used as staff accommodation located on the land of Plant 1. The company's appointed consultant had on 5 November 2012 being informed by MPSP that the movable container cabins located on the said land do not require any temporary permit or approval from MPSP as they are not permanent structures.

6. BUSINESS OVERVIEW (Cont'd)

- (4) *There is an extended shed attached to Plant 2's factory building ("Extension"). Application for approval for the Extension was submitted to MPSP on 19 July 2013. We have subsequently received a letter from MPSP dated 23 October 2013 wherein MPSP informed that based on its record, the building structure of Plant 2 has been approved by MPSP and CCC has been issued. Based on MPSP's inspection, all the building structure of Plant 2 has obtained the approval and consent from MPSP and as such, MPSP has no objection as to the operation of Plant 2.*
- (5) *Following the signing of a Sale and Purchase Agreement on 11 May 2012 between Fibre Star and HH Furniture which was subsequently completed on 7 February 2013, the property (i.e. Plant 4) is now owned by our Group. We intend to use metal sheet to enclose the building structure of Plant 4 which will be used to accommodate a production area and a warehouse. The enclosure of the building structure is subject to the local authorities' approval, and is estimated to be obtained within three (3) to six (6) months from the date of submission. Fibre Star will submit a building renovation plan to the building department of MPSP for approval prior to the set up of the production area. For production, Plant 4 will be used either for mattress production or for the production of oil palm EFB fibre/coconut fibre products. Further details on the production and the required licenses are as follows:*

Type of production	Licence required	Status of application of licence
<p>(a) Mattress production</p> <p>Note: In the event that an OC is not issued for Plant 3 (please refer to Section 6.17.2 of this Prospectus for further details on Plant 3), Fibre Star's production operations in Plant 3 will be relocated to Plant 4 within three (3) to six (6) months after obtaining the manufacturing and processing licences.</p>	<ul style="list-style-type: none"> • Manufacturing licence from MITI; and • License for processing cushion and mattress from MPSP 	<p>As disclosed in Section 6.14 of this Prospectus, the existing manufacturing operations of Fibre Star in Plant 3 are licensed by MITI and MPSP. In the event of relocation of Fibre Star's operations from Plant 3 to Plant 4, fresh applications need to be submitted to the MITI and MPSP as the licences granted by them are location specific.</p> <p>Fibre Star has on 20 February 2014 obtained the processing licence from MPSP for the processing of mattress and accessories from fibre products (coconut/ oil palm).</p>
<p>(b) Production of other value-added products of oil palm EFB fibre/coconut fibre</p> <p>Note: In the event that Fibre Star's mattress production operations in Plant 3 need not be relocated to Plant 4, Plant 4 will be used for the production of our other value-added products of oil palm EFB/coconut fibre.</p>	<ul style="list-style-type: none"> • Manufacturing licence from MITI; and • Processing licence for production of oil palm EFB fibre/coconut fibre products from MPSP 	<p>In the event that Plant 4 is used for the production of oil palm EFB fibre/coconut fibre products, Fibre Star will apply and obtain a manufacturing licence and processing licence for production of oil palm EFB fibre/ coconut fibre products for Plant 4, if required, prior to commencement of the production.</p>

- (6) *Plant 6 was previously occupied by our Group as a rented factory. Following the signing of a Sale and Purchase Agreement on 24 April 2012 between HK Fibre and Keloil Sdn Bhd which was subsequently completed on 25 February 2013, the property is now owned by our Group.*

6. BUSINESS OVERVIEW (Cont'd)

6.17.2 Rented Properties

In addition, as at the LPD, we also rent the following properties for our operations:

Tenant	Landlord	Title/Address	Description/ Existing Use	Rental Period	Annual Rental RM	Land Area/ Built-up Area (sq.ft)	Issuance Date of CCC/ OC
Fibre Star	HH Furniture	Title: PM513, Lot 1223 Mukim 11 Jawi Village Daerah Seberang Perai Selatan Pulau Pinang	Two (2) storey office block with a single storey detached factory warehouse/ Used for mattress production and warehouse	16.06.2012 to 15.06.2014	288,000	74,548/ 60,000	(1)
HK Palm Fibre	AKSB	Address: No 3843 (Lot 1223) Mk. 11, Luar Desa Jawi 14200 Sungai Jawi Seberang Perai Selatan Pulau Pinang ("Plant 3")	A single storey office annexed with a single storey detached factory/ Used for oil palm EFB fibre manufacturing	(2)	72,000	149,274/ 70,041	(3)
		Address: Lot 713, Mukim Sungai Batu, 09810 Daerah Bandar Baharu Selama, Kedah Darul Aman ("Plant 5")					

6. BUSINESS OVERVIEW (Cont'd)

Tenant	Landlord	Title/Address	Description/ Existing Use	Rental Period	Annual Rental RM	Land Area/ Built-up Area (sq ft)	Issuance Date of CCC/ OC
HK Kitaran	HK Alliance Sdn Bhd	<u>Title:</u> No. Geran Mukim 956 Lot 2151, Mukim 4 Daerah Seberang Perai Selatan Pulau Pinang	A vacant land/ (4)	01.11.2013 to 01.11.2015	120,000	98,445/ Not Applicable	Not Applicable

Notes:

- (1) Currently, the rented property does not have an OC. Our landlord, HH Furniture, has on 15 October 2012 applied to MPSP for planning permission for Plant 3. HH Furniture has subsequently on 4 March 2013 received a conditional approval from MPSP for the planning permission and is currently in the process of fulfilling the conditions imposed. This will be followed by application for OC upon obtaining the approval from MPSP for the planning permission. In this regard, the OC is estimated to be issued within six (6) to nine (9) months from the date of submission of application, i.e. by December 2014. In the event that an OC is issued, we will continue to rent and operate in Plant 3, failure of which, we will relocate our operations in Plant 3 to Plant 4 (as described in Section 6.17.1 of this Prospectus) or to a fully compliant rented property, if necessary, in the event that Plant 4 is not ready for occupation and operations.
- (2) HK Palm Fibre is using and occupying Plant 5 pursuant to an agreement dated 22 June 2009 between HK Palm Fibre and AKSB in relation to supply of oil palm EFB by AKSB to HK Palm Fibre, and letters dated 29 June 2009, 28 August 2012, 23 October 2012 and 3 December 2012 as supplemental to the said agreement. Pursuant to the collaboration arrangement between HK Palm Fibre and AKSB under this agreement, AKSB has given to HK Palm Fibre the right to use and occupy the property for a period of ten (10) years commencing from the date of the agreement and AKSB shall grant to HK Palm Fibre the option to extend the duration and validity of the agreement for a further ten (10) years from the date of expiry. Pursuant to the supplemental letter dated 3 December 2012, HK Palm Fibre is required to pay a rental of RM6,000 per month with effect from 1 November 2013.
- (3) HK Palm Fibre, with the consent of AKSB, will be applying for a CCC for Plant 5 which is used for HK Palm Fibre's operations, for purposes of obtaining a processing licence for its operations in the premise. HK Palm Fibre has on 19 November 2012 applied to MDDB for planning permission for Plant 5. HK Palm Fibre has subsequently on 5 March 2013 received the conditional approval from MDDB for the planning permission and is currently in the process of fulfilling the conditions imposed. This will be followed by the application for CCC upon approval by MDDB for the planning permission. In this regard, the CCC is estimated to be issued within six (6) to nine (9) months from the date of submission of the application, i.e. by December 2014. Upon obtaining the CCC, HK Palm Fibre will apply for the processing licence which is expected to be issued within three (3) months from the date of submission. Further details are as disclosed in Note (2) of Section 6.14 of this Prospectus.
- In the event that we are required to vacate Plant 5 by MDDB pending the issuance of the CCC or a CCC is not issued for Plant 5, we will relocate our operations in Plant 5 to a fully compliant rented property, if necessary.
- (4) It is the company's intention to use the land for staff accommodation by placing movable container cabins on the said land in due course. The company's appointed consultant has on 13 February 2014 being informed by MPSP that movable container cabins located on the said land do not require any temporary permit or approval from MPSP as they are not permanent structures and there is no local authority guideline governing it at this juncture.

6. BUSINESS OVERVIEW (Cont'd)

6.17.3 Regulatory Requirements And Environmental Issue

Save as disclosed in Sections 4.1(xi), 6.14, 6.17.1 and 6.17.2 of this Prospectus, as at the LPD, we are in compliance in respect of all regulatory requirements (including land rules and building regulations) and environmental issues which may materially affect our Group's operations and/or utilisation of assets.

6.17.4 Interruptions To Business And Operations

We have not experienced any material interruption in business which had a significant effect on our operations during the past twelve (12) months preceding the LPD.

6.18 FUTURE PLANS, STRATEGIES AND PROSPECTS

6.18.1 Future Plans and Strategies

Our future plans and business strategies to further strengthen our competitive advantages are as follows:

(i) Expansion of our Product Offerings

In addition to the introduction of Briquette, we intend to further broaden our product offering with the production of Geotextile.

Geotextile is mainly used in civil engineering works for separation or stabilisation of soil to strengthen slopes, erosion control and reinforcement of soft soil foundation in construction. Geotextile is also mainly used in plantations for soil improvement, soil protection and upon its biodegradation, serve as a natural fertiliser. As at the LPD, we have installed one (1) Geotextile production line with a monthly capacity of 500 mt of Geotextile in our Plant 2 as part of our development effort in the manufacture of Geotextile. We plan to commence pilot production for our Geotextile in the second quarter of 2014 and thereafter commercialise our Geotextile production by the fourth quarter of 2014.

(ii) Enhancement of our Product Offerings

Currently, our Briquette is mainly supplied to the local market, with minor supply to China intermediaries. As part of our strategy to enhance our competitive strength, we intend to better serve our customers with provision of Briquette customisation services to meet the requirements of customers from various industries. Through our process development efforts, we strive to continuously improve the quality of our Briquette, i.e. the density and moisture content, in order to better penetrate the China's Briquette market and increase our supply of Briquette to China.

Meanwhile, the recent banning of new coal-fired plants in Beijing, Shanghai and Guangzhou of China is likely to spur demand for cleaner, alternative source of energy including Briquette (*Source: IMR Report by Protégé Associates*). As such, we envisage a potential rising demand for Briquette in the China market moving forward. We believe the improved quality of our Briquette will enhance market acceptance of our Briquette in the China market and thereby our revenue.

6. BUSINESS OVERVIEW (Cont'd)

(iii) Green Power Generation Utilising Short Fibre

Short fibre produced from our biomass materials is currently used for biomass energy generation using steam boiler to operate the production of our biomass materials and value-added products, and as raw material for Briquette production. In addition to the abovementioned, we intend to move towards zero waste production with the installation of a boiler turbine system which will enable the utilisation of wastes produced as by-product of our operation to power our production process.

As compared to existing boiler which produces steam, the proposed new boiler turbine system will generate electricity from the incineration of short fibre and is estimated to enable us to achieve further cost savings of up to approximately RM3.00 million per annum in woodchips, electricity and maintenance and operation costs. Based on the preliminary study conducted, the purchase and installation of the boiler turbine system is estimated to cost approximately RM6.50 million, which we intend to finance via bank borrowings and/or internally generated funds. We target to install the boiler turbine system by the fourth quarter of 2015 and the installation process is estimated to take approximately fourteen (14) months.

(iv) Expansion of Our Production Facility

In line with our product and market expansion plans, we intend to extend our production facility with the construction of a new production facility. The new production facility will be a single storey factory building constructed adjacent to Plant 1 with a built-up area of approximately 80,000 sq ft and will be used as a warehouse and/or to house new production lines. Besides that, we also intend to install the boiler turbine system in our new production facility.

The construction of the new production facility is expected to commence in the third quarter of 2015 upon obtaining the relevant authorities approval for the building plan and is expected to be completed within a period of fifteen (15) months from the date of commencement. The construction of the new production facility is estimated to cost approximately RM3.20 million, which we intend to finance entirely from the Public Issue proceeds.

(v) Obtaining ISO Certification for Our Subsidiary Companies

One of our wholly-owned subsidiary companies, HK Kitaran has been accredited with ISO 9001:2008 in April 2012. In view that ISO is an international standard recognised by 163 countries, we intend to apply for ISO accreditation for HK Palm Fibre and Fibre Star in the fourth quarter of 2014 and fourth quarter of 2015 respectively. The accreditation process is expected to take approximately six (6) to twelve (12) months. Our compliance to internationally recognised standards is expected to provide us with better opportunities to penetrate overseas market such as Europe and USA.

(vi) Market Expansion

As part of our market expansion plans and in line with our increasing exposure in the China market, we intend to incorporate a subsidiary company in the southern region of China in view of China's continuous use and growing demand for oil palm EFB fibre coupled with our ability to supply large quantities of oil palm EFB fibre to customers in China. With the setting up of a subsidiary company in China, we will be able to obtain primary knowledge on the market trends and further expand our market presence in China. As at the LPD, we are in the midst of locating an ideal place for the set up of the subsidiary company as well as sourcing for human resources. Subject to obtaining the relevant regulatory approvals from the China authorities, we intend to set up the subsidiary company in China by the first quarter of 2015.

6. BUSINESS OVERVIEW *(Cont'd)*

6.18.2 Prospects

The biomass materials market for coconut fibre and oil palm EFB fibre in Malaysia is forecasted to grow at a CAGR of 14.3% from 2013 to 2018 to reach RM180.4 million in 2018. This growth is expected to be driven by the following demand and supply conditions as set out in Section 7 of this Prospectus:

Demand conditions

- Rising demand from China;
- Population growth and greater affluence spurring demand for end-products; and
- Growing applications of natural fibre.

Supply conditions

- Strong government support;
- Increasing domestic and foreign investments and initiatives;
- Increase of oil palm production under the ETP; and
- Legislation enforcement on environment protection.

(Source: IMR Report by Protégé Associates)

Based on the expected growing demand for coconut fibre and oil palm EFB fibre as well as our future plans and strategies and our competitive strengths as set out in Sections 6.18.1 and 6.11 of this Prospectus respectively, our Board is of the view that we are well positioned to enjoy positive growth in foreseeable future. Whilst we recognise the existence of market challenges in the industry and the various risk factors as set out in Section 4 of this Prospectus, we are committed to our business and our growth strategies which have been put in place to propel us to be a stronger biomass materials and valued-added products manufacturer.

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7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT

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Protégé
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18 JUNE 2014

The Board of Directors
Heng Huat Resources Group Berhad
No. 2945 (Plot A2), Jalan Sungai Baong,
Kawasan Perindustrian Perabut Sungai Baong,
MK 5, 14200 Sungai Bakap,
Seberang Perai Selatan,
Pulau Pinang

Dear Sirs,

**Executive Summary of the Strategic Analysis of the Malaysian Biomass Materials
Market – Coconut & Oil Palm EFB Fibres**

This Executive Summary of the 'Strategic Analysis of the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres' is prepared by Protégé Associates Sdn. Bhd. ("Protégé Associates") for inclusion in the Prospectus of Heng Huat Resources Group Berhad ("Heng Huat" or "the Company") in relation to the proposed listing of and quotation for the entire issued and paid-up share capital of Heng Huat on the ACE Market of Bursa Malaysia Securities Berhad.

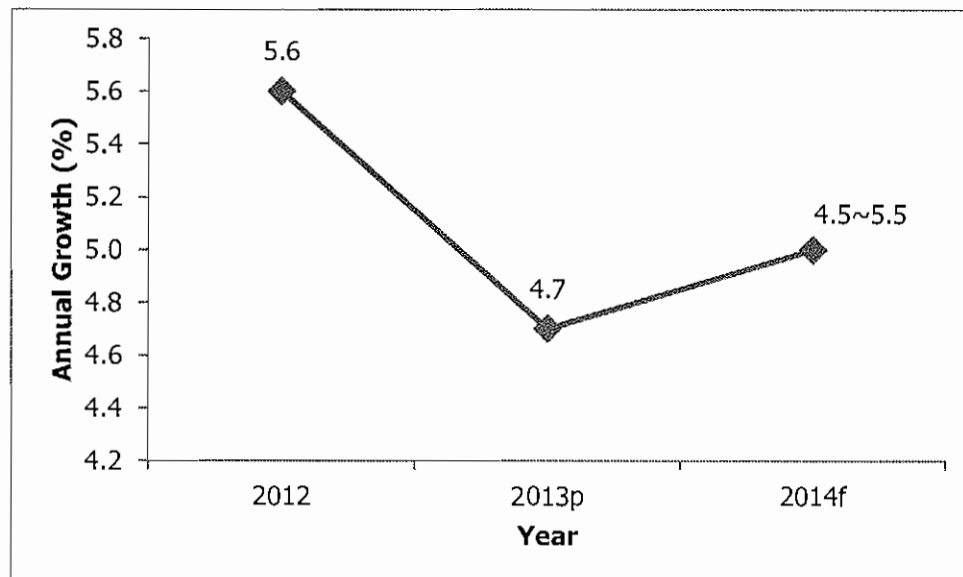
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MALAYSIAN ECONOMIC OVERVIEW

The Malaysian economy expanded by 4.7 percent in 2013 which was in line with the growth target of 4.5 percent to 5.0 percent set by the Malaysian Government. The Malaysian economy expanded by 4.1, 4.4, 5.0 and 5.1 percent in the first, second, third and fourth quarter of 2013 respectively on the back of robust domestic demand and accommodative monetary policy. Figure 1 depicts Malaysia's real Gross Domestic Product ("GDP") at 2005 prices from 2012 to 2014.

Figure 1: Malaysia's Real GDP, 2012-2014



Notes:

- 1) *p* denotes preliminary
- 2) *f* denotes forecast

Source: Bank Negara Malaysia

In terms of growth percentage, the construction sector stood out as a star performer by registering an increase of 10.9 percent in 2013. Growth in the sector was supported by the robust activities in the residential and civil engineering sub-sectors. The services sector was the next best performing sector in terms of growth, expanding by 5.9 percent in 2013. The sector was boosted by stronger performance in the sub-sectors that cater to domestic demand particularly the wholesale and retail trade sub-sector that registered higher growth on the back of continued strength in households' retail spending.

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The manufacturing sector grew moderately by 3.4 percent in 2013. Continued strength in the domestic-oriented industries and better performance of the export-oriented industries in the second half of the year helped to drive the expansion in the manufacturing sector. The mining and quarrying sector expanded by 0.5 percent in 2013 on the back of stronger growth in the output of natural gas that helped to cushion the impact from the reduction in crude oil production. As for the agriculture, forestry and fishery sector, it expanded by 2.1 percent in 2013, driven by higher crude palm oil output as well as production of food commodities such as fisheries, vegetables and livestock.

Outlook

Despite the positive results revealed in most of Malaysia's key economic indicators for 2013, the Malaysian Government is mindful of the downside risks to global growth that may affect the growth in the local economy. In the near future, the growth in the Malaysian economy is expected to be anchored again by domestic demand. Domestic demand is expected to be led by private expenditure which is projected to register an increase of 8.3 percent in 2014. Private sector consumption and investment in 2014 are projected to expand by 6.9 percent and 12.6 percent respectively. The Malaysian Government has reiterated its intention to continue focusing on accelerating the national transformation process and supporting growth while improving public finance and ensuring fiscal sustainability.

The Malaysian Government has also allocated RM1.6 billion under Budget 2014 for development in the five regional corridors. The Malaysian economy is expected to grow by 5.0 to 5.5 percent in 2014 on the back of expected improving external environment and favourable domestic demand. The private sector is expected to drive the growth momentum in domestic demand.

All the key economic sectors in Malaysia are projected to continue expanding in 2014. The services sector is expected to remain the largest contributor to the economy by accounting for more than half of Malaysia's real GDP in 2014. It is expected to grow by 6.2 percent for the year. In terms of pace of growth, the construction sector is expected to register the fastest pace among all the key economic sectors in the year with a projected 10.0 percent growth in 2014. The three other key economic sectors, namely agriculture, forestry and fishery, mining and quarrying as well as manufacturing are expected to expand by 3.8 percent, 1.6 percent and 3.5 percent respectively in 2014.

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BACKGROUND AND DEFINITION

Biomass Materials

Biomass refers to biological material which is derived from living, or recently living organisms. The term "biomass" is intended to refer to materials that do not directly go into foods or consumer products but may have alternative industrial uses. Biomass materials can be derived from a number of sources including all wasted plants materials, wood, garbage, wasted paper etc. Biomass materials include wastes produced in agricultural activities, such as coconut husk, oil palm fruit residues, rice husk and corn stalks.

The conversion of biomass waste into resources can be segregated into two (2) major applications namely, the conversion of renewable biomass waste into biomass materials and/or energy.

Figure 2: Examples of Biomass Waste and its Application

i) Conversion to energy

Biomass Waste	Applications
Rapeseed, soy beans, waste vegetable oil	Biodiesel
Agricultural waste, mixed waste	Heat steam electricity and methanol
Sugar or starch crops, wood waste, pulp sludge, rice and corn straw	Ethanol
Agricultural waste, municipal solid waste	Synthetic fuel oil (bio-crude), charcoal

ii) Conversion to biomass materials

Biomass Waste	Applications
Pineapple leaves, sugarcane residues	Animal feed, industrial absorbents and additives for beverages
Coconut husk	Coconut fibre, rope and twine, brooms and brushes, doormats, rugs, geotextile, mattresses and upholstery, often in rubberised coconut fibre pads
Oil palm fruit residues	Oil palm empty fruit bunch ("EFB") fibre, biodegradable packaging materials, geotextile, briquette, mattresses and car seats stuffing,

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Biomass Waste	Applications
	insulation, composite panel product as well as particle board
Rice husk	Silica, metal finishing, water soluble oil and synthetic lubricant
Sugar mill boiler ash from bagasse	Filtration materials and absorbent products
Sugarcane bagasse, wheat straw	Lumber materials, panel boards
Sugarcane bagasse	Paper and paper wares

Source: Protégé Associates

Natural Fibre

Natural fibre refers to fibre derived from natural resources, including plants, crops, animals, agro waste and other renewable natural resources that are biodegradable. Natural fibre can be segregated into three (3) categories by resources i.e. cellulosic fibre from plant, protein fibre from animal as well as mineral fibre.

Cellulosic fibre can be extracted from different parts of plant i.e. stem bast, leaf, seed and fruit. Figure 3 shows the examples of cellulosic fibre by different parts of plant:-

Figure 3: Examples of Cellulosic Fibre by Part of Plant

Part of plant	Fibre
Stem bast	Jute, kenaf, ramie, flax, hemp
Leaf	Sisal, manila, Phormium tenax
Seed	Cotton, kapok
Fruit	Coconut fibre, oil palm EFB fibre

Source: Protégé Associates

For the purpose of this report, the Malaysian biomass materials market for natural fibres derived from coconut husks and oil palm EFB will be comprehensively reviewed and analysed.

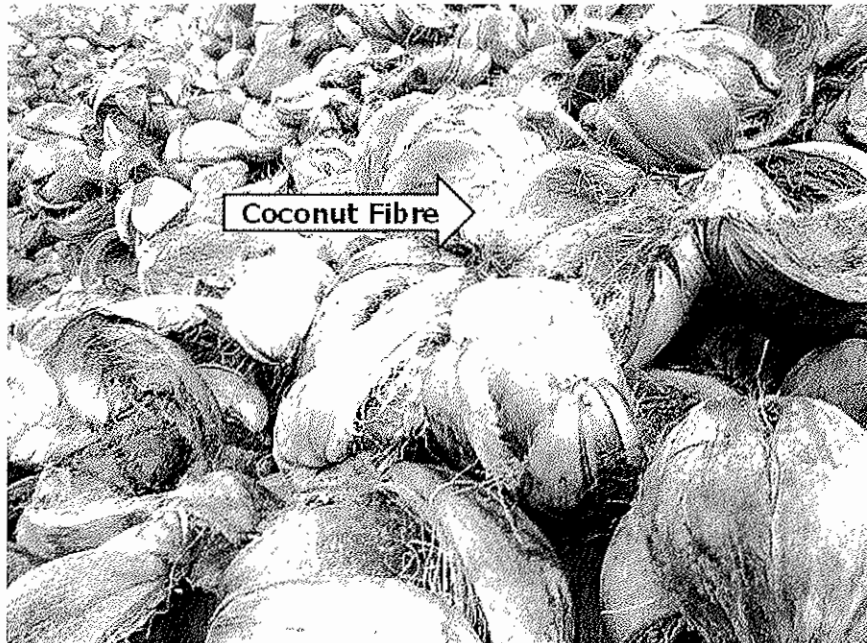
OVERVIEW OF MALAYSIAN BIOMASS MATERIALS MARKET – COCONUT & OIL PALM EFB FIBRES

OVERVIEW OF COCONUT FIBRE MARKET IN MALAYSIA

Coconut Fibre

Coconut fibre or coir is a coarse and short biodegradable natural fibre extracted from the husk of coconut. Coconut fibre can be classified into brown fibre, which is derived from mature coconuts after 12 months of growth, and white fibre, which is extracted from immature coconut after nine (9) months of growth. Compared to cotton, coconut fibre is stronger but less flexible. It is also not an ideal material for dyeing due to its highly concentrated lignin. Coconut fibre is light, able to withstand heat, resistant to microbial action and salt water damage.

Figure 4: Coconut Husk and Fibre



Source: Heng Huat Resources Group Berhad ("Heng Huat") and Protégé Associates

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Coconut Fibre Market in Malaysia

In Malaysia, coconut is one of the oldest agro-based industries and it is the fourth most important industrial crop after palm oil, rubber and paddy in terms of total planted area. The total coconut planted area has improved from 112,093 hectare ("ha") in 2012 to 115,455 ha in 2013 (Figure 5) as growth in total coconut planted area was observed in each state in Malaysia.

The total production of coconut went up by 5.0 percent to 636,867 metric tonnes ("mt") in 2013 from 606,530 mt registered a year earlier. The growth in total production of coconut is driven by the increase in total planted area and better yields. Figure 5 shows the coconut production and area planted in Malaysia from 2006 to 2013.

Figure 5: Coconut Production and Area Planted in Malaysia, 2006-2013

Year	Total Coconut Production (mt)	Total Coconut Planted Area (ha)
2006	512,700	119,465
2007	503,243	119,701
2008	455,408	111,925
2009	379,251	100,362
2010	550,140	105,659
2011	562,556	106,312
2012p	606,530	112,093
2013e	636,857	115,455

Note: p denotes preliminary, e denotes estimation

Source: Department of Agriculture ("DOA")

Meanwhile, Malaysia produced an average of 20,000 tonnes of coconut fibre, each year from 2009 to 2012. On a dry weight basis, a husk is composed of 70 percent pith, while the remaining 30 percent is coconut fibre. Of the coconut fibre produced, 60 percent are long, 30 percent have medium length, whilst the remaining fibre are short fibres.

In furniture and automotive industries, coconut fibre is a substitution of synthetic rubber. By combining coconut fibre with natural rubber, coconut fibre can be used in filling up the mattress, automobile seat and sofa. Additionally, coconut fibre can also be used to make geotextile for soil erosion control.

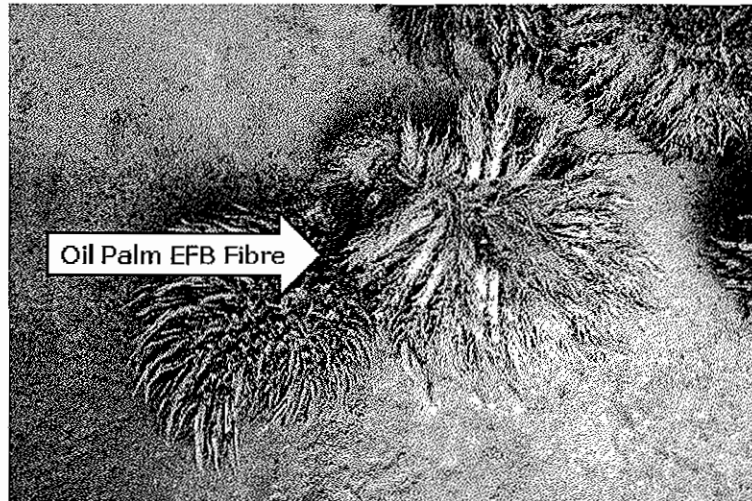
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OVERVIEW OF OIL PALM EFB FIBRE MARKET IN MALAYSIA

Oil Palm EFB Fibre

Fibre can be derived from oil palm EFB, trunks and fronds. Currently, it is mainly derived from EFB due to its higher fibre content as compared to trunks and fronds. In Malaysia, EFB is the most common material used for extraction of oil palm EFB fibre due to its high fibre yield and the processing activity is carried out commercially.

Figure 6: Oil Palm EFB and Fibre



Source: Heng Huat and Protégé Associates

Oil Palm EFB Fibre Market in Malaysia

Oil palm is the most important agricultural crop in Malaysia and it is the 4th largest contributor to the country's Gross National Income ("GNI"). Malaysia is currently the second largest producer and largest exporter of crude palm oil ("CPO") in the world. In 2013, the total planted area for oil palm in the country continue to grow and it expanded by around 3.0 percent to nearly 5.23 million ha (2012: 5.08 ha). The expansion was led by Sarawak which saw an increase of 84,660 ha or 7.9 percent, followed by Peninsular Malaysia which increased 35,630 ha or 1.4 percent, and lastly Sabah with an increase of 32,520 ha or 2.3 percent. Over half of the plantation area is concentrated in East Malaysia with the rest in the Peninsular Malaysia.

In tandem with the increase in total planted area, CPO production improved by around 2.3 percent to 19.21 mt in 2013 from 18.79 mt recorded in 2012. A higher fresh fruit bunch

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("FFB") yield coupled with additional new matured areas coming into production particularly in Sarawak has contributed to the improved CPO production. In the same year, production of palm kernel, crude palm kernel oil and palm kernel cake also improved with year-on-year growth standing at 3.3 percent for palm kernel, and 4.9 percent each for crude palm kernel oil and palm kernel cake. Figure 7 below details the oil palm production and area planted in Malaysia from 2007 to 2013.

Figure 7: Oil Palm Production and Area Planted in Malaysia, 2007-2013

Year	Total Planted Area (ha)	CPO (tonnes)	Palm Kernel (tonnes)	Crude Palm Kernel Oil (tonnes)	Palm Kernel Cake (tonnes)
2007	4,304,913	15,823,745	4,096,989	1,907,613	2,152,488
2008	4,487,957	17,734,441	4,577,500	2,131,399	2,358,732
2009	4,691,160	17,564,937	4,500,683	2,097,061	2,312,227
2010	4,853,766	16,993,717	4,292,076	2,014,943	2,242,277
2011	5,000,109	18,911,520	4,706,603	2,144,699	2,387,056
2012	5,076,929	18,785,030	4,705,900	2,164,024	2,399,204
2013	5,229,739	19,214,794	4,859,020	2,269,822	2,516,664

Source: Malaysian Palm Oil Board ("MPOB")

In 2013, Malaysia's production of oil palm fruit is estimated at around 99.5 million. The high yield of oil palm fruit also led to the abundance of oil palm biomass. Palm oil accounts for only 10 percent of the total output from oil palm tree, with the remaining 90 percent being oil palm biomass. According to the Malaysian Innovation Agency ("MIA"), an estimated 83 million dry tonnes of oil palm biomass waste was generated in 2012. By 2020, volume of oil palm biomass waste is projected to range between 85 to 110 million dry tonnes.

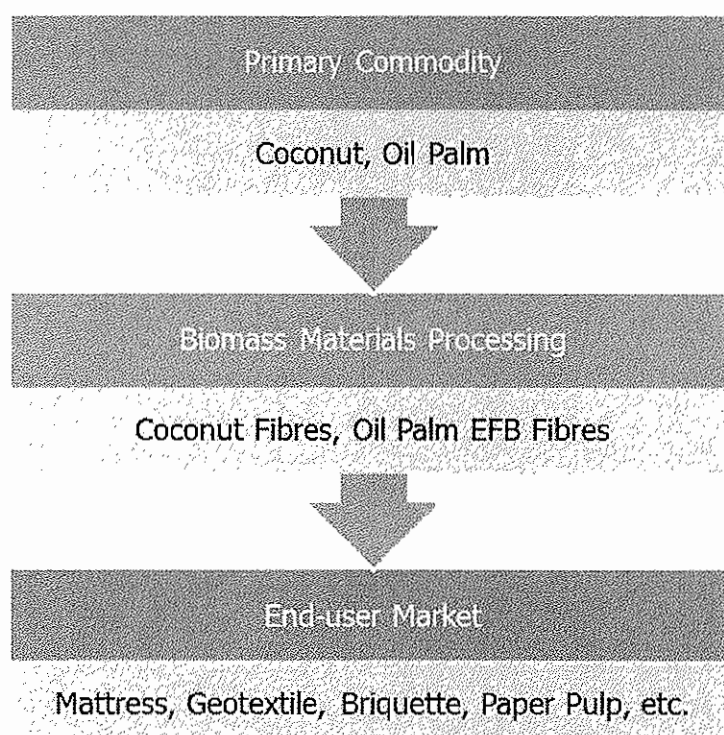
Oil palm EFB fibre can be used for various applications in a wide range of industries due to its clean and biodegradable characteristics. Depending on its length, oil palm EFB fibre can be processed into various end-products. Typically, long oil palm EFB fibre is suitable for mattress and cushion stuffing, geotextiles and, fibre reinforced plastic, gypsum and cement while short oil palm EFB fibre is ideal for briquettes and pellets, pulp and insulation sheet. In addition to its length, moisture content, oil content and impurities such as salt content and odour may also affect the quality of oil palm EFB fibre as well. Clean oil palm EFB fibre that is free from impurities is considered to have superior quality which is suitable for the manufacture of

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composite panel, mattresses and cushion. Meanwhile, oil palm EFB fibre with impurities can be used to make mats.

VALUE CHAIN ANALYSIS

Figure 8: Value Chain of the Biomass Materials Market – Coconut & Oil Palm EFB Fibres in Malaysia



Source: Protégé Associates

The extraction of coconut and oil palm EFB fibres are carried out by biomass materials processors and/or end-products manufacturers. Fibre is derived from coconut husk and oil palm EFB, and then segregated by length, screened to remove impurities, cleaned, dried, before being sent for baling. The process will yield long dried fibres as well as short fibres. The clean and baled dry long fibres are supplied to be manufactured into other value added products while the short fibres can be either be manufactured into briquettes and pellets and/or, burnt in boilers for power generation purposes.

Biomass materials processors mostly set up their processing facilities within the vicinity adjacent to oil palm mills and coconut plantations. This is to ensure that they would have access to huge amount of raw materials such as coconut husks and EFBs at a cost effective

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price as transportation costs, which forms a significant part of total cost of raw materials can be reduced significantly. The raw material price varies and rises in tandem with the distance to transport them to the processing facilities. Some biomass materials processors would also work synergistically together with palm oil mills to jointly process the biomass materials at the oil palm itself. In addition, some may also venture into the value-adding activity of manufacturing certain end-products such as **mattress fibre sheets, geotextiles, briquettes and pellets**, etc.

The processed coconut and oil palm EFB fibres are packed in bales and bundles, and supplied to downstream end-user manufacturers in local as well as export markets. Quality of fibres supplied is generally measured in terms of fibre length, moisture content, oil content and impurities level.

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STRATEGIC ANALYSIS OF THE MALAYSIAN BIOMASS MATERIALS MARKET – COCONUT & OIL PALM EFB FIBRES

Market Dynamic Scorecard

Figure 9: Market Dynamic Scorecard for the Malaysian Biomass Materials Market – Coconut and Oil Palm EFB Fibres

Market Dynamics Indicators	Measurement	Trends
2012 Market Size (RM million)	110.0	-
2012 Market Growth Rate (%)	26.0	-
2018 Forecast Market Size (RM million)	180.4	Increasing
Forecast Period Market Compounded Annual Growth Rate ("CAGR") (2013 – 2018)	14.3	-
Pricing Trends	Coconut fibre = RM700 – 1,300 per tonne; and Oil palm EFB fibre = RM400 – 900 per tonne.	Stable
Competitive Landscape	Over 30 players divided into 2 tiers with moderate competition intensity as in Competitive Landscape Section	Increasing
2014 Demand Conditions	Favourable and underpinned by rising demand and applications of coconut and oil palm EFB fibres from domestic and international market.	Increasing
2014 Supply Conditions	Favourable with strengthening support from both government policies and incentives, and private investments.	Increasing
Threat of Substitution	Medium	Stable
Reliance on Imports	Low	Stable
Government Policy and Regulatory Stance	Pro-Industry (Expansive)	Stable

Source: Protégé Associates

Historical Market Performance and Growth Forecast

Protégé Associates estimates that the biomass materials market for coconut and oil palm EFB fibres in Malaysia is worth approximately RM110.0 million in 2012. The market is projected to grow at a CAGR of 14.3 percent for the period of 2013 to 2018. The market size and growth forecast for the biomass materials market for coconut and oil palm EFB fibres in Malaysia from 2010 to 2018 is shown in Figure 10.

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Figure 10: The Historical, Estimated and Growth Forecast for the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres, 2010 - 2018

Year	Revenue (RM million)	Annual Growth (%)
2010	56.6	-
2011	87.3	54.1
2012	110.0	26.0
2013	92.4	-16.0
2014	104.9	13.4
2015	118.3	12.8
2016	135.7	14.7
2017	156.3	15.2
2018	180.4	15.4

CAGR (2013 – 2018) = 14.3 percent

Note: All figures are rounded; the base year is 2012.

Source: Protégé Associates

Due to increasing environmental awareness and enforcements coupled with better processing technologies, natural fibres are gaining in popularity and are increasingly finding its way into various applications across industries. The Malaysian biomass materials market for coconut and oil palm EFB fibre caters to both local and foreign demand. As such, growth and expansion of the local biomass materials market for coconut and oil palm EFB fibres is highly diversified and robust as demands are not restricted to local market only but also to the international market, in particular China.

In 2011, the biomass materials market for coconut and oil palm EFB fibres surged by over 54.1 percent as demand for oil palm EFB fibres increased significantly in tandem with rising demand from China. The surge in demand from China can mainly be attributed to its emergence as a viable substitute for coconut fibre as a raw material for mattress and geotextile productions. The rise in demand continued in 2012 driven by higher selling prices seen for both the coconut and oil palm EFB fibres. Accordingly, the biomass materials market for coconut and oil palm EFB fibres in Malaysia recorded a robust growth of 26.0 percent in 2012 to reach RM110.0 million in market revenue.

Nonetheless, it is anticipated that the biomass materials market for coconut and oil palm EFB fibres will experience an estimated contraction by 16 percent in 2013. The bumping up of coconut fibre production seen worldwide in order to capitalise and cater for its higher demand

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has led to the inevitable softening of prices for coconut fibre, particularly more so during the first half of the year. The lower prices have also made coconut fibre much more attractive when compared to oil palm EFB fibre given its traditional usage and preference. This was true in China, one of the biggest markets for Malaysian oil palm EFB fibre. Accordingly, demand for oil palm fibre for the year is expected to be lower and this was further exacerbated by market participants dropping prices in support of demand. Having said that, the prices of coconut fibre is expected to strengthen in second half of 2013 as a tighter supply situation eventuates.

In 2014, the biomass materials market for coconut and oil palm EFB fibres market is projected to recover as prices of coconut fibre stabilise further. Moving forward, the biomass materials market for coconut and oil palm EFB fibres is expected to register healthy growth throughout the forecast period. Factors priming growth within the market is likely to come from a combination of market demand drivers including rising demand from China, the population growth and greater affluence which spurs demand for end-products, and growing applications of natural fibre. Meanwhile, in terms of supply, the various market drivers including strong governmental support, increasing domestic and foreign investments and initiatives, the increase of oil palm production under the Economic Transformation Programme ("ETP") and better legislation enforcement on environmental protection would help fuel healthy development of the supply environment going forward.

Competitive Landscape

The biomass materials market for coconut and oil palm EFB fibres is still at a relatively nascent stage and given the recent emergence and acceptance of oil palm EFB fibre as a viable biomass material, the levels of competition remains moderate with over 30 market participants comprising coconut and oil palm EFB processors/manufacturers and palm oil mills. Characterising a nascent and growing market, the market may see an increase in participations given the huge potentials on offer in addition to the favourable support from the government. However, new market participants are nevertheless subjected to various barriers to entry as detailed in the Barrier to Entry Section.

Market participants are mainly differentiated according to their production capabilities, scale and expertise to reliably deliver quality coconut and oil palm EFB fibres at a competitive price. And in order to do so, they must have the necessary production machineries and technologies coupled with industry expertise, hands-on skill and knowledge to ensure higher productivity

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and lower costs while at the same time have access to sustainable, viable amount of raw materials.

Competition within the biomass materials market for coconut and oil palm EFB fibres in Malaysia can be further segmented into two (2) general groupings according to their business activities and, production capabilities and capacities.

- Tier 1

Market participants in this grouping are mainly coconut and oil palm EFB processors and manufacturers who produce over 400 tonnes of natural fibres per month. Their principal business activities are in the processing and manufacturing of coconut and/or oil palm EFB fibres and related end-products. Cumulatively, they command almost half of the biomass materials market for coconut and oil palm EFB fibres. Market participants here ranges from medium to large size, and have established track records. They are focused in the production of coconut and oil palm EFB fibres either for exports and/or for the manufacture of value-added, end-products. As such, they have bigger, better production capabilities and capacities as compared to Tier-2 market participants. In terms of supply of raw materials, they typically have independent sources of coconut husks and oil palm EFBs and are not reliant on a single source for raw materials. Among the identified market participants within Tier-1 include Heng Huat, Global Green Synergy Sdn Bhd ("GGS") and Jinsern Marketing Sdn Bhd ("Jinsern").

- Tier 2

Market participants here mainly comprise oil palm mills and smaller producers of coconut and oil palm EFB fibres who produce less than 400 tonnes of natural fibres per month. Unlike Tier-1 market participants, these oil palm mills perform the processing of oil palm EFB fibres mainly to manage their waste and for their own consumption with a small excess amount being exported. As such revenue contributions from oil palm EFB fibre production may not be significant. Productions are also generally constrained by the amount of raw materials collected from their own mills.

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Key Market Players Analysis

Figure 11: Identified Key Market Players within the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres

Name	GGS	Heng Huat	Jinsern
Date of Incorporation	29 May 2008	25 November 2011	20 September 2006
Product Offerings	Oil palm EFB Fibre, briquette and pellet, bio-organic fertiliser, palm kernel shell and palm kernel charcoal	Coconut and oil palm EFB fibre, coconut peat and other value added products as well as mattress and related products	Coconut fibre and coconut peat
Financial Year Ended	31 December 2012	31 December 2013	31 December 2011
Revenue (RM)	5,606,435	73,740,055	8,942,771
Profit/(loss) before Tax (RM)	(1,354,463)	11,381,821	2,042,904
Profit/(loss) before Tax Margin (%)	(24.2)	15.4	22.8
Profit/(loss) after Tax (RM)	(1,354,463)	9,891,843	1,991,008
Profit/(loss) after Tax Margin (%)	(24.2)	13.4	22.3
Current Assets (RM)	2,772,027	29,409,024	4,633,234
Current Liabilities (RM)	4,958,333	25,070,241	4,812,202
Current Ratio (Times)	0.56	1.17	0.96

Notes:

- 1) These market players are identified for comparison purpose only, and do not constitute and is not limited to the actual quantity of market players within the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres.
- 2) The selected market players are alphabetically arranged and this do not constitute as a ranking.
- 3) The financial figures may be at group level that includes other business segments' contributions.

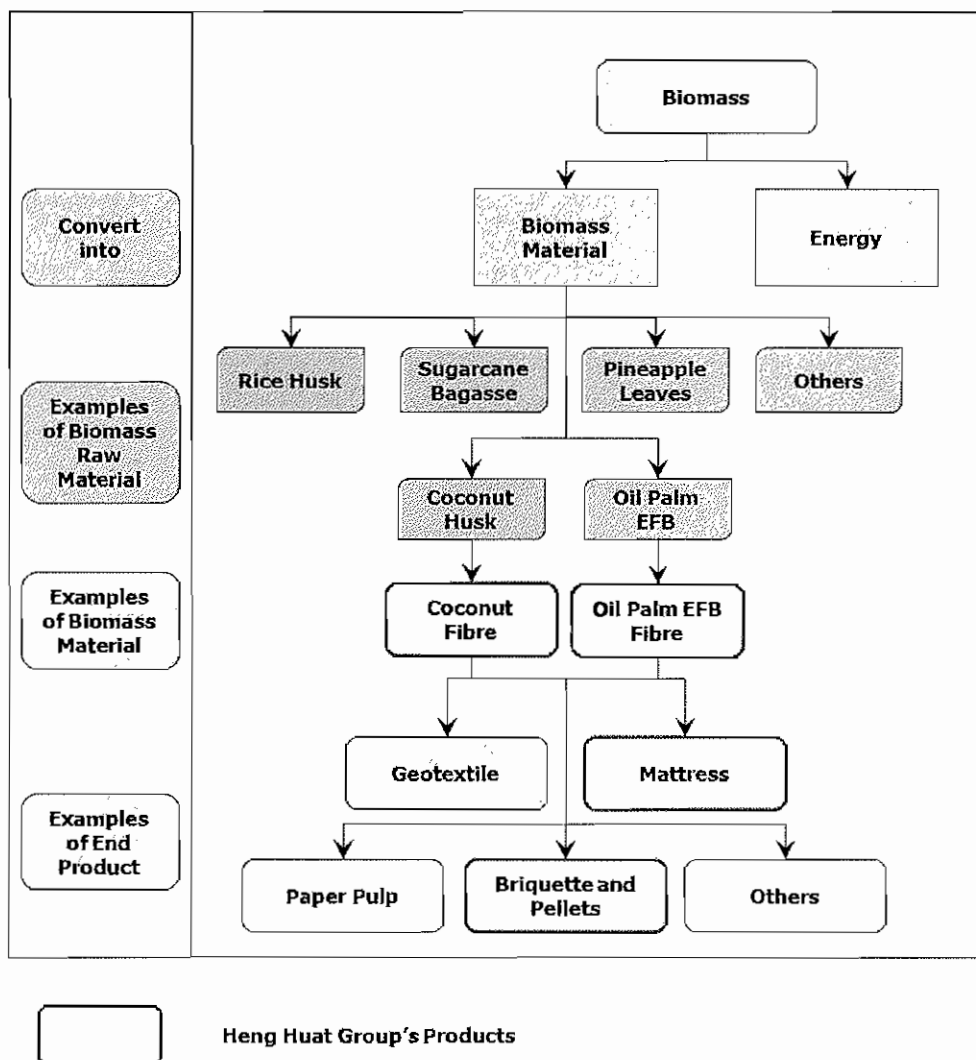
Source: Companies Commission of Malaysia, Heng Huat and Protégé Associates

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Heng Huat's Market Share Comparison with Selected Market Players

Heng Huat biomass materials manufacturing operations are carried out by their subsidiaries namely, HK Fibre, HK Kitaran and HK Palm Fibre. Heng Huat's position within the biomass materials market for coconut and oil palm EFB fibres is illustrated as follows:-

Figure 12: Heng Huat's Position in Biomass Materials Market for Coconut and Oil Palm EFB Fibres



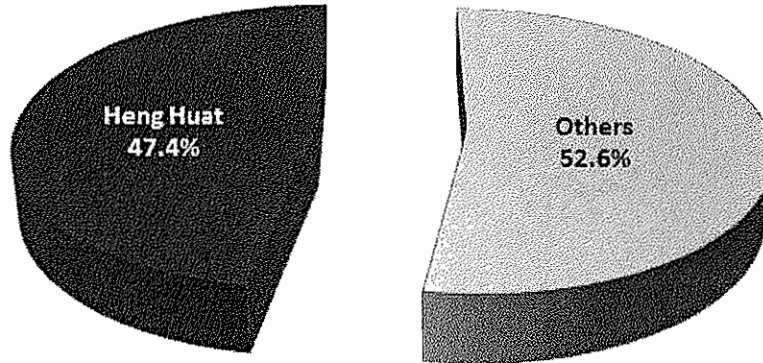
Source: Heng Huat and Protégé Associates

As illustrated in Figure 13, Heng Huat's reported revenue of RM43.8 million in 2013 from its coconut and oil palm EFB fibres business, translating to 47.4 percent share of the Malaysian biomass materials market for coconut and oil palm EFB fibres.

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Figure 13: Heng Huat's Share of the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres in 2013



Source: Protégé Associates

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(Cont'd)**Demand and Supply Conditions****Figure 14: Demand and Supply Conditions Affecting the Biomass Materials Market – Coconut and Oil Palm EFB Fibres in Malaysia, 2014***Source: Protégé Associates***Demand Conditions**

- **Rising Demand from China** - There has been a rising demand for coconut fibre from China since 2001. The surge in demand for coconut fibre was attributed to an expansion in applications utilising coconut fibre including mattresses, erosion control products such as geotextiles and as a peat moss substitute in landscaping and horticulture. As demands for coconut fibre continue to rise unabated in China, oil palm EFB fibre is fast emerging as a viable substitute for coconut fibre in particular as a raw material for mattress and geotextile production. This market driver will have a high impact throughout the forecast period.
- **Population Growth and Greater Affluence Spurring Demand for End-products** - According to the Department of Statistics, Malaysian population grew 1.4 percent from 29.5 million in 2012 to nearly 30 million in 2013. Malaysian consumers are generally attaining greater affluence as a result of broad economic growth seen for the country over the past half-century. The per capita income in Malaysia rose by 3.4 percent from RM30,667 in 2012 to RM31,698 in 2013. Both the increasing population and growing

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affluence of Malaysians are expected to spur demand for end-products made of biomass materials such as mattresses and furniture. This market driver is expected to grow throughout the forecast period.

- **Growing Applications for Natural Fibre** - The development of new technologies has enabled the innovation and production of new applications made from natural fibres including coconut and oil palm EFB fibres. The intrinsic properties of natural fibres such as its mechanical strength, low weight and low cost have made them highly attractive to a variety of industries. Among some of the industries finding new applications for natural fibres include furniture, geotextiles, automotive and construction.
- **Synthetic Fibre as an Alternative** - The success of synthetics is mainly due to its cost. Unlike natural fibres such as coconut and oil palm EFB fibres, synthetic fibres are mass produced from petrochemicals to uniform strengths, lengths and colours while at the same time easily customised to specific applications. However, natural fibres are making a comeback driven by growing environmental awareness, better processing technologies and rising oil prices. And with rising oil prices, the expected increase in costs of synthetic fibres will make natural fibre an even more attractive option going forward.

Supply Conditions

- **Strong Government Support** - The Malaysian government, both at federal and state levels have generally increased their attention towards environment protection and sustainability efforts. To this end, the government has launched the National Biomass Strategy 2020 ("NBS 2020") focusing initially on oil palm biomass before extending it to cover other sources. The NBS 2020 lays the foundation for Malaysia to capitalise on its biomass by channelling it into higher value downstream uses. To do this the government intends to put in place the right structures, regulatory framework and incentive package. In addition to the NBS 2020, the government has also launched the ETP, the National Green Technology Policy ("NGTP") and National Biotechnology Policy ("NBP") which is intended to encourage and promote the development of biomass and biomass-related industries.

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- **Increasing Domestic and Foreign Investments and Initiatives** - The EU-Malaysia Biomass Sustainability Production Initiative ("Biomass-SP") which is funded by the EU has been set up to develop the biomass industry based on the principles of sustainable consumption and production. In addition, the state government of Sabah has set up the Palm Oil Industrial Cluster ("POIC") in Lahad Datu, Sabah to spearhead investments and promotions of industries utilising the large volume of biomass generated from the oil palm plantations in Sabah.
- **Increase of Oil Palm Production under the ETP** - Under the government's ETP, palm oil is one of the 12 National Key Economy Areas ("NKEAs") and projected to raise total GNI contribution by RM125 billion to reach RM178 billion by 2020. Among the eight (8) entry point projects ("EPPs") that have been identified to achieve this target, improving FFB yield and improving oil extraction rate will increase the supply of palm oil in the long term. According to MPOB, FFB yield stood at approximately 19.0 metric tonnes per hectare in 2013. Under the improving FFB yield EPPs, it is expected that FFB yield will improve to 26.2 metrics tonnes per hectare by 2020. With these initiatives from Malaysian government, the biomass materials market will enjoy steady supply of EFB which is the main raw material for oil palm EFB fibre. In addition, the price of oil palm EFB fibre will remain stable as it can be sourced affordably from the domestic market. This market driver is likely to remain medium throughout the forecast period.
- **Legislation Enforcement on Environment Protection** - The implementation of the Environmental Quality Act ("EQA") in 1974 has helped defined the pollutant discharge standards and penalties, and thus ensure greater compliance among industries in Malaysia. With the enforcement of stringent legislation on environment protection such as EQA, the disposal of biomass waste has become an issue for both the coconut and oil palm industry. Disposal activity can only be carried out within the acceptable conditions as described by the authority to minimise its contamination to the environment. As such, the channelling of biomass waste such as coconut husk and oil palm EFB to biomass materials producers offers millers a cost effective and environmentally friendly solution.

**7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)**

**Market Reliance on and Vulnerability to Imports**

Oil palm is cultivated domestically and its production takes place throughout the year in Malaysia. Oil palm EFBs can be sourced easily from oil palm mills in Malaysia due to the large amount of EFBs produced each year. According to MIA, production of EFBs in Malaysia is projected to grow to 8 million tonnes in dry weight by 2020. Hence, the local biomass materials market for oil palm EFB fibre is not dependent on imported raw material supplies from other countries.

Coconut husks are currently readily available and is produced both locally as well as imported. Coconut plantations are comparatively smaller than oil palm plantations and are widely spread out thus making collection of coconut husks economically unviable. As a result, only coconut husks from plantations with better access and closer proximity are collected. Therefore, coconut husks are imported to make up for any shortfall in local supply of coconut husks. Coconut husks can be readily imported from countries such as India, Sri Lanka and the Philippines.

Substitute Products/ Services

There is a considerable degree of substitutability among natural fibres across various applications and end-products. The determination on what natural fibres to be used in end-products is largely dependent on the respective qualities, availability, characteristics and costs of the natural fibre and how it best fit the needs and requirements of the intended applications and end-products.

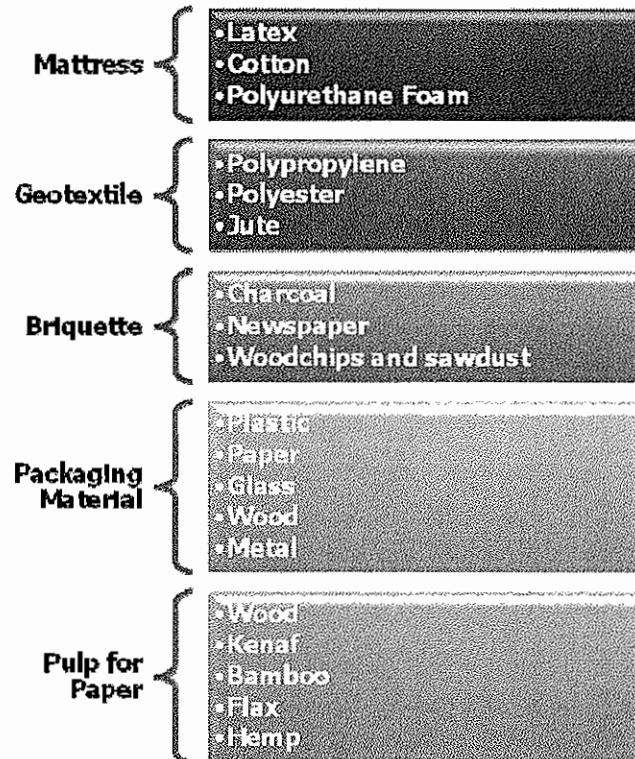
A list of identified substitutes for coconut and oil palm EFB fibres in selected end-products is shown in Figure 15.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)

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Figure 15: Identified Substitutes for Coconut and Oil Palm EFB Fibres in Selected End-Products



Source: Protégé Associates

Barrier to Entry

- **Capital Intensive** - Potential market entrant is expected to incur huge capital outlay as they would need to invest in setting up costs, machineries purchases, operational costs, research and development ("R&D"), labour costs, etc. in order to compete in the biomass materials market for coconut and oil palm EFB fibres. And the market entrant would also need to make continuous investments in processing facilities, machineries and R&D to keep up with technological advancement and trends enveloping the market. In addition, the energy costs for processing/manufacturing of natural fibres are prohibitively high, and potential market entrant must be able to manage the cost to stay competitive.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



- **Production Technologies and Machineries** - Currently, there is a lack in local supply of specialised machinery with higher efficiency that caters specifically for the treatment and processing of coconut and oil palm EFB fibres. Hence, any potential market entrants wishing to enter the market would not only be required to make substantial investments in production machineries and technologies, but they also must have the necessary industry expertise, hands-on skill and knowledge to innovate and customise the production lines and machineries to attain higher productivity and lower cost in order to remain competitive. In addition, it takes time and resources before this can be achieved.
- **Securing Supply of Biomass Raw Materials** - The utilisation rate of coconut husks and oil palm EFBs remained small in Malaysia. The transportation and collection costs of such biomass materials, in particular due to the wide and segregated locations of plantations and mills are proving to be a hindrance for better utilisation of the biomass wastes. From the perspective of economy of scale, the treatment and processing plant needs to be located within the vicinity of plantations and oil palm mills. Any potential market entrants wishing to enter the market would need to have the necessary industry experience and knowledge to comprehend the dynamics surrounding the location in relation to their production requirements and plans. They must be able to establish an ecosystem that provide a sustained, consistent supply of competitively priced raw materials while at the same time allows for timely delivery of processed biomass materials to customers and/or end-product manufacturers.
- **Strong Business Relationship** - Building a viable and strong business relationship is not an easy task for any new entrants as relationship building would need significant amount of time to be established. Once the business relationship has arrived at a comfortable stage where trust and confidence is well-established, it would be difficult to break-up such partnership. New entrants in the market may find it very hard to break-up such established relationship and it is doubly as hard trying to gain their trust and confidence.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



Government Policies and Regulations

Pro-industry Policies

- **NBS 2020** - The NBS 2020 was launched to assess how Malaysia can gain more revenue from its oil palm industry through utilisation of the associated biomass. An explicit objective of the study was to determine how Malaysia can develop new biomass sectors with the aim of creating higher value-added economic activities. The NBS 2020 lays the foundation for Malaysia to capitalise on its biomass by channelling it into higher value downstream uses. The NBS 2020 envisaged that an additional 20 million tonnes of oil palm biomass will be utilised by 2020 based on a conservative scenario. This would help generate a significant incremental contribution to GNI of RM30 billion by 2020 and also offer the country a way to meet its renewable energy target, reduce emissions and create about 66,000 incremental jobs.
- **ETP** - Under the government's ETP, palm oil is one of the 12 NKEAs and projected to generate an additional RM125 billion to GNI to reach RM178 billion by 2020. Among the eight (8) EPPs that have been identified to achieve this target, improving FFB yield and improving oil extraction rate will increase the supply of palm oil in the long term. It is expected that FFB yield will improve to 26.2 metrics tonnes per hectare by 2020.
- **NGTP** - The NGTP is part of the government's push in charting the country's development where green technology will be the new driver of economic growth. The NGTP would create opportunities for new green business, including the manufacturing of "green products". The NGTP mainly focuses on four (4) pillars i.e. energy, economy, environment and social.
- **Malaysian Investment Development Authority ("MIDA")** - Various incentives are also given under the management of MIDA for the use of biomass or renewable energy resources, or companies undertaking waste recycling or energy conservation activities. The incentives include Pioneer Status ("PS") with a tax exemption of 100 percent for 10 years, as well as Investment Tax Allowance ("ITA") of 100 percent on qualifying capital expenditure within a period of 5 years.
- **NBP** - The development of biotechnology is vital in expanding both upstream and downstream of biomass materials market. The NBP is also targeted to improve Malaysia existing strengths in biotechnology sector, meanwhile preparing a conducive environment for R&D and industry development. The policy spells out nine (9) thrusts, which include transforming and enhancing the value creation of the agricultural sector

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)



through biotechnology and ensuring growth opportunities in the application of advanced bio-processing and bio-manufacturing technologies.

Related Regulations

The biomass materials market is currently not subjected to any specific regulations. However, there are related regulations for the coconut and oil palm industry. Both the coconut and palm oil industry are subjected to the following regulations of the EQA, 1974:

- Environmental Quality (Prescribed Premises) (CPO) Regulations, 1997 (Amendment), which stipulate detailed conditions with the licence to use or operate a premise for palm oil processing including compliance to stringent standards for discharge of treated effluents to water courses or for land application.
- Environmental Quality (Clean Air) Regulations 1978 which stipulate the conditions pertaining to open burning and emission standards for smoke and particulate emissions into the atmosphere.
- Environmental Quality (Prescribed Activities) (Environmental Impact Assessment ("EIA")) Order 1987 which requires that an assessment and submission of an EIA report to the Director-General before undertaking any of the 19 prescribed activities. The sub-activities that are relevant to the development of coconut or oil palm plantations are:
 - a) Land development schemes covering an area of 500 ha or more to bring forest land into agricultural production.
 - b) Agricultural programmes necessitating the resettlement of 100 families or more.
 - c) Development of agricultural estates covering an area of 500 ha or more involving changes in types of agricultural use.
 - d) Conversion of hill forest land to other land use covering an area of 50 ha or more.
 - e) Conversion of mangrove swamps for industrial, housing or agricultural use covering an area of 50 ha or more.

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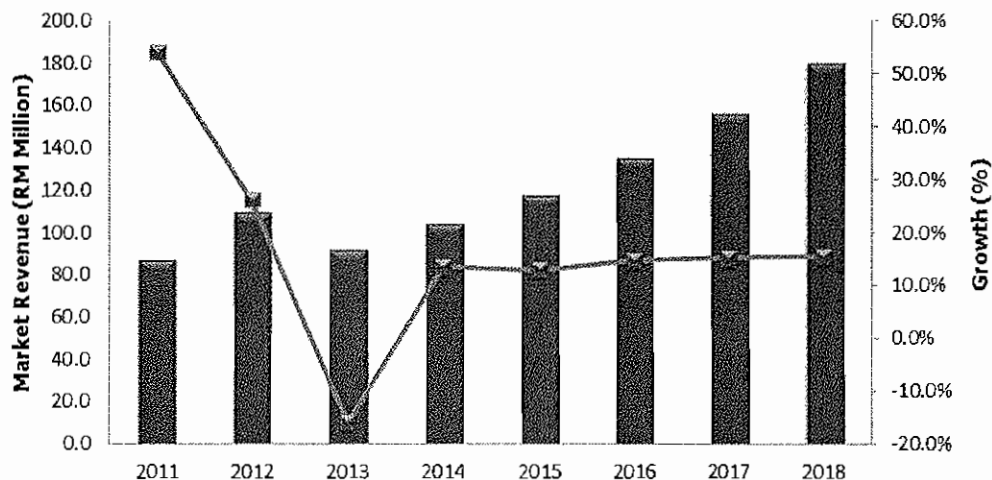
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OUTLOOK OF THE BIOMASS MATERIALS MARKET – COCONUT & OIL PALM EFB MARKET

The outlook for the biomass materials market for coconut and oil palm EFB fibres in Malaysia is positive. In 2012, the biomass materials market for coconut and oil palm EFB fibres in Malaysia was estimated to be worth approximately RM110.0 million. Although a contraction in growth is projected for 2013, the biomass materials market for coconut and oil palm EFB fibre is still expected to grow at a CAGR of 14.3 percent over the period of 2013 to 2018. Protégé Associates projects the size of the biomass materials market for coconut and oil palm EFB fibres to reach RM180.4 million in 2018.

Figure 16: Market Size and Growth Forecast for the Biomass Materials Market – Coconut and Oil Palm EFB Fibres in Malaysia, 2011 – 2018



Source: Protégé Associates

There are vast opportunities for greater consumption of biomass materials such as coconut and oil palm EFB fibres based on the outlook of key applications as detailed below:

Mattress

In 2012, a total of 588,000 mattresses were produced with sales amounting to RM141.6 million registered. In Malaysia, mattress growth prospects are mainly driven by population and household growth, and frequency of replacement. The frequency of replacement is

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)

dependent on the amount of interest in new products that can be generated which compels consumers to replace their existing bedding.

The Malaysian mattress market is generally mature with little fluctuations expected. Sales of mattresses will typically improve in line with an expanding economy. As such, the mattress market in Malaysia is projected to experience stable growth in the near to medium term. The use of oil palm EFB fibre as an alternative or as a mix with coconut fibre as raw materials in the manufacture of mattresses may increase over time given its abundance, comparative characteristics and lower cost. However, this is subject to continuous innovations and product development initiatives, and better market education of consumers as to its viability as an alternative mattress material. This development is expected to spur an increased uptake of oil palm EFB fibre moving forward.

Geotextile

Market prospects for geotextiles and accordingly, demand for biomass materials such as coconut and oil palm EFB fibres are bright going forward underpin by the continuous growth in construction and agricultural activities expected as the country progresses. The agriculture and construction sector is forecasted to expand by 3.0 and 9.6 percent respectively in 2014 and this augurs well for geotextiles demand moving forward. With the increase in land clearing activities for construction and agricultural purposes, the demand for more soil protection and erosion controls intervention via geotextiles would accordingly intensify. Given the growing environmental consciousness and government's push for biomass industry, geotextiles made of natural fibres such as coconut and oil palm EFB fibres would be the ideal and preferable option.

Briquette and Pellets

Briquette and pellets produced in Malaysia can be shipped to Europe as well as Japan or Korea to be burned for energy. There is an existing market demand for briquette and pellets from these markets. Meanwhile, the recent banning of new coal-fired plants in Beijing, Shanghai and Guangzhou of China is also likely to spur demand for cleaner, alternative source of energy including briquette and pellets. According to the MIA, the global demand for biomass pellet is anticipated to reach 20 million tonnes by 2020. Accordingly, the demand for biomass materials such as coconut and oil palm EFB fibres are expected to rise.

**7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)**

MARKET OUTLOOK FOR BIOMASS MATERIALS – COCONUT & OIL PALM EFB FIBRES IN CHINA

China's Economic Overview

The Chinese economy has continued on an expansion trail by registering another year of growth at a stabilised pace in 2013. According to the National Bureau of Statistics of China, the country's economy grew at a steady rate of 7.7 percent year-on-year in 2013 – exceeding the government's 7.5 percent targeted rate due to government's effort in stimulating lending in the second half of 2013.

Overall, China managed to register positive results across in many key economic indicators. In the agriculture sector, the output of one of China's key agricultural products namely grain, increased by 2.1 percent from 589.58 million tonnes in 2012 to 601.94 million tonnes in 2013. Other major agricultural products such as oil-bearing crops, sugar crops, meat and eggs had also registered growth in their production for 2013. Meanwhile, the total value added of the industrial sector and construction industry grew by 7.6 and 9.5 percent year-on-year respectively in 2013.

In terms of international trade, the size of its imports and exports had expanded in 2013 as foreign trading activities with its major international trading partners gathered pace. The total value of China's foreign trade had increased by 7.6 percent to United States Dollar ("USD") 4,160.3 billion in 2013. Overall, China's trade surplus for 2013 was USD259.8 billion, a 12.4 percent increase from the preceding year.

Meanwhile, investors remained bullish on the prospect of the Chinese economy. The investments in fixed assets (excluding rural households) in China stood at RMB43,652.8 billion in 2013 or 19.6 percent year-on-year improvement from 2012.

Moving forward, the Chinese Government is expected to continue maintaining the economic stability, at the same time deepen the reform of social and economic development across sector, upgrading people's livelihood and establishing a sound and sustainable economic and social development

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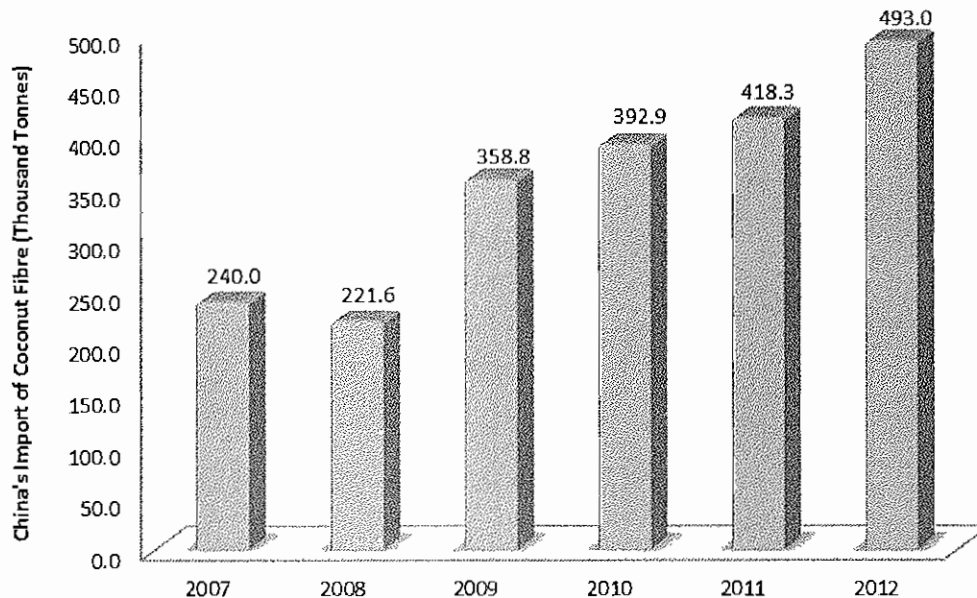
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Market Outlook for Biomass Materials – Coconut & Oil Palm EFB Fibres

As seen in Figure 17, China has seen significant increase in its import of coconut fibre over the period from 2009 to 2012. In 2012, a total of 493 thousand tonnes of coconut fibre was imported by China. This represents an impressive year-on-year growth in volume of 17.9 percent over the preceding year.

Figure 17: China's Import of Coconut Fibre, 2007-2012



Source: Food and Agriculture Organisation of the United Nations ("FAO")

The surge in demand for coconut fibre was attributed to an expansion in applications utilising coconut fibre including mattresses, erosion control products such as geotextiles and as a peat moss substitute in landscaping and horticulture. In addition to serving the needs of its domestic market, Chinese importers also uses coconut fibre for the manufacture of mattresses for exports.

As demands for coconut fibre continue to rise unabated in China, oil palm EFB fibre is fast emerging as a viable substitute for coconut fibre in particular as a raw material for mattress and geotextile production. Oil palm EFB fibre can be used to replace coconut fibre in the manufacture of mattresses and cushions, geotextiles, and other fibre-based products due to its strong bond characteristics. The use of oil palm EFB fibre as a replacement for coconut fibre is still at its infancy due to its newness and apprehension from manufacturers. However,

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



the acceptance level will likely increase over time as it is a viable and cheaper alternative to coconut fibre.

The following sub-sections provide an overview of selected key end-user markets driving demand for coconut and oil palm EFB fibres in China.

Mattress

The Chinese's mattress market is a fast growing market with an annual demand for mattresses estimated at 100 million pieces. The strong demand is mainly driven by population and household growth, an expanding real estate market and frequency of replacement.

In 2013, China's population increased by approximately 0.5 percent to 1.36 billion people. The increasing population along with a growing economy which affords its citizen with an increasing household income and greater purchasing power translates to robust demand for more mattresses. In addition, as the Chinese consumers become more affluent, they are shifting from their traditional preference of mats to mattresses.

Figure 18: Number of Flats of Residential Buildings Completed and Sold by Enterprises for Real Estate Development in China, 2008-2012

Year	2008	2009	2010	2011	2012
Total number of flats of residential buildings completed (units)	4,939,189	5,548,897	6,019,767	7,219,163	7,642,379
Total number of flats of residential buildings sold (units)	5,565,827	8,040,470	8,817,526	9,139,672	9,446,424

Note: Number of flats of residential buildings sold includes the future housing

Source: National Bureau of Statistics of China

Meanwhile, the expanding real estate market also serves to underpin demand for mattresses. As seen in Figure 18, the number of flats of residential buildings completed in China has been on an upward trend since 2008. In 2012, the number of flats of residential buildings completed expanded by around 5.9 percent to 7,642,379 units. Similarly, the number of flats of residential buildings sold increased by around 3.4 percent to 9,446,424 units in the same year. Under China's 12th Five Year Plan ("FYP"), the government plans to construct 36 million new housing units to increase the availability of affordable urban housing. As the number of residential units increased, the demand for mattresses is expected to rise accordingly.

**7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)**



In addition to robust domestic demand for mattresses, Chinese mattress manufacturers are also aggressively expanding their production to cater for export markets such as the US, Japan, Hong Kong, Australia and Saudi Arabia. As such, they would require more raw materials such as coconut and oil palm EFB fibres as they ramped up productions.

Given the various trends and prospects favouring demand for mattresses in China, market prospects and outlook for biomass materials such as coconut and oil palm EFB fibres are positive moving forward.

Geotextile

The production of geotextile in China is forecasted to expand to over 700,000 tonnes by 2015 driven by continuous spending in construction and infrastructure projects along with reverse desertification efforts. In the near to medium term, China is expected to make continuous investments in major infrastructure projects such as highways, airports, railways, water conservancy and environmental protection projects. For instance, the China government has targeted a total investment of RMB1.4 trillion in 2014 and 2015 for construction of railway in the country particularly in the central and western region. Furthermore, about RMB4 trillion will be invested up to 2020 for water conservation projects and further broaden the geotextile market in China.

Meanwhile, demand for geotextiles is also rising as China continues its battle to reverse the expanding desert area plaguing the country. With 26.3 million square km of land being threatened by desertification, the central government has allocated about RMB1.4 billion annually for desertification programme in recent years. Besides that, the Chinese government is also intensifying its effort to combat this and planning to spend up to RMB113 billion to reverse desertification in Ningxia by 2020.

Market prospects for geotextiles are favourable in the near to medium term as increasing construction and infrastructure activities coupled with reverse desertification efforts continue to take place in the country. Demand for biomass materials such as coconut and oil palm EFB fibres are forecasted to grow in tandem with rising demands for geotextiles.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)

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Protégé Associates has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours Sincerely,



TAN CHIN HOW

Director

Protégé Associates Sdn Bhd

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

8.1 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

8.1.1 Shareholdings

The shareholdings of our Promoters and/or substantial shareholders in our Company before and after our IPO are as follows:

Name	Nationality/Country of incorporation	Before IPO			After IPO		
		Direct	Indirect	%	Direct	Indirect	%
		No. of Shares held	No. of Shares held	% held	No. of Shares held	No. of Shares held	% held
Promoters and substantial shareholders							
H'ng Choon Seng	Malaysian	72,970,110	16,500,000 *	10.36	72,970,110	16,500,000 *	8.02
Kee Swee Lai	Malaysian	69,044,870	-	-	54,384,870	-	26.43
Khor Mooi Kim	Malaysian	392,520	-	-	392,520	-	0.19
Teh Chai Luang	Malaysian	392,520	-	-	392,520	-	0.19
Khor Teik Boon	Malaysian	-	-	-	-	-	-
HH Manufacturer	Malaysia	16,500,000	-	-	16,500,000	-	8.02

Note:

* Deemed interest by virtue of his substantial interests in HH Manufacturer pursuant to Section 6A of the Act.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.1.2 Profile of Promoters and Substantial Shareholders

H'ng Choon Seng, Malaysian, aged 47

Promoter, Co-founder, Managing Director and Substantial Shareholder

H'ng Choon Seng was appointed to our Board as Director on 25 November 2011 and on 28 May 2012, he was designated as our Managing Director. He completed his high school education at Sekolah Menengah Kebangsaan Tunku Sheh Barabah, Jawi, Seberang Perai Selatan, Penang in 1983 and has since accumulated thirty-one (31) years of experience in the furniture and biomass material industries. As our Managing Director, he is responsible for overseeing our Group's operations and has been instrumental in the growth and development of our Group.

Mr H'ng started his career in 1983 when he joined a home-based furniture manufacturer in Jawi, Penang. In 1986, he started his own home-based furniture manufacturing and trading businesses under Chiang Wei Enterprise and Heng Huat Industries Enterprise respectively. In 1997, he established HH Manufacturer to manufacture mattresses.

In 2007, he co-founded HK Fibre, together with Kee Swee Lai to manufacture coconut fibre which paved the way for his involvement in the biomass industry. Subsequently, HK Palm Fibre and HK Kitaran were established in 2009 to manufacture oil palm EFB fibre.

Kee Swee Lai, Malaysian, aged 51

Promoter, Co-founder, Deputy Managing Director and Substantial Shareholder

Kee Swee Lai was appointed to our Board as Director on 25 November 2011 and on 28 May 2012, he was designated as our Deputy Managing Director. He graduated with a Bachelor of Science in Microbiology from Universiti Kebangsaan Malaysia in 1987 and has since accumulated twenty-seven (27) years of experience in plantation management and factory operations. As our Deputy Managing Director, he is responsible for overseeing our production operations and process development activities and has been instrumental in developing our automated production process.

Mr Kee started his career with Lion Plantation Sdn Bhd in 1987 as a Management Trainee and was subsequently promoted to Plantation Manager in 1989. In 1991, he left Lion Plantation Sdn Bhd and joined PT Riau Sakti Plantations (RSUP) under Sambu Group as an Assistant General Manager and was subsequently promoted to General Manager in 1993. He left PT Riau Sakti Plantations (RSUP) in 2006 and subsequently co-founded HK Fibre in 2007 followed by HK Palm Fibre and HK Kitaran in 2009.

Khor Mooi Kim, Malaysian, aged 45

Promoter, Executive Director and Substantial Shareholder

Khor Mooi Kim is our Executive Director and was appointed to our Board on 28 May 2012. She completed her high school education at Sekolah Menengah Kebangsaan Tunku Sheh Barabah, Jawi, Seberang Perai Selatan, Penang in 1985 and started her career in her family's poultry farm business in the same year. In 1991, she joined HH Furniture as an Administrator cum Human Resource Officer and was promoted to director in 1999. In 2012, she left HH Furniture and joined our Group as a director to manage our Group's human resource and administrative matters. She has accumulated twenty-three (23) years of experience in the furniture industry.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Teh Chai Luang, Malaysian, aged 48
Promoter, Executive Director and Substantial Shareholder

Teh Chai Luang is our Executive Director and was appointed to our Board on 28 May 2012. She completed her high school education in 1984 at Sekolah Menengah Kebangsaan Methodist (ACS) in Parit Buntar, Perak. In the same year, she started her career in her family's rattan container business and was attached to her family business until 1991. In 1991, she joined HH Furniture as an Administrator cum Sales Officer and was promoted to director in 1999. In 2012, she left HH Furniture and joined our Group as a director to head our sales and marketing activities. She has accumulated twenty-three (23) years of experience in the furniture industry.

Khor Teik Boon, Malaysian, aged 42
Promoter and Executive Director

Khor Teik Boon is our Executive Director and was appointed to our Board on 28 May 2012. He completed his high school education at Sekolah Menengah Kebangsaan Tunku Sheh Barabah, Jawi, Seberang Perai Selatan, Penang in 1988. In 1989, he started his career with Heng Huat Industries Enterprise as an Operations Officer. In 1997, he left Heng Huat Industries Enterprise and joined HH Manufacturer as a Production Supervisor. In 2007, he was promoted to Senior Production Manager. He left HH Manufacturer in 2012 and joined our Group as Executive Director in the same year. He has twenty-five (25) years of experience in manufacturing operations and is responsible for overseeing our Group's mattress production.

HH Manufacturer
Promoter and Substantial Shareholder

HH Manufacturer was incorporated in Malaysia under the name of Apollo Craft Sdn Bhd on 12 May 1997 as a private limited company under the Act. On 10 September 1997, it changed name to Heng Huat Manufacturers Sdn Bhd and subsequently changed and assumed its present name on 19 October 2005. As at the LPD, its authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up.

HH Manufacturer was principally involved in the manufacturing of fibre coconut sheet mattress. It has ceased its manufacturing activities upon the completion of the Acquisition of Assets of HH Manufacturer on 16 June 2012. Please refer to Section 5.4.2 for details of the Acquisition of Assets of HH Manufacturer.

The directors and shareholders of HH Manufacturer and their respective shareholdings in the company as at the LPD are as follows:

Name	<----- Direct ----->		<----- Indirect ----->	
	No. of shares held	% held	No. of shares held	% held
Directors and Shareholders				
H'ng Choon Seng	99,998	99.98	-	-
Khor Teik Boon	2	0.02	-	-

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.1.3 Changes in Promoters and/or Substantial Shareholders' Shareholdings since Incorporation

Save as disclosed below, there has been no change in the shareholdings of our Promoters and/or substantial shareholders in our Company since incorporation up to the date of this Prospectus:

Name	Date of Acquisition/ Disposal	Direct		Indirect		
		No. of Shares Acquired/ (Disposed)	Cumulative No. of Shares	No. of Shares Acquired/ (Disposed)	Cumulative No. of Shares	
Promoters and substantial shareholders						
H'ng Choon Seng	25.11.2011	1	1 ⁽¹⁾	-	-	
	16.05.2012	-	10 ⁽²⁾	-	-	
	18.05.2012	72,970,100	72,970,110	16,500,000	16,500,000 ⁽³⁾	
Kee Swee Lai	25.11.2011	1	1 ⁽¹⁾	-	-	
	16.05.2012	-	10 ⁽²⁾	-	-	
	18.05.2012	69,044,860	69,044,870	-	-	
Khor Mooi Kim	18.05.2012	392,520	392,520	-	-	
Teh Chai Luang	18.05.2012	392,520	392,520	-	-	
HH Manufacturer	18.05.2012	16,500,000	16,500,000	-	-	

Notes:

(1) Subscriber share of RM1.00 each.

(2) Share Split.

(3) Deemed interest by virtue of his substantial interest in HH Manufacturer pursuant to Section 6A of the Act.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

8.2 BOARD OF DIRECTORS

8.2.1 Profile

The profile of H'ng Choon Seng, Kee Swee Lai, Khor Mooi Kim, Teh Chai Luang and Khor Teik Boon are set out in Section 8.1.2 of this Prospectus.

Dato' Juzilman Bin Basir, Malaysian, aged 57
Independent Non-Executive Chairman

Dato' Juzilman bin Basir is our Independent Non-Executive Chairman and was appointed to our Board on 25 March 2014. He graduated with a Bachelor of Education in Agriculture Science from University Putra Malaysia in 1982.

Dato' Juzilman has over thirty (30) years of experience in the agricultural sector through his attachment with Felcra Berhad since 1982. He started his career as an Agriculture Officer until 1986. He was subsequently promoted to various positions in Felcra Berhad, including Felcra State Director of Malacca, Kedah and Perlis, Deputy Director of Plantation division and Development division, General Manager of Estate Management, Vice President and Senior Vice President of Monitoring and Evaluation, and Group General Manager of Estate Management. He was the Chief Executive Officer of Felcra Berhad from 2010 until his retirement in 2013.

Lim Ghim Chai, Malaysian, aged 39
Executive Director

Lim Ghim Chai is our Executive Director and was appointed to our Board on 28 May 2012. He graduated with a Bachelor of Commerce (Accounting) from La Trobe University, Australia in 1998. He is a member of the Malaysian Institute of Accountants and a Certified Practising Accountant of Australia. He has been awarded a certificate from Malayan Insurance Institute.

Mr Lim started his career with Acer Technologies (M) Sdn Bhd as a Financial Accountant in 2000. In 2001, he left Acer Technologies (M) Sdn Bhd and joined Agilent Technologies (M) Sdn Bhd as a Financial Analyst. In 2002, he left Agilent Technologies (M) Sdn Bhd and joined Lorry Commercial Logistic Sdn Bhd as an Accountant until 2003. Between 2003 and 2006, he was a Partner in Maxwell Business Management and Consultancy, which specialises in tax consultancy, business planning consultancy and auditing services. He left Maxwell Business Management and Consultancy in 2006 to venture into his own business of property development and recycling of waste material. In 2012, he joined our Company as an Executive Director and is responsible for overseeing our Group's accounting, finance and corporate exercise activities.

Currently, he is an Independent Non-Executive Director of Asia EP Resources Berhad as well as a director of several private limited companies.

Ng Boon Kang, Malaysian, aged 43
Independent Non-Executive Director

Ng Boon Kang is our Independent Non-Executive Director and was appointed to our Board on 6 December 2012. He graduated with a Bachelor of Accountancy from Universiti Utara Malaysia in 1996. He is a member of the Malaysian Institute of Accountants, a Certified Financial Planner of the Financial Planning Association of Malaysia and a Registered Financial Planner of the Malaysian Financial Planning Council. He has also obtained a tax agent licence from the Ministry of Finance Malaysia in 2010.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

Mr Ng started his career with Chuah & Associates as an Audit Assistant in 1996 and was promoted to Audit Senior in 1997. In 1998, he left Chuah & Associates and joined KH Chew & Co as an Audit Manager. In 2004, he left KH Chew & Co and set up Crest Consulting, which provided business consulting, business planning and restructuring services. Crest Consulting has ceased its operations since 21 January 2006. Since 2006, he has joined BK Ng & Associates and TTP & Associates as a Tax Managing Partner and Audit Principal respectively.

Lo Liang Kheng, Malaysian, aged 50
Independent Non-Executive Director

Lo Liang Kheng is our Independent Non-Executive Director and was appointed to our Board on 28 May 2012. He graduated with a Bachelor of Business Administration from American City University, Cheyenne, Wyoming, USA in 2004 and obtained his Master in Business Administration from Universiti Sains Malaysia in 2008. He also obtained a Certified Credit Professional from Institut Bank-Bank Malaysia in 2005.

Mr Lo started his career with Public Bank Berhad as a Clerk in 1984 and was promoted to Operations Officer in 1992. He then left Public Bank Berhad in the same year and joined Pacific Bank Berhad as a Senior Operations Officer, and was subsequently promoted to Assistant Manager in 1996. In 1997, he left Pacific Bank Berhad and joined Dynamix Sound and Light Sdn Bhd as Financial Controller. In 2000, he left Dynamix Sound and Light Sdn Bhd and joined Kawyn Ornaments Sdn Bhd as Financial Controller. He then left Kawyn Ornaments Sdn Bhd in 2004 to set up his own business. Since 2005, he set up Kheng Consultancy Sdn Bhd, which specialises in the provision of management and financial consultancy services.

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8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.2.2 Shareholdings

The shareholdings of our Directors in our Company before and after our IPO are as follows:

Name	Designation	Nationality	Before IPO			After IPO		
			Direct No. of Shares held	Indirect No. of Shares held	% held	Direct No. of Shares held	Indirect No. of Shares held	% held
Dato' Juzilman Bin Basir	Independent Non-Executive Chairman	Malaysian	-	-	-	-	-	-
H'ng Choon Seng	Managing Director	Malaysian	72,970,110	16,500,000 *	45.81	72,970,110	16,500,000 *	35.46
Kee Swee Lai	Deputy Managing Director	Malaysian	69,044,870	-	43.34	54,384,870	-	26.43
Lim Ghim Chai	Executive Director	Malaysian	-	-	-	-	-	-
Khor Mooi Kim	Executive Director	Malaysian	392,520	-	0.25	392,520	-	0.19
Teh Chai Luang	Executive Director	Malaysian	392,520	-	0.25	392,520	-	0.19
Khor Teik Boon	Executive Director	Malaysian	-	-	-	-	-	-
Ng Boon Kang	Independent Non-Executive Director	Malaysian	-	-	-	-	-	-
Lo Liang Kheng	Independent Non-Executive Director	Malaysian	-	-	-	-	-	-

Note:

* Deemed interest by virtue of his substantial interests in HH Manufacturer pursuant to Section 64 of the Act.

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.2.3 Principal Activities Performed Outside Our Group

Save as disclosed below, none of our Directors has any directorships and/or principal activities performed outside of our Group for the past five (5) years prior to the LPD:

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD ----->			
					Direct No. of shares held	% held	Indirect No. of shares held	% held
H'ng Choon Seng	HK Alliance Sdn Bhd	Property holdings	Director/ Shareholder	27.09.2011	135,000	45.00	-	-
	Agro Vista Sdn Bhd ⁽¹⁾	Dormant	Director/ Shareholder	22.03.2011	15,000	15.00	-	-
	Tanjung Sepi Sdn Bhd ⁽²⁾	Investment holding	Director/ Shareholder	20.03.1995	50,000	50.00	-	-
	HH Manufacturer ⁽³⁾	Dormant	Director/ Shareholder	22.05.1997	99,998	99.98	-	-
	HH Furniture ⁽⁴⁾	Sewing and marketing of cushions, pillows, mattresses	Director/ Shareholder	02.09.1991	1,150,000	50.00	-	-
	Jinserm Marketing Sdn Bhd	Manufacturing of coconut fibre and coconut peat	Director	24.11.2006/ (04.02.2010)	-	-	-	-
	M2 Marketing Sdn Bhd	Dissolved	Director/ Shareholder	25.01.2005	25,000	50.00	-	-
	Shuang Lian Marketing Sdn Bhd	Dissolved	Director	09.12.2004	-	-	-	-
	HK Arah Kawasan Sdn Bhd	Dissolved	Director/ Shareholder	19.08.2009	1	50.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD		% held
					Direct No. of shares held	Indirect No. of shares held	
Kee Swee Lai	Aman Jitra Sdn Bhd	Dissolved	Shareholder	-	1	50.00	-
	HK Alliance Sdn Bhd	Property holdings	Director/ Shareholder	27.09.2011	135,000	45.00	-
	Agro Vista Sdn Bhd ⁽¹⁾	Dormant	Director/ Shareholder	22.03.2011	15,000	15.00	-
	Mass Empire Travel & Tours Sdn Bhd	Dissolved	Director	24.06.2005/ (16.04.2009)	-	-	-
	HK Arah Kawasan Sdn Bhd	Dissolved	Director/ Shareholder	19.08.2009	1	50.00	-
	BP Renal care Sdn Bhd	Operate as haemodialysis and medical care centre and related services	Director/ Shareholder	17.01.2006	300,000	61.46	-
	BP Renal care (Segamat) Sdn Bhd	Haemodialysis centre	Director	04.05.2007	-	-	51
	BP Renal care (Kluang) Sdn Bhd	Provision of haemodialysis and medical services	Shareholder	-	100,300	66.73	-
	BP Renal care (Yong Peng) Sdn Bhd	Haemodialysis and medical care centre and provides related services	Director/ Shareholder	17.01.2006	20	20.00	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct No. of shares held	% held	Indirect No. of shares held	% held
BP Renal care (Rengit) Sdn Bhd		Dialysis centres	Director/ Shareholder	23.02.2006	25,000	25.00	-	-
Langkawi Dialysis Retreat Sdn Bhd		Haemodialysis center and medical hospitality	Director/ Shareholder	12.06.2006	1	50.00	-	-
Tioman Dialysis Retreat Sdn Bhd		Retreat and resort	Director/ Shareholder	18.07.2008	1	50.00	-	-
Jinsem Marketing Sdn Bhd		Manufacturing of coconut fibre and coconut peat	Director	24.11.2006/ (04.02.2010)	-	-	-	-
Khor Mooi Kim	HK Alliance Sdn Bhd	Property holdings	Director/ Shareholder	27.09.2011	15,000	5.00	-	-
Unggul Fantastik Sdn Bhd		Striking off	Director/ Shareholder	23.02.2012	1	50.00	-	-
HH Furniture ⁽⁴⁾		Sewing and marketing of cushions, pillows, mattresses	Director/ Shareholder	31.03.1999	575,000	25.00	-	-
Teh Chai Luang	HK Alliance Sdn Bhd	Property holdings	Director/ Shareholder	27.09.2011	15,000	5.00	-	-
HH Furniture ⁽⁴⁾		Sewing and marketing of cushions, pillows, mattresses	Director/ Shareholder	31.03.1999	575,000	25.00	-	-
M2 Marketing Sdn Bhd		Dissolved	Director/ Shareholder	05.03.2006	25,000	50.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD ----->			
					Direct No. of shares held	% held	Indirect No. of shares held	% held
	Garapan Semangat Sdn Bhd	Striking off	Director	23.02.2012	-	-	-	-
Khoo Teik Boon	Garapan Semangat Sdn Bhd	Striking off	Director	23.02.2012	-	-	-	-
	HH Manufacturer ⁽³⁾	Dormant	Director/ Shareholder	20.08.2004	2	0.02	-	-
Lim Ghim Chai	Absolute Success Holdings Sdn Bhd ⁽⁵⁾	Investment holding	Director/ Shareholder	08.04.2008	3,000	30.00	-	-
	Bioworld Vision Sdn Bhd	Property investment	Director	15.12.2008	-	-	9,000	30.00
	CSH Water Solution (M) Sdn Bhd	Raw water and waste water treatment consultant and construction contractor	Director	11.02.2007/ (29.12.2009)	-	-	-	-
	Duta Palms Development Sdn Bhd	Property development and share investment	Director/ Shareholder	07.01.2005	90,000	30.00	-	-
	Dutamas Formation Sdn Bhd	Dormant	Director	24.09.2007/ (07.08.2010)	-	-	-	-
	An Ju Properties Sdn Bhd	Dissolved	Director/ Shareholder	16.10.2003	1	50.00	-	-
	Hikmat Bumimas Sdn Bhd	Property developer, hardware dealer and investment holdings	Director/ Shareholder	02.02.2006	25,000	10.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct No. of shares held	% held	Indirect No. of shares held	% held
Zone Art Interior Design Sdn Bhd	Interior design	Director/ Shareholder	02.08.2006/ (19.04.2013)	1	50.00	-	-	
Hecta Consolidated Sdn Bhd	Property developer	Director	13.12.2006	-	-	50,000	10.00	
CSH Recycle Sdn Bhd	Recycling of plastics, papers, metal and all kinds of waste material	Director/ Shareholder	13.09.2006/ (01.08.2012)	100,000	33.33	-	-	
Starhill Heritage Sdn Bhd	General trading and investment holding	Director/ Shareholder	04.10.2011	1	50.00	-	-	
Mega Residency Sdn Bhd	Property investment	Director	18.05.2011	-	-	1	50.00	
AsiaEP Resources Berhad	Provider of E-commerce solution and E-marketplace developer	Independent Non-Executive Director	11.04.2008	-	-	-	-	
CSH Global Resources Sdn Bhd	Recyclers of plastics, paper, scrap metals and all kinds of waste material	Director/ Shareholder	20.05.2010/ (07.08.2010)	2,500	25.00	-	-	
Dutamas Summit Sdn Bhd	Property developer	Director	28.04.2010	-	-	250,000	100.00	
Dutamas Permai Sdn Bhd	Property development	Director	15.04.2010	-	-	50,000	20.00	
Euro Equity Sdn Bhd	General trading, land and property investment and investment holding	Director/ Shareholder	23.03.2010	3,000	30.00	-	-	

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	As at the LPD				
				Date Appointed/ (Resigned)	Direct No. of shares held	% held	Indirect No. of shares held	% held
City Brand Sdn Bhd		Property investment	Director	02.03.2010/ (01.09.2010)	-	-	4,000	40.00
Temasek Mission Sdn Bhd		Property investment	Director	02.03.2010/ (01.09.2010)	-	-	4,000	40.00
KTN Holdings Sdn Bhd		Trading in all kinds of motorcycles and related motorcycle accessories	Director/ Shareholder	17.11.2009	10,000	25.00	-	-
Enrich Heritage Sdn Bhd		Property developer	Director	04.04.2008	-	-	125,000	50.00
K-Star Sport Limited		Shoe and garment manufacturing	Director	05.03.2010/ (24.03.2014)	-	-	-	-
Greenpower City Sdn Bhd		General trading, investment holding	Director/ Shareholder	03.08.2012	22,499	9.00	-	-
Active Pavilion Sdn Bhd		General trading, investments, properties	Director/ Shareholder	04.06.2013	25,000	10.00	-	-
SMPC Corporation Berhad		Investment holdings company, letting of industrial and commercial assets, management consultancy	Director	27.06.2013/ (25.09.2013)	-	-	-	-
YNS Furniture Manufacturing Sdn Bhd		General trading and investment holding	Director	22.03.2013/ (21.03.2014)	-	-	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL. (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD		% held
					Direct No. of shares held	Indirect No. of shares held	
Ng Boon Kang	Golden Circle Avenue Sdn Bhd ⁽⁶⁾ Courage Alliance Sdn Bhd	Dormant Property holding and provide accounting and management shareholder services	Director Director/ shareholder	28.04.2014 20.04.2009	- 100,002	- 50.00	- -
	Crest Consulting ⁽⁷⁾	Provide business consulting, business planning and restructuring services	Sole proprietor	04.09.2004	- ⁽⁸⁾	100.00	-
	BK Ng & Associates	Provide taxation services	Partner	21.02.2006	- ⁽⁸⁾	50.00	-
	TTP & Associates	Provide audit services	Principal	21.03.2006	- ⁽⁸⁾	50.00	-
Lo Liang Kheng	Kheng Consultancy Sdn Bhd	Dissolved	Director/ Shareholder	04.08.2008	25,000	50.00	-
	Pusat Latihan Komputer Anaktek Sdn Bhd	Dissolved	Director/ Shareholder	05.12.2000	21,000	30.00	-
	Baywatch Beach Club Sdn Bhd	Dissolved	Shareholder	-	2,000	2.00	-
Dato' Juzilman Bin Basir	Felcra Education Services Sdn Bhd	To set up a college for providing educational courses	Director	14.11.2011/ (25.04.2013)	-	-	-
	Permodalan Felcra Sdn Bhd	Investment and fund manager	Director	09.08.2012/ (25.04.2013)	-	-	-
	Felcra Pelita Jemoreng Sdn Bhd	Oil palm plantation	Director	08.04.2005/ (25.04.2013)	-	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct No. of shares held	% held	Indirect No. of shares held	% held
Felcra Plantation Services Sdn Bhd		Agronomic advisory, plantation advisory, agriculture consulting and seed centre	Director	02.07.1998/ (25.04.2013)	-	-	-	-
Sinergi Perdana Sdn Bhd		Engaged in agriculture related business	Director	03.06.2010/ (26.06.2013)	-	-	-	-
Felcra Jaya Samarahan Sdn Bhd		Processing of palm oil and palm kernel	Director	09.05.2012/ (25.04.2013)	-	-	-	-
Konsortium Baja Nasional Sdn Bhd		Business of providing agriculture inputs	Director	28.02.2011/ (19.07.2013)	-	-	-	-
Felcra Properties Sdn Bhd		Business of properties development	Director	17.08.2011/ (25.04.2013)	-	-	-	-
Felcra Berhad		Rehabilitation and development of land, cultivation of commodities crop, processing and marketing commodities product	Director	16.10.2012/ (25.04.2013)	-	-	-	-
Felcra Livestock & Agri Product (formerly known as Felcra Makmur Sdn Bhd)		To development land and agriculture	Director	14.01.2013/ (25.04.2013)	-	-	-	-
Felcra Jaya Mukah Sdn Bhd		Dormant	Director	15.10.2012/ (25.04.2013)	-	-	-	-

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

Notes:

- (1) *Agro Vista Sdn Bhd has been dormant since its incorporation on 15 February 2007 as it has not commenced operations since then. The company was originally set up to undertake property investment, but the company's intended investment did not materialise. Based on its latest available audited financial statements for the FYE 31 December 2012, the company has NA amounting to RM0.09 million. As at the LPD, the directors of the company do not have any specific plan for the company.*
- (2) *Tanjung Septi Sdn Bhd is principally a property investment holding company.*
- (3) *HH Manufacturer was previously involved in the manufacturing of fibre coconut sheet mattress and has ceased its operations upon the completion of the Fibre Star Reorganisation on 16 June 2012. Based on its latest available audited financial statements for the FYE 31 May 2013, the company has net liabilities amounting to RM0.21 million. As at the LPD, the directors of the company do not have any specific plan for the company.*
- (4) *HH Furniture was previously involved in the sewing and marketing of cushions, pillows, mattresses and its related products and has ceased its operations upon the completion of the Fibre Star Reorganisation on 16 June 2012. Based on its latest available audited financial statements for the FYE 31 December 2012, the company has NA amounting to RM1.57 million. As at the LPD, the directors of the company do not have any specific plan for the company.*
- (5) *Absolute Success Holdings Sdn Bhd is principally a property investment holding company. Based on its latest available audited financial statements for the FYE 31 December 2012, the company has net liability amounting to RM10.*
- (6) *Golden Circle Avenue Sdn Bhd has been dormant since its incorporation on 31 October 2013. The intended principal activity of the company is property development.*
- (7) *Crest Consulting has ceased its operations since 21 January 2006.*
- (8) *Not applicable, as it is a sole proprietorship/ partnership.*

Our Board is of the view that the involvement of our Executive Director, Lim Ghim Chai in other businesses as disclosed above is not expected to affect his contribution to our Group nor negatively impact his abilities to act as our Executive Director due to the following reasons:

- (i) His involvement in the other companies which he holds executive positions, namely Duta Palms Development Sdn Bhd, Hikmat Bumimas Sdn Bhd, Hecta Consolidated Sdn Bhd, Dutamas Summit Sdn Bhd, Dutamas Permai Sdn Bhd and Enrich Heritage Sdn Bhd (“**Property Companies**”), does not require much of his time as he is not involved in the day-to-day operations of the Property Companies, which are managed by their respective experienced management teams;
- (ii) His involvement in the Property Companies is only to the extent of decision making on new property development projects (if any) and being one of the authorised signatories for cheque issuance should the need arises. Thus, he is able to spend a substantial portion of his time on the affairs of our Group; and
- (iii) His involvement in the other companies which he does not hold any executive positions is only to the extent of attending board meetings.

In addition, the involvement of our other Directors in other businesses as disclosed above is not expected to affect their contribution to our Group as our Directors personnel are not actively involved in the management and day-to-day operations of these businesses and/or corporations, whereby their involvement are only to the extent of attending board meetings.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.2.4 Directors' Remuneration and Material Benefits-in-Kind

The current remunerations and proposed remunerations for services rendered/to be rendered by our Directors in all capacities to our Group for the FYE 31 December 2013 and the FYE 31 December 2014 are as follows:

Director	Compensation Band (RM)	
	FYE 31 December 2013	FYE 31 December 2014
H'ng Choon Seng	600,000 to 650,000	650,000 to 700,000
Kee Swee Lai	350,000 to 400,000	400,000 to 450,000
Lim Ghim Chai	0 to 50,000	100,000 to 150,000
Khor Mooi Kim	150,000 to 200,000	150,000 to 200,000
Teh Chai Luang	150,000 to 200,000	150,000 to 200,000
Khor Teik Boon	100,000 to 150,000	100,000 to 150,000
Ng Boon Kang	-	0 to 50,000
Lo Liang Kheng	-	0 to 50,000
Dato' Juzilman Bin Basir	-	50,000 to 100,000

The above remunerations, which comprise salaries, incentives, bonuses, fees, allowances and other benefits-in-kind must be considered and recommended by the Remuneration Committee and subsequently approved by our Board. Our Directors' fees and incentives must be further approved or endorsed by our shareholders at a general meeting.

8.2.5 Directors' Term of Office

Our Directors were appointed to the Board and has served in their respective capacities since the dates set out in Sections 8.1.2 and 8.2.1 of this Prospectus. Our Board comprises six (6) Executive Directors, three (3) Independent Non-Executive Directors and their respective terms of office are as follows:

Name/ Designation	Date of Appointment	Length of Service as Director of Heng Huat	* Expiration of term of office
Dato' Juzilman Bin Basir/ Independent Non-Executive Chairman	25 March 2014	< 1 year	Shall retire at our 2014 annual general meeting
H'ng Choon Seng/ Managing Director	25 November 2011	> 1 year	Shall retire at our 2015 annual general meeting
Kee Swee Lai/ Deputy Managing Director	25 November 2011	> 1 year	Shall retire at our 2015 annual general meeting
Lim Ghim Chai/ Executive Director	28 May 2012	> 1 year	Shall retire at our 2015 annual general meeting
Khor Mooi Kim/ Executive Director	28 May 2012	> 1 year	Shall retire at our 2014 annual general meeting

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name/ Designation	Date of Appointment	Length of Service as Director of Heng Huat	* Expiration of term of office
Teh Chai Luang/ Executive Director	28 May 2012	> 1 year	Shall retire at our 2014 annual general meeting
Khor Teik Boon/ Executive Director	28 May 2012	> 1 year	Shall retire at our 2014 annual general meeting
Ng Boon Kang/ Independent Non-Executive Director	6 December 2012	> 1 year	Shall retire at our 2016 annual general meeting
Lo Liang Kheng/ Independent Non-Executive Director	28 May 2012	> 1 year	Shall retire at our 2016 annual general meeting

Note:

* In accordance with our Articles of Association on Retirement of Directors:

An election of Directors shall take place each year at the annual general meeting of the Company where one third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest to one third (1/3) shall retire from office and be eligible for re-election. PROVIDED ALWAYS THAT all Directors shall retire from office once at least in each three (3) years but shall be eligible for re-election. A retiring Director shall retain office until the close of the meeting at which he retires. Additionally, any Director appointed within the year shall hold office only until the next following annual general meeting and shall then be eligible for re-election. Such Director's retirement shall be additional to and not be taken into account in the determination of the usual one-third retirement of Directors by rotation.

8.3 AUDIT, NOMINATION AND REMUNERATION COMMITTEES

8.3.1 Audit Committee

Our Audit Committee was established on 28 May 2012. Members of our Audit Committee are as follows:

Name	Designation	Directorship
Ng Boon Kang	Chairman	Independent Non-Executive Director
Lo Liang Kheng	Member	Independent Non-Executive Director
Dato' Juzilman Bin Basir	Member	Independent Non-Executive Chairman

The principal objective of the Audit Committee is to implement and support the oversight function of the Board. It provides a means for review of our Group's processes for producing financial data, its internal controls, corporate code of conduct, the independence of our Group's external auditors, and maintain an open line of communication and consultation between our Board, the internal auditors, the external auditors and our key management. Our Audit Committee performs, amongst others, the following functions:

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL *(Cont'd)*

- (i) Review with our internal and/or external auditors the nature and scope of their audit plans, audit reports, major findings and evaluations of our internal controls system;
- (ii) Review our quarterly and annual financial statements before submission to our Board, focusing in particular on any change in implementation of major accounting policies and practices, significant and unusual events, significant adjustments arising from the audit, the going concern assumption and compliance with accounting standards and other regulatory or legal requirements;
- (iii) Review matter concerning the suitability for appointment or reappointment of external auditors and matters relating to their resignation;
- (iv) Review any related party transactions entered into by our Group and any conflict of interest situations that may arise within our Group;
- (v) Review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work and to report the same to the Board; and
- (vi) Review the assistance given by our employees to the external auditors.

8.3.2 Nomination Committee

Our Nomination Committee was established on 28 May 2012. Members of our Nomination Committee are as follows:

Name	Designation	Directorship
Dato' Juzilman Bin Basir	Chairman	Independent Non-Executive Chairman
Ng Boon Kang	Member	Independent Non-Executive Director
Lo Liang Kheng	Member	Independent Non-Executive Director

Our Nomination Committee's terms of reference include, amongst others, the following:

- (i) Identify and recommend to our Board, candidates for directorships of our Company and Directors as members of the relevant Board committees;
- (ii) Review annually the required mix of skills and experience and other qualities, including core competencies, which non-executive directors should bring to the Board;
- (iii) Assess annually the effectiveness of the Board as a whole, the committees of the Board and contribution of each individual director including independent non-executive directors, as well as the chief executive officer; and
- (iv) Review the Board's succession plans and training programmes for our Board.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

8.3.3 Remuneration Committee

Our Remuneration Committee was established on 28 May 2012. Members of our Remuneration Committee are as follows:

Name	Designation	Directorship
Lo Liang Kheng	Chairman	Independent Non-Executive Director
Dato' Juzilman Bin Basir	Member	Independent Non-Executive Chairman
Ng Boon Kang	Member	Independent Non-Executive Director

Our Remuneration Committee's terms of reference include, amongst others, the following:

- (i) Review and recommend the entire individual remuneration packages for each of the Executive Directors and key management personnel to ensure the levels of remuneration be sufficiently attractive and be able to retain the Executive Directors and key management personnel needed to run our Group successfully; and
- (ii) Assist our Board in discharging responsibilities relating to, amongst others, compensation strategy, succession planning, management development and other compensation arrangements.

8.4 KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

8.4.1 Profile

Cheng Pek Tong, Malaysian, aged 35
Chief Finance Officer

Cheng Pek Tong is our Chief Finance Officer. He graduated with a Bachelor of Accountancy from Universiti Utara Malaysia in 2004. He is also a Chartered Accountant and a member of the Malaysian Institute of Accountants. He started his career in Aljeffridean Chartered Accountants (M) as an Audit Assistant in 2004 and was subsequently promoted to Assistant Manager in 2005. In 2008, he left Aljeffridean Chartered Accountants (M) and joined Eonmetall Group Berhad as an Accountant. In 2011, he left Eonmetall Group Berhad and joined our Group as an Accountant, and was subsequently promoted to Chief Finance Officer in 2012. He is currently responsible for overseeing and monitoring our financial accounting and taxation matters and planning and coordinating our financial reporting activities.

Khor Mui Kee, Malaysian, aged 50
Senior Administrative Manager

Khor Mui Kee is our Senior Administrative Manager. She completed her high school education at Sekolah Tunku Abdul Rahman (Nibong Tebal), Seberang Perai, Penang in 1981 and started her career with a local convenience store as a General Administrator in the same year. In 1982, she left the convenience store and joined Tanako Sdn Bhd as a Quality Control Officer. In 1983, she left Tanako Sdn Bhd and joined HH Furniture as an Account and Finance Officer until 1992. In 1992, she joined HH Industries Enterprise as an Administrative Officer. In 2007, she left HH Industries Enterprise and joined our Group as Account and Finance Officer and was promoted to Senior Administrative Manager in 2011. She is currently responsible for overseeing our Group's administrative activities.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

Lim Poh Aun, Malaysian, aged 38
Human Resource Manager

Lim Poh Aun is our Human Resource Manager. He graduated with a Diploma in Business Administration from Malaysia Institution of Training Development in 2002 and further obtained a Diploma in Computer Graphic Design from Two Studio Multimedia Academy in 2005. Subsequently, he obtained an Executive Master of Business in General Management from Asia e University in 2013. After completing his high school in 1994, he started his career in 1995 with Boon Siew Honda Sdn Bhd as Administrative Clerk and served the company until 2012, with his last position as an Administrator. During his attachment with Boon Siew Honda Sdn Bhd, he has worked in various departments including personnel and administration department, human resource department and safety department. In 2012, he joined Carbon Management as an ISO Consultant until 2013. He then joined HIL Industries Sdn Bhd in 2013 as a Human Resource and Administrative Executive, and shortly after, joined MAX Elite Smart Solutions as a Mortgage Consultant within the same year. In 2014, he left MAX Elite Smart Solutions and joined Heng Huat as our Human Resource Manager. He is responsible for overseeing human resource activities for our Group.

H'ng Ai Choo, Malaysian, aged 45
Sales Manager

H'ng Ai Choo is our Sales Manager. After completing her high school education in 1987 at Sekolah Menengah Kebangsaan Tunku Sheh Barabah, Jawi, Seberang Perai Selatan, Penang, she joined Hup Seng Agency, a newspaper and magazine agency, as Account Clerk. In 1990, she left Hup Seng Agency and joined Lip Hong Chan Sdn Bhd as Account Clerk until 1994. She then joined United Sweethearts Garment Sdn Bhd as Account Clerk in 1994 and was promoted to Account Assistant in 1997. In 2003, she left United Sweethearts Garment Sdn Bhd and joined HH Furniture as Account Executive and assumed various positions before her last promotion to Sales Manager in 2010. In 2012, she left HH Furniture and joined our Group as Sales Manager and is responsible for the business development and sales and marketing for our mattress business.

Oon Bee Pheng, Malaysian, aged 33
Procurement and Sourcing Manager

Oon Bee Pheng is our Procurement and Sourcing Manager. She graduated with a Bachelor of Science in Bio Industry from Universiti Putra Malaysia in 2005 and started her career as Purchaser for ITC Corporation Sdn Bhd in the same year. In 2008, she left ITC Corporation Sdn Bhd and joined Hired-Hand Technology Asia Sdn Bhd as Purchasing Executive until 2012. She then joined our Group in 2012 as Procurement and Sourcing Manager and is responsible for establishing and maintaining relationships with suppliers, negotiating with suppliers, material planning and stock management to support our biomass business.

Sim Kok Siang, Malaysian, aged 35
Factory Manager, HK Kitaran

Sim Kok Siang is HK Kitaran's Factory Manager. He graduated with a Bachelor of Art in Urban Studies and Planning (Major) and International Studies and Strategy (Minor) (Honours) from University of Malaya in 2004. He started his career with UPA Press Sdn Bhd as Production Planner cum Purchaser in 2003 and was promoted to Senior Production Planner cum Purchaser in 2004. In 2007, he left UPA Press Sdn Bhd and joined Kilang Sprocket S.A. Sdn Bhd as an Assistant Production Control Manager and was promoted to Production Control Manager in 2008. In 2009, he left Kilang Sprocket S.A. Sdn Bhd and joined Mardec Berhad as Assistant Factory Manager until 2010. He subsequently joined our Group as Factory Manager in 2010. He is currently responsible for HK Kitaran's factory operations.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

Wong Chee Wei, Malaysian, aged 35
Factory Manager, HK Palm Fibre

Wong Chee Wei is HK Palm Fibre's Factory Manager. After completing his high school education in 1998, he obtained a certificate in Mechatronic from Penang Skills Development Centre, Penang in 2001. He then joined Kah Hong Plastic Industrial Sdn Bhd as an Electrical Technician in the same year and was promoted to Assistant Manager in 2003. In 2008, he left Kah Hong Plastic Industrial Sdn Bhd and joined Seng Chong Precision Sdn Bhd as a Production Executive until 2010. Subsequently, he joined HK Palm Fibre as a Production Executive in 2010. He was promoted to Factory Manager in the same year and is responsible for HK Palm Fibre's factory operations.

Tan Chee Seng, Malaysian, aged 48
Senior Export Marketing Manager

Tan Chee Seng is our Senior Export Marketing Manager. He graduated with a Bachelor of Science in Computer Information System from Jacksonville State University, Alabama, USA in 1992. He started his career with Amcor Fibre Packaging (M) Sdn Bhd as a Sales Representative in the same year and was promoted to Assistant Sales Manager in 1993 and subsequently to Sales Manager in 1997. In 2007, he left Amcor Fibre Packaging (M) Sdn Bhd and joined Oriental Box Sdn Bhd as General Manager for a short stint. Between 2007 and 2009, he started his own businesses, namely Pusat Tuisyen Maju Diri and CMC Aquaculture Sdn Bhd. In 2009, he joined Ernsts Foods (Shenzhen) Co Ltd as Business Consultant and was promoted to Sales and Marketing Director in 2010. In 2012, he left Ernsts Foods (Shenzhen) Co Ltd and joined our Group as Senior Export Marketing Manager. He is responsible for our Group's penetration into the overseas market.

Boo Chin Weng, Malaysian, aged 50
Factory Manager, Fibre Star

Boo Chin Weng is Fibre Star's Factory Manager. He graduated with a Diploma in Mechanical Technician from Institute Technology of Butterworth in 1986. Upon his graduation, he started his career with Hicom-Suzuki Malaysia Sdn Bhd as Quality Controller in 1985, and shortly after, joined Teoh Huat Feedmill Sdn Bhd as Technician in the same year. He was promoted to Assistant Supervisor in 1986. He subsequently left Teoh Huat Feedmill Sdn Bhd and joined NTPM Sdn Bhd as Supervisor in 1988 and was promoted to Store and Scheduling Manager in 2005. In 2012, he left NTPM Sdn Bhd and joined Fibre Star as Factory Manager and is responsible for overseeing Fibre Star's factory operations.

Ch'ng Chee Yeong, Malaysian, aged 31
Process Development Engineer

Ch'ng Chee Yeong is our Process Development Engineer. He graduated with an Advance Diploma in Robotic & Mechatronic from Institute First Robotic Industrial Science in 2003. He started his career with Kilang Sprocket S.A. Sdn Bhd as a Process Engineer in the same year and assumed various positions before his last promotion to the position of Personal Assistant to the Assistant Operation Manager in 2011. He subsequently left Kilang Sprocket S.A. Sdn Bhd in 2011 and joined our Group as Process Development Engineer in the same year. He is responsible for, amongst others, assisting our Deputy Managing Director, Kee Swec Lai to oversee our process development initiatives.

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.4.2 Shareholdings

Save as disclosed below, the shareholdings of our key management and key technical personnel in our Company before and after our IPO are as follows:

Name	Designation	Nationality	Before IPO			After IPO*		
			<-- Direct -->	<-- Indirect -->	<-- Indirect -->	<-- Direct -->	<-- Indirect -->	<-- Indirect -->
			No. of Shares held	% of Shares held	No. of Shares held	% of Shares held	No. of Shares held	% of Shares held
Cheng Pek Tong	Chief Finance Officer	Malaysian	-	-	50,000	0.02	-	-
Khor Mui Kee	Senior Administrative Manager	Malaysian	-	-	160,000	0.08	-	-
Lim Poh Aun	Human Resources Manager	Malaysian	-	-	-	-	-	-
H'ng Ai Choo	Sales Manager	Malaysian	-	-	100,000	0.05	-	-
Oon Bee Pheng	Procurement & Sourcing Manager	Malaysian	-	-	50,000	0.02	-	-
Sim Kok Siang	Factory Manager of HK Kitaran	Malaysian	-	-	100,000	0.05	-	-
Wong Chee Wei	Factory Manager of HK Palm Fibre	Malaysian	-	-	50,000	0.02	-	-
Tan Chee Seng	Senior Export Marketing Manager	Malaysian	-	-	70,000	0.03	-	-
Boo Chin Weng	Factory Manager of Fibre Star	Malaysian	-	-	100,000	0.05	-	-
Ch'ng Chee Yeong	Process Development Engineer	Malaysian	-	-	50,000	0.02	-	-

Note:

* Assuming full subscription of his/her Pink Form Tranche allocation.

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.4.3 Involvement of Key Management and Key Technical Personnel in Other Businesses or Corporations

Save as disclosed below, none of our key management and key technical personnel are involved in other businesses/corporations as at the LPD:

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at LPD		Indirect	
					Direct No. of shares held	Direct % held	No. of shares held	% held
Tan Chee Seng	CMC Aquaculture Sdn Bhd	(1) to carry on the business of spawning, breeding and culturing of fresh water and sea water fish, prawns and other aquatic organisms in tanks, pool, ponds and rivers and in connection therewith to erect and maintain tanks, pool, ponds and rivers; (2) to purchase or otherwise acquire, and to carry on the businesses of ship owners, trawlers, deep-sea fishers, fish sale agencies and wholesale and retail merchants of marine product; and (3) to carry on the business as pet shop traders, aquatic traders and tropical fish suppliers and to breed, rear, import, export and/or deal in all kinds of tropical fish and plants, either as wholesalers or retailers	Director/ Shareholder	01.12.2008	1	20.00	-	-
	Pusat Tuisyen Majudiri	Tuition center	Sole proprietor/ Shareholder	16.01.2003	1	100.00	-	-
	BS Agriculture Enterprises	Agriculture	Partner/ Shareholder	10.07.2009	1	50.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct No. of shares held	% held	Indirect No. of shares held	% held
	Oriental Box Sdn Bhd	Manufacturing and trading of Corrugated Carton Boxes	Director	13.01.1997/ (16.03.2012)	-	-	-	-
	Grouper Aquaculture Sdn Bhd	(1) to carry on the business of spawning, breeding and culturing of fresh water and sea water fish, prawns and other aquatic organisms in tanks, pool, ponds and rivers and in connection therewith to erect and maintain tanks, pool, ponds and rivers; (2) to purchase or otherwise acquire, and to carry on the businesses of ship owners, trawlers, deep-sea fishers, fish sale agencies and wholesale and retail merchants of marine product; and (3) to carry on the business as pet shop traders, aquatic traders and tropical fish suppliers and to breed, rear, import, export and/or deal in all kinds of tropical fish and plants, either as wholesalers or retailers	Director	03.12.2008/ (02.04.2009)	-	-	-	-
Khor Mui Kee	Unggul Fantastik Sdn Bhd	Striking off	Director	13.07.2012	-	-	-	-

All our key management and key technical personnel are full-time employees of our Group and are not involved in the operations of other businesses or corporations outside our Group.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.5 DECLARATIONS BY PROMOTERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

Based on the declarations by our Promoters, Directors, key management and key technical personnel, none of our Promoters, Directors, key management and key technical personnel is or has been involved in any of the following events (whether in or outside Malaysia):

- (i) A petition under any bankruptcy or insolvency laws was filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel;
- (ii) Disqualification from acting as a director of any corporation, or from taking part directly or indirectly in the management of a corporation;
- (iii) Charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (iv) Any judgement entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or
- (v) The subject of any order, judgment or ruling of any court, government or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity.

8.6 FAMILY RELATIONSHIPS AND ASSOCIATIONS

Save as disclosed below, there are no family relationships (as defined under Section 122A of the Act) or associations amongst our Promoters, Directors, substantial shareholders, key management and key technical personnel:

- (i) Khor Mooi Kim is the spouse of H'ng Choon Seng;
- (ii) Teh Chai Luang is the sister-in-law of H'ng Choou Seng;
- (iii) Khor Teik Boon, Khor Mui Kee and Khor Mooi Kim are siblings; and
- (iv) Boo Chin Weng is the spouse of Khor Mui Kee.

8.7 BENEFITS PAID OR INTENDED TO BE PAID

Save as disclosed in Section 8.2.4 of this Prospectus, there is no amount or benefit paid or intended to be paid or given to any of our Promoters, Directors or substantial shareholders within the two (2) years preceding the date of this Prospectus.

8.8 SERVICE AGREEMENTS WITH DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

As at the LPD, there are no existing or proposed service agreements between the companies within our Group and our Directors, key management and key technical personnel, which are not terminable by notice without payment or compensation (other than statutory notice).

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.9 INFORMATION ON EMPLOYEES

8.9.1 Employment Structure

As at the LPD, we have a total workforce of 548 personnel, including our Executive Directors. The breakdown of our employees by category as at 31 December 2011 to 2013 as well as at the LPD is as follows:

Category	Number of Employees			
	As at 31 December			As at
	2011	2012	2013	the LPD
Directors	5	9	9	9
Managerial	12	15	11	14
Sales and marketing	6	18	17	17
Finance, human resource and administration	11	31	29	31
Procurement	1	4	5	5
Driver and maintenance	27	38	18	25
General worker (local)	47	130	113	117
General worker (foreign)	216	308	315	331
Total	325	553	517	549

The substantial increase in our total workforce from 325 personnel as at 31 December 2011 to 553 personnel as at 31 December 2012 is mainly contributed by the workforce from our mattresses and related products division pursuant to the Fibre Star Reorganisation.

As at the LPD, we have employed 331 foreign workers mainly from Nepal. All of our foreign workers have the necessary and valid working permits and are not in breach of any immigration laws.

As at the LPD, in addition to our total employees of 549 personnel, we have 9 foreign contract/temporary workers working in the production department.

There has been no industrial dispute actions taken against our Group and none of our employees are members of any union. In addition, our Group has not encountered any major turnover in our workforce.

8.9.2 Training and Development

We place strong emphasis on human resource development. Our employees are given regular on-the-job training in areas of management skills and technical knowledge to provide them with opportunities to acquire new skills and knowledge. We also provide opportunities for internal promotion as one of the key components of employees' development and retention.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

All new employees recruited by us are required to undergo in-house orientation conducted by the respective department heads to familiarise themselves with our corporate vision, culture and policies. On-the-job training is also provided to the production operators and technicians to equip them with the necessary working knowledge and skills in order for them to carry out their job responsibilities efficiently.

Our Human Resource Department is responsible for the preparation of training programmes on a regular basis. In addition, department heads can also recommend any additional training requests on an ad hoc basis. The training programmes include in-house training programmes and are conducted regularly such as:

- Management skill training; and
- Fire safety and emergency response.

These are mainly technical training, motivational and leadership/management development programmes aimed to increase the staff's knowledge and to enhance proficiency in their daily tasks. Our training regime aims to equip our staff with knowledge pertaining to quality assurance, the mechanics of the manufacturing processes and safety awareness.

Our employees have had the opportunity to participate in training programmes to develop industry knowledge to enhance proficiency in their daily tasks. Some of the training programmes attended by our employees in 2012 and 2013 are as follows:

Date	Programme	Venue	Facilitator/ Organiser
11.02.2012	ISO14001:2008 QMS Awareness and Introduction Training	HK Kitaran	Hewton Management Centre Sdn Bhd
30.03.2012 to 31.03.2012	ISO14001:2008, QMS Internal Audit Training	HK Kitaran	Hewton Management Centre Sdn Bhd
03.04.2012	Essential Leadership Skills For Supervisor & Leader	HK Kitaran, HK Fibre and HK Palm Fibre	BM Trade (Penang) Sdn Bhd
26.04.2012 to 27.04.2012	Negotiation skills and cost reduction in Purchasing	HK Kitaran, HK Fibre and HK Palm Fibre	BM Trade (Penang) Sdn Bhd
23.02.2013	ISO9001:2008 QMS International Audit Training for Executive and New Staff	HK Kitaran	Standard & Systems Management Centre Sdn Bhd
20.05.2013 to 21.05.2013	Lean Manufacturing	Sunway Hotel	XcelLearn Resources
29.06.2013	5S Housekeeping Towards GMP Training	HK Kitaran	CQE Training & Consultancy
15.08.2013 to 16.08.2013	The Art of Supervisory and Leadership Skills	HK Kitaran	BMT Training & Development (PG) Sdn Bhd
29.11.2013	First Aid Training	HK Kitaran	BMT Training & Development (PG) Sdn Bhd

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.9.3 Management Succession Plan

Our Board believes that the success of our Group depends on the ability and retention of our key management. Therefore, we have made efforts to train our staff and remunerate them accordingly. Our future success will also depend on our ability to attract and retain skilled personnel.

We have a management succession plan consisting of:

- (i) Sound recruitment and selection;
- (ii) Competitive remuneration and employee benefits;
- (iii) Structured career planning and development; and
- (iv) Continuous training and education.

As part of our management succession plan, we have identified middle management personnel across departments to assist the heads of the respective departments in order to facilitate skill transfer so as to ensure the smooth running and continuity of our operations. If the need arises, we will recruit qualified personnel with knowledge and expertise of our business.

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9. APPROVALS AND CONDITIONS

9.1 APPROVALS FROM RELEVANT AUTHORITIES

Our Listing is an exempt transaction under Section 212(8) of the CMSA and is therefore not subject to the approval of the SC.

The SC had on 4 June 2012 approved an exemption sought by us from having to comply with certain Paragraphs in Chapter 8, 11, 12, and 13 under the SC's Prospectus Guidelines – Equity and Debt (now known as Prospectus Guidelines – Equity) (“**Prospectus Guidelines**”), in relation to the use of Heng Huat's audited financial statements for the FYE 31 December 2011 for the purpose of submission of the registrable Prospectus after 30 June 2012.

Notwithstanding that approval has been obtained from the SC on 4 June 2012, in view that Heng Huat is submitting the registrable Prospectus for public exposure on 29 June 2012, which is, within six (6) months from Heng Huat's latest audited financial statements for the FYE 31 December 2011, there was no departure from the Prospectus Guidelines.

The SC, had also vide its letter dated 21 April 2014, approved the resultant equity structure of our Company pursuant to the Listing under the equity requirements for public companies. The approval from the SC is subject to the following conditions:

No.	Condition Imposed	Status of Compliance
1.	Heng Huat allocating 12.5% of its enlarged issued and paid-up share capital to Bumiputera investors at the point of listing. This includes the shares offered under the balloted public offer portion, of which 50% are to be offered to Bumiputera investors.	To be complied.

Bursa Securities had, vide its letters dated 10 December 2013 and 10 June 2014, approved our admission to the Official List of the ACE Market and the listing of and quotation for our entire enlarged issued and paid-up share capital on the ACE Market of Bursa Securities.

The approval from Bursa Securities is subject to the following conditions:

No.	Conditions Imposed	Status of Compliance												
1.	In relation to properties:													
	<table border="1"> <thead> <tr> <th>No.</th> <th>Property</th> <th>Conditions</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>HS(D) 6719, Lot 2945, Mukim 04, Daerah Seberang Perai Selatan, Pulau Pinang</td> <td>To rectify all unapproved structures prior to the listing</td> </tr> <tr> <td>2.</td> <td>PM 513, Lot 1223, Mukim 11, Jawi Village, Daerah Seberang Perai Selatan, Pulau Pinang</td> <td>(i) To obtain the Certificate of Completion and Compliance/ Certificate of Fitness for Occupation within twelve (12) months from the date of this letter.</td> </tr> <tr> <td>3.</td> <td>Lot 713, Mukim Sungai Batu. 09810 Daerah Bandar Baru Selama, Kedah</td> <td>(ii) Adviser/ Heng Huat to make half yearly announcements to Bursa Securities on the remedial actions taken to comply with the above condition.</td> </tr> </tbody> </table>	No.	Property	Conditions	1.	HS(D) 6719, Lot 2945, Mukim 04, Daerah Seberang Perai Selatan, Pulau Pinang	To rectify all unapproved structures prior to the listing	2.	PM 513, Lot 1223, Mukim 11, Jawi Village, Daerah Seberang Perai Selatan, Pulau Pinang	(i) To obtain the Certificate of Completion and Compliance/ Certificate of Fitness for Occupation within twelve (12) months from the date of this letter.	3.	Lot 713, Mukim Sungai Batu. 09810 Daerah Bandar Baru Selama, Kedah	(ii) Adviser/ Heng Huat to make half yearly announcements to Bursa Securities on the remedial actions taken to comply with the above condition.	<p>Complied. The extended shed has been approved by MPSP vide its letter dated 23 October 2013, as detailed in Section 6.17.1 of this Prospectus.</p> <p>To be complied.</p> <p>To be complied.</p>
No.	Property	Conditions												
1.	HS(D) 6719, Lot 2945, Mukim 04, Daerah Seberang Perai Selatan, Pulau Pinang	To rectify all unapproved structures prior to the listing												
2.	PM 513, Lot 1223, Mukim 11, Jawi Village, Daerah Seberang Perai Selatan, Pulau Pinang	(i) To obtain the Certificate of Completion and Compliance/ Certificate of Fitness for Occupation within twelve (12) months from the date of this letter.												
3.	Lot 713, Mukim Sungai Batu. 09810 Daerah Bandar Baru Selama, Kedah	(ii) Adviser/ Heng Huat to make half yearly announcements to Bursa Securities on the remedial actions taken to comply with the above condition.												

9. APPROVALS AND CONDITIONS (Cont'd)

No.	Conditions Imposed	Status of Compliance
2.	Adviser to provide a confirmation to Bursa Securities prior to the listing of Heng Huat, that the Company has sufficient systems, procedures, policies and controls for its finance function.	Complied via Kenanga IB's letter to Bursa Securities dated 14 April 2014.
3.	Submission of the following information in respect of the moratorium on the shareholdings of promoters to the Bursa Depository: (i) Name of shareholders; (ii) Number of shares; and (iii) Date of expiry of the moratorium for each block of shares	Complied.
4.	Approvals from other relevant authorities have been obtained for implementation of the listing proposal.	Complied.
5.	Make the relevant announcements pursuant to paragraphs 8.1 and 8.2 of Guidance Notes 15 of the Listing Requirements.	To be complied prior to Listing.
6.	Furnish Bursa Securities a copy of the schedule of distribution showing compliance to the share spread requirements based on the entire issued and paid up share capital of Heng Huat on the first day of listing.	To be complied.
7.	Any director of the Company that has not attended the Mandatory Accreditation Programme must do so prior to listing of the Company.	Complied.
8.	In relation to the public offering to be undertaken by Heng Huat, please announce at least 2 market days prior to the listing date, the result of the offering including the following: (i) Level of subscription of public balloting and placement; (ii) Basis of allotment/allocation; (iii) A table showing the distribution for placement tranche; and (iv) Disclosure of placees who become substantial shareholder of the Company arising from the public offering, if any.	To be complied prior to Listing.
9.	Heng Huat/Adviser to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the admission to the Official List on the ACE Market is completed.	To be complied.

MITI had also vide its letter dated 25 July 2012 and 25 April 2014 approved our Listing on the ACE Market of Bursa Securities.

9. APPROVALS AND CONDITIONS (Cont'd)

9.2 MORATORIUM ON SALE OF SHARES

In compliance with the Listing Requirements, a moratorium will be imposed on the sale, transfer or assignment of Shares held by our Promoters as follows:

- (a) The moratorium applies to our Promoters' entire shareholdings for a period of six (6) months from the date of admission to the ACE Market;
- (b) Upon expiry of the six (6) months period stated above, we must ensure that our Promoters' aggregate shareholdings amounting to at least 45% of our Company's nominal issued and paid-up share capital remain under moratorium for another period of six (6) months; and
- (c) Thereafter, our Promoters may sell, transfer or assign up to a maximum of 1/3 per annum (on a straight line basis) of our Shares held under moratorium.

The moratorium shall be imposed according to the following:

Promoters	Shares held under moratorium for the first six (6) months upon Listing		Shares held under moratorium for the subsequent six (6) months	
	No. of Shares held	% held ⁽¹⁾	No. of Shares held	% held ⁽¹⁾
H'ng Choon Seng	72,970,110	35.46	54,727,583	26.59
Kee Swee Lai	54,384,870	26.43	40,788,653	19.82
HH Manufacturer ⁽²⁾	16,500,000	8.02	12,375,000	6.02
Khor Mooi Kim	392,520	0.19	294,390	0.14
Teh Chai Luang	392,520	0.19	294,390	0.14
Total	144,640,020	70.29	108,480,016	52.71

Notes:

- (1) Based on our enlarged issued and paid-up share capital after our Public Issue.
- (2) A company in which H'ng Choon Seng has substantial shareholdings and is also a director.

Our Promoters have provided an undertaking letter to Bursa Securities that they will comply with the moratorium conditions as set out in Rule 3.19(1) of the Listing Requirements.

The shareholders of HH Manufacturer, namely H'ng Choon Seng and Khor Teik Boon have also provided undertaking letters to Bursa Securities that they will not sell, transfer or assign their respective shareholdings in HH Manufacturer during the moratorium period.

The restriction, which is fully acknowledged by our Promoters, is specifically endorsed on our share certificates representing their shareholdings which are under moratorium to ensure that our Share Registrar will not register any sale, transfer or assignment that are not in compliance with the aforesaid restriction imposed by Bursa Securities.

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST**10.1 EXISTING AND PROPOSED RELATED PARTY TRANSACTIONS**

In conjunction with our Listing, we have undertaken the Fibre Star Reorganisation comprising the following related party transactions:

Related Party	Interested Promoter/Director/ Substantial Shareholders	Nature of Relationship	Nature of Transaction	Transaction Value RM
HH Furniture	<ul style="list-style-type: none"> • H'ng Choon Seng • Khor Mooi Kim • Teh Chai Luang 	H'ng Choon Seng, Khor Mooi Kim and Teh Chai Luang are directors and shareholders of HH Furniture.	Purchase of land and building from HH Furniture.	2,800,000
HH Manufacturer	<ul style="list-style-type: none"> • H'ng Choon Seng • Khor Teik Boon 	H'ng Choon Seng and Khor Teik Boon are directors and shareholders of HH Manufacturer.	Transfer of all statutory rights of the trademark 'Xiong Mao®' owned by HH Furniture to Fibre Star. Purchase of machineries and equipment from HH Manufacturer	10 1,650,000
			Transfer of all statutory rights of the trademark 'Fibre Star®' owned by HH Manufacturer to Fibre Star.	10

The details of the Fibre Star Reorganisation are set out in Section 5.4.2 of this Prospectus.

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (Cont'd)

Save for the Fibre Star Reorganisation and as disclosed below, our Board confirms that there are no existing or presently proposed related party transactions entered into between our Group and our Directors, substantial shareholders, key management and key technical personnel and/or persons connected with them during the past three (3) FYE 31 December 2011 to 2013 and forecast for the FYE 31 December 2014:

Related Party	Interested Promoter/ Director/ Substantial Shareholders	Nature of Relationship	Nature of Transaction	FYE 31 December			Forecast ⁽¹⁾
				2011 RM	Actual 2012 RM	2013 RM	2014 RM
AKSB	<ul style="list-style-type: none"> Liew Chai Hock Kuah Choon Hoay 	Liew Chai Hock and Kuah Choon Hoay are directors and shareholders of HK Palm Fibre who are also directors and shareholders of AKSB.	Purchase of oil palm EFB by HK Palm Fibre from AKSB ⁽²⁾ . Advances from AKSB to HK Palm Fibre for overhead and administrative expenses ⁽³⁾ .	896,702	635,796	188,437	420,000
HH Furniture	<ul style="list-style-type: none"> H'ng Choon Seng Khor Mooi Kim Teh Chai Luang 	H'ng Choon Seng, Khor Mooi Kim and Teh Chai Luang are directors and shareholders of HH Furniture.	Advances from HH Furniture to HK Palm Fibre for overhead and administrative expenses ⁽³⁾ . Advances from HH Furniture to HH Industries for overhead and administrative expenses ⁽³⁾ . Advances from HH Furniture to HK Kitaran for administrative expenses ⁽³⁾ .	1,578	-	-	-
			Advances from HH Furniture to HK Kitaran for administrative expenses ⁽³⁾ . Advances from HH Furniture to HK Fibre for administrative expenses ⁽³⁾ .	4,686	-	-	-
			Sales of coconut fibre by Fibre to HH Furniture.	1,584	-	-	-
				1,437	-	-	-
				2,347,420	461,391	-	-

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (Cont'd)

Related Party	Interested Promoter/ Director/ Substantial Shareholders	Nature of Relationship	Nature of Transaction	FYE 31 December			Forecast (1) 2014 RM
				2011 RM	Actual 2012 RM	2013 RM	
			Advances from HH Furniture to Fibre Star for administrative expenses (3).	2,846	-	-	-
			Advances from HH Furniture to Fibre Star Marketing for administrative expenses (3).	2,846	-	-	-
			Purchase of lorry and forklift by Fibre Star Marketing from HH Furniture.	-	-	378,000	-
			Renting of Plant 3 by Fibre Star from HH Furniture.	-	156,000	288,000	288,000
HH Manufacturer	<ul style="list-style-type: none"> • H'ng Choon Seng • Khor Teik Boon 	H'ng Choon Seng and Khor Teik Boon are directors and shareholders of HH Manufacturer.	Sales of coconut fibre by HK Fibre to HH Manufacturer.	252,828	1,039,904	-	-
			Purchase of raw materials by HK Fibre from HH Manufacturer.	-	613,760	-	-
			Advances to HH Manufacturer by HK Kitaran for administrative expenses (3).	11,823	-	-	-
			Advances to HH Manufacturer by HH Industries for administrative expenses (3).	445	-	-	-

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (Cont'd)

Related Party	Interested Promoter/ Director/ <i>Substantial</i> Shareholders	Nature of Relationship	Nature of Transaction	FYE 31 December			Forecast ⁽¹⁾ 2014 RM
				2011 RM	Actual 2012 RM	2013 RM	
HK Alliance Sdn Bhd ("HK Alliance")	<ul style="list-style-type: none"> • H'ng Choon Seng • Kee Swee Lai • Khor Mooi Kim • Teh Chai Luang 	H'ng Choon Seng, Kee Swee Lai, Khor Mooi Kim and Teh Chai Luang are directors and shareholders of HK Alliance Sdn Bhd.	Advances to HK Alliance by HK Kitaran for administrative expenses ⁽³⁾ .	2,324	2,324	-	-
			Renting of vacant land by HK Kitaran (No. Geran Mukim 956, Lot 2151, Mukim 4, Daerah Seberang Perai Selatan, Penang) from HK Alliance.	-	-	20,000	120,000
HK Idaman Enterprise ("HK Idaman")	<ul style="list-style-type: none"> • Ruhani Binti Ismail 	Ruhani Binti Ismail is a director and shareholder of HK Fibre who is also a director and shareholder of HK Idaman Enterprise.	Advances to HK Idaman by HK Fibre for administrative expenses ⁽³⁾ .	131	-	-	-

Notes:

- (1) The transaction value for the FYE 31 December 2014 is estimated value, hence the actual transaction value may differ from the estimated value disclosed.
- (2) On 22 June 2009, HK Palm Fibre has entered into an agreement with AKSB, a palm oil mill operator, to govern their collaboration arrangement with each other in relation to supply of oil palm EFB by AKSB to HK Palm Fibre ("Agreement"). Under the Agreement, AKSB shall supply all the oil palm EFB in its factory to HK Palm Fibre and AKSB shall not supply the oil palm EFB to any third party unless with written consent from HK Palm Fibre. The duration of the Agreement shall be for a period of ten (10) years commencing from the date of the Agreement and upon the expiry of the Agreement, AKSB shall grant to HK Palm Fibre the option to extend the duration and validity of the Agreement for a further period of ten (10) years from the date of expiry.
- (3) Advances represents amount outstanding as at the respective financial year end.
- (4) Inclusive of rental charge of RM12,000 and RM72,000 paid by HK Palm Fibre to AKSB for FYE 31 December 2012 and 2013 respectively for renting of Plant 5.

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST(Cont'd)

Our Board confirms that all the above related party transactions, save for the advances to or from related parties were entered into in the ordinary course of business and are on normal commercial terms which are not prejudicial to our Group nor on terms more favourable to the related parties than those generally available to other parties and which are not detrimental to the interests of our Group. As at the LPD, all advances to the related parties have been fully settled.

Upon Listing, our Board, through our Audit Committee, will ensure that any related party transactions (inclusive of recurrent related party transactions) are carried out on an arm's length basis and are not prejudicial to our Group nor on terms more favourable to the related parties than those generally available to other parties and are not to our detriment or the detriment of our minority shareholders.

10.2 TRANSACTIONS THAT ARE UNUSUAL IN NATURE OR CONDITIONS

There are no transactions that are unusual in nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party to during the past three (3) FYE 31 December 2011 to 2013 and up to the LPD.

10.3 LOANS MADE BY OUR GROUP TO OR FOR THE BENEFIT OF RELATED PARTIES

Save as disclosed in Section 10.1 of this Prospectus, there are no outstanding loans, including guarantees of any kind, made by our Group to or for the benefit of related parties during the past three (3) FYE 31 December 2011 to 2013 and up to the LPD.

10.4 INTERESTS IN SIMILAR BUSINESSES, INTERESTS IN BUSINESSES OF OUR CUSTOMERS OR SUPPLIERS AND OTHER CONFLICTS OF INTEREST

As at LPD, none of our Directors and/or substantial shareholders has any interest, direct or indirect, in any other businesses or corporations carrying on a trade similar to that of our Group or any businesses or corporations which are also our customers or suppliers of our Group.

Our Board wishes to highlight that Kuah Choon Hoay and Liew Chai Hook, who are the directors and shareholders of our 50% owned subsidiary company, HK Palm Fibre, are also the directors and shareholders of AKSB, i.e. one of our major suppliers. Nevertheless, both Kuah Choon Hoay and Liew Chai Hook are not involved in the daily operations and business affairs of HK Palm Fibre or our Group. Neither is our Group involved in the daily operations and business affairs of AKSB. Furthermore, AKSB is operating in a different segment from our Group whereby the company is involved in the palm oil mill business. As such, the Board is of the opinion that there is no existing or potential conflict of interest situation arising from the shareholding and directorship of both Kuah Choon Hoay and Liew Chai Hook in both HK Palm Fibre and AKSB.

In addition, our Audit Committee will ensure that all future business transactions between our Group and AKSB are carried out on an arm's length basis and are not prejudicial to our Group nor on terms more favourable to AKSB than those generally available to other third parties and are not to our detriment or the detriment of our minority shareholders.

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST *(Cont'd)*

10.5 DECLARATION BY EXPERTS

Kenanga IB confirms that there is no existing or potential conflict of interests in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent for our Listing.

WYNCORP Advisory Sdn Bhd confirms that there is no existing or potential conflict of interests in its capacity as the Corporate Finance Advisor for our Listing.

BDO confirms that there is no existing or potential conflict of interests in its capacity as the Auditors and Reporting Accountants for our Listing.

Azman Davidson & Co. confirms that there is no existing or potential conflict of interests in its capacity as the Solicitors for our Listing.

Protégé Associates confirms that there is no existing or potential conflict of interests in its capacity as the independent market research consultant for our Listing.

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11. PRO FORMA HISTORICAL FINANCIAL INFORMATION

Our pro forma and audited consolidated financial statements have been compiled on the basis and accounting policies consistent with those adopted by our Group which are set out in the notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus and the Accountants' Report as set out in Section 13 of this Prospectus. The financial statements used in the preparation of our pro forma consolidated financial statements have been prepared in accordance with applicable approved Malaysian Financial Reporting Standards ("MFRSs"). Any adjustments that were dealt with when preparing our pro forma consolidated financial statements have been highlighted and disclosed in Section 11.5 of this Prospectus.

11.1 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets out our pro forma consolidated statement of comprehensive income for the FYE 31 December 2011 and our audited consolidated statements of comprehensive income for the FYE 31 December 2012 and 2013. There were no consolidated financial statements prepared for our Company for the FYE 31 December 2011 as our Group was not in existence as at the end of the financial year. Accordingly, we have presented our consolidated statement of comprehensive income for the FYE 31 December 2011 on a pro forma basis which has been prepared for illustrative purposes only based on the audited financial statements of the companies in our Group and on the assumption that our current Group structure has been in existence throughout the financial years under review.

You should read this consolidated statements of comprehensive income in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus and the Accountants' Report as set out in Section 13 of this Prospectus.

	Pro Forma 2011 RM'000	<----- Audited -----> FYE 31 December 2012 RM'000	2013 RM'000
Revenue	31,702	62,965	73,740
Cost of sales	(14,137)	(32,389)	(41,762)
GP	17,565	30,576	31,978
Other income	235	741	812
Selling and distribution expenses	(1,758)	(9,810)	(12,746)
Administrative and other expenses	(1,806)	(6,513)	(6,360)
Finance costs	(521)	(1,366)	(2,302)
PBT	13,715	13,628	11,382
Tax expense	(25)	(993)	(1,490)
PAT	13,690	12,635	9,892
Other comprehensive income	-	-	-
Total comprehensive income	13,690	12,635	9,892
Profit for the financial year/ Total comprehensive income attributable to:			
- Owners of Heng Huat	10,536	12,163	9,740
- Non-controlling interest	3,154	472	152
	13,690	12,635	9,892

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

	Pro Forma	<----- Audited ----->	
		<----- FYE 31 December ----->	
	2011	2012	2013
	RM'000	RM'000	RM'000
EBITDA ⁽¹⁾	15,790	18,356	18,626
GP margin (%)	55.41	48.56	43.37
PBT margin (%)	43.26	21.64	15.44
PAT margin (%)	43.18	20.07	13.41
Effective tax rate (%)	10.18	7.29	13.09
Gross EPS (sen) ⁽²⁾	8.61	8.55	7.15
Net EPS (sen) ⁽³⁾	6.61	7.64	6.11
Diluted Net EPS (sen) ⁽⁴⁾	5.12	5.91	4.73

Notes:

- (1) Calculated based on PAT with finance costs, tax expense, depreciation and amortisation added back as set out below:

	<----- FYE 31 December ----->		
	2011	2012	2013
	RM'000	RM'000	RM'000
PAT	13,690	12,635	9,892
Add: Finance costs	521	1,366	2,302
Tax expense	25	993	1,490
Depreciation	1,554	3,305	4,886
Amortisation	-	57	56
EBITDA	15,790	18,356	18,626

- (2) Calculated based on PBT divided by our existing issued and paid-up share capital of 159,300,030 Shares.
- (3) Calculated based on PAT attributable to owners of Heng Huat divided by our existing issued and paid-up share capital of 159,300,030 Shares.
- (4) Calculated based on PAT attributable to owners of Heng Huat divided by our enlarged issued and paid-up share capital after our IPO of 205,800,030 Shares.

There was no share of profits of associated companies or joint ventures, and no exceptional or extraordinary items throughout the financial years under review.

The audited financial statements of our Group for the financial years under review were not subject to any qualification or modification.

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11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**11.2 PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

The following table sets out our pro forma consolidated statements of financial position as at 31 December 2013, which have been prepared for illustrative purposes based on the assumption that our Public Issue and utilisation of proceeds had been effected on that date.

You should read this pro forma consolidated statements of financial position in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	<----- Pro Forma ----->		
	Audited as at 31 December 2013 RM'000	I After Public Issue RM'000	II After Pro Forma I and Utilisation of Proceeds RM'000
Non-Current Asset			
Property, plant and equipment	59,247	59,247	63,247
Intangible assets	325	325	325
	59,572	59,572	63,572
Current Assets			
Inventories	4,218	4,218	4,218
Trade and other receivables	19,387	19,387	19,387
Current tax assets	267	267	267
Cash and cash equivalents	5,537	26,462	10,084
	29,409	50,334	33,956
TOTAL ASSETS	88,981	109,906	97,528
Equity			
Share capital	15,930	20,580	20,580
Share premium	-	16,275	16,275
Reorganisation reserve	(5,185)	(5,185)	(5,185)
Retained earnings	26,601	26,601	23,601
	37,346	58,271	55,271
Non-controlling interests	2,502	2,502	2,502
Total Equity	39,848	60,773	57,773

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

(cont'd)	Audited as at 31 December 2013 RM'000	Pro Forma	
		I After Public Issue RM'000	II After Pro Forma I and Utilisation of Proceeds RM'000
Non-Current Liabilities			
Borrowings	22,960	22,960	13,582
Deferred tax liabilities	1,103	1,103	1,103
	<u>24,063</u>	<u>24,063</u>	<u>14,685</u>
Current Liabilities			
Trade and other payables	11,225	11,225	11,225
Borrowings	13,841	13,841	13,841
Current tax liabilities	4	4	4
	<u>25,070</u>	<u>25,070</u>	<u>25,070</u>
TOTAL LIABILITIES	<u>49,133</u>	<u>49,133</u>	<u>39,755</u>
TOTAL EQUITY AND LIABILITIES	<u>88,981</u>	<u>109,906</u>	<u>97,528</u>
Number of Shares assumed to be in issue ('000)	159,300	205,800	205,800
NA (RM'000)	37,346	58,271	55,271
NTA (RM'000)	37,021	57,946	54,946
NA per Share (RM)	0.23	0.28	0.27
NTA per Share (RM)	0.23	0.28	0.27

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11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

11.3 PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

The following table sets out our pro forma consolidated statement of cash flows for the FYE 31 December 2013, which have been prepared for illustrative purposes only based on the assumption that our Public Issue and utilisation of proceeds had been effected on that date.

You should read this pro forma consolidated statement of cash flows in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
PBT	11,382
Adjustments for:	
Amortisation of intangible assets	
- Development costs	56
- Trademarks	*
Bad debts written off	60
Depreciation of property, plant and equipment	4,886
Gain on disposal of property, plant and equipment	(6)
Loss on disposal of property, plant and equipment	4
Interest expense	2,302
Interest income	(54)
Operating profit before working capital changes	18,630
Increase in inventories	(1,539)
Increase in trade and other receivables	(2,936)
Increase in trade and other payables	769
	14,924
Tax paid	(1,365)
Interest paid	(2,302)
Net cash from operating activities	11,257
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	54
Changes in fixed deposits pledged with licensed banks	(887)
Development costs incurred	(112)
Purchase of property, plant and equipment	(10,814)
Proceeds from disposal of property, plant and equipment	33
Net cash used in investing activities	(11,726)

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

(cont'd)	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Public Issue	20,925
Payment of listing expenses	(3,000)
Drawdown of term loans	738
Drawdown of bankers' acceptance (net)	2,569
Repayment of term loans	(8,191)
Net repayment of hire purchase payables	(7,709)
Net cash from financing activities	5,332
Net changes in cash and cash equivalents	4,863
Cash and cash equivalents at beginning of the financial year	1,867
Cash and cash equivalents at end of the financial year	6,730
Cash and cash equivalents comprise the following:	
Cash and bank balances	7,960
Fixed deposits pledged to financial institutions	2,124
	10,084
Less: Bank overdraft	(1,230)
Less: Fixed deposits pledged to financial institutions	(2,124)
	6,730

Note:

* Represents amount less than RM1,000.

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11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

11.4 CAPITALISATION AND INDEBTEDNESS

The following table sets out our pro forma consolidated cash and cash equivalents, capitalisation and indebtedness as at 31 December 2013 adjusted for our Public Issue and utilisation of proceeds as set out in Section 3.6 of this Prospectus.

	As at 31 December 2013 RM'000	After Public Issue and Utilisation of Proceeds RM'000
Cash and cash equivalents *		
Cash and bank balances	3,413	7,960
Bank overdrafts	(1,230)	(1,230)
	2,183	6,730
Indebtedness		
<u>Non-current</u>		
<i>Secured and guaranteed</i>		
Hire purchase payables	9,900	6,138
Term loans	13,060	7,444
	22,960	13,582
<u>Current</u>		
<i>Secured and guaranteed</i>		
Hire purchase payables	3,942	3,942
Bankers' acceptance	6,036	6,036
Bank overdrafts	1,230	1,230
Term loan	2,633	2,633
	13,841	13,841
Total indebtedness	36,801	27,423
Capitalisation	37,346	55,271
Total capitalisation and indebtedness	74,147	82,694

Note:

* Excluding fixed deposits amounting to RM2.12 million which are pledged to financial institutions.

All our cash and cash equivalents and indebtedness are denominated in RM. The indirect and/or contingent liabilities of our Group are as set out in Section 12.3.6 of this Prospectus.

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

11.5 REPORTING ACCOUNTANTS' LETTER ON PRO FORMA CONSOLIDATED FINANCIAL INFORMATION



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The Board of Directors
HENG HUAT RESOURCES GROUP BERHAD
51-9-A, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang

18 JUN 2014

Our ref: BDO/KTH/KTJ/lps

Dear Sirs,

HENG HUAT RESOURCES GROUP BERHAD ("HENG HUAT" OR "THE COMPANY") REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of pro forma consolidated financial information of Heng Huat and its subsidiaries ("Heng Huat Group" or "the Group") prepared by the Board of Directors of the Company. The pro forma consolidated financial information consists of the pro forma consolidated statement of financial position as at 31 December 2013, the pro forma consolidated statement of profit or loss and other comprehensive income for financial year ended 31 December 2011, the audited consolidated statements of profit or loss and other comprehensive income for financial years ended 31 December 2012 and 31 December 2013, and the pro forma consolidated statement of the cash flows for the financial year ended 31 December 2013 together with the accompanying notes thereon, for which we have stamped for the purpose of identification. The pro forma consolidated financial information has been prepared for inclusion in the prospectus of Heng Huat in connection with the listing of and quotation for the entire issued and paid-up share capital of Heng Huat on the ACE Market of Bursa Malaysia Securities Berhad. The applicable criteria on the basis of which the Board of Directors has compiled the pro forma consolidated financial information are specified in the Prospectus Guidelines ("SC Guidelines") issued by Securities Commission Malaysia.

The pro forma consolidated financial information has been compiled by the Board of Directors to illustrate:

- (a) the Group's financial performance for the financial year ended 31 December 2011 as if the Group has been in existence throughout the financial year, and the audited financial performance of the Group for the financial years ended 31 December 2012 and 2013;
- (b) the financial position of the Group as at 31 December 2013, adjusted for the impact of the transactions as set out in Notes 1.3(f) to (h) of the pro forma consolidated financial information and utilisation of proceeds from the Public Issue; and
- (c) the cash flows of the Group for the financial year ended 31 December 2013, adjusted for the impact of the transactions as set out in Notes 1.3(f) to (h) of the pro forma consolidated financial information and utilisation of proceeds from the Public Issue.

As part of the abovementioned process, information about the financial performance, financial position and cash flows has been extracted by the Board of Directors from the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2011, and the audited consolidated financial statements of the Company for the financial years ended 31 December 2012 and 31 December 2013.

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)



Directors' Responsibility for the Pro Forma Consolidated Financial Information

The Board of Directors is responsible for compiling the pro forma consolidated financial information on the basis as described in Note 1 of the pro forma consolidated financial information.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by the SC Guidelines, about whether the pro forma consolidated financial information has been compiled, in all material respects, by the Board of Directors of the Company on the basis as described in Note 1 of the pro forma consolidated financial information.

We conducted our engagement in accordance with International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedure to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the pro forma consolidated financial information on the basis set out in Note 1 of the pro forma consolidated financial information and in accordance with the requirements of the Prospectus Guidelines.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinion on any historical financial information used in compiling the pro forma consolidated financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated financial information.

The purpose of pro forma consolidated financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma consolidated financial information has been compiled, in all material respects, on the basis set out in Note 1 of the pro forma consolidated financial information and in accordance with the requirements of the Prospectus Guidelines involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the pro forma consolidated financial information provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effects to those criteria; and
- The pro forma consolidated financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma consolidated financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)



Opinion

In our opinion:

- (a) The pro forma consolidated financial information of Heng Huat Group together with the accompanying notes, which are prepared for illustrative purposes only, have been properly compiled on the basis and assumptions as set out in the notes thereon, and such basis are consistent with the accounting policies to be adopted by Heng Huat Group, unless otherwise stated;
- (b) The audited financial statements used in the preparation of the pro forma consolidated financial information, have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and the pro forma consolidated financial information have been properly prepared in a manner consistent with the format of the financial statements to be adopted by Heng Huat Group; and
- (c) Each material adjustment made to the information used in the preparation of the pro forma consolidated financial information is appropriate, in all material respects, for the purposes of preparing the pro forma consolidated financial information.

Other matters

This letter has been prepared solely for the purpose stated above, in connection with the listing of and quotation for the entire issued and paid-up share capital of Heng Huat on the ACE Market of Bursa Malaysia Securities Berhad. As such, this letter should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully

BDO
AF: 0206
Chartered Accountants

Ooi Thiam Poh
2495/01/16 (J)
Chartered Accountant

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

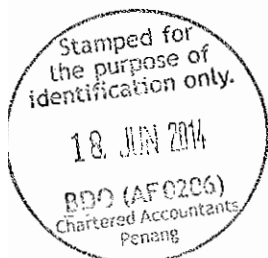
1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME**1.1 Pro forma Group**

The pro forma consolidated financial information of Heng Huat Resources Group Berhad ("Heng Huat" or "the Company") and its subsidiaries (collectively known as "Heng Huat Group" or "the Group") for the financial year ended ("FYE") 31 December 2011 comprises the financial information of the following companies, which are presented for the purpose of illustration only:

Companies	Relevant Financial Periods	Auditors
Heng Huat	Financial period ("FPE") from 25 November 2011 (Date of incorporation) to 31 December 2011	BDO
Fibre Star (M) Sdn Bhd	FPE from 29 December 2011 (Date of incorporation) to 31 December 2011	BDO
Fibre Star Marketing Sdn Bhd	FPE from 29 December 2011 (Date of incorporation) to 31 December 2011	BDO
Heng Huat Industries Holdings Sdn Bhd ("HH Industries")	FYE 31 December 2011	BDO
<u>Subsidiaries of HH Industries</u>		
HK Fibre Sdn Bhd	FYE 31 December 2011	BDO
HK Kitaran Sdn Bhd	FYE 31 December 2011	BDO
HK Mega Industries Sdn Bhd	FYE 31 December 2011	BDO
HK Palm Fibre Manufacturer Sdn Bhd	FYE 31 December 2011	BDO

As the Group was not in existence as at the end of the FYE 31 December 2011, the pro forma consolidated financial information of Heng Huat for the FYE 31 December 2011 is prepared for illustrative purposes only on the assumption that the Group structure has been in existence throughout the financial year and has been prepared using the bases and the accounting policies consistent with those adopted by Heng Huat, after giving effect to the adjustments considered appropriate.

The Group was subsequently constituted in the FYE 31 December 2012 after undertaking the transactions as set out in Notes 1.3 (a) to (e) of the pro forma consolidated financial information. Accordingly, the financial information of the Group for the FYE 31 December 2012 and 31 December 2013 have been presented based on the extraction from the audited consolidated financial statements of the Company for the FYE 31 December 2012 and 31 December 2013.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONTINUED)**1.2 Basis of Preparation**

The audited financial statements used in the preparation of this report for the financial years under review were not subject to any qualification or modification.

The pro forma consolidated financial information has been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and after incorporating adjustments that are appropriate for the preparation of the pro forma consolidated financial information.

Elimination of the intra-group transactions has also been made on the assumption that Heng Huat Group had been in existence throughout the financial years under review.

The pro forma consolidated financial information, because of its nature, may not reflect Heng Huat Group's actual results, financial position and cash flows. Further, such information does not predict the Group's future financial results, financial position and cash flows.

The pro forma consolidated financial information comprises the following:-

Section 2 - Pro forma Consolidated Statement of Profit or Loss and Other Comprehensive Income for the FYE 31 December 2011 on the assumption that the Group structure has been in existence throughout the financial year and the audited Consolidated Statements of Profit or Loss and Other Comprehensive Income for the FYE 31 December 2012 and 31 December 2013;

Section 3 - Pro forma Consolidated Statements of Financial Position as at 31 December 2013, adjusted for the impact of the transactions as set out in Notes 1.3(f) to (h) of the pro forma consolidated financial information and utilisation of proceeds from the Public Issue; and

Section 4 - Pro forma Consolidated Statement of Cash Flows for the FYE 31 December 2013, adjusted for the impact of the transactions as set out in Notes 1.3(f) to (h) of the pro forma consolidated financial information and utilisation of proceeds from the Public Issue.

1.3 Listing Scheme

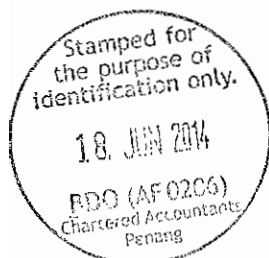
In conjunction with and as an integral part of the listing of Heng Huat on the ACE Market of Bursa Securities, the Group was constituted in FYE 31 December 2012 after the Company undertook the following transactions:

(a) Issuance of new share

Issuance of 1 new ordinary share of RM1.00 on 3 May 2012.

(b) HH Industries reorganisation**(i) Acquisition of HK Palm Fibre by HH Industries**

Acquisition of 50.00% of the issued and paid-up share capital of HK Palm Fibre comprising 100,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2,262,000 which was wholly satisfied by the issuance of 2,262,000 new ordinary shares in HH Industries at an issue price of RM1.00 per share. The acquisition was completed on 1 January 2012.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONTINUED)

1.3 Listing Scheme (Continued)

(b) HH Industries reorganisation

(ii) Acquisition of HK Kitaran by HH Industries

Acquisition of 49.00% of the issued and paid-up share capital of HK Kitaran comprising 490,000 ordinary shares of RM1.00 each for a total purchase consideration of RM3,871,000 which was wholly satisfied by the issuance of 3,871,000 new ordinary shares in HH Industries at an issue price of RM1.00 per share. The acquisition was completed on 1 January 2012.

(iii) Acquisition of HK Mega by HH Industries

Acquisition of 10.00% of the issued and paid-up share capital of HK Mega comprising 10,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2 which was wholly satisfied by cash on 18 May 2012.

(c) Fibre Star reorganisation

(i) Acquisition of property from Heng Huat Furniture Sdn. Bhd.

Acquisition of land and building from Heng Huat Furniture Sdn. Bhd. for a total purchase consideration of RM2,800,000 which was wholly satisfied by cash. The acquisition was completed on 7 February 2013.

(ii) Acquisition of asset from Heng Huat Manufacturer Sdn. Bhd.

Acquisition of machinery and equipment from Heng Huat Manufacturer Sdn. Bhd. for a total purchase consideration of RM1,650,000 which was wholly satisfied by the issuance of 1,650,000 new ordinary shares in Fibre Star at an issue price of RM1.00 per share. The acquisition was completed on 16 June 2012.

(d) Share split

Share split involving the subdivision of every 1 existing ordinary share of RM1.00 each into 10 new ordinary shares of RM0.10 each in Heng Huat. The share split was effected on 16 May 2012.

(e) Acquisitions

(i) Acquisition of HH Industries by Heng Huat

Acquisition of the entire issued and paid-up share capital of HH Industries comprising 9,095,000 ordinary shares of RM1.00 each for a total purchase consideration of RM14,280,000 which was satisfied by the issuance of 142,800,000 new ordinary shares in Heng Huat at an issue price of RM0.10 per share. The acquisition was completed on 1 February 2012.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONTINUED)**1.3 Listing Scheme (Continued)****(e) Acquisitions****(ii) Acquisition of Fibre Star by Heng Huat**

Acquisition of the entire issued and paid-up share capital of Fibre Star comprising 1,650,003 ordinary shares of RM1.00 each for a total purchase consideration of RM1,650,000 which was satisfied by the issuance of 16,500,000 new ordinary shares in Heng Huat at an issue price of RM0.10 per share. The acquisition was completed on 16 June 2012.

(iii) Acquisition of Fibre Star Marketing by Heng Huat

Acquisition of the entire issued and paid-up share capital of Fibre Star Marketing comprising 3 ordinary shares of RM1.00 each for a total purchase consideration of RM3 which was satisfied by cash on 18 May 2012.

The new ordinary shares issued pursuant to the above acquisitions rank pari passu in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

(f) Public issue

The 46,500,000 Public Issue Shares representing 22.59% of the enlarged issued and paid-up share capital upon Listing, is offered at the issue/offer price of RM0.45 per Share ("IPO Price"), payable in full on application upon the terms and conditions as set out in the Prospectus and will be allocated and allotted in the following manner:

(i) Malaysian Public

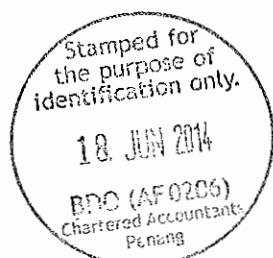
7,000,000 Public Issue Shares representing 3.40% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be made available for application by the Public, of which at least 50% shall be set aside for Bumiputera investors including individuals, companies, societies, co-operatives and institutions.

(ii) Eligible employees and persons who have contributed to the success of the Group

5,000,000 Public Issue Shares representing 2.43% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for application by the eligible employees and persons who have contributed to the success of the Group.

(iii) Private Placement

12,200,000 Public Issue Shares representing 5.93% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for placement to selected investors.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONTINUED)

1.3 Listing Scheme (Continued)

(iv) Bumiputera Investors Approved by the Ministry of International Trade and Industry ("MITI")

22,300,000 Public Issue Shares representing 10.84% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for Bumiputera investors approved by MITI.

The Public Issue Shares will rank pari passu in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

(g) Offer for Sale

Simultaneous with the Public Issue, the offer for sale of 14,660,000 Shares representing 7.12% of the enlarged issued and paid-up share capital of Heng Huat upon Listing is offered at the IPO Price, payable in full on application upon the terms and conditions as set out in the Prospectus and will be allocated and allotted by way of private placement to selected investors.

(h) Listing and Quotation

Upon completion of the initial public issue ("IPO"), Heng Huat shall seek admission to the Official List of Bursa Securities for the listing of and quotation for the entire enlarged issued and paid-up share capital of Heng Huat of RM20,580,003 comprising 205,800,030 ordinary shares of RM0.10 each on the ACE Market of Bursa Securities.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

2. PRO FORMA/AUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FYE 31 DECEMBER 2011, FYE 31 DECEMBER 2012 AND FYE 31 DECEMBER 2013

The pro forma consolidated statement of profit or loss and other comprehensive income of Heng Huat for the FYE 31 December 2011 has been prepared for illustrative purposes only and after incorporating such adjustments as considered necessary and assuming that the Heng Huat Group had been in existence throughout the financial year under review. The audited consolidated statements of profit or loss and other comprehensive income of Heng Huat for the FYE 31 December 2012 and 31 December 2013 are extracted from its audited financial statements for the FYE 31 December 2012 and 31 December 2013.

	Pro forma <----- Audited ----->		
	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue	31,702	62,965	73,740
Cost of sales	(14,137)	(32,389)	(41,762)
Gross profit	17,565	30,576	31,978
Other income	235	741	812
Selling and distribution expenses	(1,758)	(9,810)	(12,746)
Administrative and other expenses	(1,806)	(6,513)	(6,360)
Finance costs	(521)	(1,366)	(2,302)
Profit before tax	13,715	13,628	11,382
Tax expense	(25)	(993)	(1,490)
Profit for the financial year	13,690	12,635	9,892
Other comprehensive income	-	-	-
Total comprehensive income	13,690	12,635	9,892
Profit for the financial year / Total comprehensive income attributable to:			
- Owners of Heng Huat	10,536	12,163	9,740
- Non-controlling interest	3,154	472	152
	13,690	12,635	9,892

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identification only.

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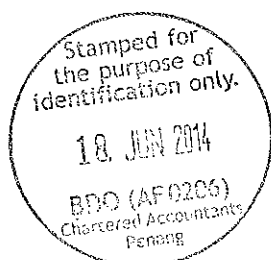
BDO (AF0206)
Chartered Accountant
Penang

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

2. PRO FORMA/AUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FYE 31 DECEMBER 2011, FYE 31 DECEMBER 2012 AND FYE 31 DECEMBER 2013 (CONTINUED)

	Pro forma <----- Audited ----->		
	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Gross profit margin (%) (Note a)	55.41	48.56	43.37
Pre-tax profit margin (%) (Note b)	43.26	21.64	15.44
Post-tax profit margin (%) (Note c)	43.18	20.07	13.41
Effective tax rate (%)	0.18	7.29	13.09
Earnings before interest, tax, depreciation and amortisation	15,790	18,356	18,626
Gross earnings per share (sen) (Note d)	8.61	8.55	7.15
Net earnings per share (sen) (Note e)	6.61	7.64	6.11
Diluted net earnings per share (sen) (Note f)	5.12	5.91	4.73



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

2. PRO FORMA/AUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FYE 31 DECEMBER 2011, FYE 31 DECEMBER 2012 AND FYE 31 DECEMBER 2013 (CONTINUED)

NOTES TO THE PRO FORMA/AUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

- (a) The gross profit margin is computed by dividing the gross profit by revenue earned in the respective financial years.
- (b) The pre-tax profit margin is computed by dividing the profit before tax by revenue earned in the respective financial years.
- (c) The post-tax profit margin is computed by dividing the profit for the financial years by revenue earned in the respective financial years.
- (d) The gross earnings per share is computed by dividing the profit before tax by the existing issued and paid-up share capital of 159,300,030 shares.
- (e) The net earnings per share is computed by dividing the profit for the financial years attributable to owners of Heng Huat by the existing issued and paid-up share capital of 159,300,030 shares.
- (f) The diluted net earnings per share is computed by dividing the profit for the financial years attributable to owners of Heng Huat by enlarged issued and paid-up share capital of 205,800,030 shares.



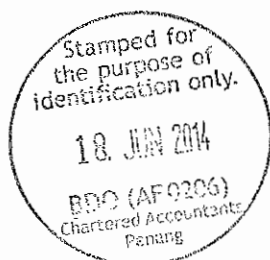
11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

The pro forma consolidated statements of financial position of Heng Huat as at 31 December 2013 have been prepared for illustrative purpose only and after making such adjustments as considered necessary assuming that the Listing Scheme completed on that date.

	Section	Heng Huat as at 31 December 2013 RM'000	< ----- Pro forma ----- >	
			I After Public Issue RM'000	II After Pro forma I and utilisation of proceeds of RM'000
ASSETS				
Non- current assets				
Property, plant and equipment	3.2.1	59,247	59,247	63,247
Intangible assets	3.2.2	325	325	325
		59,572	59,572	63,572
Current assets				
Inventories	3.2.3	4,218	4,218	4,218
Trade and other receivables	3.2.4	19,387	19,387	19,387
Current tax assets		267	267	267
Cash and cash equivalents	3.1 (C)	5,537	26,462	10,084
		29,409	50,334	33,956
TOTAL ASSETS		88,981	109,906	97,528
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	3.2.5	15,930	20,580	20,580
Share premium	3.2.6	-	16,275	16,275
Reorganisation reverse	3.2.7	(5,185)	(5,185)	(5,185)
Retained earnings		26,601	26,601	23,601
		37,346	58,271	55,271
Non-controlling interests		2,502	2,502	2,502
TOTAL EQUITY		39,848	60,773	57,773



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

	Section	Heng Huat as at 31 December 2013 RM'000	< ----- Pro forma ----- >	
			II	III
			After Public Issue RM'000	After Pro forma I and utilisation of proceeds RM'000
LIABILITIES				
Non-current liabilities				
Borrowings	3.2.9	22,960	22,960	13,582
Deferred tax liabilities		1,103	1,103	1,103
		24,063	24,063	14,685
Current liabilities				
Trade and other payables	3.2.8	11,225	11,225	11,225
Borrowings	3.2.9	13,841	13,841	13,841
Current tax liabilities		4	4	4
		25,070	25,070	25,070
TOTAL LIABILITIES		49,133	49,133	39,755
TOTAL EQUITY AND LIABILITIES		88,981	109,906	97,528
Number of ordinary shares assumed to be in issue ('000)	3.2.5	159,300	205,800	205,800
Net assets (RM'000)		37,346	58,271	55,271
Net tangible assets (RM'000)		37,021	57,946	54,946
NA per share (RM)		0.23	0.28	0.27
NTA per share (RM)		0.23	0.28	0.27



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

3.1 PRO FORMA ADJUSTMENTS TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(A) PRO FORMA I

Pro forma I is stated after incorporating the public issue. Pursuant to the public issue, 46,500,000 Public Issue Shares at the IPO Price of RM0.45 per share will be made available for application by the Malaysian public to be allocated via ballot. The shares issued represent 22.59% of the enlarged issued and fully paid-up share capital.

Upon completion of the Public issue, the issued and paid-up share capital will increase from RM15,930,003 comprising 159,300,030 shares of RM0.10 each to RM20,580,003 comprising 205,800,030 shares of RM0.10 each.

(B) PRO FORMA II

The gross proceeds from the Public Issue amounting to RM20,925,000 are expected to be utilised by Heng Huat Group in the following manner:

	RM'000
Capital expenditure	4,000
Repayment of borrowings	9,378
Working capital (i)	4,547
Estimated listing expenses (ii)	3,000
	20,925

Notes:-

- (i) Subsumed within cash and bank balances.
- (ii) Estimated listing expenses will be expensed off to the statement of profit or loss and other comprehensive income.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

3.1 PRO FORMA ADJUSTMENTS TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

(C) CASH AND CASH EQUIVALENTS

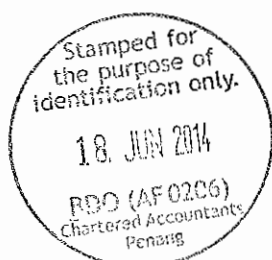
The movements of cash and equivalents are as follows:

	RM'000
Balance as at 31 December 2013	5,537
Public issue	20,925
Pro forma I	26,462
Utilisation of proceeds from the Public Issue	(16,378)
Pro forma II	10,084

(D) SHARE CAPITAL AND RESERVES

The movements in the share capital and reserves of Heng Huat Group are as follows:

	← Non-distributable →			Distributable		Total equity RM'000
	Share capital RM'000	Share premium RM'000	Reorganisation reserve RM'000	Retained earnings RM'000	Non-controlling interests RM'000	
Balance as at 31 December 2013	15,930	-	(5,185)	26,601	2,502	39,848
Public issue	4,650	16,275	-	-	-	20,925
Pro forma I	20,580	16,275	(5,185)	26,601	2,502	60,773
Less: Listing expenses	-	-	-	(3,000)	-	(3,000)
Pro forma II	20,580	16,275	(5,185)	23,601	2,502	57,773



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

3.2.1 PROPERTY, PLANT AND EQUIPMENT

	RM'000
Balance as at 31 December 2013	59,247
Public issue	-
Pro forma I	59,247
Utilisation of proceeds from the Public Issue for capital expenditure	4,000
Pro forma II	63,247
	As at 31 December 2013 RM'000
Net carrying amount	
Freehold land	9,246
Long term leasehold land	807
Factory building	11,952
Signboard	17
Renovation	653
Office equipment and furniture and fittings	437
Computer and accessories	103
Container	154
Electrical installation	2,753
Machinery and equipment	29,234
Motor vehicles	3,891
Pro forma I	59,247
Utilisation of proceeds from the Public Issue for capital expenditure	4,000
Pro forma II	63,247



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

3.2.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Heng Huat Group made the following cash payments to purchase property, plant and equipment:

	As at 31 December 2013 RM'000
Purchase of property, plant and equipment	13,753
Financed by hire purchase arrangements	(4,147)
Financed by term loan arrangements	(2,792)
As at 31 December 2013	<u>6,814</u>
Utilisation of proceeds from the Public Issue for capital expenditure (Note 3.1(B))	<u>4,000</u>
Cash payments on purchase of property, plant and equipment	<u>10,814</u>

3.2.2 INTANGIBLE ASSETS

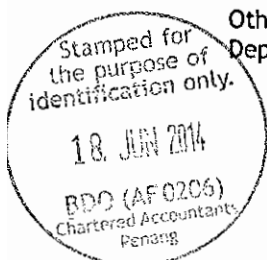
	As at 31 December 2013 RM'000
Goodwill	43
Development cost	281
Trademarks	1
	<u>325</u>

3.2.3 INVENTORIES

	As at 31 December 2013 RM'000
Raw materials	2,278
Work-in-progress	131
Packaging material	242
Finished goods	1,567
	<u>4,218</u>

3.2.4 TRADE AND OTHER RECEIVABLES

	As at 31 December 2013 RM'000
Trade receivables	17,288
Other receivables	721
Deposits and prepayments	1,378
	<u>19,387</u>



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

3.2.5 SHARE CAPITAL

	No of shares allotted '000	Cumulative no of shares allotted '000	Par value RM	Consideration	Cumulative total issued and paid-up share capital RM'000
As at 31 December 2013	159,300	159,300	0.10	Issue and fully paid	15,930
Pro forma I	46,500	205,800	0.10	Public issue	20,580
Pro forma II	0	205,800	0.10	Utilisation of proceeds	20,580

3.2.6 SHARE PREMIUM

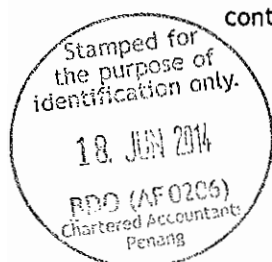
	As at 31 December 2013 RM'000
Proceeds from Public issue	20,925
Nominal value of shares issued	(4,650)
Share premium	<u>16,275</u>

The share premium is arrived at after accounting for the premium received over the nominal value of shares issued to the public.

3.2.7 REORGANISATION RESERVE

	As at 31 December 2013 RM'000
Issued equity of the Company for the acquisitions	(14,280)
Issued equity (share capital of the accounting acquirer, HH Industries)	2,962
HH Industries after incorporating the other subsidiaries	6,133
Difference between issued equity of accounting acquirer and legal acquirer	<u>(5,185)</u>

The difference between the issued equity of the Company and issued equity of HH Industries, the accounting acquirer, together with the deemed purchase consideration of remaining non-controlling interests and a subsidiary is recorded as reorganisation reserve of RM5,185,000.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

3.2.8 TRADE AND OTHER PAYABLES

	As at 31 December 2013 RM'000
Trade payables	2,980
Other payables	5,028
Amount owing to a related party	
- trade	486
- non trade	300
Accruals	2,431
	<u>11,225</u>

3.2.9 BORROWINGS

	As at 31 December 2013 RM'000
Current liabilities	
Term loans (Note 3.2.10)	2,633
Hire purchase payables	3,942
Banker acceptance	6,036
Bank overdrafts	1,230
Pro forma I/II	<u>13,841</u>
Non-current liabilities	
Term loans (Note 3.2.10)	13,060
Hire purchase payables	9,900
Pro forma I	<u>22,960</u>
Utilisation of proceeds from the Public Issue (Note 3.1(B))	(9,378)
Pro forma II	<u>13,582</u>



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)
- 3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
- 3.2.9 BORROWINGS (CONTINUED)

	As at 31 December 2013 RM'000
Total borrowings	
Term loans	15,693
Hire purchase payables	13,842
Banker acceptance	6,036
Bank overdrafts	1,230
Pro forma I	36,801
Utilisation of proceeds from the Public Issue	(9,378)
Pro forma II	27,423



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

4. PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

The pro forma consolidated statement of cash flows for the FYE 31 December 2013 has been prepared for illustrative purpose only and after making such adjustments as considered necessary assuming that the Listing Scheme completed on that date.

	FYE 31 December 2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before tax	11,382
Adjustments for:	
Amortisation of intangible assets	
- Development costs	56
- Trademarks	#
Bad debts written off	60
Depreciation of property, plant and equipment	4,886
Interest expense	2,302
Interest income	(54)
Gain on disposal of property, plant and equipment	(6)
Loss on disposal of property, plant and equipment	4
Operating profit before working capital changes	18,630
Increase in inventories	(1,539)
Increase in trade and other receivables	(2,936)
Increase in trade and other payables	769
Net cash generated from operations	14,924
Interest paid	(2,302)
Taxation paid	(1,365)
Net cash from operating activities	11,257
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	54
Changes in fixed deposits pledged with licensed banks	(887)
Development cost incurred	(112)
Purchase of property, plant and equipment	(10,814)
Proceeds from disposal of property, plant and equipment	33
Net cash used in investing activities	(11,726)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from public issue	20,925
Payment of estimated listing expenses	(3,000)
Drawdown of bankers' acceptance (net)	2,569
Drawdown of term loan	738
Repayment of term loans	(8,191)
Repayment of hire purchase payables	(7,709)
Net cash from financing activities	5,332
NET CHANGES IN CASH AND CASH EQUIVALENTS	4,863
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	1,867
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	6,730

Stamped for
the purpose of
identification only.

18 JUN 2014

BDO (AF0206)
Chartered Accountants
Penang

- represents amount less than RM1,000

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

4. PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

For the purpose of the pro forma consolidated statement of cash flows, cash and cash equivalents comprise the following:

	As at 31 December 2013 RM'000
Cash and bank balances	7,960
Fixed deposits pledged to financial institutions	2,124
As reported in pro forma consolidated statement of financial position (Pro forma II)	10,084
Less: Fixed deposits pledged to financial institutions	(2,124)
Bank overdraft included in borrowings (net of utilisation of proceeds)	(1,230)
	6,730

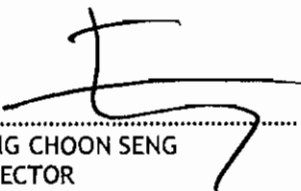


11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors in accordance with a resolution dated 18 JUN 2014



.....
H'NG CHOON SENG
DIRECTOR



.....
KEE SWEE LAI
DIRECTOR

