

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS

The following discussion and analysis of our past financial condition and results of operations 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 and the Accountants' Report as set out in Section 13 of this Prospectus.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but not limited to, those discussed below or elsewhere in this Prospectus, particularly the risk factors as set out in Section 4 of this Prospectus.

12.1 OVERVIEW

Our Company and subsidiary company, HH Industries, are principally investment holding companies, whereby our Group's revenue are principally derived from the subsidiary companies of HH Industries, namely HK Fibre, HK Kitaran and HK Palm Fibre, which are principally involved in the manufacturing and trading of biomass materials. Pursuant to the Fibre Star Reorganisation, commencing from FYE 31 December 2012, our Group also derives revenue contribution from Fibre Star and Fibre Star Marketing, which are principally involved in the manufacturing and marketing of mattresses and related products respectively.

Our business operations are contained within Malaysia, while our principal markets comprise both the local and export market. For the FYE 31 December 2013, approximately 55.38% of our Group's revenue was contributed by export sales via intermediaries mainly to the China market, while the balance of approximately 44.62% was contributed by local sales via local intermediaries (31.15%) as well as direct sales to the end product users (13.47%).

Revenue

Our Group's revenue is primarily derived through our subsidiary companies namely HK Kitaran, HK Palm Fibre and HK Fibre, which are principally involved in the manufacturing and trading of biomass materials and value-added products, as well as Fibre Star and Fibre Star Marketing, which are involved in the manufacturing and marketing of mattresses and related products as set out below:

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->					
	2011		2012		2011	
	RM'000	%	RM'000	%	RM'000	%
<u>HK Kitaran and HK Palm Fibre</u>						
- Oil palm EFB fibre	27,106	85.50	44,807	71.16	43,354	58.79
- Briquette	-	-	76	0.12	1,832	2.48
<u>HK Fibre</u>						
- Coconut fibre	3,029	9.56	2,361	3.75	470	0.64
- Coconut peat	1,567	4.94	2,000	3.18	2,329	3.16
- Coconut fibre sheet	-	-	4,062	6.45	6,162	8.36
<u>Fibre Star and Fibre Star Marketing</u>						
- Mattresses and related products	-	-	9,659	15.34	19,593	26.57
Total	31,702	100.00	62,965	100.00	73,740	100.00

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We started as a manufacturer of biomass materials. Pursuant to the Fibre Star Reorganisation in 2012, we commenced manufacturing and marketing of mattresses and related products through Fibre Star and Fibre Star Marketing, which contributed to approximately 15.34% and 26.57% of our Group's total revenue for the FYE 31 December 2012 and FYE 31 December 2013 respectively. We also commenced manufacturing of biomass value-added products, comprising coconut fibre sheet and Briquette in the FYE 31 December 2012 and FYE 31 December 2013 respectively.

Our revenue is mainly affected by the availability of supply of raw materials, market demand, sales volume and selling price for biomass materials. Further details of the factors affecting our revenue and profits are set out in Section 12.1.1 of this Prospectus.

Cost of sales

Our Group's cost of sales comprises three (3) key cost components – materials costs, labour costs, and production overheads as follows:

	Pro Forma		Audited			
	2011		FYE 31 December 2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Materials costs	4,744	33.56	12,564	38.79	14,970	35.85
Labour costs	3,704	26.20	7,122	21.99	10,154	24.31
Production overheads	5,689	40.24	12,703	39.22	16,638	39.84
Total Cost of Sales	14,137	100.00	32,389	100.00	41,762	100.00

(i) *Materials costs*

Materials costs accounted for approximately 33.56%, 38.79% and 35.85% of our total cost of sales for the past three (3) FYE 31 December 2011 to 2013.

Materials costs mainly consist of raw materials costs such as coconut husk and oil palm EFB for our biomass materials products; and coconut fibre sheet, spring coil, foam and fabrics for our mattresses and related products as well as packing materials costs. These raw materials are primarily sourced locally. The prices of these raw materials are mainly influenced by the overall market supply and demand. Packing materials primarily consist of plastic bag and rope, Vinyon thread and Raffia string for packing/bundling of our finished products.

Our materials costs were on an increasing trend throughout the financial years under review in line with the expansion of our Group's operations. The substantial increase in our material costs in the FYE 31 December 2012 was mainly contributed by purchases of materials for our mattresses and related products division which commenced operations in June 2012 subsequent to the Fibre Star Reorganisation.

(ii) *Labour costs*

Labour costs accounted for approximately 26.20%, 21.99% and 24.31% of our total cost of sales for the past three (3) FYE 31 December 2011 to 2013.

Labour costs consist of direct and indirect labour costs. Direct labour costs comprise of wages, bonuses, foreign workers' levy fees and other staff-related costs incurred in relation to production operators. Indirect labour costs comprise of salaries, wages, bonuses and other staff-related costs incurred in relation to production-related workers and employees (excluding production operators).

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

The increase in our labour costs throughout the financial years under review is in line with the increase in our production workforce from 291 personnel as at 31 December 2011 to 451 personnel as at 31 December 2013 to cater for the expansion of our production facilities as explained below, as well as the increase in workforce from our mattresses and related products division pursuant to the commencement of its operations in June 2012.

(iii) Production overheads

Production overheads accounted for approximately 40.24%, 39.22% and 39.84% of our total cost of sales for the past three (3) FYE 31 December 2011 to 2013.

Production overheads mainly consist of depreciation of property, plant and equipment deployed in production, utilities and energy costs for our production (which include boiler burning material and chemical, diesel, gas and petrol), upkeep and maintenance costs (which include the upkeep of property, plant and equipment used in production, tools and equipment repair and replacement costs), rental for our production facilities and insurance for our factory buildings, production-related machineries and equipment, and motor vehicles.

The increasing trend in our production overheads throughout the financial years under review was mainly contributed by the increase in costs incurred for depreciation charges, utilities and energy costs, and upkeep and maintenance costs for our property, plant and equipment arising from the following expansion plans undertaken by our Group during the said period:

- (a) The installation of seven additional (7) production lines in HK Palm Fibre and three (3) production lines in HK Kitaran for the production of oil palm EFB fibre in the FYE 31 December 2010;
- (b) The installation of seven (7) additional production lines in HK Kitaran for the production of oil palm EFB fibre in the FYE 31 December 2011; and
- (c) Commencement of the mattresses and related products division operations by Fibre Star and Fibre Star Marketing and the installation of two (2) additional production lines in HK Kitaran for the production of oil palm EFB Fibre in the FYE 31 December 2012.

The details of our production overheads for the past three (3) FYE 31 December 2011 to 2013 are as follows:

	Pro Forma		Audited			
			FYE 31 December			
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Depreciation of property, plant and equipment	1,346	23.66	2,890	22.75	4,350	26.14
Utilities and energy	2,981	52.40	6,958	54.77	8,239	49.52
Upkeep and maintenance	880	15.47	1,692	13.32	2,319	13.94
Rental	144	2.53	302	2.38	403	2.42
Insurance	95	1.67	228	1.80	455	2.74
Others	243	4.27	2,890	22.75	4,350	26.14
	5,689	100.00	12,703	100.00	16,638	100.00

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Other income

For the FYE 31 December 2011 to 2013, our other income amounted to RM0.24 million, RM0.74 million and RM0.81 million respectively, representing approximately 0.74%, 1.16% and 1.09% of our total income for the past three (3) FYE 31 December 2011 to 2013.

Other income mainly consists of forwarding charges imposed on customers, income from sales of biomass waste and gain on foreign exchange. Our other income for the FYE 31 December 2011 was mainly due to forwarding charges imposed for exports to China.

Our other income increased significantly for the FYE 31 December 2012 mainly due to income from sales of biomass waste (short fibre) during the financial year, while the higher other income for the FYE 31 December 2013 was primarily due to the recognition of net gain on foreign exchange of approximately RM0.62 million in line with the higher export sales and weakening of RM against foreign currencies, particularly Renminbi and USD during the financial year.

Selling and distribution expenses

Selling and distribution expenses mainly consist of sales commission payable to intermediaries on sales of our biomass materials, sales commission to our sales and marketing personnel as well as appointed agents on sales of our mattresses products, travelling expenses incurred by our sales and marketing personnel, and forwarding and transportation expenses incurred for delivery of biomass materials to our customers. For the FYE 31 December 2011 to 2013, our selling and distribution expenses amounted to RM1.76 million, RM9.81 million and RM12.75 million respectively, representing approximately 5.55%, 15.58% and 17.29% of our revenue for the past three (3) FYE 31 December 2011 to 2013.

Selling and distribution expenses showed an increasing trend during the financial years under review mainly due to higher forwarding expenses incurred for our increasing exports to China, as well as the increase in headcount of our sales and marketing personnel from six (6) personnel as at 31 December 2011 to seventeen (17) personnel as at 31 December 2013 in line with the expansion of our biomass materials operations and commencement of our mattresses and related products operations in the FYE 31 December 2012.

Administrative and other expenses

Administrative and other expenses mainly consist of directors' remuneration, payroll costs for general and administrative personnel and depreciation of property, plant and equipment (excluding those deploy in production).

Administrative and other expenses showed an increasing trend during the financial years under review in line with the expansion of our biomass materials operations as well as commencement of our mattresses and related products operations in the FYE 31 December 2012. For the FYE 31 December 2011 to 2013, our administrative and other expenses amounted to RM1.81 million, RM6.51 million and RM6.36 million respectively, which accounted for approximately 5.70%, 10.34% and 8.62% of our revenue for the past three (3) FYE 31 December 2011 to 2013. The higher administrative and other expenses for the FYE 31 December 2012 and 2013 was mainly due to the increase in payroll costs for finance, human resource and administration department as a result of the increase in headcount from eleven (11) personnel as at 31 December 2011 to twenty nine (29) personnel as at 31 December 2013, as well as higher professional fees incurred for the listing exercise of our Group.

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Finance costs

Finance costs consist of interest expenses incurred on bank overdrafts, hire purchase, bankers' acceptance and term loans, as well as banking facilities charges.

For the FYE 31 December 2011 to 2013, our finance costs amounted to RM0.52 million, RM1.37 million and RM2.30 million respectively, representing approximately 1.64%, 2.17% and 3.12% of our total revenue for the past three (3) FYE 31 December 2011 to 2013. The increase in finance costs during the financial years under review were mainly due to the expansion of our operations, whereby new hire purchases and term loans were obtained to finance the acquisitions of property, plant and equipment, and bankers' acceptance were utilised to finance our Group's working capital.

Tax expense

	Pro Forma		Audited			
			FYE 31 December			
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
<i>Income tax</i>						
- Provision for the year	(25)	(100.00)	(453)	(45.62)	(623)	(41.81)
- Over/(Under) provision in prior year	-	-	2	0.20	(307)	(20.60)
<i>Deferred tax</i>						
- Provision for the year	-	-	(163)	(16.41)	(354)	(23.76)
- Over/(Under) provision in prior year	-	-	(379)	(38.17)	(206)	(13.83)
	(25)	(100.00)	(993)	(100.00)	(1,490)	(100.00)

During the financial years under review, three (3) of our subsidiary companies, HK Fibre, HK Kitaran and HK Palm Fibre, have been granted pioneer status by MITI for their products under the Promotion of Investments (Amendment) Act, 1986 in which their statutory income are exempted from tax for a stipulated period. Our other subsidiary companies are subject to tax at the prevailing statutory tax rate of 25%.

The details of the tax exemption granted during the past three (3) FYE 31 December 2011 to 2013 are as follows:

Company	Tax Exemption Period	Exempted Products
HK Fibre	Five (5) years, from 1 June 2007 to 31 May 2012	Coconut fibre and coconut peat
	Five (5) years, from 1 April 2012 to 31 March 2017	Coconut fibre sheet
HK Kitaran	Ten (10) years, from 1 July 2010 to 30 June 2020	Fibre from palm biomass
HK Palm Fibre	Five (5) years, from 1 October 2009 to 10 May 2012	Fibre from oil palm biomass

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The increase in tax expense for the FYE 31 December 2012 was mainly attributable to the following factors:

- (a) Additional tax liabilities arising from the cessation of HK Palm Fibre's pioneer status on 10 May 2012, and the expiry of HK Fibre's pioneer status in relation to coconut fibre and coconut peat on 31 May 2012; and
- (b) Commencement of the manufacturing and marketing of mattresses and related products by Fibre Star and Fibre Star Marketing respectively, whereby our Group's profits arising therefrom are subject to income tax at the statutory tax rate of 25%.

For the FYE 31 December 2013, the higher tax expense was mainly attributable to the following factors:

- (a) Higher tax liabilities from the mattresses and related products division, in line with the higher profits generated during the financial year from full year operations; and
- (b) Under provision of prior year income tax which was adjusted during the financial year upon submission of final tax returns, primarily in relation to HK Fibre and HK Palm Fibre.

12.1.1 Significant factors affecting our profits

The main factors that have affected and are expected to continue to affect our profits include but are not limited to the following:

(i) Demand and supply conditions for our biomass materials and value-added products

The growth of our biomass materials and value-added products is largely driven by the following:

- Rising demand from China for coconut fibre and emergence of oil palm EFB fibre as a viable substitute for coconut fibre;
- Population growth and greater affluence spurring demand for end-products;
- Growing applications of natural fibre;
- Strong governmental support;
- Increasing domestic and foreign investments and initiatives;
- Increase of oil palm production under the ETP; and
- Legislation enforcement on environmental protection.

(Source: IMR Report by Protégé Associates)

Further details of the demand and supply conditions for our biomass materials and value-added products are set out in Section 7 of this Prospectus.

(ii) Tax consideration

The following table sets out the comparison between our effective and statutory tax rate for the past three (3) FYE 31 December 2011 to 2013:

	Pro Forma	<----- Audited ----->	
		<----- FYE 31 December ----->	
	2011	2012	2013
	%	%	%
Effective tax rate	0.18	7.29	13.09
Statutory tax rate	25.00	25.00	25.00

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We are subject to tax in Malaysia, and the relevant tax liabilities are computed based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the relevant reporting period. For the financial years under review, the applicable statutory tax rate remained constant at 25%.

For the FYE 31 December 2011, we recorded a minimal tax expense with an effective tax rate of 0.18%. For the FYE 31 December 2012 and 2013, we recorded a higher effective tax rate of 7.29% and 13.09% respectively mainly due to additional tax liabilities arising from the cessation of HK Palm Fibre and HK Fibre's pioneer status on 10 May 2012 and 31 May 2012 respectively, as well as the commencement of operations of our mattresses and related products division, which are subject to income tax at the 25% statutory tax rate.

A relatively low tax expense was recorded during the financial years under review, as compared to the applicable statutory tax rate of 25%, primarily due to our main subsidiary companies, HK Fibre, HK Palm Fibre and HK Kitaran, have been granted pioneer status by MITI for their products under the Promotion of Investments (Amendment) Act, 1986 in which their statutory tax income are exempted from tax for a stipulated period. As disclosed in Section 12.1 – "*Tax expense*" of this Prospectus, HK Palm Fibre's pioneer status has ceased on 10 May 2012 and HK Fibre's pioneer status in relation to coconut fibre and coconut peat has expired on 31 May 2012.

Upon expiry of the relevant incentive periods, we expect our tax expenses to increase substantially as compared to the level reported during the financial years under review. Appropriate accruals for tax liabilities would be made, when necessary, in the relevant future financial years.

For illustrative purposes, assuming that none of our subsidiary companies are exempted from tax in the FYE 31 December 2013, our tax expense is estimated to be RM3.85 million, representing an effective tax rate of 33.83%.

(iii) Dependency on major customers

For the FYE 31 December 2013, we have one (1) major customer (who contributed more than 10% of our Group's revenue) i.e. Shenzhen Yuemao, which accounted for approximately 30.14% of our Group's total revenue. In addition, our export of oil palm EFB fibre to China accounted for approximately 54.31% of our Group's total revenue for the FYE 31 December 2013, whereby all of these customers are intermediaries.

Our revenue to a certain extent is dependent on our major customer. There is no assurance that any loss of our major customer will not have a material adverse effect on our Group's future performance.

Further details of the risk in relation to our dependency on our major customer are set out in Section 4.1(ii) of this Prospectus.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.2 RESULTS OF OPERATIONS

The following sets out the segmental analysis of our results for the past three (3) FYE 31 December 2011 to 2013 based on the assumption that our current Group structure has been in existence throughout the financial years under review.

12.2.1 Revenue

(i) By company

	Pro Forma		Audited			
			FYE 31 December			
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
HH Industries	-	-	-	-	-	-
HK Fibre	4,596	14.50	8,423	13.38	8,961	12.15
HK Kitaran	15,441	48.71	35,612	56.56	36,433	49.41
HK Mega	-	-	-	-	-	-
HK Palm Fibre	11,665	36.79	9,271	14.72	8,753	11.87
Fibre Star	-	-	3,292	5.23	-*	-
Fibre Star Marketing	-	-	6,367	10.11	19,593	26.57
Total revenue	31,702	100.00	62,965	100.00	73,740	100.00

Note:

* No revenue was recorded for Fibre Star for the FYE 31 December 2013 due to inter-company elimination, as all the mattresses and related products manufactured by Fibre Star are supplied to Fibre Star Marketing, the marketing arm.

For the FYE 31 December 2011, our Group's revenue was mainly derived from HK Kitaran and HK Palm Fibre for the manufacturing and trading of oil palm biomass materials, which collectively contributed to 85.50%, 71.28% and 61.28% of our Group's total revenue for the FYE 31 December 2011, 2012 and 2013 respectively.

The increasing revenue contribution from HK Kitaran, together with the corresponding lower contribution from HK Palm Fibre since FYE 31 December 2011 was mainly due to our Group's focus in expanding HK Kitaran's operations as there is abundant supply of oil palm EFB fibre in the surroundings of HK Kitaran's factory, i.e. the Seberang Perai area. Pursuant thereto, HK Kitaran's production facilities was increased to a total of twelve (12) oil palm EFB fibre production lines with total monthly production capacity of 6,032 mt, as compared to HK Palm Fibre which has eight (8) production lines with total monthly production capacity of 2,340 mt.

Pursuant to the Fibre Star Reorganisation, commencing from the FYE 31 December 2012, our Group has additional revenue contribution from Fibre Star and Fibre Star Marketing, which commenced operations in June 2012 and September 2012 respectively, and collectively accounted for 15.34% and 26.57% of our Group's total revenue for the FYE 31 December 2012 and 2013 respectively.

Fibre Star serves as our in-house manufacturing arm for the production of mattresses and related products, which are solely supplied to Fibre Star Marketing, as the marketing arm, who will then on-sell the products to external mattress distributors and retailers. The higher revenue contribution from Fibre Star Marketing for the FYE 31 December 2013 was mainly due to a full year operations of our mattresses and related products division during the financial year.

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(ii) By geographical location

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->		2012		2013	
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Local:						
- End product users	4,166	13.14	7,511	11.93	9,936	13.47
- Intermediaries	8,790	27.73	15,768	25.04	22,967	31.15
Total local market	12,956	40.87	23,279	36.97	32,903	44.62
Exports:						
- China - Intermediaries	18,746	59.13	39,590	62.88	40,719	55.22
- Singapore - Intermediaries	-	-	96	0.15	118	0.16
Total exports	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

For the FYE 31 December 2011, our sales to local companies accounted for 40.87% of our Group's total revenue, while our exports to China contributed to 59.13% of our Group's total revenue. In line with our focus on the China market, our exports to China increased from 59.13% of our Group's total revenue in the FYE 31 December 2011 to 62.88% in the FYE 31 December 2012.

However, for the FYE 31 December 2013, the proportion of revenue contribution for our exports to China, which comprise sales of biomass materials, reduced to 55.22% of our Group's total revenue mainly due to increased contribution from our local sales mainly as a result of a full year contribution from our mattresses and related products division during the financial year, whereby approximately 99% of our mattresses and related products were sold through local intermediaries.

(iii) By products/activities

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->		2012		2013	
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
▪ Biomass materials:						
- Coconut fibre	3,029	9.56	2,361	3.75	470	0.64
- Coconut peat	1,567	4.94	2,000	3.18	2,329	3.16
- Coconut fibre sheet	-	-	4,062	6.45	6,162	8.36
- Oil palm EFB fibre	27,106	85.50	44,807	71.16	43,354	58.79
- Briquette	-	-	76	0.12	1,832	2.48
	31,702	100.00	53,306	84.66	54,147	73.43
▪ Mattresses and related products	-	-	9,659	15.34	19,593	26.57
Total revenue	31,702	100.00	62,965	100.00	73,740	100.00

Our Group's revenue was mainly derived from sales of oil palm EFB fibre, representing 85.50%, 71.16% and 58.79% of our Group's total revenue for the FYE 31 December 2011, 2012 and 2013 respectively.

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Commencing from the FYE 31 December 2012, we also derive additional revenue stream from the manufacturing and sales of mattresses and related products, which contributed to 15.34% and 26.57% of our Group's total revenue for the FYE 31 December 2012 and 2013 respectively. Following the commencement of our mattresses business, most of our coconut fibres are consumed internally in the production of coconut fibre sheet for our mattresses and related products division. Accordingly, our revenue contribution from coconut fibre has decreased from 9.56% of our Group's total revenue in the FYE 31 December 2011 to 0.64% in the FYE 31 December 2013.

12.2.2 GP and GP Margin

(i) By company

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->					
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
HH Industries	-	-	-	-	-	-
HK Fibre	1,447	8.24	3,587	11.73	5,154	16.12
HK Kitaran	9,352	53.24	20,799	68.03	18,077	56.53
HK Mega	-	-	-	-	-	-
HK Palm Fibre	6,766	38.52	2,893	9.46	2,439	7.63
Fibre Star	-	-	1,505	4.92	-	-
Fibre Star Marketing	-	-	1,792	5.86	6,308	19.72
Total GP	17,565	100.00	30,576	100.00	31,978	100.00

	Pro Forma		<----- Audited ----->		
	<----- FYE 31 December ----->				
	2011		2012		2013
	%		%		%
HH Industries	-		-		-
HK Fibre	31.48		42.59		57.52
HK Kitaran	60.57		58.40		49.62
HK Mega	-		-		-
HK Palm Fibre	58.00		31.20		27.87
Fibre Star	-		45.72		-
Fibre Star Marketing	-		28.15		32.19
Group GP Margin	55.41		48.56		43.37

The GP of HK Fibre increased from RM1.45 million in the FYE 31 December 2011 to RM5.15 million in the FYE 31 December 2013, while its GP margin improved from 31.48% in the FYE 31 December 2011 to 57.52% in the FYE 31 December 2013. The increase in GP margin for the FYE 31 December 2012 and 2013 was mainly due to commencement of the production and sales of coconut fibre sheet, a value-added product which commands higher selling price.

The GP of HK Kitaran increased from RM9.35 million in the FYE 31 December 2011 to RM18.08 million in the FYE 31 December 2013, while the GP of HK Palm Fibre decreased from RM6.77 million in the FYE 31 December 2011 to RM2.44 million in the FYE 31 December 2013 mainly due to our Group's focus in expanding HK Kitaran's operations as there is abundant supply of oil palm EFB fibre in the surroundings of HK Kitaran's factory.

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However, HK Kitaran and HK Palm Fibre registered decreases in their GP margins for the FYE 31 December 2012 and 2013 as a result of a decrease in the average selling prices of oil palm EFB fibre by approximately 5% and 6% in the FYE 31 December 2012 and 2013 respectively mainly due to a revision in selling prices for our China customers during the financial years as part of our Group's strategy to strengthen our sales volume in the China market as well as a decline in the prices of oil palm EFB fibre globally in the first half of 2013 as explained in Section 12.2.2(iii) of this Prospectus.

(ii) By geographical location

	Pro Forma		<----- Audited ----->			
			<----- FYE 31 December ----->			
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Local:						
- End product users	1,201	6.84	3,134	10.25	5,564	17.40
- Intermediaries	4,930	28.07	5,926	19.38	6,892	21.55
Total local market	6,131	34.91	9,060	29.63	12,456	38.95
Exports:						
- China - Intermediaries	11,434	65.09	21,467	70.21	19,458	60.85
- Singapore - Intermediaries	-	-	49	0.16	64	0.20
Total exports	11,434	65.09	21,516	70.37	19,522	61.05
Total GP	17,565	100.00	30,576	100.00	31,978	100.00

	Pro Forma		<----- Audited ----->		
			<----- FYE 31 December ----->		
	2011		2012		2013
	%		%		%
Local:					
- End product users	28.83		41.73		56.00
- Intermediaries	56.09		37.58		30.01
Total local market	47.32		38.92		37.86
Exports:					
- China - Intermediaries	60.99		54.22		47.79
- Singapore - Intermediaries	-		51.04		54.24
Total exports	60.99		54.22		47.80
Group GP Margin	55.41		48.56		43.37

The decreasing proportion of GP contribution from the local market from 34.91% in the FYE 31 December 2011 to 29.63% in the FYE 31 December 2012 was mainly due to the increasing GP contribution from the China export market. For the FYE 31 December 2013, the proportion of GP contribution from the local market increased to 38.95% of our Group's total GP from 29.63% in the FYE 31 December 2012 mainly due to the increase in revenue contribution from coconut fibre sheet and mattresses and related products which were sold in the local market.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

The increase in GP contribution from our exports to China for the FYE 31 December 2012 was in line with the increase in our sales of oil palm EFB fibre to the China market. However, for the FYE 31 December 2013, the proportion of GP contribution from our exports to China decreased to 60.85% of our Group's total GP from 70.21% in the FYE 31 December 2012 mainly due to:

- (i) lower average selling prices for our oil palm EFB fibre for the FYE 31 December 2013 pursuant to a revision in selling prices for our China customers as part of our Group's strategy to strengthen our sales volume in the China market as well as a global decline in the prices of oil palm EFB fibre in the first half of 2013; and
- (ii) full year contribution from our mattresses and related products division for the FYE 31 December 2013, whereby approximately 99% of the products were sold in the local market.

All of our oil palm EFB fibre were sold through local and overseas intermediaries during the financial years under review. As such, the lower GP margins recorded by the intermediaries for the FYE 31 December 2012 and 2013 were in line with the margins achieved for our oil palm EFB fibre as explained in Section 12.2.2(iii) of this Prospectus.

(iii) By products/activities

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->					
	2011	2012	2011	2012	2013	
	RM'000	%	RM'000	%	RM'000	%
▪ Biomass materials:						
- Coconut fibre	766	4.36	785	2.57	164	0.51
- Coconut peat	681	3.88	57	0.19	474	1.48
- Coconut fibre sheet	-	-	2,745	8.98	4,516	14.12
- Oil palm EFB fibre	16,118	91.76	23,713	77.55	19,754	61.78
- Briquette	-	-	(20)	(0.07)	762	2.38
	17,565	100.00	27,280	89.22	25,670	80.27
▪ Mattresses and related products	-	-	3,296	10.78	6,308	19.73
Total GP	17,565	100.00	30,576	100.00	31,978	100.00

	Pro Forma		<----- Audited ----->		
	<----- FYE 31 December ----->				
	2011	2012	2012	2013	
	%	%	%	%	
▪ Biomass materials:					
- Coconut fibre	25.29	33.25		34.89	
- Coconut peat	43.46	2.85		20.35	
- Coconut fibre sheet	-	67.58		73.29	
- Oil palm EFB fibre	59.46	52.92		45.56	
- Briquette	-	(26.32)		41.59	
	55.41	51.18		47.41	
▪ Mattresses and related products	-	34.12		32.20	
Group GP Margin	55.41	48.56		43.37	

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

Oil palm EFB fibre is our main GP contributor, representing approximately 91.76%, 77.55% and 61.78% of our Group's total GP for the FYE 31 December 2011, 2012 and 2013 respectively. The increase in the GP of oil palm EFB fibre from RM16.12 million in the FYE 31 December 2011 to RM23.71 million in the FYE 31 December 2012 is in line with the increase in volume sold pursuant to the expansion of our oil palm EFB fibre production lines in the FYE 31 December 2012. However, for the FYE 31 December 2013, the GP of oil palm EFB fibre decreased to RM19.75 million mainly due to the lower average selling prices of oil palm EFB fibre as explained below.

The GP margin of oil palm EFB fibre has decreased from 55.41% in the FYE 31 December 2011 to 52.92% and 45.56% for the FYE 31 December 2012 and 2013 respectively. The decrease was mainly due to the reduction in the average selling prices of oil palm EFB fibre by approximately 5% and 6% in the FYE 31 December 2012 and 2013 respectively.

The lower average selling price for oil palm EFB fibre was mainly due to a revision in selling prices for our China customers as part of our Group's strategy to strengthen our sales volume to enhance market acceptance and awareness of oil palm EFB fibre as a substitute to coconut fibre within the China market. Further, the decrease in the average selling price of oil palm EFB fibre in the FYE 31 December 2013 was also due to the effect of lower coconut fibre prices globally in the first half of 2013 arising from higher supply of coconut fibre during that period. Further details are as disclosed in Section 12.2.4(ii) of this Prospectus.

We registered a gross loss for our Briquette in the FYE 31 December 2012 mainly due to the commencement of pilot production in the fourth quarter of 2012, where minimal revenue was recorded. We commenced commercial production of Briquette in January 2013 and achieved a GP of RM0.76 million, with a GP margin of 41.59% for the FYE 31 December 2013.

12.2.3 PBT

(i) By company

	Pro Forma		Audited			
	<----- Audited FYE 31 December ----->					
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Heng Huat	(36)	(0.26)	(1,470)	(10.79)	(630)	(5.53)
HH Industries	(103)	(0.75)	(135)	(0.99)	(233)	(2.04)
HK Fibre	667	4.86	2,472	18.14	4,093	35.96
HK Kitaran	6,923	50.48	10,685	78.40	7,113	62.49
HK Mega	(23)	(0.17)	(10)	(0.07)	(4)	(0.04)
HK Palm Fibre	6,293	45.88	1,458	10.70	342	3.00
Fibre Star	(3)	(0.02)	540	3.96	363	3.19
Fibre Star Marketing	(3)	(0.02)	88	0.65	338	2.97
	13,715	100.00	13,628	100.00	11,382	100.00

The losses incurred by Heng Huat, HH Industries, HK Mega, Fibre Star and Fibre Star Marketing were mainly due to minimal or no operations by these companies during the relevant financial years under review.

The increase in the PBT of HK Fibre from RM0.67 million in the FYE 31 December 2011 to RM4.09 million in the FYE 31 December 2013 was in line with the increase in revenue and increasing GP margin from 31.48% to 57.52% during the said financial years.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS *(Cont'd)*

The increase in the PBT of HK Kitaran from RM6.92 million in the FYE 31 December 2011 to RM10.69 million in the FYE 31 December 2012 was in line with its revenue growth, while a lower PBT of RM7.11 million was recorded for the FYE 31 December 2013 due to the decrease in its GP margin.

A lower PBT was recorded by HK Palm Fibre for the FYE 31 December 2012 and 2013 following a decrease in revenue recorded during the financial years.

(ii) By geographical location and products/activities

The segmental analysis of PBT by geographical location and products/activities is not readily available for our Group as we are unable to segregate operating expenses on the basis of geographical location and products/activities.

12.2.4 Commentary on our Group's Past Operating Results

(i) FYE 31 December 2012 compared to FYE 31 December 2011

Revenue

For the FYE 31 December 2012, our revenue increased by approximately 98.62% or RM31.26 million from RM31.70 million in the FYE 31 December 2011 to RM62.97 million in the FYE 31 December 2012. The increase in revenue was primarily attributable to the following:

- (a) Increase in the volume of oil palm EFB fibre sold from approximately 40,638 mt in the FYE 31 December 2011 to approximately 71,365 mt in the FYE 31 December 2012 pursuant to:
 - (aa) full year sale from HK Kitaran's seven (7) additional production lines with a total monthly production capacity of 3,354 mt of oil palm EFB fibre, which commenced production in November 2011; and
 - (bb) the expansion of HK Kitaran's operations with the installation of two (2) additional production lines with a total monthly production capacity of 1,118 mt in September 2012;
- (b) Revenue of RM9.66 million generated by our mattresses and related products division pursuant to the commencement of operations of Fibre Star and Fibre Star Marketing in June 2012 and September 2012 respectively; and
- (c) Additional revenue of RM4.06 million generated by HK Fibre pursuant to the commencement of production of coconut fibre sheet.

GP and GP margin

In line with the increase of our revenue, our GP increased by approximately 74.07% or RM13.01 million from RM17.57 million in the FYE 31 December 2011 to RM30.58 million in the FYE 31 December 2012.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS *(Cont'd)*

However, our GP margin decreased from 55.41% in the FYE 31 December 2011 to 48.56% in the FYE 31 December 2012. The lower GP margin was mainly due to:-

- (a) Decrease in the GP margin of oil palm EFB fibre, the primary revenue-generating product of our Group from 59.46% in the FYE 31 December 2011 to 52.92% in the FYE 31 December 2012. The decrease in GP margin was mainly attributable to reduction in the average selling prices of oil palm EFB fibre by approximately 5% in the FYE 31 December 2012 as compared to the FYE 31 December 2011 pursuant to a revision in our oil palm EFB fibre selling price for our China customers as part of our Group's strategy to strengthen our sales volume in order to enhance market acceptance and awareness of oil palm EFB fibre as a substitute to coconut fibre within the China market; and
- (b) Commencement of operations of our mattresses and related products division which generated a lower GP margin of 34.12% as compared to the GP margin achieved by our biomass materials division of 51.18% for the FYE 31 December 2012.

Selling and Distribution Expenses

For the FYE 31 December 2012, our selling and distribution expenses increased by approximately 458.02% or RM8.05 million from RM1.76 million in the FYE 31 December 2011 to RM9.81 million in the FYE 31 December 2012. The increase in selling and distribution expenses was mainly due to the following:

- (a) Increase in forwarding and transportation expenses by approximately RM7.12 million as a result of higher transportation expenses and related custom duty incurred in line with our higher export sales to China during the financial year; and
- (b) Additional selling and distribution expenses of RM1.06 million incurred by our mattresses and related products division in line with the commencement of Fibre Star and Fibre Star Marketing operations in June 2012 and September 2012 respectively.

Administrative and Other Expenses

For the FYE 31 December 2012, our administrative and other expenses increased by approximately 260.63% or RM4.71 million from RM1.81 million in the FYE 31 December 2011 to RM6.51 million in the FYE 31 December 2012. The increase in administrative and other expenses was mainly due to the following:

- (a) Increase in payroll costs by RM1.53 million mainly due to the increase in headcount of our finance, human resource and administration department from eleven (11) personnel as at 31 December 2011 to thirty one (31) personnel as at 31 December 2012 in conjunction with the expansion of our operations as well as commencement of operations of our mattresses and related products division during the financial year;
- (b) Increase in professional and legal fees by RM1.51 million primarily in relation to the listing of our Group;
- (c) Increase in directors' remuneration and emoluments by RM0.59 million pursuant to the revision of our Executive Directors' remuneration and appointment of Independent Directors during the financial year; and
- (d) Increase in security charges incurred by RM0.20 million in conjunction with the expansion of our production facilities.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS *(Cont'd)*

Finance Costs

For the FYE 31 December 2012, our finance costs increased by approximately 162.19% or RM0.85 million from RM0.52 million in the FYE 31 December 2011 to RM1.37 million in the FYE 31 December 2012. The increase in finance costs was in line with the increase in our bank borrowings from RM10.44 million in the FYE 31 December 2011 to RM32.34 million in the FYE 31 December 2012 primarily due to the following:-

- (a) Additional hire purchase facilities of RM6.34 million obtained to finance the acquisition of machineries for our two (2) additional oil palm EFB fibre production lines and two (2) new production lines for Briquette in the second half of 2012 to cater for the expansion of our operations;
- (b) Additional term loan of RM5.20 million obtained in October 2012 to finance the acquisition of Plant 1; and
- (c) Utilisation of bankers' acceptance of RM3.47 million to finance our Group's working capital.

PAT

For the FYE 31 December 2012, our PAT decreased by approximately 7.71% or RM1.06 million from RM13.69 million in the FYE 31 December 2011 to RM12.64 million in the FYE 31 December 2012. The decrease in the PAT was the consequence of the increase in selling and distribution expenses, administrative expenses and finance costs as explained above, as well as higher tax expense incurred arising from the cessation of HK Palm Fibre's pioneer status on 10 May 2012, and the expiry of HK Fibre's pioneer status in relation to coconut fibre and coconut peat on 31 May 2012.

(ii) FYE 31 December 2013 compared to FYE 31 December 2012

Revenue

For the FYE 31 December 2013, our revenue increased by approximately 17.11% or RM10.78 million from RM62.97 million in the FYE 31 December 2012 to RM73.74 million in the FYE 31 December 2013. The increase in revenue was primarily attributable to the following:

- (a) Increase in revenue generated by our mattresses and related products division by RM9.93 million due to Fibre Star and Fibre Star Marketing's full year operations in the FYE 31 December 2013 as Fibre Star and Fibre Marketing only commenced operations in June 2012 and September 2012 respectively; and
- (b) Additional revenue generated from sales of Briquette of RM1.83 million pursuant to the commencement of commercial production of Briquette in January 2013.

The increase in revenue was, however, offset by a decrease in revenue generated from sales of oil palm EFB fibre of RM1.45 million mainly due to a decrease in the average selling prices of oil palm fibre by approximately 6% in the FYE 31 December 2013 as compared to the FYE 31 December 2012. The decrease in the average selling prices of oil palm EFB fibre was mainly due to a revision in selling price for our China customers as part of our Group's strategy to strengthen our sales volume, as well as the effect of lower selling prices for coconut fibre in the first half of 2013 due to higher supply of coconut fibre globally. As the price of oil palm EFB fibre is correlated to the price of coconut fibre, the lower prices of coconut fibre has led to declining prices for oil palm EFB fibre in the first half of 2013. However, the prices of coconut and oil palm EFB fibre strengthened and stabilised in the second half of 2013 as a tighter supply situation eventuates (*Source: IMR report by Protégé Associates*).

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

GP and GP margin

Our GP increased by approximately 4.59% or RM1.40 million from RM30.58 million in the FYE 31 December 2012 to RM31.98 million in the FYE 31 December 2013 mainly as a result of the increase in our revenue. However, our overall GP margin decreased from 48.56% in the FYE 31 December 2012 to 43.37% in the FYE 31 December 2013. The lower GP margin was mainly due to:-

- (a) Decrease in the average selling prices of oil palm EFB fibre by approximately 6% in the FYE 31 December 2013 as compared to the FYE 31 December 2012 as explained above; and
- (b) Increase in the average cost of production overheads for oil palm EFB fibre and Briquette from approximately RM147.14 per mt in the FYE 31 December 2012 to approximately RM164.32 per mt in the FYE 31 December 2013 arising from higher depreciation charge, and utilities and energy costs following the installation of two (2) additional oil palm EFB fibre production lines and two (2) new Briquette production lines by HK Kitaran in the third quarter and fourth quarter of 2012 respectively, which have yet to achieve the optimal production efficiency level.

Selling and Distribution Expenses

For the FYE 31 December 2013, our selling and distribution expenses increased by approximately 29.93% or RM2.94 million from RM9.81 million in the FYE 31 December 2012 to RM12.75 million in the FYE 31 December 2013. The increase in selling and distribution expenses was mainly due to higher selling and distribution expenses of RM2.43 million comprising mainly sales commission costs, travelling expenses and payroll costs incurred by Fibre Star and Fibre Star Marketing pursuant to full year operations of our mattresses and related products division in the FYE 31 December 2013.

Administrative and Other Expenses

For the FYE 31 December 2013, our administrative and other expenses recorded a marginal decrease of 2.35% or RM0.15 million from RM6.51 million in the FYE 31 December 2012 to RM6.36 million in the FYE 31 December 2013.

Finance Costs

For the FYE 31 December 2013, our finance costs increased by approximately 68.52% or RM0.94 million from RM1.37 million in the FYE 31 December 2012 to RM2.30 million in the FYE 31 December 2013. The increase in finance costs was mainly due to:-

- (a) Full year interest charges for the hire purchase facilities obtained in the FYE 31 December 2012 to finance the acquisitions of the additional oil palm EFB fibre production lines and new production lines for Briquette in conjunction with the expansion of our operations;
- (b) Full year interest charge for the term loan obtained in the FYE 31 December 2012 to finance the acquisition of Plant 1 as well as additional term loans of RM2.23 million and RM1.30 million obtained to finance the acquisitions of Plant 4 and Plant 6 respectively; and
- (c) Higher utilisation of bankers' acceptance during the financial year to finance our Group's working capital. Our bankers' acceptance balance amounted to RM6.04 million as at 31 December 2013 as compared to RM3.47 million as at 31 December 2012.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

PAT

For the FYE 31 December 2013, our PAT decreased by approximately 21.71% or RM2.74 million from RM12.64 million in the FYE 31 December 2012 to RM9.89 million in the FYE 31 December 2013. The decrease in the PAT was mainly due to:

- (a) Drop in GP margin from 48.56% in the FYE 31 December 2012 to 43.37% in the FYE 31 December 2013;
- (b) Incurrence of higher selling and distribution expenses and finance costs as explained above; and
- (c) Higher tax expense arising from higher effective tax rate for our mattresses and related products division which does not enjoy any tax exemption as well as under provision of prior year tax.

General information for the FYE 31 December 2011 to 2013

Impact from foreign currency exchange rates

For the FYE 31 December 2011 to 2013, the majority of our sales are to China customers, which are mainly denominated in RMB. However, our results for the past three (3) FYE 31 December 2011 to 2013 were not adversely affected by foreign exchange fluctuations as the monthly fluctuation of RM against RMB was generally less than 3% variance during the financial years. Nevertheless, our Group expects continuous growth of our sales to China customers in future which could result in higher amount of RMB denominated sales.

Our net realised gains or losses on foreign exchange in the past three (3) FYE 31 December 2011 to 2013 are as follows:

	Pro Forma <----- FYE 31 December ----->	Audited <----- FYE 31 December ----->	
	2011 RM'000	2012 RM'000	2013 RM'000
Net gain/ (loss)	3	(109)	640

The higher net realised gain on foreign exchange in the FYE 31 December 2013 is mainly due to the weakening of RM against RMB during the financial year.

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.

Impact from interest rates

Based on our financial position as at 31 December 2013, our gearing stands at 0.99 times. All our borrowings are interest bearing obligations with 62.39% of these borrowings based on variable rates. Thus, any interest rate hike will increase our finance costs, which constituted approximately 10.75% of our total expenses for the FYE 31 December 2013.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

As part of our cash flow management, we will monitor and plan our capital expenditure and financing options accordingly and weigh our options for each funding requirement at any point in time. In addition, we will use part of our Public Issue proceeds to reduce our borrowings which were used to finance the capital expenditure incurred prior to the receipt of the Public Issue proceeds as explained in Section 3.6 of this Prospectus.

Impact from commodity prices

There is no material impact of commodity prices on our Group's financial performance for the past three (3) FYE 31 December 2011 to 2013. In addition, any price increase in biomass wastes can generally be passed on to our customers as our selling price is driven by market demand and sales volume.

Notwithstanding the above, the selling price of our oil palm EFB fibre is correlated to the market price of coconut fibre. Any decrease in the price of coconut fibre will lead to a corresponding decline in the price of oil palm EFB fibre, and in order to remain competitive in the market, our oil palm EFB fibre's selling price will have to be revised downwards accordingly. On the other hand, in the event of any increase in the price of coconut fibre, our Group has the option of revising upwards our oil palm EFB fibre's selling price or maintaining the selling price to boost our sales volume.

Whilst our Group has put in place plans and strategies to diversify our revenue stream to encompass other value-added biomass products as disclosed in Section 6.18.1 of this Prospectus, there is no assurance that our business will not be adversely affected by the impact of any decrease in the price of coconut fibre.

Impact of inflation

There is no material impact of inflation on our Group's financial performance for the past three (3) FYE 31 December 2011 to 2013. Notwithstanding that, we can generally pass on the effect of higher production costs due to inflation to our customers. However, there is no assurance that our business will not be adversely affected by the impact of inflation in the future.

Government, economic, fiscal or monetary policies

Risks relating to political, economic and regulatory policies which may materially affect our business and financial performance are set out in Section 4.1 of this Prospectus.

Save for a change in government regulations in relation to the products that we sell and/or the tax exemptions that we enjoy, we do not foresee any material impact arising from the government, economic, fiscal or monetary policies that could materially affect our operations and financial performance.

12.3 LIQUIDITY AND CAPITAL RESOURCES

12.3.1 Working Capital

Our business operations have been financed through a combination of shareholders' equity, internally generated funds and bank borrowings.

As at 31 December 2013, our Group has total current assets of approximately RM29.41 million and total current liabilities of RM25.07 million. As at 31 December 2013, our current ratio is 1.17 times and is expected to improve to 1.35 times after our Public Issue (including utilisation of proceeds). As at the LPD, we have unutilised banking facilities totalling RM3.33 million.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

As at 31 December 2013, after incorporating the effects of our Public Issue (including utilisation of proceeds), our Group has cash and cash equivalents of RM10.08 million and total indebtedness of RM27.42 million. As at 31 December 2013, our gearing stands at 0.99 times and is expected to improve to 0.50 times after our Public Issue (including utilisation of proceeds).

Our Board is of the opinion that, 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, our Group will have adequate working capital for our present and foreseeable requirements for a period of twelve (12) months from the date of this Prospectus.

12.3.2 Cash Flow Summary

The following table sets out the summary of 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 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.

	RM'000
Net cash from operating activities	11,257
Net cash used in investing activities	(11,726)
Net cash from financing activities	5,332
Net increase 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

Net cash from operating activities

During the FYE 31 December 2013, we generated a cash inflow of RM11.26 million from our operating activities on the back of a PBT of RM11.38 million after adjusting for, amongst others, the following:

- (i) non-cash and non-operating items totalling RM7.25 million which mainly include depreciation charges of RM4.89 million;
- (ii) decrease in working capital changes of RM3.71 million arising mainly from the following:
 - (a) Increase in inventories amounting to RM1.54 million mainly due to higher raw materials balance of RM1.20 million as at 31 December 2013 as compared to 31 December 2012 to cater for an anticipated increase in our sales in the forthcoming financial year;
 - (b) Increase in trade and other receivables amounting to RM2.94 million mainly due to higher sales of RM3.87 million registered in the last two (2) months of the FYE 31 December 2013 as compared to the last two (2) months of the FYE 31 December 2012; and

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

- (c) Increase in trade and other payables amounting to RM0.77 million mainly due to incurrence of higher forwarding and transportation expenses of RM0.45 million in the last two (2) months of the FYE 31 December 2013 for delivery of our products to our customers in line with our increase in sales during the same period. The increase in trade and other payables was also due to annual increments, for which payments were only made in the beginning of the subsequent month; and

- (iii) taxation and interest paid of RM1.37 million and RM2.30 million respectively.

Net cash used in investing activities

During the FYE 31 December 2013, we incurred net cash outflow of RM11.73 million from our investing activities, mainly for the purchase of property, plant and equipment amounting to RM10.81 million primarily for the following:-

- (i) Acquisitions of Plant 4 and Plant 6, and the machineries and equipment as detailed in Section 12.4 of this Prospectus; and
- (ii) Utilisation of the Public Issue proceeds amounting to RM4.00 million for the future capital expenditure as detailed in Section 3.6 of this Prospectus.

Net cash from financing activities

During the FYE 31 December 2013, we received a net cash inflow of RM5.33 million from our financing activities mainly as a result of the following:

- (i) net proceeds from our Public Issue of RM17.93 million after payment of listing expenses of RM3.00 million; and
- (ii) net drawdown of bankers' acceptance of RM2.57 million and drawdown of term loan of RM0.74 million for working capital purposes;

which were partially offset by the repayments of term loans and hire purchase of RM8.19 million and RM7.71 million respectively.

Save as disclosed in Section 12.7 of this Prospectus, there is no legal, financial or economic restriction on the ability of our subsidiary companies to transfer funds to our Company in the form of cash dividends, loans or advances. Thus, we are confident we can meet our cash obligations as and when the need arises.

12.3.3 Borrowings

As at 31 December 2013, our borrowings, which are all local borrowings and interest bearing, are as follows:

	<----- 31 December 2013----->		
	Payable within twelve (12) months RM'000	Payable after twelve (12) months RM'000	Total RM'000
<i>Secured</i>			
Hire purchase payables	3,942	9,900	13,842
Term loans	2,633	13,060	15,693
Bankers' acceptance	6,036	-	6,036
Bank overdraft	1,230	-	1,230
Total	13,841	22,960	36,801
Gearing *			0.99

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

Note:

- * Our gearing based on our pro forma equity attributable to equity holders of our Company after our Public Issue and utilisation of proceeds is 0.50 times.

The interest rate profile of our borrowings for the FYE 31 December 2013 is as follows:

	31 December 2013 RM'000
Fixed rate instruments	13,842
Floating rate instruments	22,959
Total	36,801

The details of the types of financial instruments that we use and their balances as at the LPD are as follows:

Types of Financial Instruments	Tenure	Effective Interest Rate	Balance as at the LPD RM'000
Bankers' acceptance	30 days - 120 days	4.76% - 4.92%	6,032
Bank overdrafts	On demand	1% - 1.50% above bank's BLR	1,836
Hire purchases	36 months - 60 months	4.58% - 8.29%	13,304
Term loans	60 months - 240 months	2.10% below bank's BLR to 1.75% above bank's BLR	14,634
			35,806

As at 31 December 2013, we have cash and bank balances of RM3.41 million.

As at the LPD, we do not have any non-interest bearing borrowings or foreign borrowings. We have not defaulted on any payment of either principal sum and/or interest in relation to our borrowings during the past three (3) FYE 31 December 2011 to 2013 and up to the LPD.

As at the LPD, neither our Company nor any of our subsidiary companies is in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or our shareholders' investments.

As at the LPD, we do not use any financial instruments for hedging purposes.

Currently, our Group does not have any interest rate hedging policy. We will monitor the interest rate movement and will take the necessary steps to minimise interest rate risk whenever deemed appropriate such as implementing a hedge policy. We will endeavour to manage our interest rate risk by maintaining a mix of fixed and floating rate borrowings where necessary. However, no assurance can be given that any future significant movement in interest rates will not have a material impact on our Group's business, operating results and financial position.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.3.4 Material Capital Commitments

As at the LPD, save for the future capital expenditure to be incurred as disclosed in Section 3.6 of this Prospectus, there is no material capital commitment incurred or known to be incurred by us or our subsidiary companies, which upon become enforceable, may have a material impact on our financial position.

12.3.5 Material Litigation

As at the LPD, neither we nor our subsidiary companies are engaged in any litigation or arbitration, either as plaintiff or defendant, which may have a material and/or adverse effect on our financial position or business.

12.3.6 Contingent Liabilities

As at the LPD, our Board is not aware of any indirect and/or material contingent liability which has become enforceable or is likely to become enforceable, which in the opinion of our Board, will or may substantially affect our ability to meet our obligations as and when they fall due.

12.4 CAPITAL EXPENDITURE AND DIVESTITURES

Save as disclosed below, our Company has not incurred any other material capital expenditures and divestitures in the past three (3) FYE 31 December 2011 to 2013 and up to the LPD:

Material Capital Expenditures

	Pro Forma	<----- Audited ----->		
	<----- FYE 31 December ----->			Up to the
	2011	2012	2013	LPD
	RM'000	RM'000	RM'000	RM'000
Land	-	6,878 ⁽²⁾	1,381 ⁽³⁾	-
Factory building	6,376 ⁽¹⁾	1,562	2,567 ⁽³⁾	293
Capital work-in-progress	-	-	-	-
Electrical installation	731	582	1,484	137
Machinery and equipment ⁽⁴⁾	8,646	14,084	6,529	1,527
Motor vehicles ⁽⁵⁾	2,318	1,583	1,567	1,113
Total expenditures	18,071	24,689	13,528	3,070

Notes:

- (1) The capital expenditure incurred for factory building for the FYE 31 December 2011 was mainly due to the construction of Plant 2's factory building, which is currently our head office cum production facility.
- (2) The capital expenditure incurred for land for the FYE 31 December 2012 was mainly due to acquisition of Plant 1 as disclosed under Sections 3.6 and 6.17 of this Prospectus.
- (3) The capital expenditure incurred for land and factory building for the FYE 31 December 2013 was mainly due to the acquisitions of Plant 4 and Plant 6.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

- (4) The material capital expenditure incurred for machinery and equipment for the FYE 31 December 2011 to 2013 and up to the LPD were for the following:

	Pro Forma <----- Audited -----> <----- FYE 31 December ----->			Up to the LPD
	2011	2012	2013	
	RM'000	RM'000	RM'000	RM'000
Coconut fibre/coconut fibre sheet production line	-	9	2,963	58
Oil palm EFB fibre production line	5,009	5,227	1,988	1,039
Briquette production line	-	5,415	865	208
Mattresses and related products	-	1,626	15	76
Packing machine	684	1,307	22	-
Weighing apparatus	175	15	-	5
Steam boiler	2,778	360	628	134
Other machinery/equipment	-	125	48	7
Total	8,646	14,084	6,529	1,527

- (5) The material capital expenditure incurred for motor vehicles for the FYE 31 December 2011 to 2013 and up to the LPD were for the following:

	Pro Forma <----- Audited -----> <----- FYE 31 December ----->			Up to the LPD
	2011	2012	2013	
	RM'000	RM'000	RM'000	RM'000
Backhoe, wheel loader and forklift	1,686	1,278	719	926
Cars	632	305	848	187
Total	2,318	1,583	1,567	1,113

There are no material divestitures currently in progress, within or outside Malaysia. For material capital commitments, please refer to Section 12.3.4 of this Prospectus.

12.5 KEY FINANCIAL RATIOS

12.5.1 Trade Receivables

A summary of our trade receivables turnover period for the past three (3) FYE 31 December 2011 to 2013 is as set out below:

	Pro Forma <----- Audited -----> <----- FYE 31 December ----->		
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade receivables	3,750	14,143	17,288
Revenue	31,702	62,965	73,740
% of trade receivables to revenue	11.83	22.46	23.44
Trade receivables turnover period (days)	43	82	86

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

The normal credit period granted to our customers for the FYE 31 December 2011 ranges from 30 days to 40 days. Our credit terms to customers are assessed and approved on a customer-by-customer basis. The higher trade receivables turnover period of 43 days for the FYE 31 December 2011 was mainly due to higher sales achieved towards the end of the year, following an increase in HK Kitaran's monthly production capacity by approximately 3,354 mt of oil palm EFB fibre in November 2011.

For the FYE 31 December 2012 and 2013, pursuant to the commencement of operations of our mattresses and related products division in 2012, the normal credit period granted to our customers ranges from 30 days to 120 days. The longer credit period granted to customers of our mattresses and related products division is in line with the mattress industry practice. Our trade receivables turnover period for the FYE 31 December 2012 and 2013 falls within the credit period granted to our customers.

As at the LPD, we have not experienced any instances of significant bad debts for the financial years under review. We will assess the collectability of trade receivables on individual customer basis which have exceeded the credit term granted by more than six (6) months prior to impairing the said balance.

As at 31 December 2013, the net trade receivables of our Group amounted to RM17.29 million which can be analysed as follows:

	Within credit period RM'000	Exceeding credit period 0 – 30 days RM'000	31 – 60 days RM'000	Total RM'000
Trade receivables	16,238	870	180	17,288
Less: Impairment of loss	-	-	-	-
Net trade receivables	16,238	870	180	17,288
% of total trade receivables	93.93	5.03	1.04	100.00
Subsequent collection as at the LPD	(15,773)	(854)	(54)	(16,681)
Outstanding balance as at the LPD	465	16	126	607
% of total trade receivables net of subsequent collections	76.61	2.63	20.76	100.00

As of the LPD, we have collected RM16.68 million or 96.49% of the total trade receivables outstanding as at 31 December 2013. For those amounts which have exceeded the normal credit period, we have collected RM0.91 million or 86.48% of the said amounts as at the LPD and we are currently negotiating with the relevant customers to recover the remaining balance. Our Directors are of the opinion that the remaining balance of RM0.14 million or 13.52% of the amount exceeding the credit period are recoverable after taking into consideration our relationship with most of these customers and the various credit control measures implemented by us to minimise the incidence of customers default.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.5.2 Trade Payables

A summary of our trade payables turnover period for the past three (3) FYE 31 December 2011 to 2013 is as set out below:

	Pro Forma	<----- Audited ----->	
		<----- FYE 31 December ----->	
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade payables	704	5,447	3,466
Cost of sales	14,137	32,389	41,762
% of trade payables to cost of sales	4.98	16.82	8.30
Trade payables turnover period (days)	18	61	30

The normal credit terms granted by our suppliers ranges from 30 days to 90 days. The trade payables turnover period ranged from approximately 18 days to 61 days during the financial years under review and is within the normal credit period granted by our suppliers.

Our trade payables turnover period increased from 18 days in the FYE 31 December 2011 to 61 days in the FYE 31 December 2012 mainly due to utilisation of credit terms granted by our suppliers arising from utilisation of our internally generated funds to finance the capital expenditure incurred for our expansion plans.

Our trade payables turnover period decreased from 61 days in the FYE 31 December 2012 to 30 days in the FYE 31 December 2013 mainly due to prompt payments made to our suppliers to enhance our relationship and reputation with our suppliers in order to secure favourable pricing from our suppliers.

As at 31 December 2013, our trade payables amounted to RM3.47 million which can be analysed as follows:

	Within credit period	Exceeding credit period		Total
	0 – 180 days	> 180 days		
	RM'000	RM'000	RM'000	RM'000
Trade payables				
▪ External parties	2,888	92	-	2,980
▪ Related party	47	86	353	486
	<u>2,935</u>	<u>178</u>	<u>353</u>	<u>3,466</u>
% of total trade payables	84.68	5.14	10.18	100.00

As of the LPD, all the above outstanding trade payables have been settled.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.5.3 Inventories

Our inventories turnover period for the past three (3) FYE 31 December 2011 to 2013 are as follows:

	Pro Forma	< ----- Audited ----- >	
	< ----- FYE 31 December ----- >		
	2011	2012	2013
	RM'000	RM'000	RM'000
Raw materials	50	1,075	2,278
Work-in-progress	-	12	131
Packing materials	126	226	242
Finished goods	107	1,366	1,567
Total inventories	283	2,679	4,218
Cost of sales	14,137	32,389	41,762
Percentage of inventories to cost of sales (%)	2.00	8.27	10.10
Inventories turnover period (days)	7	30	37

For the FYE 31 December 2011, our inventories turnover period stood at 7 days. We strive to reduce our inventory holding period during the financial years under review to ensure the quality of our raw materials and biomass materials as well as to minimise storage space.

For the FYE 31 December 2012 and 2013, our inventories turnover period stood at 30 days and 37 days respectively. The higher inventories turnover period was mainly due to the commencement of our mattresses and related products operations in the FYE 31 December 2012, which has resulted in additional inventories held by our Group. Our mattresses and related products division generally hold stocks that are sufficient to cater for two (2) to three (3) months' orders, in order to fulfil the replenishment needs of the customers promptly.

Our Board is of the opinion that there are no significant slow-moving or obsolete inventories as at 31 December 2013 as our inventories on-hand are primarily to cater for subsequent months' production and sales.

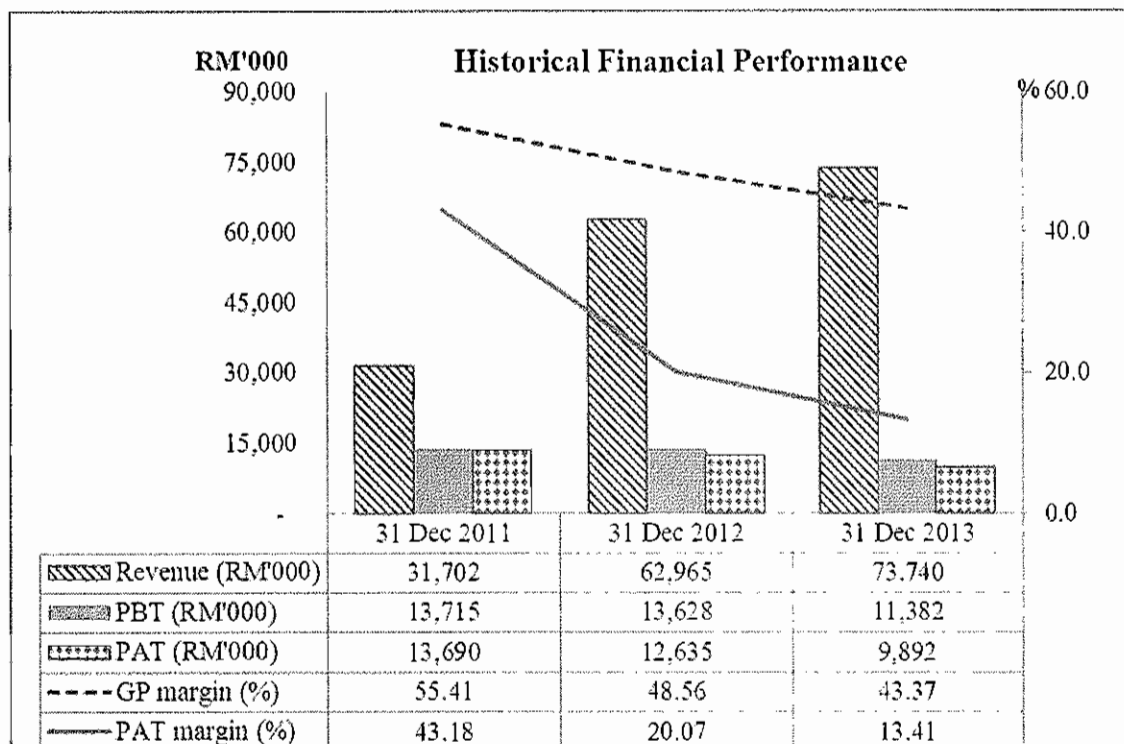
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12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.6 SIGNIFICANT TRENDS

12.6.1 Revenue and Business and Financial Prospects

Based on our financial information for the past three (3) FYE 31 December 2011 to 2013, the following trends were observed:



For the FYE 31 December 2012 and 2013, our revenue registered growth at an incremental rate of 98.62% and 17.11% respectively, primarily attributable to the following:

- (i) Increase in the production capacity of our oil palm EFB fibre by 1,118 mt upon installation of two (2) additional production lines in the third quarter of 2012;
- (ii) Expansion of our operations with the commencement of production of mattresses and related products and coconut fibre sheet in the FYE 31 December 2012; and
- (iii) Introduction of Briquette to our product offerings in January 2013.

The overall increase in our sales volume is consistent with the rising demand for coconut fibre from China and increasing acceptance of oil palm EFB fibre as a viable and cheaper alternative to coconut fibre (*Source: IMR Report by Protégé Associates*). Our Board is optimistic that our growth momentum is sustainable in the next few financial years based on the following factors:

- According to the market research conducted by Protégé Associates, the estimated revenue for biomass materials – coconut fibre and oil palm EFB fibre market in Malaysia stood at RM92.40 million in 2013. By 2018, this is expected to grow to RM180.40 million, representing a CAGR of 14.32% over the next five (5) years (*Source: IMR Report by Protégé Associates*);

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

- Growing applications of natural fibre and rising awareness of 'green' products is expected to further spur the demand for coconut and oil palm EFB biomass materials and value-added products;
- 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*);
- The know-how necessary for the design, customisation and installation of our continuous production lines, which enabled production of consistent, reliable and large quantities of biomass materials, together with the expansion of our production capacity to meet the growing demand for biomass materials and value-added products; and
- The expected demand for oil palm EFB fibre in China to continue to remain strong, as evident by the increase in average selling prices from RM547 per mt in the first half of 2013 to RM625 per mt in the second half of 2013 as well as consistent demand for our oil palm EFB fibre in the first quarter of 2014.

We experienced a decline in our GP margin for the FYE 31 December 2012 and 2013 mainly due to the decrease in the average selling prices of oil palm EFB fibre resulting from the following:

- (i) Revision in selling price as part of our Group's strategy to strengthen our sales volume in order to enhance market acceptance and awareness of oil palm EFB fibre as a substitute to coconut fibre within the China market; and
- (ii) Softening of prices of coconut fibre in the first half of 2013 due to higher supply of coconut fibre globally, which has resulted in a corresponding decline in the prices of oil palm EFB fibre. However, the prices of coconut fibre and oil palm EFB fibre have subsequently strengthened and stabilised in the second half of 2013 as a tighter supply situation eventuates (*Source: IMR Report by Protégé Associates*).

Notwithstanding the above, our Board expects further improvement in GP margin in future financial years to be possible through the following factors:

- Greater economies of scale arising from an increase in production and sales volume of oil palm EFB fibre, which will reduce the average cost of production overheads per mt;
- Greater magnitude of export sales to the China market, particularly to end users, thereby enabling us to obtain higher selling prices; and
- Product expansion, with the launch of value-added products with higher margins to complement the sales of biomass materials.

Save for any fluctuations driven by the market supply-demand forces and by the varying level of market activities within the relevant industries that consume biomass materials, we do not expect any significant seasonal/cyclical impact on our financial results for our biomass material division.

Our financial results are, however, exposed to certain degree of seasonality/cyclical effect for our mattresses and related products division as our sales are generally higher during festive seasons. Nonetheless, the impact is managed by our Group to remain within a reasonable range by maintaining a large base of retailers and distributors for our mattresses and related products.

12.6.2 Order Book

The nature of our business is such that the majority of our sales are based on order-by-order basis. As such, we do not have any long-term contracts with our customers.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

12.6.3 Directors' Declaration on our Group's Financial Performance

As at the LPD, our operations have not been and are not expected to be affected by any of the following:

- (i) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have a material impact on our financial performance, position and operations other than those discussed in this section and Sections 4, 6 and 7 of this Prospectus;
- (ii) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations save as disclosed in this section and Section 4 of this Prospectus;
- (iii) known trends, demands, commitments, events or uncertainties that have resulted in a material impact on our revenue and/or profits, save for those that have been disclosed in this section and Sections 4, 6 and 7 of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have, a material impact on our liquidity and capital resources other than those discussed in this section and Sections 4, 6 and 7 of this Prospectus; and
- (v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical financial statements not indicative of our future financial performance and position other than those discussed in this section and Section 4 of this Prospectus.

Based on the outlook of the biomass materials – coconut and oil palm EFB fibres market in Malaysia and in China as set out in Section 7 of this Prospectus, our competitive strengths as set out in Section 6.11 of this Prospectus and our future plans as set out in Section 6.18.1 of this Prospectus, our Board is optimistic about the future prospects of our Group.

12.7 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.

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 operation results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective board of directors deem relevant.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.8 FUTURE FINANCIAL INFORMATION

There is no future financial information for the FYE 31 December 2014 which has been prepared for inclusion in this Prospectus.

Our Board confirms that there are no material adverse information or known facts about our liquidity, capital resources and future results of operations which would reasonably have any material adverse effect on our financial condition and results which would make the historical information herein irrelevant to investors' evaluation.

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13. ACCOUNTANTS' REPORT



*Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report*

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")
ACCOUNTANTS' REPORT ("THE REPORT")**

1.0 INTRODUCTION

This Report has been prepared by BDO, an approved company auditor, for the inclusion in the Prospectus of Heng Huat to be dated 30 June 2014 in connection with the listing of and quotation for the enlarged issued and paid-up-share capital of Heng Huat on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") (hereinafter defined as "the Listing") and should not be relied upon for any other purposes. The details of the listing scheme are disclosed in Section 2 of this Report.

2.0 DETAILS OF THE LISTING SCHEME

In conjunction with and as an integral part of the listing of Heng Huat on the ACE Market of Bursa Securities, the Company had undertaken the following transactions:

2.1 Issuance of new share

Issuance of 1 new ordinary share of RM1.00 on 3 May 2012.

2.2 Heng Huat Industries Holdings Sdn. Bhd. ("HH Industries") reorganisation

(i) Acquisition of HK Palm Fibre Manufacturer Sdn. Bhd. ("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.

(ii) Acquisition of HK Kitaran Sdn. Bhd. ("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.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

2.0 DETAILS OF THE LISTING SCHEME (CONTINUED)**(iii) Acquisition of HK Mega Industries Sdn. Bhd. ("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.

2.3 Fibre Star (M) Sdn. Bhd. ("Fibre Star") reorganisation**(i) Acquisition of property from Heng Huat Furniture Sdn. Bhd. ("Heng Huat Furniture")**

Acquisition of land and building from Heng Huat Furniture 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. ("Heng Huat Manufacturer")

Acquisition of machinery and equipment from Heng Huat Manufacturer 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.

2.4 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.

2.5 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 wholly 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.

(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 wholly 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 Sdn. Bhd. ("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 wholly 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.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

2.0 DETAILS OF THE LISTING SCHEME (CONTINUED)**2.6 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 an 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.

(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.

2.7 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.

2.8 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.

13. ACCOUNTANTS' REPORT (Cont'd)

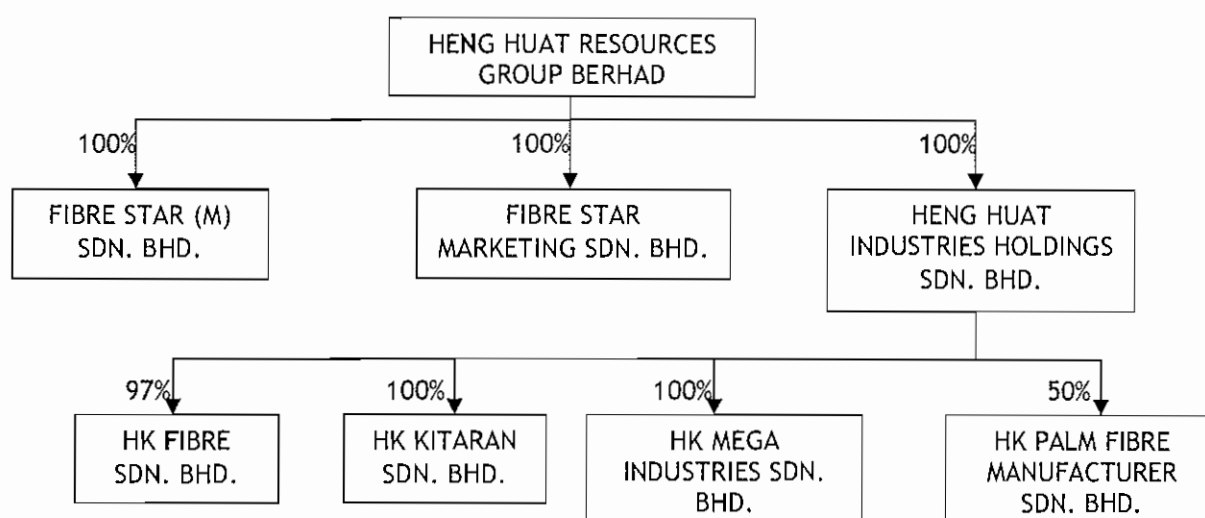
Heng Huat Resources Group Berhad
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 Accountants' Report

3.0 GENERAL INFORMATION

Heng Huat was incorporated and domiciled in Malaysia under the Companies Act, 1965 on 25 November 2011 as a private limited company and subsequently changed its status to become a public limited company on 18 June 2012. The registered office of Heng Huat is located at 51-9-A, Menara BHL, Jalan Sultan Ahmad Shah, 10050 Penang.

3.1 Group structure

The group structure of Heng Huat and its subsidiaries ("Heng Huat Group" or "the Group") is as follows:

**3.2 Principal activities**

The principal activity of Heng Huat is investment holding whilst the principal activities of its subsidiaries as at the date of this Report are as follows:

Name	Date of incorporation	Place of incorporation	Paid-up capital	Effective equity interest (%)	Principal activities
Fibre Star	29 December 2011	Malaysia	RM1,650,003	100	Manufacturing of mattresses and related products
Fibre Star Marketing	29 December 2011	Malaysia	RM3	100	Marketing of mattress and related products

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

3.0 GENERAL INFORMATION (CONTINUED)

3.2 Principal activities (continued)

Name	Date of incorporation	Place of incorporation	Paid-up capital	Effective equity interest (%)	Principal activities
HH Industries	2 July 2007	Malaysia	RM9,095,000	100	Investment holding
<u>Subsidiaries of HH Industries</u>					
HK Fibre Sdn. Bhd. ("HK Fibre")	13 March 2007	Malaysia	RM500,000	97	Manufacturing and trading of coconut biomass materials and value-added products
HK Kitaran	8 December 2009	Malaysia	RM1,000,000	100	Manufacturing and trading of oil palm biomass materials and value-added products
HK Mega	12 June 2007	Malaysia	RM100,000	100	Dormant
HK Palm Fibre	4 June 2009	Malaysia	RM200,000	50	Manufacturing and trading of oil palm biomass materials

4.0 SHARE CAPITAL

As at the date of this Report, the authorised and issued and paid-up share capital of Heng Huat is as follows:

	Number of shares	RM
Ordinary shares of RM0.10 each		
Authorised	500,000,000	50,000,000
Issued and fully paid	159,300,030	15,930,003

Heng Huat was incorporated with an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each.

On 16 May 2012, the authorised share capital of the Company had been increased to RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each. On the same date, the authorised share capital was subdivided into 500,000,000 units of new ordinary shares of RM0.10 each ("Share Split").

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

4.0 SHARE CAPITAL (CONTINUED)

The details of changes in the issued and fully paid share capital of Heng Huat since the date of incorporation are as follows:

Date of allotment	Number of shares allotted	Par value (RM)	Consideration	Cumulative total issued and fully paid share capital (RM)
25 November 2011	2	1.00	Subscribers' shares	2
3 May 2012	1	1.00	Issuance of new share	3
16 May 2012	-	0.10	Share split	3
18 May 2012	142,800,000	0.10	Acquisition of HH Industries	14,280,003
18 May 2012	16,500,000	0.10	Acquisition of Fibre Star	15,930,003

Upon completion of the Public Issue and Offer for Sale as set out in Section 2 of this Report, the issued and fully paid share capital of Heng Huat will be enlarged to RM20,580,003 comprising 205,800,030 Shares.

5.0 DIVIDEND

No dividend was declared by Heng Huat since the date of its incorporation.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
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6.0 RELEVANT FINANCIAL PERIODS AND AUDITORS

Set out as below are the relevant periods of the audited financial statements presented for the purpose of this Report ("Relevant Financial Periods") and the auditors of the respective companies within the Heng Huat Group for the Relevant Financial Periods:

Companies	Relevant Financial Periods	Auditors
Heng Huat	Financial period ("FPE") from 25 November 2011 (Date of incorporation) to 31 December 2011	BDO
	Financial year ended ("FYE") 31 December 2012	BDO
	FYE 31 December 2013	BDO
Fibre Star	FPE from 29 December 2011 (Date of incorporation) to 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
Fibre Star Marketing	FPE from 29 December 2011 (Date of incorporation) to 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
HH Industries	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO

Subsidiaries of HH Industries

HK Fibre	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
HK Kitaran	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
HK Mega	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
HK Palm Fibre	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO

The audited financial statements of all the companies within the Group for the financial years/periods reported above were not subject to any audit qualification or modification.

The audit reports of the financial years/periods reported are disclosed in Appendix 1 of this Report

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES

There were no consolidated financial statements prepared for Heng Huat Group for FYE 31 December 2011 as Heng Huat Group was not in existence as at the end of this financial year.

Consolidated financial statements were prepared for HH Industries and its subsidiaries ("HH Industries Group") for FYE 31 December 2011. However from FYE 31 December 2012 onwards, consolidated financial statements of HH Industries Group have not been prepared as a result of HH Industries becoming a wholly owned subsidiary of Heng Huat.

Accordingly, for the purpose of this Report, we have presented the consolidated financial information of Heng Huat Group for the FYE 31 December 2012 and 31 December 2013 and the financial information for Heng Huat, Fibre Star, Fibre Star Marketing, HK Palm Fibre, HH Industries, HK Fibre, HK Kitaran and HK Mega for the FPE/FYE 31 December 2011, FYE 31 December 2012 and 31 December 2013 in Section 9 based on their respective audited financial statements.

This report is prepared on a basis consistent with the accounting policies adopted by the Group as disclosed in Section 7.1 of this Report.

The financial statements of the Group for the FYE 31 December 2011 had been previously prepared in accordance with applicable approved Financial Reporting Standards ("FRS") in Malaysia. We have reviewed the relevant financial statements for the conversion to MFRSs, prepared for the purpose of this Report. The transition from FRSs to MFRSs did not materially affect these companies' reported financial position, financial results and cash flows as at the date of transition. The Group has adopted MFRSs for the FYE 31 December 2012 and FYE 31 December 2013 which are as disclosed in Section 7.2 of this Report.

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the functional currency of the Company and its respective subsidiaries.

7.1 Significant accounting policies

The significant accounting policies set out below have been applied consistently for all periods presented in the Group's financial statements.

(a) Basis of accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in the financial statements.

The preparation of financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Section 7.4. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries. Subsidiaries are entities (including special purposes entities) over which the Company has the power to govern the financial operating policies, generally accompanied by a shareholding giving rise to the majority of the voting rights, as obtain benefits from their activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intragroup balances, transactions, income and expenses are eliminated on consolidation. Unrealised gain arising are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the other entities in Group.

Non-controlling interests represents the equity in subsidiaries that are not attributable, directly or indirectly, to owners of the Company, and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially be measured at either fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by MFRSs. The choice of measurement is made on a combination-by-combination basis. Subsequent to initial recognition the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 *Financial Instruments: Recognition and Measurement* or, where applicable, the cost on initial recognition of an investment in associate or jointly controlled entity.

(c) Business combinations

Business combinations are accounted for by applying the acquisition method of accounting.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

- (i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;
- (ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- (iii) assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the serviced are received.

Any contingent consideration payable is recognised at fair value at the acquisition date. Measurement period adjustments to contingent consideration are dealt with as follows:

- (i) If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.
- (ii) Subsequent changes to contingent consideration classified as an asset or liability that is a financial instrument within the scope of FRS 139 are recognised either in profit or loss or in other comprehensive income in accordance with MFRS 139. All other subsequent changes are recognised in profit or loss.

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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Accountants' Report*

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(c) Business combinations (continued)**

In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree net identifiable assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree, over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. The accounting policy for goodwill is set out in Section 7.1(g). In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

(d) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(d) Property, plant and equipment and depreciation (continued)

Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life, is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal annual depreciation rates are as follows:

Factory building	2%
Signboard	10%
Renovation	10%
Office equipment	10%
Computer and accessories	10% - 40%
Container	10%
Electrical installation	10%
Furniture and fittings	10%
Machinery and equipment	10%
Motor vehicles	20%

Freehold land has unlimited useful life and is not depreciated. Construction-in-progress represents machinery under installation and is stated at cost. Construction-in-progress is not depreciated until such time when the asset is available for use.

At the end of each reporting period, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Section 7.1(h) on impairment of non-financial assets).

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss and the revaluation surplus related to those assets, if any, is transferred directly to retained earnings.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(e) Hire purchase

Assets acquired under hire purchase which transfer substantially all the risks and rewards of ownership to the Group are recognised initially at amounts equal to the fair value of the hire purchased assets or, if lower, the present value of minimum hire purchase payments, each determined at the inception of the hire purchase. The discount rate used in calculating the present value of the minimum hire purchase payments is the interest rate implicit in the hire purchase, if this is practicable to determine; if not, the Group's incremental borrowing rate is used. Any initial direct costs incurred by the Group are added to the amount recognised as an asset. The assets are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

The minimum hire purchase payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are recognised in profit or loss over the period of the hire purchase term so as to produce a constant periodic rate of interest on the remaining hire purchase liabilities.

(f) Investment in subsidiaries

A subsidiary is an entity in which the Group and the Company have power to control the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

An investment in subsidiary, which is eliminated on consolidation, is stated in the Company's separate financial statements at cost. Investments accounted for at cost shall be accounted for in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale in accordance with MFRS 5.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the Group would derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

(g) Goodwill

Goodwill recognised in a business combination is an asset at the acquisition date and is initially measured at cost being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

I. Goodwill (continued)

After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is not amortised but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

II. Impairment of non-financial assets

The carrying amount of assets, except for financial assets (excluding investments in subsidiaries) and inventories are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment or more frequently if events or changes in circumstances indicate that the goodwill or intangible asset might be impaired.

The recoverable amount of an asset is estimated for an individual asset. Where it is not possible to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit ('CGU') to which the asset belongs. Goodwill acquired in a business combination is from the acquisition date, allocated to each of the Group's CGU or groups of CGU that are expected to benefit from the synergies of the combination giving rise to the goodwill irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Goodwill acquired in a business combination shall be tested for impairment as part of the impairment testing of CGU to which it relates. The CGU to which goodwill is allocated shall represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and not larger than an operating segment determined in accordance with MFRS 8 *Operating segments*.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU, including the goodwill or intangible asset, exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated, first, to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

The impairment loss is recognised in profit or loss immediately.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(h) Impairment of non-financial assets (continued)**

An impairment loss on goodwill is not reversed in subsequent periods. An impairment loss for other assets is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

An impairment loss for other assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Such reversals are recognised as income immediately in profit or loss.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out formula. The cost of packing materials and raw materials comprises all costs of purchase plus the cost of bringing the inventories to their present location and condition. The cost of finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

Net realisable value is the estimated selling price in the ordinary business, less the estimated costs of completion and estimated costs necessary to make the sales.

(j) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

Financial instruments are recognised on the statement of financial position when the Group has become a party to the contractual provisions of the instrument. At initial recognition, a financial instrument is recognised at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial instrument.

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristic and risks of the embedded derivative is not closely related to the economic characteristic and risks of the host contract, a separate instrument with same terms as the embedded derivative meets the definition of a derivative, and the hybrid instrument is not measured at fair value through profit or loss.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(j) Financial instruments (continued)

(i) Financial assets

A financial asset is classified into the following four (4) categories after initial recognition for the purpose of subsequent measurement:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading (i.e. financial assets acquired principally for the purpose of resale in the near term), derivatives (both, freestanding and embedded) and financial assets that were specifically designated into this classification upon initial recognition.

Subsequent to initial recognition, financial assets classified as at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as at fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial assets classified as at fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such income is recognised separately in profit or loss as components of other income or other operating losses.

However, derivatives that is linked to and must be settled by delivery of unquoted equity instruments that do not have a quoted market price in an active market are recognised at cost.

(b) Held-to-maturity investments

Financial assets classified as held-to-maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, financial assets classified as held-to-maturity are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as held-to-maturity are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

(c) Loans and receivables

Financial assets classified as loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, financial assets classified as loans and receivables are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as loans and receivables are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(j) Financial instruments (continued)

(i) Financial assets (continued)

(d) Available-for-sale financial assets

Financial assets classified as available-for-sale comprise non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, financial assets classified as available-for-sale are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss whilst dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

Cash and cash equivalents include cash and bank balances, bank overdrafts, deposits and other short term, highly liquid investments with original maturities of three (3) months or less, which are readily convertible to cash and are subject to insignificant risk changes in value.

A financial asset is derecognised when the contractual right to receive cash flows from the financial asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised directly in other comprehensive income shall be recognised in profit or loss.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or marketplace convention. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting.

(ii) Financial liabilities

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. A financial liability is classified into the following two (2) categories after initial recognition for the purpose of subsequent measurement:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are held for trading, derivatives (both, freestanding and embedded) and financial liabilities that were specifically designated into this classification upon initial recognition.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)**

(j) Financial instruments (continued)

(ii) Financial liabilities (continued)

(a) Financial liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, financial liabilities classified as at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial liabilities classified as at fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial liabilities classified as at fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such income is recognised separately in profit or loss as components of other operating losses.

(b) Other financial liabilities

Financial liabilities classified as other financial liabilities comprise non-derivative financial liabilities that are neither held for trading nor initially designated as at fair value through profit or loss.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains or losses on other financial liabilities are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

A financial liability is derecognised when, and only when, it is extinguished, i.e when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iii) Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity instruments.

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to profit or loss.

Interim dividends to shareholders are recognised in equity in the period in which they are declared. Final dividends are recognised upon the approval of shareholders in a general meeting.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(k) Impairment of financial assets**

The Group assesses whether there is any objective evidence that a financial asset is impaired at the end of each reporting period.

Loans and receivables

The Group collectively considers factors such as the probability of bankruptcy or significant financial difficulties of the receivable, and default or significant delay in payments to determine whether there is objective evidence that an impairment loss on loans and receivables has occurred. Other objective evidence of impairment include historical collection rates determined on an individual basis and observable changes in national or local economic conditions that are directly correlated with the historical default rates of receivables.

If any such objective evidence exists, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of loans and receivables are reduced through the use of an allowance account.

If in a subsequent period, the amount of the impairment loss decreases and it objectively relates to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of impairment reversed is recognised in profit or loss.

(l) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(m) Income taxes

Taxes in the income statement comprise current tax and deferred tax.

(i) Current tax

Current tax is the amount of income taxes payable in respect of the taxable profit or loss for a period.

Current tax for the current and prior periods is measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted by the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(m) Income taxes (continued)****(ii) Deferred tax**

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. If it is no longer probable that sufficient taxable profits will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profits will be available, such reductions will be reversed to the extent of the taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority on either:

- (i) the same taxable entity; or
- (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax will be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax will be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(n) Provisions**

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount of a provision will be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision will be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

(o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interest.

(p) Employee benefits**(i) Short term employee benefits**

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as an expense in the financial year when employees have rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(p) Employee benefits (continued)****(i) Short term employee benefits (continued)**

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(ii) Defined contribution plans

The Group makes contributions to a statutory provident fund. The contributions are recognised as a liability after deducting any contribution already paid and as an expense in the period in which the employees render their services.

(q) Foreign currencies**Foreign currency translations and balances**

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of the reporting period are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition, and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Group's activities as follows:

(i) Sale of goods

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement over the goods, which coincides with the delivery of goods and acceptance by customers.

(ii) Management fee

Revenue in respect of management fee received from subsidiaries is recognised on an accrual basis.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.2 New MFRSs adopted

Prior to 1 January 2012, the Group adopted FRSS. The Group adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") mandatory for financial periods beginning on or after 1 January 2012.

Title

MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*
MFRS 2 *Share-based Payment*
MFRS 3 *Business Combinations*
MFRS 4 *Insurance Contracts*
MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
MFRS 6 *Exploration for and Evaluation of Mineral Resources*
MFRS 7 *Financial Instruments: Disclosures*
MFRS 8 *Operating Segments*
MFRS 101 *Presentation of Financial Statements*
MFRS 102 *Inventories*
MFRS 107 *Statement of Cash Flows*
MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
MFRS 110 *Events After the Reporting Period*
MFRS 111 *Construction Contracts*
MFRS 112 *Income Taxes*
MFRS 116 *Property, Plant and Equipment*
MFRS 117 *Leases*
MFRS 118 *Revenue*
MFRS 119 *Employee Benefits*
MFRS 120 *Accounting for Government Grants and Disclosure of Government Assistance*
MFRS 121 *The Effects of Changes in Foreign Exchange Rates*
MFRS 123 *Borrowing Costs*
MFRS 124 *Related Party Disclosures*
MFRS 126 *Accounting and Reporting by Retirement Benefit Plans*
MFRS 127 *Consolidated and Separate Financial Statements*
MFRS 128 *Investments in Associates*
MFRS 129 *Financial Reporting in Hyperinflationary Economies*
MFRS 131 *Interests in Joint Ventures*
MFRS 132 *Financial Instruments: Presentation*
MFRS 133 *Earnings Per Share*
MFRS 134 *Interim Financial Reporting*
MFRS 136 *Impairment of Assets*
MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*
MFRS 138 *Intangible Assets*
MFRS 139 *Financial Instruments: Recognition and Measurement*
MFRS 140 *Investment Property*
MFRS 141 *Agriculture*
Improvements to MFRSs (2008)
Improvements to MFRSs (2009)
Improvements to MFRSs (2010)
IC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
IC Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*
IC Interpretation 4 *Determining Whether an Arrangement Contains a Lease*

13. ACCOUNTANTS' REPORT (Cont'd)

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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.2 New MFRSs adopted (continued)**

IC Interpretation 6 *Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment*
 IC Interpretation 7 *Applying the Restatement Approach under MFRS 129 Financial Reporting in Hyper inflationary Economies*
 IC Interpretation 9 *Reassessment of Embedded Derivatives*
 IC Interpretation 10 *Interim Financial Reporting and Impairment*
 IC Interpretation 12 *Service Concession Arrangements*
 IC Interpretation 13 *Customer Loyalty Programmes*
 IC Interpretation 14 *MFRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
 IC Interpretation 15 *Agreements for the Construction of Real Estate*
 IC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*
 IC Interpretation 17 *Distributions of Non-cash Assets to Owners*
 IC Interpretation 18 *Transfers of Assets from Customers*
 IC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*
 IC Interpretation 107 *Introduction of the Euro*
 IC Interpretation 110 *Government Assistance - No Specific Relation to Operating Activities*
 IC Interpretation 112 *Consolidation - Special Purpose Entities*
 IC Interpretation 113 *Jointly Controlled Entities - Non-Manetary Contributions by Venturers*
 IC Interpretation 115 *Operating Leases - Incentives*
 IC Interpretation 125 *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*
 IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
 IC Interpretation 129 *Service Concession Arrangements: Disclosures*
 IC Interpretation 131 *Revenue - Barter Transactions Involving Advertising Services*
 IC Interpretation 132 *Intangible Assets - Web Site Costs*
 Amendments to MFRS 101 *Presentation of Items of Other Comprehensive Income*
 MFRS 10 *Consolidated Financial Statements*
 MFRS 11 *Joint Arrangements*
 MFRS 12 *Disclosure of Interests in Other Entities*
 MFRS 13 *Fair Value Measurement*
 MFRS 119 *Employee Benefits (2011)*
 MFRS 127 *Separate Financial Statements*
 MFRS 128 *Investments in Associates and Joint Ventures*
 Amendments to MFRS 1 *Government Loans*
 Amendments to MFRS 7 *Disclosures - Offsetting Financial Assets and Financial Liabilities*
 Amendments to MFRSs *Annual Improvements 2009 - 2011 Cycle*
 Amendments to MFRS 10, MFRS 11 and MFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*
 IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

The adoption of the above standards and interpretations does not have any effect on the financial performance or position of the Group other than the form of presentation and disclosure.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014**

The following are Standards of the MFRS Framework that have been issued by the MASB but have not been early adopted by the Group.

Title	Effective Date
Amendments to MFRS 10 <i>Consolidated Financial Statements: Investment Entities</i>	1 January 2014
Amendments to MFRS 12 <i>Disclosure of Interest in Other Entities: Investment Entities</i>	1 January 2014
Amendments to MFRS 127 <i>Separate Financial Statements (2011): Investment Entities</i>	1 January 2014
Amendments to MFRS 132 <i>Offsetting Financial Assets and Financial Liabilities</i>	1 January 2014
Amendments to MFRS 136 <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	1 January 2014
Amendments to MFRS 139 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	1 January 2014
IC Interpretation 21 <i>Levies</i>	1 January 2014
<i>Defined Benefit Plans: Employee Contributions</i> (Amendments to MFRS 119)	1 July 2014
Amendments to MFRSs <i>Annual Improvements 2010 - 2012 Cycle</i>	1 July 2014
Amendments to MFRSs <i>Annual Improvements 2011 - 2013 Cycle</i>	1 July 2014
<i>Mandatory Effective Date of MFRS 9 and Transition Disclosures</i>	Deferred
<i>MFRS 9 Financial Instruments (2009)</i>	Deferred
<i>MFRS 9 Financial Instruments (2010)</i>	Deferred
<i>MFRS 9 Financial Instruments</i> (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139)	Deferred

- (a) Amendments to MFRS 10, MFRS 12 and MFRS 127 *Investment Entities* are mandatory for annual periods beginning on or after 1 January 2014.

These Amendments introduce an exception to the consolidation principle in MFRS 10 for investment entities. These Amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with MFRS 9 (or MFRS 139, if MFRS 9 has not yet been adopted) instead of consolidating those subsidiaries in its consolidated and separate financial statements.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

- (b) Amendments to MFRS 132 *Offsetting Financial Assets and Financial Liabilities* are mandatory for annual periods beginning on or after 1 January 2014.

These Amendments provide application guidance for criteria to offset financial assets and financial liabilities.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

- (c) Amendments to MFRS 136 *Recoverable Amount Disclosures for Non-Financial Assets* are mandatory for annual periods beginning on or after 1 January 2014.

The Amendments clarify that recoverable amount (determined based on fair value less costs of disposal) of any cash-generating unit with a significant carrying amount of goodwill or intangible assets with indefinite useful lives is required to be disclosed only when an impairment loss is recognised or reversed. In addition, there are new disclosure requirements about fair value measurement when impairment or reversal of impairment is recognised.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

- (d) Amendments to MFRS 139 *Novation of Derivatives and Continuation of Hedge Accounting* are mandatory for annual periods beginning on or after 1 January 2014.

These Amendments provide relief from discontinuing hedge accounting in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

- (e) IC Interpretation 21 *Levies* is mandatory for annual periods beginning on or after 1 January 2014.

This Interpretation clarifies that the obligating event giving to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Interpretation also clarifies that the liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If an obligation to pay a levy is triggered when a minimum threshold is reached, the liability to pay a levy is recognised when that minimum activity threshold is reached.

The Group is in the process of assessing the impact of implementing this IC Interpretation since the effects would only be observable for the financial year ending 31 December 2014.

- (f) *Defined Benefit Plans: Employee Contributions* (Amendments to MFRS 119) is mandatory for annual periods beginning on or after 1 July 2014.

These Amendments provide a practical expedient in accounting for contributions from employees or third parties to defined benefit plans.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2015.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

- (g) Amendments to *MFRSs Annual Improvements 2010 - 2012 Cycle* are mandatory for annual periods beginning on or after 1 July 2014.

Amendments to *MFRS 2 Share-based Payment* clarify the definition of 'vesting conditions' by separately defining 'performance condition' and 'service condition' to ensure consistent classification of conditions attached to a share-based payment.

Amendments to *MFRS 3 Business Combinations* clarify that when contingent consideration meets the definition of financial instrument, its classification as a liability or equity is determined by reference to *MFRS 132 Financial Instruments: Presentation*. The Amendments also clarify that contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

Amendments to *MFRS 8 Operating Segments* require the disclosure of judgements made in applying the aggregation criteria to operating segments. This includes a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The Amendments also clarify that reconciliation of the total reportable segments' assets to the entity's assets is required if that amount is regularly provided to the chief operating decision maker.

Amendments to *MFRS 13 Fair Value Measurement* relates to the IASB's Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarify that when the IASB issued IFRS 13, it did not remove the practical ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, if the effect of discounting is immaterial.

Amendments to *MFRS 116 Property, Plant and Equipment* and *MFRS 138 Intangible Assets* clarify the accounting for accumulated depreciation or amortisation when an asset is revalued. It clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation or amortisation is calculated as the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

Amendments to *MFRS 124 Related Party Disclosures* extends the definition of 'related party' to include an entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2015.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

- (h) Amendments to MFRSs *Annual Improvements 2011 - 2013 Cycle* are mandatory for annual periods beginning on or after 1 July 2014.

Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* relates to the IASB's Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarify that a first-time adopter is permitted but not required to apply a new or revised Standard that is not yet mandatory but is available for early application.

Amendments to MFRS 3 *Business Combinations* clarify that MFRS 3 excludes from its scope the accounting for the formation of all types of joint arrangements (as defined in MFRS 11 *Joint Arrangements*) in the financial statements of the joint arrangement itself, but not to the parties to the joint arrangement for their interests in the joint arrangement.

Amendments to MFRS 13 *Fair Value Measurement* clarify that the scope of the portfolio exception of MFRS 13 includes all contracts accounted for within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* or MFRS 9 *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in MFRS 132 *Financial Instruments: Presentation*.

Amendments to MFRS 140 *Investment Property* clarify that the determination of whether an acquisition of investment property meets the definition of both a business combination as defined in MFRS 3 and investment property as defined in MFRS 140 requires the separate application of both Standards independently of each other.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2015.

- (i) *Mandatory Effective Date of MFRS 9 and Transition Disclosures* is effective immediately upon the adoption of MFRS 9.

This Amendment modifies the effective date of MFRS 9 from 1 January 2013 to 1 January 2015. Transitional provisions in MFRS 9 were also amended to provide certain relief from retrospective adjustments.

However, this effective date has been superseded with the issuance of MFRS 9 *Financial Instruments* (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139). Consequently, MFRS 9 is available for application but is not mandatorily effective.

The Group has elected not to adopt MFRS 9 until the mandatory effective date is announced by the MASB.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

(j) MFRS 9 is mandatory for annual periods beginning on or after 1 January 2015.

This Standard addresses the classification and measurement of financial assets and financial liabilities. All financial assets shall be classified on the basis of the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Financial assets are subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. Financial liabilities are subsequently measured at amortised cost, except for financial liabilities measured at fair value through profit or loss, transfer of financial asset not qualifying for derecognition and financial guarantee contracts or commitments to provide a below-market interest rate. However, changes due to own credit risk in relation to the fair value option for financial liabilities shall be recognised in other comprehensive income.

However, this effective date has been superseded with the issuance of MFRS 9 *Financial Instruments* (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139). Consequently, MFRS 9 is available for application but is not mandatorily effective.

The Group has elected not to adopt MFRS 9 until the mandatory effective date is announced by the MASB.

(k) MFRS 9 *Financial Instruments* (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139)

The new hedge accounting model together with corresponding disclosures about risk management activity were developed in response to concerns raised by preparers of financial statements about the difficulty of appropriately reflecting their risk management activities. The new model represents a substantial overhaul of hedge accounting that would enable entities to better reflect their risk management activities in their financial statements. As a result of these changes, users of the financial statements would be provided with better information about risk management activities and about the effect of hedge accounting on the financial statements. The MFRS 9 hedge accounting model, if adopted, applies prospectively with limited exceptions.

As part of the Amendments, an entity is now allowed to change the accounting for liabilities that it has elected to measure at fair value, before applying any of the other requirements in MFRS 9. This change in accounting would mean that gains caused by a worsening in the entity's own credit risk on such liabilities are no longer recognised in profit or loss.

These Amendments also removes the previous effective date of MFRS 9, resulting in MFRS 9 being available for application but is not mandatorily effective.

The Group has elected not to adopt MFRS 9 until the mandatory effective date is announced by the MASB.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.4 Significant accounting estimates and judgements

7.4.1 Changes in estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Directors are of the opinion that there are no changes in estimates at the end of the reporting period.

7.4.2 Critical judgements made in applying accounting policies

There are no critical judgements made by the management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

7.4.3 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Depreciation of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and machinery to be ten (10) years. This is the common life expectancy applied in the fibre manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, and therefore future depreciation charges could be revised.

(b) Impairment of receivables

The Group makes impairment of receivables based on assessment of the recoverability of receivables. Impairment is applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses historical bad debt, customer concentration, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of impairment of receivables. Where expectations differ from the original estimates, the differences will impact the carrying amount of receivables.

(c) Fair values of borrowings

The fair values of borrowings are estimated by discounting future contractual cash flows at the current market interest rates available to the Group for similar financial instruments. It is assumed that the effective interest rates approximate the current market interest rates available to the Group based on its size and its business risk.

13. ACCOUNTANTS' REPORT (Cont'd)

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8.0 FINANCIAL INFORMATION AND LIMITATION

The financial information of Heng Huat Group, Heng Huat, Fibre Star, Fibre Star Marketing, HK Palm Fibre, HH Industries, HK Fibre, HK Kitaran and HK Mega as presented in Section 9.1 to Section 9.8, are based on audited financial statements.

The scope of work conducted in the preparation of this Report does not constitute an audit in accordance with approved standards of auditing in Malaysia.

All information are extracted from the audited financial statements except those in italics, which are prepared based on calculation, representation and/or explanation provided by the management of the Group.

9.0 AUDITED FINANCIAL STATEMENTS**Key financial ratios**

The key financial ratios used in the following sections are derived as follows:

- (a) Earnings before interest, tax, depreciation and amortisation ("EBITDA") is the total net profit for the financial year before interest, tax, depreciation and amortisation for the respective financial years/period.
- (b) Number of ordinary shares is the number of shares in issue at the end of the respective financial years/period.
- (c) Gross earnings per share is computed by dividing profit before tax for the respective financial years/period over the number of ordinary shares in issue at the end of the respective years/period.
- (d) Net earnings per share is computed by dividing profit after tax and attributable to the owners of the company for the respective financial years/period over the number of ordinary shares in issue at the end of the respective years/period.
- (e) Profit before tax ("PBT") margin is computed by dividing the profit before tax over revenue earned in the respective financial years/period.
- (f) EBITDA margin is computed by dividing EBITDA over revenue earned in the respective financial years/period.
- (g) Effective tax rate is computed by dividing tax expense over profit before tax in the respective financial years/period.
- (h) Net assets per ordinary share is computed by dividing net assets over number of ordinary shares in issue at the end of the respective years/period.
- (i) Trade receivables' turnover period is computed by dividing total net trade receivables over revenue earned and multiply by 365 days.
- (j) Trade payables' turnover period is computed by dividing total trade payables over cost of goods sold and multiply by 365 days.
- (k) Gearing ratio (times) is computed by dividing total borrowings over total shareholders' equity.
- (l) Inventories turnover period is computed by dividing average stock over purchases (for raw materials) or costs of goods sold (for finished goods) and multiply by 365 days.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat

9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat

The statements of profit or loss and other comprehensive income of Heng Huat Group which are extracted from the audited financial statements for the FYE 31 December 2012 and 31 December 2013 are set out below:

		Group	
	Section	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Revenue	9.1.5	62,965	73,740
Cost of sales	9.1.6	(32,389)	(41,762)
Gross profit		30,576	31,978
Other operating income		741	812
Selling and distribution cost		(9,810)	(12,746)
Administrative and other expenses		(6,513)	(6,360)
Finance costs	9.1.7	(1,366)	(2,302)
Profit before tax	9.1.8	13,628	11,382
Tax expense	9.1.9	(993)	(1,490)
Profit for the financial year		12,635	9,892
Other comprehensive income		0	0
Total comprehensive income		12,635	9,892

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat****9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat (continued)**

The statements of profit or loss and other comprehensive income of Heng Huat Group which are extracted from the audited financial statements for the FYE 31 December 2012 and 31 December 2013 are set out below: (continued)

		Group	
		FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Section			
Profit for the financial year attributable to:			
Owners of the parent		12,163	9,740
Non-controlling interests		472	152
		12,635	9,892
Total comprehensive income attributable to:			
Owners of the parent		12,163	9,740
Non-controlling interests		472	152
		12,635	9,892
Earnings per ordinary share attributable to equity holders of the Company (sen):			
Basic	9.1.30	7.94	6.11
Diluted	9.1.30	7.94	6.11

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat (continued)

The statements of profit or loss and other comprehensive income of Heng Huat Group which are extracted from the audited financial statements for the FYE 31 December 2012 and 2013 are set out below: (continued)

	Group	
	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	18,356	18,626
Number of ordinary shares of RM0.10 each	159,300	159,300
Weighted average number of ordinary shares of RM0.10 each	159,300	159,300
Gross profit per share (RM)	0.19	0.20
Net profit per share (RM)	0.08	0.06
Profit before tax ("PBT") margin (%)	21.64	15.44
EBIDTA margin (%)	29.15	25.26
Effective tax rate (%)	7.29	13.09

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat (continued)

The statements of profit or loss and other comprehensive income of Heng Huat which are extracted from the audited financial statements for the financial period from 25 November 2011 to 31 December 2011 ("FPE 31 December 2011"), FYE 31 December 2012 and 2013 are set out below:

Section	Company		
	FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Revenue	0	0	0
Administrative expenses	(36)	(1,433)	(630)
Loss before tax 9.1.8	(36)	(1,433)	(630)
Tax expense	0	0	0
Loss for the financial period/year	(36)	(1,433)	(630)
Other comprehensive income	0	0	0
Total comprehensive loss	(36)	(1,433)	(630)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat (continued)

The statements of profit or loss and other comprehensive income of Heng Huat which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below: (continued)

	Company		
	FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Loss before interest, taxation, depreciation and amortisation ("LBITDA")	(36)	(1,433)	(630)
Number of ordinary shares of RM1.00/RM0.10 each	Q ₂	159,300	159,300
Weighted average number of ordinary shares of RM1.00/RM0.10 each	Q ₂	159,300	159,300
Gross loss per share (RM)	(18,000)	(0.009)	(0.004)
Net loss per share (RM)	(18,000)	(0.009)	(0.004)
Loss before tax ("LBT") margin (%)	N/A	N/A	N/A
LBIDTA margin (%)	N/A	N/A	N/A
Effective tax rate (%)	N/A	N/A	N/A

Q₂ - represents 2 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.2 Statements of financial position of Heng Huat Group and Heng Huat

The statements of financial position of Heng Huat Group which are extracted from the audited financial statements as at 31 December 2012 and 31 December 2013 are set out below:

		Group	
		As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Section			
ASSETS			
Non-current asset			
Property, plant and equipment	9.1.10	50,412	59,247
Intangible assets	9.1.11	269	325
		50,681	59,572
Current asset			
Inventories	9.1.12	2,679	4,218
Trade and other receivables	9.1.13	16,510	19,387
Current tax assets		37	267
Cash and cash equivalents	9.1.14	3,596	5,537
		22,822	29,409
TOTAL ASSET		73,503	88,981
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	9.1.15	15,930	15,930
Reserves	9.1.16	11,676	21,416
		27,606	37,346
Non-controlling interests		2,350	2,502
Total Equity		29,956	39,848

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.2 Statements of financial position of Heng Huat Group and Heng Huat (continued)

The statements of financial position of Heng Huat Group which are extracted from the audited financial statements as at 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	Group	
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
LIABILITIES		
Non-current liabilities		
Borrowings 9.1.18	22,607	22,960
Deferred tax liabilities 9.1.19	542	1,103
	23,149	24,063
Current liabilities		
Trade and other payables 9.1.17	10,456	11,225
Borrowings 9.1.18	9,732	13,841
Current tax liabilities	210	4
	20,398	25,070
TOTAL LIABILITIES	43,547	49,133
TOTAL EQUITY AND LIABILITIES	73,503	88,981
Number of ordinary shares of RM0.10 each in issue	159,300	159,300
Net assets	27,606	37,346
Net asset per ordinary share of RM0.10 each (RM)	0.17	0.23
Trade receivables' turnover period (days)	82	86
Trade payables' turnover period (days)	61	30
Inventories turnover periods (days)	30	37
Gearing ratio (times)	0.59	0.53

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.2 Statements of financial position of Heng Huat Group and Heng Huat (continued)

The statements of financial position of Heng Huat which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

Section	Company		
	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
ASSETS			
Non-current asset			
Property, plant and equipment 9.1.10	0	0	447
Investment in subsidiaries 9.1.20	0	15,930	16,430
	0	15,930	16,877
Current asset			
Other receivables 9.1.13	S ₂	0	0
Cash and cash equivalents 9.1.14	0	1	4
	0	1	4
TOTAL ASSET	S ₂	15,931	16,881
EQUITY AND LIABILITIES			
Share capital 9.1.15	S ₂	15,930	15,930
Accumulated losses	(36)	(1,469)	(2,099)
	(36)	14,461	13,831
Current liability			
Other payables 9.1.17	36	1,470	3,050
TOTAL EQUITY AND LIABILITY	S ₂	15,931	16,881
Number of ordinary shares of RM1.00/RM0.10 each in issue	Q ₂	159,300	159,300
Net (liabilities)/asset	(36)	14,461	13,831
Net (liabilities)/asset per ordinary share of RM1.00/RM0.10 each (RM)	(18,000)	0.09	0.09
Trade receivables' turnover period (days)	N/A	N/A	N/A
Trade payables' turnover period (days)	N/A	N/A	N/A
Inventories turnover periods (days)	N/A	N/A	N/A
Gearing ratio (times)	N/A	N/A	N/A

S₂ - represents RM2

Q₂ - represents 2 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.3 Statements of cash flows of Heng Huat Group and Heng Huat

The statements of cash flows of Heng Huat Group, which are extracted from the audited financial statements for the FYE 31 December 2012 and 31 December 2013 are set out below:

	Group	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	13,628	11,382
Adjustments for:		
Amortisation of intangible assets		
-Development costs	56	56
-Trademarks	1	#
Bad debts written off	0	60
Depreciation of property, plant and equipment	3,305	4,886
Gain on disposal of property, plant and equipment	0	(6)
Loss on disposal of property, plant and equipment	32	4
Unrealised gain on foreign currency exchange transactions	(25)	0
Interest expense	1,366	2,302
Interest income	(28)	(54)
Operating profit before working capital changes	18,335	18,630
Increase in inventories	(2,397)	(1,539)
Increase in trade and other receivables	(10,021)	(2,937)
Increase in trade and other payables	2,807	769
	8,724	14,923
Tax paid	(261)	(1,365)
Interest paid	(1,366)	(2,302)
Net cash from operating activities	7,097	11,256
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of subsidiary company	363	0
Interest received	28	54
Changes in fixed deposits with licensed banks	(774)	(887)
Development costs incurred	0	(112)
Purchase of property, plant and equipment	(6,108)	(6,814)
Purchase of trademarks	(2)	0
Proceeds from disposal of property, plant and equipment	201	34
Net cash used in investing activities	(6,292)	(7,725)

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.3 Statements of cash flows of Heng Huat Group and Heng Huat (continued)**

The statements of cash flows of Heng Huat Group, which are extracted from the audited financial statements for the FYE 31 December 2012 and 31 December 2013 are set out below: (continued)

	Group	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling interests of a subsidiary	(438)	0
Drawdown of term loan	100	738
Drawdown of bankers' acceptance (net)	3,467	2,569
Repayment of hire purchase payables	(2,093)	(3,947)
Repayment of term loans	(1,295)	(2,574)
Net cash flow (used in)/from operating activities	(259)	(3,214)
NET CHANGE IN CASH AND CASH EQUIVALENTS	546	317
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	1,321	1,867
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	1,867	2,184

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.3 Statements of cash flows of Heng Huat Group and Heng Huat (continued)

The statements of cash flows of Heng Huat, which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 31 December 2013 are set out below:

	Company		
	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax	(36)	(1,433)	(630)
Working capital change:			
Increase in other receivables	(S ₂)	0	0
Increase in other payables	36	1,434	1,580
Net cash flow (used in)/from operating activities	(S ₂)	1	950
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	0	0	(447)
Purchase of investment in subsidiaries	0	0	(500)
Net cash flow used in investing activities	0	0	(947)
NET(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(S ₂)	1	3
CASH AND CASH EQUIVALENTS AT DATE OF INCORPORATION/ BEGINNING OF FINANCIAL YEAR	0	0	1
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD/YEAR	0	1	4

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.4 Statements of changes in equity of Heng Huat Group and Heng Huat

The statements of changes in equity of Heng Huat Group, which are extracted from the audited financial statement for the FYE 31 December 2012 and 31 December 2013 are set out below:

	Group				
	Share capital RM'000	Reorganisation Reserve RM'000	Retained earnings RM'000	Total attributable to owners of the Parent RM'000	Non-controlling interest RM'000
Balance at 1 January 2012	2,962	0	4,467	7,429	4,156
Profit for the financial year	0	0	12,163	12,164	472
Other comprehensive income	0	0	0	0	0
Total comprehensive income	0	0	12,163	12,164	472
Transactions with owners					
Issuance of ordinary shares	6,133	0	0	6,133	0
Changes in ownership interest in subsidiaries	0	0	231	231	(4,102)
Ordinary shares subscribed by non-controlling interest of a subsidiary company	0	0	0	0	2,262
Acquisition of subsidiaries, accounted for as reorganization	6,835	(5,185)	0	1,650	0
Dividend paid to non-controlling interest of a subsidiary	0	0	0	0	(438)
Total transaction with owners	12,968	(5,185)	231	8,014	(2,278)
Balance at 31 December 2012	15,930	(5,185)	16,861	27,607	2,350

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.4 Statements of changes in equity of Heng Huat Group and Heng Huat (continued)

The statements of changes in equity of Heng Huat Group, which are extracted from the audited financial statement for the FYE 31 December 2012 and 31 December 2013 are set out below: (continued)

	Group					
	Share capital RM'000	Reorganisation Reserve RM'000	Retained earnings RM'000	Total attributable to owners of the Parent RM'000	Non-controlling interest RM'000	Total equity RM'000
Balance at 1 January 2013	15,930	(5,185)	16,861	27,606	2,350	29,956
Profit for the financial year	0	0	9,740	9,740	152	9,892
Other comprehensive income	0	0	0	0	0	0
Total comprehensive income	0	0	9,740	9,740	152	9,892
Balance at 31 December 2013	15,930	(5,185)	26,601	37,346	2,502	39,848

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.4 Statements of changes in equity of Heng Huat Group and Heng Huat (continued)

The statements of changes in equity of Heng Huat, which are extracted from the audited financial statement for the FPE 31 December 2011, FYE 31 December 2012 and 31 December 2013 are set out below:

	Company		
	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 25 November 2011 (Date of incorporation)	S ₂	0	S ₂
Total comprehensive loss	0	(36)	(36)
As at 31 December 2011	S ₂	(36)	(36)
Issuance of ordinary shares	15,930	0	15,930
Total comprehensive loss	0	(1,433)	(1,433)
As at 31 December 2012	15,930	(1,469)	14,461
Total comprehensive loss	0	(630)	(630)
As at 31 December 2013	15,930	(2,099)	13,831

S₂ - represents RM2

9.1.5 Revenue

	Group FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Sale of goods	62,965	73,740

9.1.6 Cost of sales

	Group FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Cost of goods sold	32,389	41,762

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.7 Finance costs**

	Group		Company	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Interest expenses on:				
- Bank overdrafts	31	49	0	0
- Term loans	740	1,057	0	0
- Hire purchase	486	872	0	0
- Bankers' acceptance	87	305	0	0
Other finance charges	22	19	#	#
	1,366	2,302	#	#

- represents amount less than RM1,000

9.1.8 Profit/(Loss) before tax

	Group		Company		
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit/(Loss) before tax is arrived at after charging:					
Amortisation of intangible assets					
-Development costs	56	56	0	0	0
-Trademarks	1	#	0	0	0
Auditors remuneration:					
-current year	34	73	0	1	8
-underprovision in prior year	12	4	0	0	0
Bad debts written off	0	60	0	0	0
Depreciation of property, plant and equipment	3,305	4,886	0	0	0
Directors' remuneration					
-other emoluments	846	1,824	0	35	60
Loss on disposal of property, plant and equipment	32	4	0	0	0
Realised loss on foreign currency exchange transaction	131	46	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.8 Profit/(Loss) before tax (continued)

	Group		Company		
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit/(Loss) before tax is arrived at after charging: (continued)					
Operating lease payments:					
-Hire of equipment	5	34	0	0	0
-Hire of motor vehicles	3	11	0	0	0
-Rental of factory	111	72	0	0	0
-Rental of hostel	16	23	0	0	0
-Rental of safety tank	3	0	0	0	0
-Rental of warehouse	156	288	0	0	0
And crediting:					
Interest income	28	54	0	0	0
Gain on disposal of property, plant and equipment	0	6	0	0	0
Realised gain on foreign currency exchange transaction	22	686	0	0	0
Unrealised gain on foreign exchange transactions	25	0	0	0	0

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.9 Tax expense

	Group FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Current tax expense based on profit for the financial year	453	623
Under/(Over) provision in prior years	(2)	307
	451	930
Deferred tax		
Relating to origination and reversal of temporary differences	163	354
Under provision in prior years	379	206
	542	560
	993	1,490

The Malaysia income tax is calculated at the statutory tax rate of 25% (2012:25%) of the estimated taxable profits for the fiscal year.

	Group		Company		
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit/(Loss) before tax	13,628	11,382	(36)	(1,434)	(630)
Tax at Malaysian statutory tax rate of 25%	3,407	2,845	(9)	(358)	(158)
Tax effect in respect of:					
-Expenses not deductible for tax purposes	824	355	0	#	158
-Income not subject to tax	(4,004)	(2,449)	0	0	0
(Over)/Under provision of tax expense in prior years	(2)	307	0	0	0
Underprovision of deferred tax expense in prior years	379	206	0	0	0
Utilisation of previously unrecognised deferred tax assets	0	169	9	0	0
Deferred tax assets not recognised during the year	389	57	0	358	0
Tax expense for the financial year	993	1,490	0	0	0

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.10 Property, plant and equipment

	Group										Total RM'000
	Freehold land RM'000	Factory building RM'000	Signboard RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Computers RM'000	Container RM'000	Electrical installation RM'000	Machinery and equipment RM'000	Motor vehicles RM'000	
At cost											
At 1 January 2012	1,795	6,231	18	858	183	32	94	482	10,766	2,089	22,548
Acquisition of a subsidiary	0	2,438	3	0	56	0	99	838	4,839	987	9,260
Additions	6,878	1,562	2	50	348	112	17	582	14,084	1,583	25,218
Disposals	0	0	0	0	0	0	0	0	(213)	(103)	(316)
At 31 December 2012	8,673	10,231	23	908	587	144	210	1,902	29,476	4,556	56,710
Accumulated depreciation											
At 1 January 2012	0	20	2	229	24	7	12	106	1,098	427	1,925
Acquisition of a subsidiary	0	219	1	0	7	0	23	93	688	120	1,151
Current year charges	0	269	2	90	53	43	20	153	1,941	734	3,305
Disposals	0	0	0	0	0	0	0	0	(20)	(63)	(83)
At 31 December 2012	0	508	5	319	84	50	55	352	3,707	1,218	6,298
Net Book Value											
At 31 December 2012	8,673	9,723	18	589	503	94	155	1,550	25,769	3,338	50,412

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.10 Property, plant and equipment (continued)

	Freehold land RM'000	Long term leasehold land RM'000	Factory building RM'000	Signboard RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Computers RM'000	Container RM'000	Electrical installation RM'000	Machinery and equipment RM'000	Motor vehicles RM'000	Total RM'000
At cost												
At 1 January 2013	8,673	0	10,231	23	908	587	144	210	1,902	29,476	4,556	56,710
Additions	573	808	2,567	0	159	55	12	0	1,483	6,529	1,567	13,753
Disposals	0	0	0	0	0	(1)	0	0	0	(5)	(89)	(95)
At 31 December 2013	9,246	808	12,798	23	1,067	641	156	210	3,385	36,000	6,034	70,368
Accumulated depreciation												
At 1 January 2013	0	0	508	5	319	84	50	55	352	3,707	1,218	6,298
Current year charges	0	0	338	1	94	121	3	2	280	3,059	988	4,886
Disposals	0	0	0	0	0	(#)	0	0	0	0	(63)	(63)
At 31 December 2013	0	0	846	6	413	204	53	57	632	6,767	2,143	11,121
Net Book Value												
At 31 December 2013	9,246	808	11,952	17	654	437	103	153	2,753	29,233	3,891	59,247

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.10 Property, plant and equipment (continued)

	Company As at 31 December 2013 RM'000
At cost/net book value	
At 1 January 2013	0
Additions	447
At 31 December 2013	447

(a) During the financial year, the Group made the following cash payments to purchase property, plant and equipment:

	Group	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Purchase of property, plant and equipment	25,217	13,753
Financed by:		
Hire purchase and lease arrangements	(10,633)	(4,147)
Term loans	(8,476)	(2,792)
Cash payments on purchase of property, plant and equipment	6,108	6,814

(b) The carrying amount of the property, plant and equipment of the Group under the finance leases at the end of the reporting period are as follows:

	Group	
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Motor Vehicles	2,852	2,342
Machinery and equipment	11,636	16,646
	14,488	18,988

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.11 Intangible assets

	Balance as at 1.1.2012 RM'000	Additions RM'000	Amortisation charge for the financial year RM'000	Balance as at 31.12.2012 RM'000
Group				
Carrying amount				
Goodwill	37	6	0	43
Development costs	281	0	(56)	225
Trademarks	0	2	(1)	1
	<u>318</u>	<u>8</u>	<u>(57)</u>	<u>269</u>

	Cost RM'000	At 31.12.2012 Accumulated amortisation RM'000	Carrying amount RM'000
Goodwill	43	0	43
Development costs	281	(56)	225
Trademarks	2	(1)	1
	<u>326</u>	<u>(57)</u>	<u>269</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.11 Intangible assets (continued)

	Balance as at 1.1.2013 RM'000	Additions RM'000	Amortisation charge for the financial year RM'000	Balance as at 31.12.2013 RM'000
Group				
Carrying amount				
Goodwill	43	0	0	43
Development costs	225	112	(56)	281
Trademarks	1	0	(#)	1
	269	112	(56)	325

- represents amount less than RM1,000

	Cost RM'000	At 31.12.2013 Accumulated amortisation RM'000	Carrying amount RM'000
Goodwill	43	0	43
Development costs	393	(112)	281
Trademarks	2	(1)	1
	438	(113)	325

9.1.12 Inventories

	Group	
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
At cost		
Raw materials	1,075	2,278
Work-in-progress	12	131
Packing materials	226	242
Finished goods	1,366	1,567
	2,679	4,218

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.13 Trade and other receivables**

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade receivables		
Third parties	14,143	17,288
Other receivables		
Amount owing by related parties	2	0
Other receivables	700	721
Loans and receivables	14,845	18,009
Deposits and prepayments		
Deposits	580	116
Prepayments	1,085	1,262
	<u>16,510</u>	<u>19,387</u>

- (a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group range from 30 to 120 days (2012: 30 to 120 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.
- (b) Amount owing by related parties were unsecured, interest-free and repayable on demand in cash and cash equivalents.
- (c) The currency exposure profile of receivables is as follows:

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Ringgit Malaysia	8,508	9,035
Chinese Renminbi	5,046	7,618
US Dollar	2,957	2,734
	<u>16,511</u>	<u>19,387</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.13 Trade and other receivables (continued)

(d) The ageing analysis of trade receivables of the Group are as follows:

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Neither past due nor impaired	4,767	16,238
Past due, not impaired		
1 to 30 days	3,878	870
31 to 60 days	3,975	180
61 to 90 days	391	0
91 to 120 days	105	0
More than 120 days	1,027	0
	<u>9,376</u>	<u>1,050</u>
	<u>14,143</u>	<u>17,288</u>

(e) Information on financial risks of trade and other receivables is disclosed in Note 9.1.26 to the financial statements

	Company As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Amount owing by Directors	<u>S₂</u>	<u>0</u>	<u>0</u>

S₂ - represents RM2

The amount owing by Directors is unsecured, interest free and repayable on demand.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.14 Cash and cash equivalents

	Group		Company		
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Cash and bank balances	2,359	3,413	0	1	4
Deposits with licensed banks	1,237	2,124	0	0	0
	<u>3,596</u>	<u>5,537</u>	<u>0</u>	<u>1</u>	<u>4</u>

(a) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	Group		Company		
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Cash and bank balances	2,359	3,413	0	1	4
Deposits with licensed banks	1,237	2,124	0	0	0
	<u>3,596</u>	<u>5,537</u>	<u>0</u>	<u>1</u>	<u>4</u>
Less:					
Deposits pledged to license banks	(1,237)	(2,124)	0	0	0
Bank overdrafts included in borrowings (Note 9.1.18)	(492)	(1,230)	0	0	0
	<u>1,867</u>	<u>2,183</u>	<u>0</u>	<u>1</u>	<u>4</u>

(b) The deposits with licensed banks have been pledged as security for bank facilities granted to the Group.

(c) Cash and cash equivalents are denominated in Ringgit Malaysia ('RM').

(d) Information on financial risks of cash and cash equivalents is disclosed in Note 9.1.26

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.15 Share capital

		Group As at 31 December 2012	
	Par value	Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
As at 1 January 2012/Prior to reorganisation of HH Industries	RM1.00 each	10,000,000	10,000
Adjustment on reorganization of HH Industries			
-elimination of HH Industries's issued and paid up ordinary share capital	RM1.00 each	(10,000,000)	(10,000)
-restated to the Company's authorized ordinary share capital	RM0.10 each	500,000,000	50,000
		490,000,000	40,000
After reorganization of HH Industries/As at 31 December 2012	RM0.10 each	500,000,000	50,000
Issued and fully paid:			
As at 1 January 2012	RM1.00 each	2,962,000	2,962
Issued during the financial year, at par	RM1.00 each	6,133,000	6,133
Prior to reorganization of HH Industries	RM1.00 each	9,095,000	9,095
Adjustment on reorganization of HH Industries			
-elimination of HH Industries's issued and fully paid-up ordinary share capital	RM0.10 each	(9,095,000)	(9,095)
-restated to the Company's issued and fully paid-up ordinary share capital	RM0.10 each	159,300,030	15,930
		150,205,030	6,835
After reorganization of HH Industries/ As at 31 December 2012	RM0.10 each	159,300,030	15,930
		Group As at 31 December 2013	
	Par value	Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
As at 1 January/31 December 2013	RM0.10 each	500,000,000	50,000
Issued and fully paid:			
As at 1 January/31 December 2013	RM0.10 each	159,300,030	15,930

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.15 Share capital (continued)

		Company As at 31 December 2011	
	Par value	Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
At 25 November/As at 31 December 2011	RM1.00 each	100,000	100
Issued and fully paid:			
At 25 November/As at 31 December 2011	RM1.00 each	S ₂	S ₂

		Company As at 31 December 2012	
	Par value	Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
As at 1 January 2012	RM1.00 each	100,000	100
Subdivision of ordinary shares during the financial year	RM0.10 each	900,000	0
After subdivision	RM0.10 each	1,000,000	100
Created during the financial year, at par	RM0.10 each	499,000,000	49,900
As at 31 December 2012	RM0.10 each	500,000,000	50,000
Issued and fully paid:			
As at 1 January 2012	RM1.00 each	2	S ₂
Issued during the financial year, at par	RM1.00 each	1	S ₁
	RM1.00 each	3	#
Subdivision of ordinary shares during the financial year	RM0.10 each	27	0
After subdivision	RM0.10 each	30	#
Issued during the financial year, at par	RM0.10 each	159,300,000	15,930
As at 31 December 2012	RM0.10 each	159,300,030	15,930

S₂ - represents RM2

S₁ - represents RM1

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.15 Share capital (continued)

The owners of the parent are entitled to receive dividend as and when declared by the Company and are entitled to one (1) vote per ordinary share at meeting of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.

	Par value	Company As at 31 December 2013 Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
As at 1 January/31 December 2013	RM0.10 each	500,000,000	50,000
Issued and fully paid:			
As at 1 January/31 December 2013	RM0.10 each	159,300,030	15,930

9.1.16 Reserves

	Group		Company		
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Non-distributable:					
Reorganisation reserve	(5,185)	(5,185)	0	0	0
Distributable:					
Retained earnings/ (Accumulated losses)	16,861	26,601	(36)	(1,469)	(2,099)
	11,676	21,416	(36)	(1,469)	(2,099)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.16 Reserves (continued)

Reorganisation reserve

The reorganization reserve arose from the reverse acquisition of the Company by HH Industries in 2012, as follows:

	Group RM
Issued equity of HH Industries	2,962
Deemed purchase consideration of:	
-remaining non-controlling interest in an existing subsidiary, HK Kitaran	3,871
-a subsidiary, HK Palm Fibre	2,262
	6,133
Issued equity of the accounting acquirer, prior to the reverse acquisition	9,095
<u>Compare against:</u>	
Issued equity of the Company for the acquisition (comprising 14,280,000 ordinary shares of RM1 each)	(14,280)
Reorganisation reserve	(5,185)

9.1.17 Trade and other payables

	Group		Company		
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade payables					
Third parties	4,600	2,980	0	0	0
Amounts owing to related parties	846	485	0	0	0
	5,446	3,465		0	0
Other payables					
Amount owing to related party	133	301	27	0	0
Amount owing to a subsidiary	0	0	0	1,465	3,050
Other payables	3,013	5,028	0	0	0
Accruals	1,864	2,431	9	5	0
	5,010	7,760	36	1,470	3,050
	10,456	11,225	36	1,470	3,050

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.17 Trade and other payables (continued)**

- (a) Trade and other payables are denominated in RM.
- (b) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2012: 30 to 90 days).
- (c) Amounts owing to all related parties are unsecured, interest-free and payable upon demand in cash and cash equivalents
- (d) Amount owing to a subsidiary is unsecured, interest free and payables upon demand in cash and cash equivalents.
- (e) Information on financial risks of trade and other payables is disclosed in Note 9.1.26.

9.1.18 Borrowings

	Group	
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Current liabilities		
Term loans	2,161	2,633
Hire purchase and lease creditors	3,612	3,942
Banker's acceptance	3,467	6,036
Bank overdrafts	492	1,230
	9,732	13,841
Non-current liabilities		
Term loans	12,576	13,060
Hire purchase and lease creditors	10,031	9,900
	22,607	22,960
Total borrowings		
Term loans	14,737	15,693
Hire purchase and lease creditors	13,643	13,842
Banker's acceptance	3,467	6,036
Bank overdrafts	492	1,230
	32,339	36,801

All borrowings are denominated in RM.

Bankers' acceptance are repayable within 30 days to 120 days.

Term loans of the Group are repayable by 60, 84, 120 and 240 equal monthly installments.

Term loans of the Group are secured by:

- (a) Legal charge over the Group's lands and factory buildings;
- (b) Joint and several guarantee by certain Directors of the Group;
- (c) Corporate guarantees provided by certain entities within the Group and a related company with common Directors and shareholders;
- (d) Guarantees by external credit guarantee providers (namely Syarikat Jaminan Pembiayaan Perniagaan Berhad and Credit Guarantee Corporation); and
- (e) Debentures over the Group's machinery and equipment.

Information on financial risks of borrowings and its remaining maturity is disclosed in Note 9.1.26.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.18 Borrowings (continued)**Hire purchase and lease creditors

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Minimum hire purchase and lease payments		
-not later than one (1) year	4,293	4,710
-later than one (1) year and not later than five (5) years	11,210	10,818
Total minimum hire purchase and lease payments	15,503	15,528
Less: Future interest charges	(1,860)	(1,686)
Present value of hire purchase and lease payments	13,643	13,842
Repayable as follows:		
Current liabilities:		
-not later than one (1) year	3,612	3,942
Non-current liabilities		
- later than one (1) year and not later than five (5) years	10,031	9,900
	13,643	13,842

Information on financial risks of hire purchase and lease creditors is disclosed in Note 9.1.26.

Bank overdrafts

Bank overdrafts of the Group are secured by deposits pledged to licensed bank, joint and several guarantee by certain Directors of the Group.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.19 Deferred tax liabilities

(a) The deferred tax liabilities are made up to the following:

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
At 1 January	0	542
Recognised in profit and loss		
-current year	163	355
-under provision in respect of prior year	379	206
At 31 December	542	1,103
<u>Deferred tax liabilities</u>		
Property, plant and equipment	542	1,103

(b) The estimated amount of net deferred tax assets calculated at the applicable tax rate, which is not recognised in the financial statements is as follows:

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Property, plant and equipment	2	2
Unused tax losses	494	160
	496	162
Deferred tax assets		
Property, plant and equipment	7	7
Unused tax losses	494	160
Deferred tax assets (prior to offsetting)	501	167
Offsetting	(5)	(5)
Deferred tax assets (after offsetting)	496	162
Deferred tax liability		
Property, plant and equipment	5	5
Deferred tax liability (prior to offsetting)	5	5
Offsetting	(5)	(5)
Deferred tax liability (after offsetting)	0	0

Deferred tax assets of certain companies within the Group have not been recognised in respect of these items as it is not probable that taxable profits of these companies would be available against which the deductible temporary differences would be utilized.

The deductible temporary differences do not expire under the current tax legislation.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.20 Investment in subsidiaries**

	Company As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
At cost	15,930	16,430
Unquoted shares		

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Effective interest in equity (%) 2013 2012	Principal activities
Heng Huat Industries Holdings Sdn. Bhd. ("HH Industries")	Malaysia	100% 100%	Investment holding
Fibre Star Marketing Sdn. Bhd. ("Fibre Star Marketing")	Malaysia	100% 100%	Marketing of mattresses and related products
Fibre Star (M) Sdn. Bhd. ("Fibre Star")	Malaysia	100% 100%	Manufacturing of mattress and related products
<u>Subsidiaries of HH Industries</u>			
HK Fibre Sdn. Bhd.	Malaysia	97% 97%	Manufacturing and trading of coconut biomass materials and value-added products
HK Mega Industries Sdn. Bhd.	Malaysia	100% 100%	Dormant
HK Kitaran Sdn. Bhd. ("HK Kitaran")	Malaysia	100% 100%	Manufacturing and trading of oil palm biomass materials and value-added products
HK Palm Fibre Manufacturer Sdn. Bhd. ("HK Palm Fibre")	Malaysia	50% 50%	Manufacturing and trading of oil palm biomass materials

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.20 Investment in subsidiaries (continued)

Although the Group owns 50% equity interest in HK Palm Fibre, it is able to govern the financial and operating policies of the company as the operational matters and the requisite technology and processes adopted for the company's production are designed and dictated by the Group's Managing Director, H'ng Choon Seng and Deputy Managing Director, Kee Swee Lai since the inception of HK Palm Fibre. The remaining two directors and shareholders of the company, which form the non-controlling interests, merely assume the role of an investor without active involvement in the company's operations.

In the event of equality of votes at any of the general or board meeting, the Group is able to exercise a second or casting vote through the Group's Managing Director, H'ng Choon Seng by virtue of his appointment as the Chairman of the Board of Directors of HK Palm Fibre pursuant to a board resolution dated 5 October 2009. Accordingly, HK Palm Fibre is deemed as a subsidiary company and is consolidated into the Group's financial statements.

The subsidiary of the Group that has material non-controlling interests ('NCI') is as follows:

	HK Palm Fibre	
	As at 31 December 2012	As at 31 December 2013
NCI percentage of ownership interest and voting interest	50%	50%
Carrying amount of NCI (RM)	2,225	2,277
Profit allocated to NCI (RM)	402	52

The NCI of the other subsidiary that is not wholly owned by the Group is deemed to be immaterial.

The summarised financial information before intra-group elimination of the subsidiary that has material NCI as at the end of each reporting is as follows:

	HK Palm Fibre	
	As at 31 December 2012	As at 31 December 2013
Assets and liabilities		
Non-current assets	8,164	7,677
Current assets	1,687	2,477
Non-current liabilities	(2,413)	(837)
Current liabilities	(2,988)	(4,762)
Net assets	4,450	4,555

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.20 Investment in subsidiaries (continued)

The summarised financial information before intra-group elimination of the subsidiary that has material NCI as at the end of each reporting is as follows:

	HK Palm Fibre	
	FYE	FYE
	31 December 2012	31 December 2013
Results		
Revenue	9,538	(9,087)
Profit for the financial year/Total comprehensive income	803	105
Cash flows from operating activities	2,426	1,508
Cash flows from investing activities	(954)	(507)
Cash flows from financing activities	(1,728)	(793)
Net increase/(decrease) in cash and cash equivalents	(256)	208

9.1.21 Contingent liabilities

	Company	
	As at	As at
	31 December 2012	31 December 2013
Corporate guarantee given to banks for credit facilities granted to subsidiaries-secured	13,930	15,430

The Directors are of the opinion that the chances of the financial institutions calling upon the corporate guarantees are remote.

9.1.22 Employee Benefits

	Group		Company	
	FYE	FYE	FYE	FYE
	31 December	31 December	31 December	31 December
	2012	2013	2012	2013
	RM'000	RM'000	RM'000	RM'000
Wages, salaries and bonuses	8,983	14,428	35	60
Contribution to defined contribution plan	428	759	0	0
Social security contributions	46	70	0	0
Other benefits	480	333	0	0
	9,937	15,590	35	60

Included in the employee benefits of the Group and of the Company are Directors' remuneration amounting to RM1,824,252 (2012: RM846,494) and RM60,000 (2012: RM35,000) respectively.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.23 Acquisition of subsidiaries

In 2012, the Group was constituted by a series of transactions to set up the prevailing group structure. This involved the establishment of the Company as holding company and the acquisition of HH Industries Group, Fibre Star and Fibre Star Marketing. Details of the acquisitions by the Company in 2012 are as follows:

- (i) acquisition of 9,095,000 ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital of HH Industries, for a total consideration of RM14,280,000 based on the followings:
 - (a) pro forma consolidated net assets of HH Industries and its subsidiaries as at 31 December 2011 after taking into account the effects of the acquisition of the remaining 49% equity interests of HK Kitaran Sdn. Bhd. and 50% equity interests of HK Palm Fibre Sdn. Bhd.; and
 - (b) estimated earnings of approximately of RM1.48 million generated by HH Industries and its subsidiaries for the month of January 2012.

The purchase consideration was satisfied entirely via the issuance of 142,800,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.10 per ordinary share. The effective completion of the acquisition was on 1 February 2012.

(Hereinafter referred to as "Reorganisation of HH Industries Group")

- (ii) acquisition of 1,650,003 ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital of Fibre Star (M) Sdn. Bhd. ("Fibre Star"), for a total consideration of RM1,650,000 based on the unaudited net tangible assets of Fibre Star as at 18 May 2012.

The purchase consideration was satisfied entirely via the issuance of 16,500,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.10 per ordinary share.

- (iii) acquisition of 3 ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital of Fibre Star Marketing Sdn. Bhd. ("Fibre Star Marketing"), for a total consideration of RM3 based on the unaudited net tangible assets of Fibre Star Marketing as at 18 May 2012.

The purchase consideration was satisfied entirely by cash.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.23 Acquisition of subsidiaries (continued)

Acquisitions of Fibre Star and Fibre Star Marketing have been accounted for using the purchase method of accounting, with HH Industries identified as the accounting acquirer for the business combinations and consolidation purposes.

(a) Acquisition of HH Industries, HK Palm Fibre and remaining non-controlling interest in HK Kitaran

On consolidation, the reorganisation reserve comprises:

	Group As at 31 December 2012
Issued equity of HH <u>Industries</u>	2,962
Deemed purchase consideration of:	
-remaining non-controlling interest in an existing subsidiary, HK Kitaran	3,871
-a subsidiary, HK Palm Fibre	2,262
	6,133
Issued equity of the accounting acquirer, prior to the reverse acquisition	9,095
Compare against:	
Issued equity of the Company for the acquisition (comprising 14,280,000 ordinary shares of RM1 each)	(14,280)
Reorganisation reserve	(5,185)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.23 Acquisition of subsidiaries (continued)

- (a) Acquisition of HH Industries, HK Palm Fibre and remaining non-controlling interest in HK Kitaran (continued)

The fair value of the identifiable assets and liabilities of the subsidiary, HK Palm Fibre, as at the date of acquisition were as follows:

	Group As at 31 December 2012
Property, plant and equipment	8,111
Inventories	55
Trade and other receivables	236
Current tax assets	#
Cash and cash equivalents	363
Total identifiable assets	<u>8,765</u>
Trade and other payables	1,951
Borrowings	2,291
Total identifiable liabilities	<u>4,242</u>
Total identifiable net assets	4,523
Less: Non-controlling interest measured at fair value	<u>(2,262)</u>
Group's share of net assets	2,261
Goodwill arising from acquisition	<u>1</u>
Deemed purchase consideration transferred	<u>2,262</u>

- represents amount less than RM1,000

The goodwill arising from acquisition was due to the acquisition of HK Palm Fibre, where the purchase consideration was derived based on the audited net assets as at 31 December 2011 and not at the fair value of the identifiable net assets of the company as at the acquisition date.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.23 Acquisition of subsidiaries (continued)

- (a) Acquisition of HH Industries, HK Palm Fibre and remaining non-controlling interest in HK Kitaran (continued)

The effects of the acquisition of the subsidiaries on cash flows were as follows:

	Group As at 31 December 2012
Deemed purchase consideration transferred	
-remaining non-controlling interest in an existing subsidiary, HK Kitaran	3,871
-a subsidiary, HK Palm Fibre	2,262
	6,133
Less: Non-cash consideration	(6,133)
Consideration settled in cash	0
Cash and cash equivalents of subsidiaries acquired	363
Net cash inflow of the Group on acquisition	363

- (b) Acquisition of Fibre Star and Fibre Star Marketing

The fair value of the identifiable assets and liabilities of the Fibre Star and Fibre Star Marketing as at the date of acquisition were as follows:

	Fibre Star RM'000	Group Fibre Star Marketing RM'000	Total RM'000
Trade and other receivables	1,650	#	1,650
Total identifiable assets	1,650	#	1,650
Trade and other payables	3	3	6
Total identifiable liabilities	3	3	6
Total identifiable net assets	1,647	(3)	1,644
Goodwill arising from acquisition	3	3	6
Total consideration transferred	1,650	#	1,650

The effects of the acquisition of the subsidiaries on cash flows were as follows:

	Group As at 31 December 2012
Total consideration	(1,650)
Less: Non-cash consideration	1,650
Consideration settled in cash	#
Less: Cash and cash equivalents of subsidiaries acquired	0
Net cash outflow of the Group on acquisition	#
# - represents amount less than RM1,000	

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.24 Related party disclosures****(a) Identities of related parties**

Parties are considered to be related to Heng Huat if Heng Huat has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Heng Huat and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

Heng Huat has controlling related party relationship with a company in which the Directors have significant and controlling financial interests.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, Heng Huat had the following transactions with related party during the financial period/year:

	Group	
	FYE	FYE
	31 December 2012	31 December 2013
Related companies:		
-Sale of products	1,501	0
-Rental paid and payable	168	380
-Purchase of property, plant and equipment	0	378
-Purchase of raw material	1,250	188
	Company	
	FPE	FYE
	31 December	31 December
	2011	2012
	RM'000	RM'000
Expenses paid on behalf by a related party:		
-HK Kitaran Sdn. Bhd.	27	0
	FYE	FYE
	31 December	31 December
	2013	2013
	RM'000	RM'000

The related party transactions described above were carried out on terms and conditions not materially different from those obtainable from transactions with unrelated parties.

Information regarding outstanding balances arising from related party transactions at the end of the reporting period are disclosed in Notes 9.1.13 and 9.1.17 to the financial statements.

(c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any Director (whether executive or otherwise) of the Group and the Company.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.24 Related party disclosures (continued)****(C) Compensation of key management personnel (continued)**

The remuneration of Directors and other key management personnel during the financial year was as follows:

	Group		Company	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Short term employee benefits	1,391	2,447	35	60
Contributions to defined contribution plan	131	275	0	0
Social security contribution	5	7	0	0
	1,527	2,729	35	60

9.1.25 Financial instruments**(a) Capital management**

The primary objective of the capital management of the Heng Huat Group is to ensure that entities of the Group would be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of the Group remains unchanged from that in the previous financial year.

Heng Huat Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the financial years ended 31 December 2013 and 31 December 2012.

Heng Huat Group and Company is not subject to any externally imposed capital requirements during the financial years ended 31 December 2013 and 31 December 2012.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.25 Financial instruments (continued)

(a) Capital management (continued)

Heng Huat Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and bank balances. Capital represents equity attributable to the owners of the parent.

	Section	Group	
		As at 31 December 2012	As at 31 December 2013
Borrowings	9.1.18	32,339	36,801
Trade and other payables	9.1.17	10,456	11,225
		<u>42,795</u>	<u>48,026</u>
Less: Cash and cash equivalents	9.1.14	(3,596)	(5,537)
Net debt		<u>39,199</u>	<u>42,489</u>
Total capital		27,606	37,346
Net debt		<u>39,200</u>	<u>42,489</u>
Equity plus net debt		<u>66,806</u>	<u>79,835</u>
Gearing ratio %		58.68	53.22

	Section	Company		
		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Other payables	9.1.17	36	1,470	3,050
Less: Cash and cash equivalents	9.1.14		(1)	(4)
Net debt		<u>36</u>	<u>1,469</u>	<u>3,046</u>
(Deficit)/Surplus in equity		(36)	14,461	13,831
Net debt		<u>36</u>	<u>1,469</u>	<u>3,046</u>
		<u>S₂</u>	<u>15,930</u>	<u>16,877</u>
Gearing ratio		*	9%	18%

S₂- represents RM2

* Gearing ratio is not presented as the Company is showing a deficit in equity as at the reporting date.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.25 Financial instruments (continued)

(b) Financial instruments

(i) Categories of financial instruments

	Section	Group As at 31 December 2012	As at 31 December 2013
Financial assets			
<i>Loans and receivables</i>			
Trade and other receivables	9.1.13	14,845	18,009
Cash and cash equivalents	9.1.14	3,596	5,537
		<u>18,441</u>	<u>23,546</u>
Financial liability			
<i>Other financial liabilities</i>			
Trade and other payables	9.1.17	10,456	11,225
Borrowings	9.1.18	32,339	36,801
		<u>42,795</u>	<u>48,026</u>

	Section	Company As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Financial asset				
<i>Loans and receivables</i>				
Other receivables	9.1.13	S ₂	S ₂	0
Cash and cash equivalents	9.1.14	0	1	4
		<u>S₂</u>	<u>1</u>	<u>4</u>
Financial liability				
<i>Other financial liabilities</i>				
Other payables	9.1.17	36	1,470	3,050

S₂- represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.25 Financial instruments (continued)

(b) Financial instruments (continued)

(ii) Fair values of financial instruments

The fair values of financial instruments that are not carried at fair value and whose carrying amounts do not approximate its fair values are as follows:

	Carrying amount RM	Fair value RM
As at 31 December 2013		
Hire purchase and lease creditors (Note 9.1.18)	13,842	13,827
As at 31 December 2012		
Hire purchase and lease creditors (Note 9.1.18)	13,643	13,302

(c) Determination of fair values

Method and assumption used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

III. Financial instruments that are not carried at fair values and whose carrying amounts are at reasonable approximation of fair values.

The carrying amounts of financial assets and financial liabilities, such as trade and other receivables, trade and other payables and borrowings, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced at market interest rates on or near the end of the reporting period.

The carrying amounts of the current position of loans and borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

(ii) Hire purchase and lease creditors

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of borrowing at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.26 Financial risk management policies and objectives

The financial risk management objective of the Group is to optimise value creation for shareholders whilst minimising potential adverse impact arising from fluctuations in foreign currency exchange and interest rates and the unpredictability of the financial markets. The Group is mainly exposed to credit risk, liquidity and cash flow risk, interest rate risk, foreign currency risk and market risk. Information on the management of the related exposures is detailed below:

(a) Credit risk

Cash deposits and trade receivables could give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are organisations that the Group has dealt with for numerous years, and with whom the Group maintains regular visits and communications. It is the policy of the Group to monitor the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

The primary exposure of the Group to credit risk arises through its trade receivables. The trading terms of the Group with its customers are mainly on credit, except for new customers, where deposits in advance are normally required. The credit period ranges between 30 days to 120 days. Each customer has a maximum credit limit and the Group seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Major classes of financial assets of the Group comprise trade and other receivables and cash and cash equivalents.

Bank balances and deposits with banks and other financial institutions possessed by the Group are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Exposure to credit risk

At the end of each reporting period, the maximum exposure of the Group to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Credit risk concentration profile

The Group determines concentration of credit risk by monitoring the country profiles of its trade receivables on an ongoing basis. The credit risk concentration profile of the trade receivables of the Group at the end of each reporting period are as follows:

		Group			
		As at 31 December 2013 RM	As at 31 December 2013 % of total	As at 31 December 2012 RM	As at 31 December 2012 % of total
By country:					
-Malaysia		6,936	40.12	6,140	43.42
-People's Republic of China		10,352	59.88	8,003	56.58
		17,288	100.00	14,143	100.00

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.26 Financial risk management policies and objectives****(a) Credit risk (continued)**

At the end of the reporting period, approximately 57% (2012: 49%) of the trade receivables of the Group were due from one (1) major customer located in People's Republic of China.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 9.1.13 to the financial statements.

Financial assets that are past due but not impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 9.1.13 to the financial statements.

(b) Liquidity and cash flow risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In executing its liquidity risk management strategy, the Group measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance the activities of the Group. In addition, the Group strives to maintain available banking facilities at a reasonable level to meet its business needs.

The table below summarises the maturity profile of the Group's and the Company's liabilities at the end of each reporting period based on contractual undiscounted repayment obligations.

	Group			
	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
As at 31 December 2012				
Financial liabilities				
Trade and other payables	10,456	0	0	10,456
Borrowings	9,732	18,315	4,292	32,339
Total undiscounted financial liabilities	20,188	18,315	4,292	42,795
As at 31 December 2013				
Financial liabilities				
Trade and other payables	11,225	0	0	11,225
Borrowings	13,841	18,917	4,043	36,801
Total undiscounted financial liabilities	25,066	18,917	4,043	48,026

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.25 Financial risk management policies and objectives

(b) Liquidity and cash flow risk (continued)

	Company		
	On demand or within one year RM	One to five years RM	Total RM
As at 31 December 2012			
Financial liabilities			
Trade and other payables	1,471	0	1,471
Total undiscounted financial liabilities	1,471	0	1,471
As at 31 December 2013			
Financial liabilities			
Trade and other payables	3,050	0	3,050
Total undiscounted financial liabilities	3,050	0	3,050

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments of the Group will fluctuate because of changes in market interest rates.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The exposure of the Group to interest rate risk arises primarily from its borrowings and deposits with licensed banks, and is managed through the use of fixed and floating rates instruments. The Group monitors the interest rates on borrowings closely to ensure that the borrowings are maintained at favourable rates. The Group's deposits are placed at fixed rates and management endeavours to obtain the best rate available in the market. The Group does not use derivative financial instruments to hedge this risk.

Sensitivity analysis for interest rate risk

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which the Group has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variables remain constant.

	Effects on profit after tax	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
<u>Applicable interest rate:</u>		
Increase 10 basis points	-20	-35
Decrease 10 basis points	+20	+35

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.26 Financial risk management policies and objectives

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of the Company's financial instruments that are exposed to interest rate risk:

		Group							
	Note	Weighted average effective interest rate%	Within 1 year RM'000	1-2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2012									
Fixed rates									
Deposits with licensed bank	9.1.14	3.18	1,237	0	0	0	0	0	1,237
Hire purchase and lease creditors	9.1.18	6.40	3,512	3,224	2,801	2,452	1,654	0	13,643
Floating rates									
Bank overdrafts	9.1.18	8.19	492	0	0	0	0	0	492
Bankers' acceptance	9.1.18	5.05	3,467	0	0	0	0	0	3,467
Term loans	9.1.18	6.85	2,161	2,308	2,348	2,187	1,441	4,292	14,737

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.2.7 Financial risk management policies and objectives

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of the Company's financial instruments that are exposed to interest rate risk:

	Group							
Note	Weighted average effective interest rate%	Within 1 year RM'000	1-2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2013								
Fixed rates								
Deposits with licensed bank	3.12	2,124	0	0	0	0	0	2,124
Hire purchase and lease creditors	6.56	3,942	3,583	3,272	2,496	549	0	13,842
Floating rates								
Bank overdrafts	8.04	1,230	0	0	0	0	0	1,230
Bankers' acceptance	4.97	6,036	0	0	0	0	0	6,036
Term loans	6.50	2,633	2,789	2,628	1,930	1,670	4,043	15,693

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.28 Financial risk management policies and objectives

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at the end of reporting period, the Group did not engage any foreign currency hedging instruments in respect of such foreign exchange fluctuations.

Transactional currency exposures arise from sales to customers in China. These sales invoiced either in the RMB or USD.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the profit after tax of the Group to a reasonably possible changes in the RMB and USD exchange rates against the functional currency of the Company with all the other variables held constant.

	Group Effects on profit after tax	
	FYE 31 December 2012	FYE 31 December 2013
	RM'000	RM'000
RMB/RM		
-Strength by 3%	(189)	(229)
-Weaken by 3%	189	229
USD/RM		
-Strength by 3%	(64)	(82)
-Weaken by 3%	64	82

9.1.29 Operating segments

Heng Huat, through its subsidiaries, are principally engaged in manufacturing and trading of biomass materials and manufacturing and trading of mattresses and related products.

Heng Huat has arrived at two (2) reportable segments that are organised and managed separately according to the nature of products, specific expertise and technologies requirements, which requires different business and marketing strategies. The reportable segments are summarised as follows:

(a) Biomass materials and related products

Manufacturing and trading of coconut fibre and related products, and oil palm EFB (empty fruit bunches) fibre and related products.

(b) Mattresses and related products

Manufacturing and trading of mattresses and related products.

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.29 Operating segments (continued)**

The accounting policies of operating segments are the same as those described in the summary of significant accounting policies.

The Group evaluates performance on the basis of profit or loss from operations before tax.

Inter-segment revenue is priced along the same lines as sales to external customers and is eliminated in the consolidated financial statements. These policies have been applied consistently throughout the current and previous financial years.

Segment assets exclude tax assets and assets used primarily for corporate purposes.

Segment liabilities exclude tax liabilities. Even though loans and borrowings arise from financing activities rather than operating activities, they are allocated to the segments based on relevant factors (e.g. funding requirements). Details are provided in the reconciliations from segment assets and liabilities to the position of the Group.

	Biomass materials and related products RM	Mattresses and related products RM	Total RM
2012			
Revenue			
Total revenue	54,817	14,794	69,611
Inter-segment revenue	(1,511)	(5,134)	(6,645)
Revenue from external customers	53,306	9,660	62,966
Interest income	28	0	28
Finance costs	(1,357)	(9)	(1,366)
Net finance expense	(1,329)	(9)	(1,338)
Depreciation	3,199	96	3,295
Amortisation	56	1	57
Segment profit before tax	14,615	715	15,330
Tax expense	(783)	(210)	(993)
Additions to non-current assets other than financial instruments and intangible assets	24,027	1,661	25,688
Segment assets	70,481	11,465	81,946
Segment liabilities	42,490	9,127	51,617

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Heng Huat Group and Heng Huat (continued)

9.1.29 Operating segments (continued)

	Biomass materials and related products RM	Mattresses and related products RM	Total RM
2013			
Revenue			
Total revenue	58,044	31,618	89,662
Inter-segment revenue	(3,898)	(12,024)	(15,922)
Revenue from external customers	54,146	19,594	73,740
Interest income	52	2	54
Finance costs	(2,105)	(196)	(2,301)
Net finance expense	(2,053)	(194)	(2,247)
Depreciation	4,623	258	4,881
Amortisation	56	#	56
Segment profit before tax	11,548	800	12,348
Tax expense	(1,007)	(483)	(1,490)
Additions to non-current assets other than financial instruments and intangible assets	9,559	3,746	13,305
Segment assets	83,955	17,570	101,525
Segment liabilities	45,430	14,283	59,713

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Heng Huat Group and Heng Huat (continued)

9.1.29 Operating segments (continued)

i. Reconciliations

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Revenue		
Total revenue for reportable segments	69,610	89,662
Elimination of inter-segmental revenues	(6,645)	(15,922)
Revenue of the Group per consolidated statement of profit or loss and other comprehensive income	62,965	73,740
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit for the financial year		
Profit before tax for reportable segments	15,330	12,348
Unallocated corporate income and expenses (net)	(1,453)	(1,167)
Elimination of intragroup transactions and profits	(249)	201
Profit before tax of the Group	13,628	11,382
Tax expense	(993)	(1,490)
Profit for the financial year of the Group per consolidated statement of profit or loss and other comprehensive income	12,635	9,892
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Assets		
Total assets for reportable segments	81,946	101,525
Tax assets	37	267
Unallocated assets	2,146	2,353
Elimination of intragroup balances and profits	(10,625)	(15,164)
Assets of the Group per consolidated statement of financial position	73,504	88,981

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 Heng Huat Group and Heng Huat (continued)****9.1.29 Operating segments (continued)****i. Reconciliations (continued)**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Liabilities		
Total liabilities for reportable segments	51,617	59,714
Tax liabilities	752	1,107
Unallocated liabilities	1,717	3,291
Elimination of intragroup balances	(10,538)	(14,979)
Liabilities of the Group per consolidated statement of financial position	43,548	49,133

ii. Geographical information

The manufacturing facilities and sales offices of the Group are primarily based in Malaysia.

In presenting information on the basis of geographical areas, segment revenue is based on the geographical location from which the sale transactions originated.

All the assets and liabilities of the Group are derived from Malaysia. Hence, no additional disclosure is made on geographical breakdown/ details of the segment assets of the Group.

	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Revenue from external customers		
Malaysia	23,279	32,903
China	39,590	40,719
Singapore	96	118
	62,965	73,740

iii. Major customer

During the financial year ended 31 December 2013, revenue from a customer in the biomass materials and related products segment accounted for approximately 30.14% (2012: 20.52%) of the Group's total revenue.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 Heng Huat Group and Heng Huat (continued)

9.1.30 Earnings per share

(a) Basic

Basic earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit attributable to equity holders of parents (RM)	12,163	9,740
Weighted average number of ordinary shares in issue (units)	153,226	159,300
Basic earnings per ordinary share: Profit for the financial year (sen)	7.94	6.11

(b) Diluted

Diluted earnings per ordinary share equals basic earnings per ordinary share, as the Group does not have any potential dilutive ordinary shares in issue during and at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star

9.2.1 Statements of profit or loss and other comprehensive income of Fibre Star

The statements of profit or loss and other comprehensive income of Fibre Star which are extracted from the audited financial statements for the financial period from 29 December 2011 to 31 December 2011("FPE 31 December 2011"), FYE 31 December 2012 and 31 December 2013 are set out below:

		FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
	Section			
Revenue		0	8,417	12,003
Cost of sales		0	(6,825)	(11,026)
Gross profit		0	1,592	977
Other operating income		0	2	9
Administrative and selling and distribution expenses		(3)	(968)	(437)
Finance expenses		0	0	(185)
(Loss)/Profit before tax	9.2.5	(3)	626	364
Tax expense	9.2.6	0	(159)	(191)
(Loss)/Profit for the financial period/year		(3)	467	173
Other comprehensive income		0	0	0
Total comprehensive (loss)/profit		(3)	467	173

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.1 Statements of profit or loss and other comprehensive income of Fibre Star (continued)

The statements of profit or loss and other comprehensive income of Fibre Star which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below: (continued)

	FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
(LBITDA)/EBITDA	(3)	722	730
Number of ordinary shares of RM1.00 each	Q ₂	1,650	1,650
Weighted average number of ordinary shares of RM1.00 each	Q ₂	1,650	1,650
Gross (loss)/earnings per share (RM)	(1,500)	0.38	0.22
Net (loss)/earnings per share (RM)	(1,500)	0.28	0.10
(Loss)/Profit before tax ("LBT"/"PBT") margin (%)	N/A	7.44	3.03
(LBITDA)/PBITDA margin (%)	N/A	8.58	6.08
Effective tax rate (%)	N/A	25.40	52.47

Q₂ - represents 2 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.2 Statements of financial position of Fibre Star

The statements of financial position of Fibre Star which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
	Section			
ASSETS				
Non-current assets				
Property, plant and equipment	9.2.7	0	1,290	4,037
Intangible assets	9.2.8	0	2	1
		0	1,292	4,038
Current assets				
Inventories	9.2.9	0	830	2,577
Trade and other receivables	9.2.10	S ₂	4,309	4,220
Current tax asset		0	0	13
Cash and cash equivalents	9.2.11	0	127	43
		S ₂	5,266	6,853
TOTAL ASSETS		S ₂	6,558	10,891
EQUITY AND LIABILITIES				
Share capital	9.2.12	S ₂	1,650	1,650
(Accumulated losses)/Retained profit		(3)	464	637
		(3)	2,114	2,287
Non-current liabilities				
Deferred tax liability	9.2.13	0	95	153
Borrowings	9.2.14	0	0	1,850
		0	95	2,003
Current liabilities				
Trade and other payables	9.2.15	3	4,307	5,107
Borrowings	9.2.14	0	0	1,494
Current tax liability		0	42	0
		3	4,349	6,601
TOTAL LIABILITIES		3	4,444	8,604
TOTAL EQUITY AND LIABILITIES		S ₂	6,558	10,891

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.2 Statements of financial position of Fibre Star (continued)

The statements of financial position of Fibre Star which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Section			
Number of ordinary shares of RM1.00 each in issue	Q ₂	1,650	1,650
Net (liabilities)/assets	(3)	2,114	2,287
Net (liabilities)/assets per ordinary share of RM1.00 each (RM'000)	(1.5)	1.28	1.38
Trade receivables' turnover period (days)	N/A	175	125
Trade payables' turnover period (days)	N/A	111	47
Inventories turnover periods (days)	N/A	44	85
Gearing ratio (times)	N/A	N/A	1.46

S₂ - represents RM2

Q₂ - represents 2 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.3 Statements of cash flows of Fibre Star

The statements of cash flows of Fibre Star, which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 31 December 2013 are set out below:

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax	(3)	626	364
Adjustments for:			
Depreciation of property, plant and equipment	0	96	181
Amortisation	0	#	#
Gain on disposal of property, plant and equipment	0	(1)	0
Operating (loss)/profit before working capital changes	(3)	722	546
Increase in inventories	0	(830)	(1,747)
(Increase)/Decrease in trade and other receivables	(S ₂)	(4,309)	89
Increase in trade and other payables	3	4,304	800
	S ₂	(113)	(312)
Tax paid	0	(22)	(188)
Net cash flow from/(used in) operating activities	S ₂	(135)	(500)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	0	(1,660)	(699)
Purchase of trademark	0	(2)	0
Proceed from disposal of property, plant and equipment	0	274	0
Net cash used in investing activities	0	(1,388)	(699)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	0	1,650	0
Drawdown of banker acceptance	0	0	1,082
Repayment of term loan	0	0	(157)
Net cash from financing activities	0	1,650	925
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	S ₂	127	(274)
CASH AND CASH EQUIVALENTS AT DATE OF INCORPORATION/BEGINNING OF FINANCIAL YEAR	0	0	127
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD/YEAR	0	127	(147)

S₂ - represents RM2

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.4 Statements of changes in equity of Fibre Star

The statements of changes in equity of Fibre Star, which are extracted from the audited financial statement for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below:

	Share capital RM'000	(Accumulated losses)/Retained profits RM'000	Total RM'000
At 29 December 2011 (Date of incorporation)	S ₂	0	S ₂
Total comprehensive loss	0	(3)	(3)
As at 31 December 2011	S ₂	(3)	(3)
As at 1 January 2012	S ₂	(3)	(3)
Total comprehensive income	0	467	467
Issuance of ordinary shares	1,650	0	1,650
As at 31 December 2012	1,650	464	2,114
As at 1 January 2013	1,650	464	2,114
Total comprehensive income	0	173	173
As at 31 December 2013	1,650	637	2,287

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.5 (Loss)/Profit before tax

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
(Loss)/Profit before tax is arrived at after charging			
- Auditors' remuneration			
- Current year	0	3	23
- Underprovision in respect of prior year	0	0	0
- Directors' remuneration	0	168	267
- Depreciation of property, plant and equipment	0	96	181
- Rental of hostel	0	1	3
- Rental of warehouse	0	156	288
And crediting:			
Gain on disposal of property, plant and equipment	0	1	0
Realised gain on foreign exchange	0	#	3

- represents amount less than RM1,000

9.2.6 Tax expense

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Reconciliation of tax expense and accounting loss/(profit):			
Accounting (loss)/profit before tax	(3)	626	364
Tax rate (%)	25	25	25
Tax at the applicable tax rate	#	157	91
Permanent loss not recognised during the period/year	#	0	0
Tax effect of expenses not deductible for tax purpose	0	2	100
Tax expense for the period/year	0	159	191

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.7 Property, plant and equipment

	Balance as at 1.1.2012 RM'000	Additions RM'000	Disposal RM'000	Balance as at 31.12.2012 RM'000
2012				
At cost				
Plant and machinery	0	1,625	(278)	1,347
Office equipment, furniture and fitting	0	3	0	3
Factory equipment	0	32	0	32
Computer	0	#	0	#
	0	1,660	(278)	1,382
	Balance as at 1.1.2012 RM'000	Current Charge RM'000	Disposal RM'000	Balance as at 31.12.2012 RM'000
Accumulated depreciation				
Plant and machinery	0	94	(4)	90
Office equipment, furniture and fitting	0	#	0	#
Factory equipment	0	2	0	2
Computer	0	#	0	#
	0	96	(4)	92

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.7 Property, plant and equipment (continued)

	Balance as at 1.1.2013 RM'000	Additions RM'000	Balance as at 31.12.2013 RM'000
2013			
At cost			
Freehold land	0	573	573
Factory building	0	2,326	2,326
Plant and machinery	1,347	13	1,360
Office equipment, furniture and fitting	3	6	9
Factory equipment	32	2	34
Computer	#	8	8
	<u>1,382</u>	<u>2,928</u>	<u>4,310</u>
	Balance as at 1.1.2013 RM'000	Current Charge RM'000	Balance as at 31.12.2013 RM'000
Accumulated depreciation			
Factory building	0	43	43
Plant and machinery	90	135	225
Office equipment, furniture and fitting	#	#	#
Factory equipment	2	3	5
Computer	#	#	#
	<u>92</u>	<u>181</u>	<u>273</u>

- represents amount less than RM1,000

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Net carrying amount			
Freehold land	0	0	573
Factory building	0	0	2,283
Plant and machinery	0	1,257	1,135
Office equipment, furniture and fitting	0	3	9
Factory equipment	0	30	29
Computer	0	#	8
	<u>0</u>	<u>1,290</u>	<u>4,037</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.7 Property, plant and equipment (continued)

(a) During the financial year, the Company made the following cash payments to purchase property, plant and equipment:

	As at 31 December	
	2012	2013
	RM'000	RM'000
Purchase of property, plant and equipment	1,660	2,929
Financed by term loan arrangement	0	(2,230)
Cash payment on purchase	1,660	699

9.2.8 Intangible assets

	As at 31 December	
	2012	2013
	RM'000	RM'000
Trade mark, at cost	2	2
Less: Accumulated amortisation	(#)	(1)
	2	1

- represent amount less than RM1,000

9.2.9 Inventories

	← 2011	As at 31 December	→ 2013
	RM'000	2012	RM'000
		RM'000	RM'000
At cost			
Raw materials	N/A	818	1,911
Work in progress	N/A	12	131
Finished goods	N/A	0	535
	N/A	830	2,577

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.10 Trade and other receivables

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade receivable			
Amount owing by a fellow subsidiary	0	4,028	4,097
Other receivables			
Amount owing by a fellow subsidiary	0	274	72
Amount owing by Directors	S ₂	0	0
Other receivables	0	5	0
Prepayments	0	2	51
	S ₂	4,309	4,220

S₂ - represents RM2

The amount owing by Directors are unsecured, interest free and repayable on demand.

The fellow subsidiary is a company incorporated in Malaysia in which the Directors have significant controlling financial interests.

9.2.11 Cash and cash equivalents

	As at 31 December 2012 RM'000	2013 RM'000
Cash and bank balances	127	43

- (a) Cash and cash equivalents are denominated in RM.
- (b) Information on financial risk of cash and cash equivalents are disclosed in 9.2.19 to the financial statements.
- (c) For the purpose of the statement of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	As at 31 December 2012 RM'000	2013 RM'000
Cash and bank balances	127	43
Less: Bank overdraft	0	(190)
	127	(147)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.12 Share capital

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Ordinary shares of RM1 each			
Authorised:			
100,000 ordinary shares	100	5,000	5,000
Issued and fully paid:			
2 ordinary shares	S ₂	1,650	1,650
S ₂ - represents RM2			

9.2.13 Deferred tax liabilities

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Balance as at 1 January	0	0	95
Recognised in profit or loss:-			
- Property, plant and equipment	0	95	58
Balance as at 31 December	0	95	153
Subject to income tax			
Deferred tax liability:-			
Property, plant equipment	0	95	153

9.2.14 Borrowings

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Current Liabilities			
Bankers' acceptance	N/A	N/A	1,082
Bank overdraft	N/A	N/A	189
Term loan	N/A	N/A	223
	N/A	N/A	1,494
Non-current liabilities			
Term loan	N/A	N/A	1,850
Total borrowings			
Bank overdraft	N/A	N/A	3,344
N/A: Not applicable			

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.15 Trade and other payables

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Non-current			
Amount owing to a related party	3	0	0
Current			
Trade payables	0	2,080	1,428
Non trade payables	0	52	56
Accruals	0	343	469
Amount owing to a fellow subsidiary	0	1,832	3,154
	0	4,307	5,107

The amount owing to a related party is unsecured, interest free and repayable on demand.

The related party is a company incorporated in Malaysia in which the Directors have significant controlling financial interests.

9.2.16 Employee benefits

	FPE 31 December 2011 RM'000	Audited FYE 31 December 2012 2013 RM'000 RM'000	
Salaries, wages and allowances	0	731	1,026
Contributions to defined contribution plan and Social security contributions	0	75	92
Other benefits	0	197	81
	0	1,003	1,199

9.2.17 Related party transaction

(a) Identities of related parties

Parties are considered to be related to Fibre Star if Fibre Star has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Fibre Star and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

Fibre Star has controlling related party relationship with a company in which the Directors have significant and controlling financial interests.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.17 Related party transaction (continued)

- (b) In addition to the transactions and balances detailed elsewhere in the financial statements, Fibre Star had the following transactions with related party during the financial year/period:

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Expenses paid on behalf by a related party: -Heng Huat Furniture Sdn. Bhd.	3	0	0
Sales of products to a fellow subsidiary: -Fibre Star Marketing Sdn. Bhd.	0	5,124	12,928
Purchase of coconut fibre sheet from a fellow subsidiary: -HK Fibre Sdn. Bhd.	0	1,244	3,552

9.2.18 Financial instruments

(a) Capital management

The primary objective of Fibre Star's capital management is to ensure that it would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fibre Star remains unchanged from that in the FPE 31 December 2011 and FYE 31 December 2012.

Fibre Star manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Fibre Star may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FPE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

Fibre Star is not subject to any externally imposed capital requirements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.18 Financial instruments (continued)

(a) Capital management (continued)

Fibre Star monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Fibre Star includes within net debt, trade and other payables. Capital represents equity attributable to the shareholders.

		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
	Section			
Trade and other payables	9.2.15	3	4,307	5,107
Less: Cash and cash equivalents		0	127	43
Net debt		3	4,180	5,064
Deficit/Surplus in equity		(3)	2,114	2,287
Net debt		3	4,180	5,064
Total capital		S ₂	6,294	7,351
Gearing ratio		*	66%	69%

S₂- represents RM2

*Gearing ratio is not presented as Fibre Star is showing a deficit in equity as at the reporting date.

(b) Categories of financial instruments

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Financial asset			
<i>Loans and receivables</i>			
Trade and other receivables	S ₂	4,307	4,169
Cash and cash equivalents	0	127	43
	S ₂	4,434	4,212
Financial liability			
<i>Other financial liabilities</i>			
Trade and other payables	3	4,307	5,107

(c) Fair values of financial instruments

The carrying amounts of financial instruments approximate their fair values.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.18 Financial instruments (continued)

- (d) Method and assumption used to estimate fair value
The carrying amounts of financial assets and liabilities, such as other receivables and other payables, are reasonable approximation of fair value due to relatively short-term maturity of these financial instruments.

9.2.19 Financial risk management policies and objectives

Fibre Star's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

Fibre Star operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the Group's financial risk management policies. Fibre Star is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(i) Liquidity and cash flow risk

Fibre Star actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, Fibre Star measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance Fibre Star's activities.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.19 Financial risk management policies and objectives (continued)

The table below summarises the maturity profile of Fibre Star's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within 1 year 2011 RM'000
Financial liability:	
Trade and other payables	0
Total undiscounted financial liabilities	0
	On demand or within 1 year 2012 RM'000
Financial liability:	
Trade and other payables	4,307
Total undiscounted financial liabilities	4,307
	On demand or within 1 year 2013 RM'000
Financial liability:	
Trade and other payables	5,107
Total undiscounted financial liabilities	5,107

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing****9.3.1 Statements of profit or loss and other comprehensive income of Fibre Star Marketing**

The statements of profit or loss and other comprehensive income of Fibre Star Marketing which are extracted from the audited financial statements for the financial period from 29 December 2011 to 31 December 2011 ("FPE 31 December 2011"), FYE 31 December 2012 and 2013 are set out below:

		FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
	Section			
Revenue		0	6,377	19,614
Cost of sales		0	(4,585)	(14,184)
Gross profit		0	1,792	5,430
Other income		0	0	43
Administrative expenses		(3)	(1,704)	(5,036)
(Loss)/profit before tax	9.3.5	(3)	88	437
Tax expense	9.3.6	0	(51)	(292)
(Loss)/profit for the financial period/year		(3)	37	145
Other comprehensive income		0	0	0
Total comprehensive (loss)/profit		(3)	37	145

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.1 Statements of profit or loss and other comprehensive income of Fibre Star Marketing (continued)**

The statements of profit or loss and other comprehensive income of Fibre Star Marketing which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below: (continued)

	FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
(LBITDA)/EBITDA	(3)	89	512
Number of ordinary shares of RM1.00 each	Q ₃	Q ₃	500
Weighted average number of ordinary shares of RM1.00 each	Q ₃	Q ₃	500
Gross (loss)/earnings per share (RM)	(1,000)	29,333	0.87
Net (loss)/earnings per share (RM)	(1,000)	12,333	0.29
(Loss)/Profit before tax (LBT) margin (%)	N/A	1.38	2.23
(LBITDA)/PBITDA margin (%)	N/A	1.40	2.61
Effective tax rate (%)	N/A	57.30	66.82

Q₃ - represents 3 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.2 Statements of financial position of Fibre Star Marketing

The statements of financial position of Fibre Star Marketing which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
	Section			
ASSETS				
Non-current asset				
Property, plant and equipment	9.3.7	0	#	742
Current assets				
Inventories	9.3.8	0	1,075	520
Trade and other receivables	9.3.9	S ₃	3,055	3,659
Cash and cash equivalents	9.3.10	0	776	1,771
CURRENT ASSETS		S ₃	4,906	5,950
TOTAL ASSETS		S ₃	4,906	6,692
EQUITY AND LIABILITIES				
Share capital				
Share capital	9.3.11	S ₃	S ₃	500
Accumulated losses/Retained profit				
		(3)	34	179
		(3)	34	679
Non-current liabilities				
Borrowings	9.3.12	0	0	93
Deferred tax liabilities		0	0	177
Non-Current Liabilities		0	0	270
Current liabilities				
Trade and other payables	9.3.14	3	4,821	5,690
Borrowings	9.3.12	0	0	49
Current tax liability		0	51	4
CURRENT LIABILITIES		3	4,872	5,743
TOTAL LIABILITIES		3	4,872	6,013
TOTAL EQUITY AND LIABILITIES		S ₃	4,906	6,692
# represents amount less than RM1,000				

#- represents amount less than RM1,000

S₃ - represents RM3

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.2 Statements of financial position of Fibre Star Marketing (continued)

The statements of financial position of Fibre Star Marketing which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Number of ordinary shares of RM1.00 each in issue	Q ₃	Q ₃	500
Net (liabilities)/assets	(3)	34	679
Net (liabilities)/ assets per ordinary share of RM1.00 each (RM'000)	(1)	11	1.36
Trade receivables' turnover period (days)	N/A	172	66
Trade payables' turnover period (days)	N/A	19	4
Inventories turnover periods (days)	N/A	86	13
Gearing ratio (times)	N/A	N/A	0.21

S₃ - represents RM3

Q₃ - represents 3 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.3 Statements of cash flows of Fibre Star Marketing

The statements of cash flows of Fibre Star Marketing, which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 2013 is set out below:

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax	(3)	88	437
Adjustment for:			
Bad debt written off	0	0	2
Depreciation of property, plant and equipment	0	#	75
Interest income	0	0	(43)
Operating (loss)/profit before working capital changes	(3)	88	471
Increase in inventories	0	(1,075)	555
Increase in trade and other receivables	(S ₃)	(3,055)	(605)
Increase in other payables	3	4,818	869
	(S ₃)	777	1,290
Tax paid	0	0	(163)
Net cash flow (used in)/ from operating activities	(S ₃)	777	1,127
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	0	#	(662)
Interest received	0	0	43
Net cash flow used in investing activities	0	#	(619)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceed from issuance of ordinary shares	0	0	500
Repayment of hire purchase payables	0	0	(13)
Net cash flow from financing activities	0	0	487
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(S ₃)	776	995
CASH AND CASH EQUIVALENTS AT DATE OF INCORPORATION/BEGINNING OF FINANCIAL YEAR	0	0	776
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD/YEAR	(S ₃)	776	1,771

S₃ - represents RM3

#- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.4 Statements of changes in equity of Fibre Star Marketing

The statements of changes in equity of Fibre Star Marketing, which are extracted from the audited financial statement for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below:

	Share capital RM'000	(Accumulated losses)/Retained profits RM'000	Total RM'000
At 29 December 2011 (Date of incorporation)	S ₃	0	S ₃
Total comprehensive loss	0	(3)	(3)
As at 31 December 2011	S ₃	(3)	(3)
As at 1 January 2012	S ₃	(3)	(3)
Total comprehensive income	0	37	37
As at 31 December 2012	S ₃	34	34
As at 1 January 2013	S ₃	34	34
Issuance of ordinary shares	500	0	500
Total comprehensive income	0	145	145
As at 31 December 2013	500	179	679

S₃ - represents RM3

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.5 (Loss)/Profit before tax

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
(Loss)/Profit before tax is arrived at after charging			
- Preliminary expenses written off	3	0	0
- Auditors' remuneration			
- Current year	0	2	12
- Underprovision in respect of prior year	0	#	4
- Directors' remuneration	0	160	525
- Depreciation of property, plant and equipment	0	#	75
- Bad debts written off	0	0	2
- Professional fee	0	0	32
And crediting:			
Bank interest received	0	0	1
Bad debts recovered	0	0	#
Transport charges received	0	0	41
Credit card rebates	0	0	#

9.3.6 Tax expense

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Reconciliation of tax expense and accounting (loss)/profit:			
Accounting (loss)/profit before tax	(3)	89	437
Tax rate (%)	25	25	25
Tax at the applicable tax rate	#	22	109
Permanent loss not recognised during the period/year	#	0	0
Expenses not deductible for tax purpose	0	29	36
Underprovision of tax expense in prior year	0	0	(22)
Underprovision unrecognized deferred tax assets	0	0	169
Underprovision for deferred tax expense in respect of prior year	0	0	#
Tax expense for the period/year	0	51	292
# - represents amount less than RM1,000			

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.7 Property, plant and equipment**

	Balance as at 1.1.2012 RM'000	Additions RM'000	Balance as at 31.12.2012 RM'000
2012			
At cost			
Computer	0	#	#
Furniture and fittings	0	#	#
	0	#	#
	Balance as at 1.1.2012 RM'000	Current Charge RM'000	Balance as at 31.12.2012 RM'000
Accumulated depreciation			
Computer	0	#	#
Furniture and fittings	0	#	#
	0	#	#

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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Accountants' Report*

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.7 Property, plant and equipment (continued)**

	Balance as at 1.1.2013 RM'000	Additions RM'000	Balance as at 31.12.2013 RM'000
2013			
At cost			
Computer	#	3	3
Furniture and fittings	#	12	12
Office equipment	0	2	2
Motor vehicles	0	800	800
	#	817	817
	Balance as at 1.1.2013 RM'000	Current Charge RM'000	Balance as at 31.12.2013 RM'000
Accumulated depreciation			
Computer	#	#	#
Furniture and fittings	#	#	#
Office equipment	0	#	#
Motor Vehicles	0	74	74
	#	75	75

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.7 Property, plant and equipment (continued)

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Net carrying amount			
Computer	0	#	3
Furniture and fittings	0	#	11
Office equipment	0	0	2
Motor vehicles	0	0	726
	0	#	742

- represent amount less than RM1,000

9.3.8 Inventories

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
At cost			
Packing material	0	144	172
Finished goods	0	931	348
	0	1,075	520

9.3.9 Trade and other receivables

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade receivables	0	3,010	3,522
Other receivables	S ₃	9	6
Deposits	0	2	2
Prepayments	0	30	87
Amount owing by fellow subsidiaries	0	4	42
	S ₃	45	137
Total receivables	S ₃	3,055	3,659

S₃ - represents RM3

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.9 Trade and other receivables (continued)**

- (a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Fibre Star Marketing range from 30 to 120 days (2012: 30 to 120 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.
- (b) The ageing analysis of the Company's trade receivables is as follows:

	2011 RM'000	2012 RM'000	2013 RM'000
Neither past due nor impaired	0	1,558	3,396
Past due, not impaired			
1 to 30 days	0	1,033	9
31 to 60 days	0	362	117
61 to 90 days	0	57	0
More than 90 days	0	0	0
	0	1,452	126
Total trade receivables	0	3,010	3,522

Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy receivables with good payment records with the Fibre Star Marketing. None of the trade receivables of Fibre Star Marketing that are neither past due nor impaired have been renegotiated during the financial year.

Trade receivables that are past due but not impaired

Fibre Star Marketing has trade receivables amounting to RM126,000 (2012 : RM1,452,000) that are past due at the reporting date but not impaired. The management is confident that the amounts are recoverable as these accounts are still active.

- (c) Trade and other receivables are denominated in RM.

9.3.10 Cash and cash equivalents

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Cash and bank balances	0	776	1,771

- (a) Cash and cash equivalents are denominated in RM.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.11 Share capital**

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Ordinary shares of RM1 each			
Authorised:			
Ordinary shares of RM1 each			
At 1 January	100	100	100
Created during the financial year	0	0	400
At 31 December	100	100	500
Issued and fully paid:			
Ordinary shares of RM1 each			
At 1 January	S ₃	S ₃	S ₃
Issued during the financial year, at par	0	0	500
At 31 December	S ₃	S ₃	500

S₃ - represents RM3

9.3.12 Borrowings

		← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Current Liabilities				
Hire purchase payables	9.3.13	0	0	49
Bank overdraft		0	0	#
		0	0	49
Non-current liabilities				
Hire purchase payables	9.3.13	0	0	93
Total borrowings				
Hire purchase payables	9.3.13	0	0	142
Bank overdraft		0	0	#
		0	0	142

- represents amount less than RM1,000

All borrowings are denominated in RM.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.13 Hire purchase payables

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Representing hire purchase liabilities:			
- current	0	0	49
- non-current	0	0	93
	0	0	142
Hire purchase liabilities:			
Minimum hire purchase repayments:			
- Not later than one (1) year	0	0	56
- Later than 1 year and not later than five (5) years	0	0	98
	0	0	154
Future finance charges on hire purchase	0	0	(12)
Present value of hire purchase liabilities	0	0	142
Present value of hire purchase liabilities:			
- Not later than one (1) year	0	0	49
- Later than 1 year and not later than five (5) years	0	0	93
	0	0	142

Information on financial risks of hire purchase liabilities is disclosed in 9.3.18 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.14 Trade and other payables**

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade payables	0	235	162
Other payables	0	557	662
Amount owing to related party	3	0	769
Amount owing to a fellow subsidiary	0	4,029	4,097
Amount owing to directors	0	0	S ₃
	<u>3</u>	<u>4,821</u>	<u>5,690</u>

The amount owing to a related party is unsecured, interest free and repayable on demand.

The related party is a company incorporated in Malaysia in which the Directors have significant controlling financial interests.

S₃ - represents RM3

9.3.15 Employee benefits

	FPE 31 December 2011 RM'000	Audited FYE 31 December 2012 2013 RM'000 RM'000	
Salaries, wages and allowances	0	329	906
Contributions to defined contribution plan and Social security contributions	0	31	122
Other benefits	0	13	4
	<u>0</u>	<u>373</u>	<u>1,032</u>

9.3.16 Related party transaction**(a) Identities of related parties**

Parties are considered to be related to Fibre Star Marketing if Fibre Star Marketing has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Fibre Star Marketing and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

Fibre Star Marketing has controlling related party relationship with a company in which the Directors have significant controlling financial interests.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.16 Related party transaction (continued)**

- (b) In addition to the transactions and balances detailed elsewhere in the financial statements, Fibre Star Marketing had the following transactions with related party during the financial year/period:

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Expenses paid on behalf by a related party: -Heng Huat Furniture Sdn. Bhd.	3	0	0
Purchase of finished goods from fellow subsidiary: -Fibre Star (M) Sdn. Bhd.	0	(5,125)	(12,928)
Purchase of mattress from a fellow subsidiary: -HK Kitaran Sdn. Bhd.	0	9	0
Expenses paid to fellow subsidiaries: -Fibre Star (M) Sdn. Bhd.	0	3	#
-HK Kitaran Sdn. Bhd.	0	#	0
-HK Fibre Sdn. Bhd.	0	0	41

The related party transactions described above were under taken on terms and conditions not materially different from those obtainable from transactions with unrelated parties.

- represents amount less than RM1,000

9.3.17 Financial instruments**(a) Capital management**

The primary objective of Fibre Star Marketing's capital management is to ensure that it would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fibre Star Marketing remains unchanged from that in the FPE 31 December 2011 and FYE 31 December 2012.

Fibre Star Marketing manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Fibre Star Marketing may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FPE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

Fibre Star Marketing is not subject to any externally imposed capital requirements.

Fibre Star Marketing monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Fibre Star Marketing includes within net debt, trade and other payables. Capital represents equity attributable to the shareholders.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.17 Financial instruments (continued)

(a) Capital management (continued)

		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
	Section			
Trade and other payables	9.3.14	3	4,821	5,690
Borrowings		0	0	142
Total liabilities		3	4,821	5,832
Less: Cash and cash equivalent		0	(776)	(1,771)
Net debt		3	4,045	4,061
(Deficit)/Surplus in equity		(3)	34	679
Net debt		3	4,045	4,061
Total capital		0	4,079	4,740
Gearing ratio		*	99%	86%

S₃ - represents RM3

*Gearing ratio is not presented as Fibre Star Marketing is showing a deficit in equity as at the reporting date.

(b) Categories of financial instruments

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Financial asset			
Loans and receivables			
Trade and other receivables	S ₃	3,023	3,570
Cash and cash equivalents	0	776	1,771
	S ₃	3,799	5,341
Financial liability			
Other financial liabilities			
Trade and other payables	3	4,821	5,690
Borrowings	0	0	142
	3	4,821	5,832

S₃ - represents RM3

(c) Fair values of financial instruments

The carrying amounts of financial instruments approximate their fair values.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.17 Financial instruments (continued)****(d) Method and assumption used to estimate fair value**

The carrying amounts of financial assets and liabilities, such as other receivables and other payables, are reasonable approximation of fair value due to relatively short-term maturity of these financial instruments.

9.3.18 Financial risk management policies and objectives

Fibre Star Marketing's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

Fibre Star Marketing operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the Group's financial risk management policies. Fibre Star Marketing is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(g) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognized if a counter party fails to perform as contracted. The counter parties are creditworthy debtors with good payment records with Fibre Star Marketing. It is Fibre Star Marketing's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that Fibre Star Marketing is exposed to minimal credit risk.

Fibre Star Marketing's primary exposure to credit risk arises through its trade receivables. Fibre Star Marketing's trading terms with its customers are mainly on credit, except for new customers, where deposits in advance are normally required. The credit period is generally for a period of two (2) months, extending up to four (4) months for major customers. Each customer has a maximum via a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in 9.3.9 to the financial statements. Deposits with banks and other financial institutions, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are past due but not impaired

Information regarding financial assets that are past due but not impaired is disclosed in 9.3.9 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.18 Financial risk management policies and objectives (continued)

(ii) Liquidity and cash flow risk

Fibre Star Marketing actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, Fibre Star Marketing measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance Fibre Star Marketing's activities.

The table below summarises the maturity profile of Fibre Star Marketing's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within 1 year 2011 RM'000
Financial liability:	
Trade and other payables	3
Total undiscounted financial liabilities	<u>3</u>
	On demand or within 1 year 2012 RM'000
Financial liability:	
Trade and other payables	4,821
Total undiscounted financial liabilities	<u>4,821</u>
	On demand or within 1 year 2013 RM'000
Financial liability:	
Trade and other payables	5,690
Borrowings	49
Total undiscounted financial liabilities	<u>5,739</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.18 Financial risk management policies and objectives (continued)

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of Fibre Star Marketing's financial instruments will fluctuate because of changes in market interest rates.

Fibre Star Marketing's exposure to interest rate risk arises primarily from variable loans and borrowings. These interest-bearing borrowings are monitored to ensure Fibre Star Marketing enjoys competitive borrowing rates.

As at the reporting date, Fibre Star Marketing does not engage any interest hedging instruments in respect of such interest rate fluctuations.

Sensitivity analysis for interest rate risk

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which Fibre Star Marketing has significant exposure at the end of the reporting year. In determining, the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

	Effects on profit net of tax		
	2011 RM'000	2012 RM'000	2013 RM'000
Applicable interest rate:			
Increase 50 basis points	0	0	(3)
Decrease 50 basis points	0	0	3

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre****9.4.1 Statements of profit or loss and other comprehensive income of HK Palm Fibre**

The statements of profit or loss and other comprehensive income of HK Palm Fibre which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue 9.4.5	11,664	9,538	9,087
Cost of sales	(4,899)	(6,644)	(6,648)
Gross profit	6,765	2,894	2,439
Other income	131	48	707
Selling and distribution expenses	(123)	(862)	(1,346)
Administrative and other expenses	(346)	(480)	(1,379)
Finance costs 9.4.6	(135)	(141)	(79)
Profit before tax 9.4.7	6,292	1,459	342
Tax (expense)/income 9.4.8	(25)	(655)	(238)
Profit for the financial period/year	6,267	804	104
Other comprehensive income	0	0	0
Total comprehensive income	6,267	804	104

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.1 Statements of profit or loss and other comprehensive income of HK Palm Fibre (continued)**

The statements of profit or loss and other comprehensive income of HK Palm Fibre which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
EBITDA	7,097	2,564	1,421
Number of ordinary shares of RM1.00 each ('000)	200	200	200
Weighted average number of ordinary shares of RM1.00 each ('000)	200	200	200
Gross earnings per share (RM)	31.46	7.30	1.71
Net earnings per share (RM)	31.34	4.02	0.52
Gross profit (GP) margin (%)	58.00	30.34	26.84
PBT margin (%)	53.94	15.30	3.76
EBITDA margin (%)	60.85	26.88	15.64
Effective tax rate (%)	0.40	44.89	69.59

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.2 Statements of financial position of HK Palm Fibre

The statements of financial position of HK Palm Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Section				
ASSETS				
Non-current asset				
Property, plant and equipment	9.4.9	8,111	8,164	7,677
Current assets				
Inventories	9.4.10	54	245	83
Trade and other receivables	9.4.11	236	1,225	1,855
Current tax assets		#	0	108
Cash and cash equivalents	9.4.12	363	217	431
Total current assets		653	1,687	2,477
TOTAL ASSETS		8,764	9,851	10,154
EQUITY AND LIABILITIES				
Share capital	9.4.13	200	200	200
Retained earnings		4,322	4,250	4,354
TOTAL EQUITY		4,522	4,450	4,554

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.2 Statements of financial position of HK Palm Fibre (continued)**

The statements of financial position of HK Palm Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
 (continued)

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
LIABILITIES			
Non-current liabilities			
Trade and other payables 9.4.14	2	1,176	0
Borrowings 9.4.15	1,526	791	314
Deferred taxation 9.4.18	0	447	523
Total non-current liabilities	1,528	2,414	837
Current liabilities			
Trade and other payables 9.4.14	1,949	2,085	4,262
Borrowings 9.4.15	765	818	501
Current tax liability	0	84	0
Total current liabilities	2,714	2,987	4,763
TOTAL LIABILITIES	4,242	5,401	5,600
TOTAL EQUITY AND LIABILITIES	8,764	9,851	10,154

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.2 Statements of financial position of HK Palm Fibre (continued)

The statements of financial position of HK Palm Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	200	200	200
Net assets	4,522	4,450	4,554
Net assets per ordinary share of RM1.00 each (RM)	22.61	22.25	22.77
Trade receivables' turnover period (days)	0	41	34
Trade payables' turnover period (days)	18	29	38
Inventories turnover periods (days)			
- Raw material	N/A	N/A	N/A
- Finished goods	2	12	3
Gearing ratio (times)	0.51	0.36	0.18

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.3 Statements of cash flows of HK Palm Fibre**

The statements of cash flows of HK Palm Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	6,292	1,459	342
Adjustments for:			
Depreciation for property, plant and equipment 9.4.9	670	964	1,000
Interest income	0	0	(6)
Interest expenses	135	141	79
Loss/(Gain) on disposal of property, plant and equipment	(5)	(5)	(6)
Property, plant and equipment written off	1	0	0
Operating profit before working capital changes	7,094	2,559	1,409
(Increase)/Decrease in inventories	(10)	(191)	162
(Increase)/Decrease in trade and other receivables	461	(989)	106
Increase in trade and other payables	166	1,311	264
Interest paid	7,711	2,690	1,941
Tax paid	(135)	(141)	(78)
Net cash flow from operating activities	(25)	(123)	(355)
	7,551	2,426	1,508

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.3 Statements of cash flows of HK Palm Fibre (continued)**

The statements of cash flows of HK Palm Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment 9.4.9 (a)	(4,088)	(848)	(524)
Proceeds from disposal of property, plant and equipment	132	0	17
Net changes in fixed deposit pledged to a licensed bank 9.4.12	(84)	(106)	0
Net cash flow used in investing activities	(4,040)	(954)	(507)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid 9.4.19	(3,524)	(876)	0
Drawdown of term loan	700	0	0
Proceeds from issuance of shares 9.4.13	0	0	0
Repayment of hire purchase payables	(341)	(724)	(656)
Repayment of term loan	(100)	(129)	(137)
Net cash flow from/(used in) financing activities	(3,265)	(1,729)	(793)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	246	(257)	208
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF FINANCIAL YEAR	33	279	22
CASH AND CASH EQUIVALENTS AS AT END OF FINANCIAL YEAR 9.4.12 (d)	279	22	230

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.4 Statements of changes in equity of HK Palm Fibre

The statements of changes in equity of HK Palm Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	Share capital RM'000	<u>Distributable</u>	Total RM'000
		Retained earnings RM'000	
At 1 January 2011	200	1,579	1,779
Dividend for the financial year ended 31 December 2011	0	(3,524)	(3,524)
Total comprehensive income	0	6,267	6,267
As at 31 December 2011	200	4,322	4,522
At 1 January 2012	200	4,322	4,522
Dividend for the financial year ended 31 December 2012	0	(876)	(876)
Total comprehensive income	0	804	804
At 31 December 2012	200	4,250	4,450
At 1 January 2013	200	4,250	4,450
Total comprehensive income	0	104	104
As at 31 December 2013	200	4,354	4,554

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.5 Revenue**

Revenue represents invoiced value of goods sold net of returns and discounts.

9.4.6 Finance costs

	2011	FYE 31 December	
	RM'000	2012	2013
		RM'000	RM'000
Interest on bank overdrafts	#	0	0
Interest on hire purchases	102	111	56
Interest on term loan	33	30	23
	<u>135</u>	<u>141</u>	<u>79</u>

- represent amount less than RM1,000

9.4.7 Profit before tax

	2011	FYE 31 December	
	RM'000	2012	2013
		RM'000	RM'000
Profit before tax is arrived after charging:			
Audit fee			
- Current year	5	10	10
- Underprovision in respect of prior year	0	5	0
Depreciation of property, plant and equipment	670	964	1,000
Loss on disposal of property, plant and equipment	0	0	0
Property, plant and equipment written off	1	0	0
Rental of machinery	0	0	0
Rental of motor vehicle	0	0	0
Interest expense on:			
-bank overdrafts	#	0	#
-hire purchase	102	111	56
-term loan	33	30	23
And crediting:			
Gain on disposal of property, plant and equipment	5	5	6
Interest income - fixed deposit	0	0	6
Forwarding charges	<u>126</u>	<u>0</u>	<u>0</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.8 Tax (expense)/income

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
The major components of the tax expense/(income) are:			
Current tax expense based on profit for the year	25	210	56
(Over)/Underprovision of tax expense in prior year	0	(2)	106
	25	208	162
Deferred tax expense (Section 9.4.16)			
- relating to origination and reversal of temporary differences	0	68	76
- overprovision in respect of prior year	0	379	0
	0	447	76
	25	655	238
Reconciliation of tax expense/(income) and accounting profit:			
Accounting profit before tax	6,292	1,459	342
Tax rate (%)	25	25	25
Tax at the applicable tax rate	1,573	364	86
Tax effects of:			
- exempted income	(1,546)	(105)	(3)
- expenses not deductible for tax purposes	4	19	49
- different tax rate for first RM500,000 of chargeable income	(6)	0	0
(Over)/Underprovision of tax expense in prior year	0	(2)	106
(Over)/Underprovision of deferred taxation in respect of prior year	0	379	0
Tax expense for the financial year	25	655	238

HK Palm Fibre has been granted pioneer status by the Ministry of International Trade and Industry for its products under the Promotion of Investments (Amendment) Act, 1986 in which the statutory income is exempted from tax for a period of five years from 1 October 2009.

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of shareholders. HK Palm Fibre does not have any Section 108 tax credit and thus it will be automatically moved to the new single tier dividend system.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Transfer RM'000	Written off RM'000	Balance as At 31.12.2011 RM'000
2011						
At cost						
Electrical installation	207	630	0	0	0	837
Factory building	1,339	1,099	0	0	0	2,438
Factory equipment	121	62	0	0	0	183
Furniture and fittings	10	17	0	0	0	27
Motor vehicles	225	909	(147)	0	0	987
Office equipment	15	17	0	0	(1)	31
Plant and machinery	2,222	2,304	0	230	0	4,756
Signboard	2	0	0	0	0	2
Capital work-in-progress	230	0	0	(230)	0	0
	4,371	5,038	(147)	0	(1)	9,261

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2011 RM'000	Current charge RM'000	Disposals RM'000	Written off RM'000	Balance as At 31.12.2011 RM'000
2011					
Accumulated depreciation					
Electrical installation	21	73	0	0	94
Factory building	97	122	0	0	219
Factory equipment	18	15	0	0	33
Furniture and fittings	1	2	0	0	3
Motor vehicles	51	89	(20)	0	120
Office equipment	2	2	0	#	4
Plant and machinery	310	367	0	0	677
Signboard	#	#	0	0	#
Capital work-in-progress	0	0	0	0	0
	500	670	(20)	#	1,150

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2012 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Balance as At 31.12.2012 RM'000
2012					
At cost					
Electrical installation	837	39	0	0	876
Factory building	2,438	486	0	0	2,924
Factory equipment	183	28	0	0	211
Furniture and fittings	27	8	0	0	35
Motor vehicles	987	0	0	0	987
Office equipment	31	5	0	0	36
Plant and machinery	4,756	451	0	0	5,207
Signboard	2	0	0	0	2
	9,261	1,017	0	0	10,278

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2012 RM'000	Current charge RM'000	Disposals RM'000	Written off RM'000	Balance as At 31.12.2012 RM'000
2012					
Accumulated depreciation					
Electrical installation	94	87	0	0	181
Factory building	219	142	0	0	361
Factory equipment	33	21	0	0	54
Furniture and fittings	3	3	0	0	6
Motor vehicles	120	197	0	0	317
Office equipment	4	4	0	0	8
Plant and machinery	677	510	0	0	1,187
Signboard	#	#	0	0	#
	1,150	964	0	0	2,114

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2013 RM'000	Additions RM'000	Disposals RM'000	Balance as At 31.12.2013 RM'000
2013				
At cost				
Electrical installation	876	22	0	898
Factory building	2,924	15	0	2,939
Factory equipment	211	82	0	293
Furniture and fittings	35	#	0	35
Motor vehicles	987	175	(48)	1,114
Office equipment	36	3	0	39
Plant and machinery	5,207	227	0	5,434
Signboard	2	0	0	2
	10,278	524	(48)	10,754

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2013 RM'000	Current charge RM'000	Disposals RM'000	Balance as At 31.12.2013 RM'000
2013				
Accumulated depreciation				
Electrical installation	181	90	0	271
Factory building	361	147	0	508
Factory equipment	54	24	0	78
Furniture and fittings	6	3	0	9
Motor vehicles	317	201	(37)	481
Office equipment	8	4	0	12
Plant and machinery	1,187	531	0	1,718
Signboard	#	#	0	#
	2,114	1,000	(37)	3,077

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.9 Property, plant and equipment (continued)**

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Net carrying amount			
Electrical installation	743	695	627
Factory building	2,219	2,563	2,431
Factory equipment	150	157	215
Furniture and fittings	24	29	26
Motor vehicles	867	670	633
Office equipment	27	28	27
Plant and machinery	4,079	4,020	3,716
Signboard	2	2	2
Capital work in progress	0	0	0
	<u>8,111</u>	<u>8,164</u>	<u>7,677</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

- (a) During the financial year, HK Palm Fibre made the following cash payments to purchase property, plant and equipment:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Purchase of property, plant and equipment	5,038	1,018	524
Financed by hire purchase arrangements	(950)	(170)	0
Cash payments on purchase of property, plant and equipment	4,088	848	524

- (b) The carrying amount of property, plant and equipment of HK Palm Fibre acquired under hire purchase arrangements are as follows:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Plant and equipment	1,683	1,071	942
Motor vehicles	553	579	420
	2,236	1,650	1,362

9.4.10 Inventories

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
At cost			
Packing materials	30	26	28
Finished goods	24	219	55
	54	245	83

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.11 Trade and other receivables

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Trade receivables	0	1,067	835
Non-trade receivables	6	0	693
Deposits	2	#	2
Prepayments	228	158	140
Amount due by related party	0	0	142
	236	1,225	1,855

- represents amount less than RM1,000

- (a) Trade receivables are non-interest bearing and are generally on 30 days terms. They are recognised at their original invoice amounts which represent their fair value on initial recognition.
- (b) The currency profile of trade and other receivables of HK Palm Fibre is in RM.
- (c) The ageing analysis of trade receivables of HK Palm Fibre are as follows:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
<u>Ageing analysis of trade receivables</u>			
The ageing analysis of trade receivables is as follows:			
Neither past due nor impaired	0	60	834
Past due, not impaired			
1 to 30 days	0	398	1
31 to 60 days	0	609	0
More than 61 days	0	0	0
	0	1,007	1
Total trade receivables	0	1,067	835

Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with HK Palm Fibre.

None of HK Palm Fibre's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Trade receivables that are past due but not impaired

HK Palm Fibre has trade receivables amounting to RM1,000 (2012:RM1,007,000 and 2011: RMNil) that are past due at the reporting date but not impaired.

All the amount past due but not impaired are unsecured in nature. The management is confident that the amounts are recoverable as these accounts are still active.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.12 Cash and cash equivalents

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	84	195	201
Cash and bank balances	279	22	230
	<u>363</u>	<u>217</u>	<u>431</u>

- (a) Information on financial risks of cash and cash equivalents are disclosed in Section 9.4.22.
- (b) Included in the fixed deposits is an amount of RM201,000 (2012: RM195,000 and 2011: RM84,000) pledged as security for bank guarantee granted to the Company.
- (c) The currency profile of cash and cash equivalents of HK Palm Fibre is in RM.
- (d) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	84	195	201
Cash and bank balances	279	22	230
	<u>363</u>	<u>217</u>	<u>431</u>
Less: Fixed deposits pledged to licensed banks	(84)	(195)	(201)
	<u>279</u>	<u>22</u>	<u>230</u>

9.4.13 Share capital

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Authorised:			
Ordinary shares of RM1 each			
At 1 January	500	500	500
Created during the financial year	0	0	0
At 31 December	<u>500</u>	<u>500</u>	<u>500</u>
Issued and fully paid:			
Ordinary shares of RM1 each			
At 1 January	200	200	200
Issued during the financial year, at par	0	0	0
At 31 December	<u>200</u>	<u>200</u>	<u>200</u>

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
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9.4 HK Palm Fibre (continued)

9.4.14 Trade and other payables

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Current			
Trade payables	41	171	201
Non trade-payables	940	1,061	1,909
Amount owing to a related party			
- trade	203	362	486
- non trade	67	133	301
Amount owing to immediate holding company	0	0	#
Amount owing to fellow subsidiaries	0	0	792
Amount owing to Directors	92	0	0
Deposits received	274	28	28
Accruals	332	330	545
Total current liabilities	1,949	2,085	4,262
Non-current			
Amount owing to immediate holding company			
- non trade	0	2	0
Amount owing to fellow subsidiaries			
- non trade	2	1,174	0
	2	1,176	0
	1,951	3,261	4,262

- represent amount less than RM1,000

- (a) The amount owing to Directors is non-trade in nature, unsecured, interest free and repayable on demand.
- (b) The amount owing to a related party is unsecured, interest free and has no fixed terms of repayment.
- (c) The related party is a company incorporated in Malaysia, in which certain Directors of HK Palm Fibre have significant controlling financial interests.
- (d) The currency profile of trade and other payables of HK Palm Fibre is in RM.

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.15 Borrowings**

		← As at 31 December →		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Current liabilities				
Term loan	9.4.16	129	137	146
Hire purchase payables	9.4.17	636	681	356
		<u>765</u>	<u>818</u>	<u>502</u>
Non-current liabilities				
Term loan	9.4.16	471	335	189
Hire purchase payables	9.4.17	1,055	456	125
		<u>1,526</u>	<u>791</u>	<u>314</u>
Total borrowings				
Term loan	9.4.16	600	472	333
Hire purchase payables	9.4.17	1,691	1,137	481
		<u>2,291</u>	<u>1,609</u>	<u>814</u>

The currency profile of borrowings of HK Palm Fibre is in RM.

9.4.16 Term loan

The term loan of HK Palm Fibre is secured by:

- (a) a corporate guarantee by a related party; and
- (b) a joint and several guarantee by all Directors.

Information on financial risks of borrowings and its remaining maturity is disclosed in Section 9.4.23 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.17 Hire purchase payables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Representing hire purchase liabilities:			
- current	636	681	356
- non-current	1,055	456	125
	1,691	1,137	481
Minimum hire purchase repayments:			
- Not later than one (1) year	737	704	369
- Later than 1 year and not later than five (5) years	1,134	515	138
	1,871	1,219	507
Future finance charges on hire purchase	(180)	(82)	(26)
Present value of hire purchase liabilities	1,691	1,137	481
Present value of hire purchase liabilities:			
- Not later than one (1) year	636	681	356
- Later than 1 year and not later than five (5) years	1,055	456	125
	1,691	1,137	481
Weighted average effective interest rate			
	2011	2012	2013
	%	%	%
Hire purchase payables	7.31	7.32	7.41

9.4.18 Deferred taxation

	2011	2012	2013
	RM'000	RM'000	RM'000
At 1 January	0	0	447
Recognised in profit or loss:			
- property, plant and equipment	0	68	76
- overprovision in respect of prior year	0	379	0
At 31 December	0	447	523
Subject to income tax:			
Deferred tax liability			
Property, plant and equipment	0	447	523

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.19 Dividend**

Dividend declared and paid are as follows:

	Financial year ended 31 December 2011	
	Gross dividend per share RM	Amount of dividend RM'000
Single tier interim dividend	17.62	3,524
	Financial year ended 31 December 2012	
	Gross dividend per share RM	Amount of dividend RM'000
Single tier interim dividend	4.38	876

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.20 Employee benefits

	Audited FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Salaries, wages and allowances	1,332	1,792	2,112
Contributions to defined contribution plan	41	54	60
Social security contributions	8	8	8
Other benefits	32	23	98
	<u>1,413</u>	<u>1,877</u>	<u>2,278</u>

9.4.21 Related party transaction

(a) Identities of related parties

Parties are considered to be related to HK Palm Fibre if the HK Palm Fibre has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HK Palm Fibre and the party are subject to common control or common significant influence. Related parties may be individuals or companies.

HK Palm Fibre has controlling related party relationship with its direct and indirect subsidiaries and its immediate and ultimate holding company.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, HK Palm Fibre had the following transactions with related party during the financial year:

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
<u>Purchase of products from a related party:</u>			
Arah Kawasan Sdn. Bhd.	<u>897</u>	<u>897</u>	<u>267</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.22 Financial instruments

(a) Capital management

The primary objective of HK Palm Fibre's capital management is to ensure that HK Palm Fibre would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

HK Palm Fibre manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HK Palm Fibre may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Palm Fibre is not subject to any externally imposed capital requirements.

HK Palm Fibre monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. HK Palm Fibre includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Borrowings	9.4.15	2,291	1,609	815
Trade and other payables	9.4.14	1,951	3,261	4,262
Total liabilities		4,242	4,870	5,077
Less: Cash and cash equivalents	9.4.12	(363)	(217)	(431)
Net debt		3,879	4,653	4,646
Equity		4,522	4,450	4,554
Net debt		3,879	4,653	4,646
Total capital		8,401	9,103	9,200
Gearing ratio		46%	51%	51%

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.22 Financial instruments (continued)

(b) Categories of financial instruments

		← As at 31 December 2011 RM'000	2012 RM'000	→ 2013 RM'000
Financial assets				
<i>Loans and receivables</i>				
Trade and other receivables (excludes deposits and prepayments)	9.4.11	6	1,066	1,713
Cash and cash equivalents	9.4.12	363	217	431
		<u>369</u>	<u>1,283</u>	<u>2,144</u>
		← As at 31 December 2011 RM'000	2012 RM'000	→ 2013 RM'000
Financial liabilities				
<i>Other financial liabilities</i>				
Trade and other payables	9.4.14	1,951	3,261	4,262
Borrowings	9.4.15	2,291	1,609	815
		<u>4,242</u>	<u>4,870</u>	<u>5,077</u>

(c) Fair values of financial instruments

The fair values of financial instruments that are not carried at fair value and whose carrying amounts do not approximate its fair values are as follows:

	Section	Carrying amount RM'000	Fair value RM'000
At 31.12.2011			
Hire purchase payables	9.4.17	<u>1,691</u>	<u>1,686</u>
At 31.12.2012			
Hire purchase payables	9.4.17	<u>1,137</u>	<u>1,136</u>
At 31.12.2013			
Hire purchase payables	9.4.17	<u>481</u>	<u>479</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.22 Financial Instruments (continued)

(d) Determination of fair value

Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follow:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amount of financial assets and liabilities, such as trade and other receivables, trade and other payables and term loan, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

- (ii) Hire purchase payables

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of borrowing at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies

HK Palm Fibre's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

HK Palm Fibre operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to HK Palm Fibre's financial risk management policies. HK Palm Fibre is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(a) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is HK Palm Fibre's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HK Palm Fibre is exposed to minimal credit risk.

HK Palm Fibre's primary exposure to credit risk arises through its trade receivables. HK Palm Fibre's trading terms with its customers normally requires deposits in advance. The credit period is generally for a period of one (1) month, extending up to three (3) months for major customers. Each customer has a maximum credit limit and HK Palm Fibre seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

At the end of the reporting period, there was no significant concentration of credit risk. The maximum exposure to credit risk for HK Palm Fibre was represented by the carrying amount of each financial asset shown in the statements of financial position.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Section 9.4.11 to the financial statements. Deposits with banks and other financial institutions, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Section 9.4.11.

(b) Liquidity and cash flow risk

HK Palm Fibre actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HK Palm Fibre measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance HK Palm Fibre's activities.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies (continued)

(b) Liquidity and cash flow risk (continued)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of HK Palm Fibre's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Trade and other payables	1,949	2	1,951
Borrowings	765	1,526	2,291
	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Trade and other payables	2,085	1,176	3,261
Borrowings	818	791	1,609
	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Trade and other payables	4,262	0	4,262
Borrowings	501	314	815

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of HK Palm Fibre financial instruments will fluctuate because of changes in market interest rates.

HK Palm Fibre exposure to interest rate risk arises primarily from variable loans and borrowings. These interest-bearing borrowings are monitored to ensure HK Palm Fibre enjoys competitive borrowing rates.

As at the reporting date, HK Palm Fibre does not engage any interest hedging instruments in respect of such interest rate fluctuations.

Sensitivity analysis for interest rate risk

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which HK Palm Fibre has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which HK Palm Fibre has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

	← As at 31 December 2011 RM	2012 RM	→ 2013 RM
Applicable interest rate:			
Increase 10 basis points	(450)	(45)	(460)
Decrease 10 basis points	450	45	460

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Palm Fibre's financial instruments that are exposed to interest rate risk:

Section	Weighted average effective interest rate %	RM'000		
		Within 1 year	More than 2 years	Total
31.12.2011				
Fixed rate				
Hire purchase payables	7.31	636	1,055	1,691
Floating rate				
Term loan	6.66	129	471	600

154

386

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Palm Fibre's financial instruments that are exposed to interest rate risk: (continued)

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2012					
Fixed rate					
Hire purchase payables	9.4.17	7.32	681	456	1,137
Floating rate					
Term loan	9.4.16	6.66	137	335	472
	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2013					
Fixed rate					
Hire purchase payables	9.4.17	7.32	356	125	481
Floating rate					
Term loan	9.4.16	6.60	145	189	334
	155				
	387				

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries

9.5.1 Statements of profit or loss and other comprehensive income of HH Industries

The statements of profit or loss and other comprehensive income of HH Industries which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

	Section	FYE 31 DECEMBER		
		2011 RM'000	2012 RM'000	2013 RM'000
Revenue	9.5.5	240	300	300
Cost of sales		0	0	0
Gross profit		240	300	300
Other income		94	438	#
Selling and distribution expenses		0	0	0
Administrative and other expenses		(343)	(447)	(533)
Finance costs	9.5.6	#	#	#
(Loss)/Profit before tax	9.5.7	(9)	291	(233)
Tax income/(expense)	9.5.8	0	0	0
(Loss)/Profit for the financial year		(9)	291	(233)
Other comprehensive income		0	0	0
Total comprehensive (loss)/income		(9)	291	(233)

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.1 Statements of profit or loss and other comprehensive income of HH Industries (continued)

The statements of profit or loss and other comprehensive income of HH Industries which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
(LBITDA)/EBITDA	(7)	295	(228)
Number of ordinary shares of RM1.00 each ('000)	2,962	9,095	9,095
Weighted average number of ordinary shares of RM1.00 each ('000)	2,962	9,095	9,095
Gross (loss)/earnings per share (RM)	(0.003)	0.03	(0.03)
Net (loss)/earnings per share (RM)	(0.003)	0.03	(0.03)
GP margin (%)	100	100	100
(LBT)/PBT margin (%)	(3.75)	97	(77.67)
EBITDA margin (%)	(2.92)	98.33	(76.00)
Effective tax rate (%)	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.2 Statements of financial position of HH Industries

The statements of financial position of HH Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment 9.5.9	30	32	27
Investment in subsidiary companies	1,085	7,206	7,206
	1,115	7,238	7,233
Current assets			
Other receivables 9.5.10	1,627	1,937	1,706
Cash and cash equivalents 9.5.11	24	11	8
Total current assets	1,651	1,948	1,714
TOTAL ASSETS	2,766	9,186	8,947
EQUITY AND LIABILITIES			
Share capital 9.5.12	2,962	9,095	9,095
Accumulated losses	(411)	(120)	(353)
	2,551	8,975	8,742
LIABILITIES			
Current liabilities			
Other payables 9.5.13	215	211	205
TOTAL EQUITY AND LIABILITIES	2,766	9,186	8,947

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.2 Statements of financial position of HH Industries (continued)

The statements of financial position of HH Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	2,962	9,095	9,095
Net assets	2,551	8,975	8,742
Net assets per ordinary share of RM1.00 each (RM)	0.86	0.99	0.96
Trade receivables' turnover period (days)	N/A	N/A	N/A
Trade payables' turnover period (days)	N/A	N/A	N/A
Inventories turnover periods (days)			
- Raw material	N/A	N/A	N/A
- Trading goods	N/A	N/A	N/A
Gearing ratio (times)	N/A	N/A	N/A

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.3 Statements of cash flows of HH Industries**

The statements of cash flows of HH Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax	(9)	291	(233)
Adjustments for:			
Depreciation for property, plant and equipment	3	4	5
Property, plant and equipment written off	0	0	0
Dividend income	(95)	(438)	0
Impairment loss on investment in subsidiary	0	12	0
Operating loss before working capital changes	(101)	(131)	(228)
Decrease/(Increase) in trade and other receivables	(1,013)	(310)	231
(Decrease)/Increase in trade and other payables	(1,005)	(4)	(6)
	(2,119)	(445)	(3)
Interest paid	0	0	0
Tax paid	0	0	0
Net cash flow from/(used in) operating activities	(2,119)	(445)	(3)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.3 Statements of cash flows of HH Industries (continued)

The statements of cash flows of HH Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	Section	FYE 31 DECEMBER		
		2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of a subsidiary for cash, net of cash acquired		(408)	(6,133)	0
Dividend received		95	438	0
Changes in fixed deposits pledged with licensed banks		0	0	0
Purchase of property, plant and equipment	9.5.9	(16)	(6)	0
Net cash flow used in investing activities		(329)	(5,701)	0
CASH FLOW FROM FINANCING ACTIVITY				
Proceeds from issuance of ordinary shares		2,462	6,133	0
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14	(13)	(3)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		10	24	11
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	9.5.11	24	11	8

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.4 Statements of changes in equity of HH Industries**

The statements of changes in equity of HH Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 1 January 2011	500	(402)	98
Issuance of ordinary shares	2,462	0	2,462
Total comprehensive income	0	(9)	(9)
At 31 December 2011	2,962	(411)	2,551
At 1 January 2012	2,962	(411)	2,551
Issuance of ordinary shares	6,133	0	6,133
Total comprehensive income	0	291	291
At 31 December 2012	9,095	(120)	8,975
At 1 January 2013	9,095	(120)	8,975
Total comprehensive income	0	(233)	(233)
At 31 December 2013	9,095	(353)	8,742

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.5 Revenue

	← FYE 31 December →		
	2011	2012	2013
	RM	RM	RM
Management fee	240	300	300

9.5.6 Finance costs

	← FYE 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
Bank charges	#	#	#

- represents amount less than RM1,000

9.5.7 (Loss)/Profit before tax

	← FYE 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
(Loss)/Profit before tax is arrived after charging:			
Audit fee	3	4	5
Depreciation of property, plant and equipment	3	4	5
Directors' remuneration			
- fee	0	0	0
- other emoluments	81	81	81
Property, plant and equipment written off	0	0	0
Rental of premises	0	0	0
And crediting:			
Dividend income	94	438	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.8 Tax expense

	←	FYE 31 December	→
	2011	2012	2013
	RM'000	RM'000	RM'000
Reconciliation of tax expense and accounting profit:			
Accounting profit before tax	(9)	291	(233)
Tax rate (%)	25	25	25
Tax at the applicable tax rate	(2)	73	(59)
Tax effects of:			
- expenses not deductible for tax purposes	2	4	0
- income not subject to tax	0	(110)	0
Deferred tax assets not recognized during the year	#	33	59
Tax expense for the financial year	0	0	0

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to elect for a switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of the shareholders. HH Industries has no Section 108 tax credit at the balance sheet date and therefore will automatically move to the new single tier dividend system on 1 January 2010.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.9 Property, plant and equipment

	Balance as at 1.1.2011 RM'000	Additions RM'000	Balance as at 31.12.2011 RM'000
2011			
At cost			
Signboard	2	2	4
Office equipment	12	3	15
Computer and accessories	5	11	16
Furniture and fittings	5	#	5
	24	16	40
Accumulated depreciation			
Signboard	#	#	#
Office equipment	5	1	6
Computer and accessories	1	1	3
Furniture and fittings	1	#	1
	7	3	10

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.9 Property, plant and equipment

	Balance as at 1.1.2012 RM'000	Additions RM'000	Balance as at 31.12.2012 RM'000
2012			
At cost			
Signboard	4	2	6
Office equipment	15	0	15
Computer and accessories	16	4	20
Furniture and fittings	5	0	5
	40	6	46
	Balance as at 1.1.2012 RM'000	Current charge RM'000	Balance as at 31.12.2012 RM'000
Accumulated depreciation			
Signboard	#	#	#
Office equipment	6	2	8
Computer and accessories	3	2	5
Furniture and fittings	1	#	1
	10	4	14

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.9 Property, plant and equipment

	Balance as at 1.1.2013 RM'000	Additions RM'000	Balance as at 31.12.2013 RM'000
2013			
At cost			
Signboard	6	0	6
Office equipment	15	0	15
Computer and accessories	20	0	20
Furniture and fittings	5	0	5
	46	0	46
	Balance as at 1.1.2013 RM'000	Current charge RM'000	Balance as at 31.12.2013 RM'000
Accumulated depreciation			
Signboard	#	#	#
Office equipment	8	2	10
Computer and accessories	5	2	7
Furniture and fittings	1	1	2
	14	5	19

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.9 Property, plant and equipment (continued)**

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Net carrying amount			
Signboard	4	6	6
Renovation	0	0	0
Office equipment	9	7	5
Computer and accessories	13	15	13
Electrical installation	0	0	0
Furniture and fittings	4	4	3
	<u>30</u>	<u>32</u>	<u>27</u>

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.10 Other receivables

	← As at 31 December		→
	2011	2012	2013
	RM'000	RM'000	RM'000
Non-trade receivables	0	0	0
Amount owing by Directors	9	0	0
Amount owing by subsidiaries	1,616	1,936	1,705
Amount owing by related parties	1	0	0
Deposits and prepayments	#	#	#
	<u>1,627</u>	<u>1,937</u>	<u>1,706</u>

- represents amount less than RM1,000

Amount owing by Directors and subsidiaries are unsecured, interest-free and repayable on demand.

Amount owing by related parties are unsecured, interest-free and repayable on demand.

The related parties are companies incorporated in Malaysia, in which certain Directors of HH Industries have significant and controlling financial interests.

9.5.11 Cash and cash equivalents

	← As at 31 December		→
	2011	2012	2013
	RM'000	RM'000	RM'000
Cash and bank balances	<u>24</u>	<u>11</u>	<u>8</u>

Information on financial risks of cash and cash equivalents are disclosed in Section 9.5.24 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.12 Share capital

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Ordinary shares of RM1 each			
Authorised:			
At 1 January	500	10,000	10,000
Created during the financial year	9,500	0	0
At 31 December	10,000	10,000	10,000
Issued and fully paid:			
At 1 January	500	2,962	9,095
Issued during the financial year, at par	2,462	6,133	0
At 31 December	2,962	9,095	9,095

9.5.13 Other payables

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Other payables			
Non-trade payables	2	#	#
Amount owing to Directors	0	0	0
Amount owing to a subsidiary	164	179	169
Amount owing to related parties	4	0	0
Accruals	44	32	36
	214	211	205

- represents amount less than RM1,000

- (a) The amount owing to related parties are unsecured, interest free and repayable on demand.
- The related parties are companies incorporated in Malaysia, in which certain Directors of HH Industries have significant and controlling financial interests.
- (b) The amount owing to a subsidiary company is unsecured, interest free and repayable on demand.
- (c) The amount owing to Directors is non-trade in nature, unsecured, interest free and repayable on demand.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.14 Deferred tax asset

The estimated amount of net deferred tax asset calculated at the applicable tax rate, which is not recognised in the financial statements is as follows:

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Property, plant and equipment	1	2	2
Unabsorbed tax losses	104	136	160
	<u>105</u>	<u>138</u>	<u>162</u>
Subject to income tax:			
Deferred tax assets (before offsetting)			
Property, plant and equipment	5	7	7
Unabsorbed tax losses	104	136	160
	<u>109</u>	<u>143</u>	<u>167</u>
Offsetting	(4)	(5)	(5)
Deferred tax assets (after offsetting)	<u>105</u>	<u>138</u>	<u>162</u>
Deferred tax liability (before offsetting)			
Property, plant and equipment	4	5	5
Offsetting	(4)	(5)	(5)
Deferred tax liability (after offsetting)	<u>0</u>	<u>0</u>	<u>0</u>

- represents amount less than RM1,000

9.5.15 Employee benefits

	← Audited FYE 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Wages, salaries and bonuses	184	271	325
Contributions to defined contribution plan	17	30	43
Social security contributions	2	4	4
	<u>203</u>	<u>305</u>	<u>372</u>

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.16 Investments in subsidiaries**

Details of the subsidiary companies which are incorporated in Malaysia are as follows:-

Name of company	2011	2012	2013	
HK Fibre Sdn. Bhd. ("HK Fibre")	97%	97%	97%	Manufacturing and trading of coconut biomass materials
HK Mega Industries Sdn. Bhd. ("HK Mega")	90%	90%	90%	Dormant
HK Kitaran Sdn. Bhd. ("HK Kitaran")	51%	51%	51%	Manufacturing and trading of oil palm biomass materials

9.5.17 Related party transaction**(a) Identities of related parties**

Parties are considered to be related to HH Industries if it has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HH Industries and the party are subject to common control or common significant influence. Related parties may be individuals or other companies.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, HH Industries had the following transactions with related parties during the financial year.

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Management fee received from subsidiary companies:-			
- HK Kitaran	150	180	180
- HK Fibre	90	120	120
- HK Mega	0	0	0
Sales commission received from subsidiaries:-			
- HK Fibre	0	0	0
- HK Mega	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.18 Financial instruments****(a) Capital management**

The primary objective of HH Industries' capital management is to ensure that HH Industries would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of HH Industries remains unchanged from that in the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HH Industries manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HH Industries may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HH Industries is not subject to any externally imposed capital requirements.

HH Industries monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. HH Industries includes within net debt, other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		← As at 31 December →		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Other payables	9.5.13	215	211	205
		215	211	205
Total liabilities				
Less: Cash and cash equivalents	9.5.11	(24)	(11)	(8)
Net debt		191	200	197
Equity		2,551	8,975	8,742
Net debt		191	200	197
Total capital		2,742	9,175	8,939
Gearing ratio		7%	2%	2%

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.18 Financial instruments (continued)

(b) Categories of financial instruments

		← As at 31 December →		
		2011	2012	2013
		RM'000	RM'000	RM'000
Financial assets	Section			
<i>Loans and receivables</i>				
Other receivables (excludes deposits and prepayments)	9.5.12	1,627	1,937	1,706
Cash and cash equivalents	9.5.13	24	11	8
		<u>1,651</u>	<u>1,948</u>	<u>1,714</u>
		← As at 31 December →		
		2011	2012	2013
		RM'000	RM'000	RM'000
Financial liabilities				
Other financial liabilities				
Other payables	9.5.15	214	211	205
		<u>214</u>	<u>211</u>	<u>205</u>

(c) Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amounts of financial assets and liability, such as other receivables and other payables are reasonable approximation of fair value due to their short-term nature.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.19 Financial risk management objectives and policies**

The HH Industries' financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

HH Industries operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the HH Industries financial risk management policies. HH Industries is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(i) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is HH Industries' policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HH Industries is exposed to minimal credit risk.

HH Industries' primary exposure to credit risk arises through its trade receivables. HH Industries' trading terms with its customers are mainly on credit. The credit period is generally 30 to 40 days for major customers. Each customer has a maximum credit limit and HH Industries seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

At the end of the reporting period, there was no significant concentration of credit risk. The maximum exposure to credit risk for HH Industries was represented by the carrying amount of each financial asset shown in the statements of financial position.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Section 9.5.12 in this Report. Deposits with financial institutions, that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Section 9.5.12 in this Report.

(ii) Liquidity and cash flow risk

HH Industries actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HH Industries measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance HH Industries' activities.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.19 Financial risk management objectives and policies (continued)

(ii) Liquidity and cash flow risk (continued)

The table below summarises the maturity profile of HH Industries' liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Other payables	215	0	215
Total undiscounted financial liabilities	215	0	215

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Other payables	211	0	211
Total undiscounted financial liabilities	211	0	211

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Other payables	205	0	205
Total undiscounted financial liabilities	205	0	205

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.20 Prior year adjustment

By applying Private Entity Reporting Standards, HH Industries had previously recognised a deferred credit as a reserve on consolidation, for the excess of its interests in the net fair value of its subsidiaries' identifiable assets and liabilities over the cost of that interest.

Upon adoption of FRS3 *Business Combinations*, such deferred credit was derecognised with a corresponding adjustment to the opening balance of HH Industries' retained earnings.

The effect of the changes on HH Industries' financial statements is as follows:

	2011 RM'000
Effect on retained earnings:	
At 1 January, as previously stated	258
Effect from derecognition of reserve on consolidation	<u>247</u>
At 1 January, as restated	<u><u>505</u></u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries

9.6.1 Statements of profit or loss and other comprehensive income of HK Mega Industries

The statements of profit or loss and other comprehensive income of HK Mega Industries which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue	0	0	0
Cost of sales	0	0	0
Gross profit	0	0	0
Other income	0	0	0
Selling and distribution expenses	0	0	0
Administrative and other expenses	(21)	(10)	(4)
Finance costs 9.6.5	(2)	0	0
Profit/(Loss) before tax 9.6.6	(23)	(10)	(4)
Tax (expense)/income 9.6.7	#	0	0
Profit/(loss) for the financial period/year	(23)	(10)	(4)
Other comprehensive income	0	0	0
Total comprehensive income/(loss)	(23)	(10)	(4)

#- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.1 Statements of profit or loss and other comprehensive income of HK Mega Industries (continued)**

The statements of profit or loss and other comprehensive income of HK Mega Industries which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
EBITDA/(LBITDA)	(5)	(4)	(4)
Number of ordinary shares of RM1.00 each ('000)	100	100	100
Weighted average number of ordinary shares of RM1.00 each ('000)	100	100	100
Gross earnings/(loss) per share (RM)	(0.23)	(0.10)	(0.04)
Net earnings/(loss) per share (RM)	(0.23)	(0.10)	(0.04)
GP margin (%)	0	0	0
PBT margin (%)	NA	NA	NA
EBITDA margin (%)	NA	NA	NA
Effective tax rate (%)	0	0	0

N/A- Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.2 Statements of financial position of HK Mega Industries**

The statements of financial position of HK Mega Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
	Section			
ASSETS				
Non-current asset				
Property, plant and equipment	9.6.8	35	3	3
Current assets				
Trade and other receivables	9.6.9	91	116	116
Current tax asset		2	2	2
Cash and bank balances	9.6.10	1	3	#
Total current assets		94	121	118
TOTAL ASSETS		129	124	121
EQUITY AND LIABILITIES				
Share capital	9.6.11	100	100	100
Retained earnings /(Accumulated losses)		(1)	(11)	(15)
TOTAL EQUITY		99	89	85

#- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.2 Statements of financial position of HK Mega Industries (continued)**

The statements of financial position of HK Mega Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
LIABILITIES			
Non-current liabilities			
Hire purchase payable 9.6.13	0	0	0
Current liabilities			
Trade and other payables 9.6.12	30	35	36
Hire purchase payable 9.6.13	0	0	0
Total current liabilities	30	35	36
TOTAL LIABILITIES	30	35	36
TOTAL EQUITY AND LIABILITIES	129	124	121

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.2 Statements of financial position of HK Mega Industries (continued)

The statements of financial position of HK Mega Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	100	100	100
Net assets	99	89	85
Net assets per ordinary share of RM1.00 each (RM)	0.99	0.89	0.85
Trade receivables' turnover period (days)	N/A	N/A	N/A
Trade payables' turnover period (days)	N/A	N/A	N/A
Inventories turnover periods (days)			
- Raw material	N/A	N/A	N/A
- Finished goods	N/A	N/A	N/A
Gearing ratio (times)	N/A	N/A	N/A

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.3 Statements of cash flows of HK Mega Industries**

The statements of cash flows of HK Mega Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax	(23)	(10)	(4)
Adjustments for:			
Bad debts written off	0	0	0
Depreciation for property, plant and equipment	16	6	#
Waiver of debts	0	0	0
Interest expenses	2	0	0
Loss/(Gain) on disposal of property, plant and equipment	0	0	0
Operating profit/(loss) before working capital changes	(5)	(5)	(4)
(Increase)/Decrease in trade and other receivables	21	(25)	0
Increase/(Decrease) in trade and other payables	16	5	1
	32	(24)	(3)
Interest paid	(2)	0	0
Tax paid	(2)	0	0
Net cash flow (used in)/from operating activities	28	(24)	(3)

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.3 Statements of cash flows of HK Mega Industries (continued)**

The statements of cash flows of HK Mega Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment 9.6.8 (a)	#	0	0
Proceeds from disposal of property, plant and equipment	0	26	0
Net cash flow from investing activities	#	26	0
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of hire purchase payables 9.6.13	(32)	0	0
Net cash flow used in financing activities	(32)	0	0
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4)	2	(3)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	5	1	3
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR 9.6.10	1	3	0

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.4 Statements of changes in equity of HK Mega Industries

The statements of changes in equity of HK Mega Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 1 January 2011	100	22	122
Total comprehensive income	0	(23)	(23)
As at 31 December 2011	100	(1)	99
At 1 January 2012	100	(1)	99
Total comprehensive income	0	(10)	(10)
At 31 December 2012	100	(11)	89
At 1 January 2013	100	(11)	89
Total comprehensive income	0	(4)	(4)
As at 31 December 2013	100	(15)	85

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.5 Finance costs

	2011 RM'000	FYE 31 December 2012 RM'000	2013 RM'000
Bank charges	#	0	0
Interest on hire purchases	2	0	0
	2	0	0

#- represents amount less than RM1,000

9.6.6 Profit/(Loss) before tax

	2011 RM'000	FYE 31 December 2012 RM'000	2013 RM'000
Profit/(Loss) before tax is arrived after charging:			
Audit fee			
- Current year	2	#	1
Depreciation of property, plant and equipment	16	6	#
Bad debts written off	0	0	0
Directors' remuneration			
- other emoluments	0	0	0
Staff cost	0	0	0
And crediting:			
Gain on disposal of property, plant and equipment	0	0	0
Waiver of debts	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.7 Tax (expense)/income

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
The major components of the tax expense/(income) are:			
Current tax expense based on profit for the year	#	0	0
Underprovision of tax expense in prior year	0	0	0
	#	0	0
Reconciliation of tax expense/(income) and accounting profit:			
Accounting profit/(loss) before tax	(23)	(10)	(4)
Tax rate (%)	25	25	25
Tax at the applicable tax rate	(6)	(3)	(1)
Tax effects of:			
- expenses not deductible for tax purposes	1	1	2
- different tax rate for first RM500,000 of chargeable income	0	0	0
Overprovision of tax expense in prior Year	#	0	0
Deferred tax assets not recognized during the year	5	2	(1)
Tax expense for the financial year	#	0	0

- represent amount less than RM1,000

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of shareholders. HK Mega Industries does not have any Section 108 tax credit and thus it will be automatically moved to the new single tier dividend system.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.8 Property, plant and equipment**

	Balance as at 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Balance as at 31.12.2011 RM'000
2011					
At cost					
Furniture and fittings	#	#	0	0	#
Office equipment	4	0	0	0	4
Motor vehicles	78	0	0	0	78
	82	#	0	0	82

	Balance as at 1.1.2011 RM'000	Current Charge RM'000	Disposals RM'000	Written off RM'000	Balance as at 31.12.2011 RM'000
Accumulated depreciation					
Furniture and fittings	#	#	0	0	#
Office equipment	#	#	0	0	#
Motor vehicles	31	16	0	0	47
	31	16	0	0	47

	Balance as at 1.1.2012 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Balance as at 31.12.2012 RM'000
2012					
At cost					
Furniture and fittings	#	0	0	0	#
Office equipment	4	0	0	0	4
Motor vehicles	78	0	(78)	0	0
	82	0	(78)	0	4

	Balance as at 1.1.2012 RM'000	Current charge RM'000	Disposals RM'000	Written off RM'000	Balance as at 31.12.2012 RM'000
Accumulated depreciation					
Furniture and fittings	#	#	0	0	#
Office equipment	#	1	0	0	1
Motor vehicles	47	5	(52)	0	0
	48	6	(52)	0	1

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.8 Property, plant and equipment**

2013	Balance as at 1.1.2013 RM'000	Current charge RM'000	Disposals RM'000	Balance as at 31.12.2013 RM'000
At cost				
Furniture and fittings	#	0	0	#
Office equipment	4	0	0	4
	4	0	0	4
Accumulated depreciation				
Furniture and fittings	#	0	0	#
Office equipment	1	0	0	1
	1	0	0	1

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.8 Property, plant and equipment (continued)**

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Net carrying amount			
Furniture and fittings	#	#	#
Motor vehicles	31	0	0
Office equipment	4	3	3
	35	3	3

- (a) During the financial year, HK Mega Industries made the following cash payments to purchase property, plant and equipment:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Purchase of property, plant and equipment	0	0	0
Financed by hire purchase arrangements	0	0	0
Cash payments on purchase of property, plant and equipment	0	0	0

- (b) The carrying amount of property, plant and equipment of HK Mega Industries acquired under hire purchase arrangements are as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Motor vehicles	0	0	0
	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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 Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.9 Trade and other receivables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade receivables	0	0	0
Non-trade receivables	0	0	0
Amount owing by related party	0	0	0
Amount owing by fellow subsidiary	0	0	0
Amount owing by holding company	91	116	116
	91	116	116

represents amount less than RM1,000

- (a) Trade receivables are non-interest bearing and are generally on 30 days terms. They are recognised at their original invoice amounts which represent their fair value on initial recognition.
- (b) The currency profile of trade and other receivables of HK Mega Industries is in RM.
- (c) The amount owing by immediate holding company is unsecured, interest free and repayable on demand in cash and cash equivalents.
- (d) Information on financial risks of other receivables is disclosed in Section 9.6.16 to the financial statements.

9.6.10 Cash and cash equivalents

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Cash and bank balances	1	3	#
	1	3	#

- (a) Cash and bank balances are denominated in RM.
- (b) Information on financial risks of cash and cash equivalents are disclosed in Section 9.6.16 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.11 Share capital

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Authorised:			
Ordinary shares of RM1 each			
At 1 January	100	100	100
Created during the financial year	0	0	0
At 31 December	100	100	100
Issued and fully paid:			
Ordinary shares of RM1 each			
At 1 January	100	100	100
Issued during the financial year, at par	0	0	0
At 31 December	100	100	100

9.6.12 Trade and other payables

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Current			
Trade payables	0	0	0
Non trade-payables	0	0	0
Amount owing to holding company	0	0	0
Amount owing to fellow subsidiaries	29	34	35
Amount owing to related parties	0	0	0
Deposits received	0	0	0
Accruals	1	1	1
Total current liabilities	30	35	36

- (a) The amount owing to holding company is unsecured, interest free and has no fixed terms of repayment.
- (b) The amount owing to fellow subsidiaries is unsecured, interest free and repayable on demand.
- (c) The amount owing to related parties is non-trade in nature, is secured, interest free and has no fixed terms of repayment.
- (d) Other payables are denominated in RM.
- (e) Information on financial risks of other payables is disclosed in Note 9.6.16 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.14 Related party transaction

(a) Identities of related parties

Parties are considered to be related to HK Mega Industries if HK Mega Industries has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HK Mega Industries and the party are subject to common control or common significant influence. Related parties may be individuals or companies.

HK Mega Industries has controlling related party relationship with its direct and indirect subsidiaries and its immediate and ultimate holding company.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, HK Mega Industries had the following transactions with related parties during the financial year:

	← As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
<u>Sale commission received from a fellow subsidiary company:</u>			
- HK Fibre Sdn. Bhd.	0	0	0
<u>Management fee paid to holding company:</u>			
- Heng Huat Industries Holding Sdn. Bhd. (formerly known as HK Vision Sdn. Bhd.)	0	0	0

The Directors of HK Mega Industries are of the opinion that the related party transactions have been entered into in the normal course of business on an arm's length basis and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.15 Financial instruments****(a) Capital management**

The primary objective of HK Mega Industries' capital management is to ensure that HK Mega Industries would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of the Company remains unchanged from that in the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Mega Industries manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HK Mega Industries may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Mega Industries is not subject to any externally imposed capital requirements.

HK Mega Industries monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. HK Mega Industries includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Trade and other payables	9.6.12	30	35	36
Less: Cash and cash equivalents	9.6.10	(1)	(3)	(#)
Net debt		29	32	36
Equity		99	89	85
Net debt		29	32	36
Total capital		128	121	121
Gearing ratio		23%	26%	30%

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.15 Financial instruments (continued)

(b) Categories of financial instruments

		<div> <div>←</div> <div>As at 31 December</div> <div>→</div> </div>		
Section		2011 RM'000	2012 RM'000	2013 RM'000
Financial assets				
<i>Loans and receivables</i>				
Trade and other receivables (excludes deposits and prepayments)	9.6.9	91	116	116
Cash and cash equivalents	9.6.10	1	3	#
		92	119	116
		<div> <div>←</div> <div>As at 31 December</div> <div>→</div> </div>		
		2011 RM'000	2012 RM'000	2013 RM'000
Financial liabilities				
<i>Other financial liabilities</i>				
Trade and other payables	9.6.12	30	35	35
Borrowings	9.6.13	0	0	0
		30	35	35

(c) Determination of fair value

Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follow:

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value.

The carrying amounts of financial assets and liability, such as other receivables and other payables are reasonable approximation of fair value due to their short-term nature.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.16 Financial risk management objectives and policies

The HK Mega Industries' overall financial risk management objective is to ensure that HK Mega Industries creates value for its shareholders whilst minimising potential adverse effects on its financial performance and positions. HK Mega Industries is mainly exposed to credit risk and liquidity and cash flow risk. Information on the management of the related exposures is detailed below:

(a) Credit risk

Cash deposits and other receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are creditworthy debtors with good payment records with HK Mega Industries. It is HK Mega Industries' policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HK Mega Industries is exposed to minimal credit risk.

Information regarding credit enhancements for other receivables is disclosed in Section 9.6.9 to the financial statements.

(b) Liquidity and cash flow risk

HK Mega Industries actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HK Mega Industries measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance the HK Mega Industries' activities.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Other payables	30	0	30
Borrowings	0	0	0

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Other payables	35	0	35
Borrowings	0	0	0

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Trade and other payables	36	0	36
Borrowings	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran

9.7.1 Statements of profit or loss and other comprehensive income of HK Kitaran

The statements of profit or loss and other comprehensive income of HK Kitaran which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue 9.7.5	15,160	35,612	36,440
Cost of sales	(6,089)	(14,813)	(18,363)
Gross profit	9,071	20,799	18,077
Other income	381	676	639
Selling and distribution expenses	(1,354)	(7,273)	(6,861)
Administrative and other expenses	(847)	(2,369)	(2,868)
Finance costs 9.7.6	(328)	(1,148)	(1,874)
Profit before tax 9.7.7	6,923	10,685	7,113
Tax (expense)/income 9.7.8	0	0	0
Profit for the financial period/year	6,923	10,685	7,113
Other comprehensive income	0	0	0
Total comprehensive income	6,923	10,685	7,113

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.1 Statements of profit or loss and other comprehensive income of HK Kitaran (continued)

The statements of profit or loss and other comprehensive income of HK Kitaran which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	7,845	13,729	12,233
Number of ordinary shares of RM1.00 each ('000)	1,000	1,000	1,000
Weighted average number of ordinary shares of RM1.00 each ('000)	1,000	1,000	1,000
Gross earnings per share (RM)	6.92	10.69	7.11
Net earnings per share (RM)	6.92	10.69	7.11
GP margin (%)	59.84	58.40	49.61
PBT margin (%)	45.67	30.00	19.52
EBITDA margin (%)	51.75	38.55	33.57
Effective tax rate (%)	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.2 Statements of financial position of HK Kitaran**

The statements of financial position of HK Kitaran which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012, and 31 December 2013 are set out below:

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
ASSETS				
Non-current asset				
Property, plant and equipment	9.7.9	18,849	38,890	40,730
Research and development	9.7.10	281	225	281
		19,130	39,115	41,011
Current assets				
Inventories	9.7.11	139	148	731
Trade and other receivables	9.7.12	3,883	13,140	17,543
Current tax asset		15	36	43
Cash and cash equivalents	9.7.13	1,293	1,553	1,874
Total current assets		5,330	14,877	20,191
TOTAL ASSETS		24,460	53,992	61,202
EQUITY AND LIABILITIES				
Share capital	9.7.14	1,000	1,000	1,000
Retained earnings		7,165	17,850	24,963
TOTAL EQUITY		8,165	18,850	25,963

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.2 Statements of financial position of HK Kitaran (continued)**

The statements of financial position of HK Kitaran which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
 (continued)

		As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Section				
LIABILITIES				
Non-current liabilities				
Trade and other payables	9.7.15	350	433	0
Borrowings	9.7.16	7,692	21,189	17,884
Total non-current liabilities		8,042	21,622	17,884
Current liabilities				
Trade and other payables	9.7.15	6,799	5,354	6,811
Borrowings	9.7.16	1,454	8,166	10,544
Total current liabilities		8,253	13,520	17,355
TOTAL LIABILITIES		16,295	35,142	35,239
TOTAL EQUITY AND LIABILITIES		24,460	53,992	61,202

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.2 Statements of financial position of HK Kitaran (continued)

The statements of financial position of HK Kitaran which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012, and 31 December 2013 are set out below: (continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	1,000	1,000	1,000
Net assets	8,165	18,850	25,963
Net assets per ordinary share of RM1.00 each (RM)	8.17	18.85	25.96
Trade receivables' turnover period (days)	76	79	107
Trade payables' turnover period (days)	23	42	15
Inventories turnover periods (days)			
- Raw material	11	1	8
- Finished goods	2	3	10
Gearing ratio (times)	1.12	1.56	1.09

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.3 Statements of cash flows of HK Kitaran

The statements of cash flows of HK Kitaran, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	6,923	10,685	7,113
Adjustments for:			
Depreciation for property, plant and equipment	594	1,896	3,245
Amortisation of research and development	0	56	56
Gain on unrealized foreign currency exchange	0	25	0
Interest income	0	(8)	(17)
Interest expenses	328	1,148	1,874
Loss on disposal of property, plant and equipment	39	32	4
Property, plant and equipment written off	4	0	0
Operating profit before working capital changes	7,888	13,834	12,275
Research and development	(281)	0	0
(Increase)/Decrease in inventories	(55)	(8)	(583)
(Increase)/Decrease in trade and other receivables	(3,626)	(9,282)	(4,404)
Increase/(Decrease) in trade and other payables	4,142	(1,363)	1,024
Interest paid	8,068	3,181	8,312
Tax refund	(328)	(1,148)	(1,874)
Tax paid	0	0	9
Tax paid	(15)	(21)	(17)
Net cash flow from operating activities	7,725	2,012	6,430

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.3 Statements of cash flows of HK Kitaran (continued)**

The statements of cash flows of HK Kitaran, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 are set out below: (continued)

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Addition on research and development	0	0	(112)
Purchase of property, plant and equipment 9.7.9 (a)	(5,841)	(3,503)	(3,319)
Proceeds from disposal of property, plant and equipment	30	379	17
Interest received 9.7.13	0	0	18
Net cash flow used in investing activities	(5,811)	(3,124)	(3,396)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid 9.7.20	(186)	0	0
Fixed deposit pledged with a licensed bank	0	(550)	(453)
Drawdown of term loan	1,519	0	0
Proceeds from issuance of shares 9.7.14	0	0	0
Repayment of hire purchase payables	(359)	(1,301)	(2,967)
Drawdown of bankers' acceptance	0	3,467	1,487
Repayment of term loan	(1,559)	(878)	(1,820)
Net cash flow from/(used in) financing activities	(585)	738	(3,753)
NET DECREASE IN CASH AND CASH EQUIVALENTS	1,329	(374)	(719)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	(76)	1,253	879
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR 9.7.13 (d)	1,253	879	160

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.4 Statements of changes in equity of HK Kitaran

The statements of changes in equity of HK Kitaran, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 are set out below:

	Share capital RM'000	Distributable	Total RM'000
		Retained earnings RM'000	
Balance at 1 January 2011	200	427	627
Profit for the financial year	0	6,924	6,924
Total comprehensive income	0	6,924	6,924
Transactions with owners			
Ordinary shares issued	800	0	800
Dividend paid	0	(186)	(186)
Total transactions with owners	800	(186)	614
Balance at 31 December 2011	1,000	7,165	8,165

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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 Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.4 Statements of changes in equity of HK Kitaran (continued)**

The statements of changes in equity of HK Kitaran, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 are set out below: (continued)

	Share capital RM'000	<u>Distributable</u> Retained earnings RM'000	Total RM'000
Balance at 1 January 2012	1,000	7,165	8,165
Profit for the financial year	0	10,685	10,685
Total comprehensive income	0	10,685	10,685
At 31 December 2012	1,000	17,850	18,850
Balance at 1 January 2013	1,000	17,850	18,850
Profit for the financial year	0	7,113	7,113
Total comprehensive income	0	7,113	7,113
At 31 December 2013	1,000	24,963	25,963

9.7.5 Revenue

Revenue represents invoiced value of goods sold net of returns and discounts.

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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Accountants' Report*

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.6 Finance costs**

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Bank charges	0	0	0
Interest on bank overdrafts	4	7	12
Interest on banker's acceptance	0	87	237
Interest charges	0	10	#
Interest on hire purchases	102	366	772
Interest on term loan	222	678	853
	<u>328</u>	<u>1,148</u>	<u>1,874</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.7 Profit before tax

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Profit before tax is arrived after charging:			
Audit fee			
- Current year	5	10	10
- underprovision in respect of prior year	0	5	0
Depreciation of property, plant and equipment	594	1,896	3,245
Director's remuneration			
-Other emoluments	123	265	400
Finance costs on:			
-Interest charges			
-Interest on bank overdraft	3	10	0
-Interest on hire purchase	102	366	0
-Interest on term loan	222	678	0
-Interest on banker's acceptance	0	87	0
Loss on disposal of property, plant and equipment	39	32	4
Loss on foreign currency exchange	5	129	0
Property, plant and equipment written off	4	0	0
Rental of factory	71	44	0
Rental of cylinder	#	0	0
Rental of safety tank	#	3	0
And crediting:			
Bank interest	0	0	11
Fixed deposits interest received	0	8	17
Forwarding charges	61	52	0
Gain on unrealised foreign currency exchange	0	25	0
Gain on foreign currency exchange	8	21	590
Local charges and phyto certificate	25	#	0
Transport charges	#	2	17
Weight charges received	6	8	5

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.8 Tax (expense)/income

	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
The major components of the tax expense/(income) are:			
Current tax expense based on profit for the year	0	0	0
Overprovision of tax expense in prior year	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Deferred tax expense			
- relating to origination and reversal of temporary differences	0	0	0
- overprovision in respect of prior year	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>	<u>0</u>
Reconciliation of tax expense/(income) and accounting profit:			
Accounting profit before tax	<u>6,923</u>	<u>10,685</u>	<u>7,114</u>
Tax rate (%)	25	25	25
Tax at the applicable tax rate	1,731	2,671	1,778
Tax effects of:			
- exempted income	(1,886)	(3,196)	(2,320)
- expenses not deductible for tax purposes	155	542	542
- income not subject to tax	0	(17)	
Overprovision of tax expense in prior year	0	0	0
(Over)/Underprovision of deferred taxation in respect of prior year	0	0	0
Tax expense for the financial year	<u>0</u>	<u>0</u>	<u>0</u>

HK Kitaran has been granted pioneer status by the Ministry of International Trade and Industry for its products under the Promotion of Investments (Amendment) Act, 1986 in which the statutory income is exempted from tax for a period of ten years from 1 July 2010.

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of shareholders. HK Kitaran does not have any Section 108 tax credit and thus it will be automatically moved to the new single tier dividend system.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

	Balance as at 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Transfer RM'000	Balance as at 31.12.2011 RM'000
2011						
At cost						
Freehold land	1,774	21	0	0	0	1,795
Factory building	955	5,277	0	0	0	6,232
Electrical installation	209	101	0	0	0	310
Motor vehicles	417	1,330	(70)	0	0	1,677
Office equipment, furniture and fittings	36	203	0	0	0	239
Machinery and equipment	2,835	6,212	0	(4)	362	9,405
Capital work-in-progress	362	0	0	0	(362)	0
	6,588	13,144	(70)	(4)	0	19,658

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

2011	Balance as at 1.1.2011 RM'000	Current charge RM'000	Disposals RM'000	Balance as at 31.12.2011 RM'000
Accumulated depreciation				
Freehold land	0	0	0	0
Factory building	1	19	0	20
Electrical installation	10	22	0	32
Motor vehicles	33	165	(1)	197
Office equipment, furniture and fittings	2	14	0	16
Machinery and equipment	170	374	0	544
	216	594	(1)	809

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

	Balance as At 1.1.2012 RM'000	Additions RM'000	Disposals RM'000	Balance as At 31.12.2012 RM'000
2012				
At cost				
Freehold land	1,795	6,878	0	8,673
Factory building	6,232	1,075	0	7,307
Electrical installation	310	544	0	854
Motor vehicles	1,677	1,465	(25)	3,117
Office equipment, furniture and fittings	239	452	0	691
Machinery and equipment	9,405	11,934	(476)	20,863
	19,658	22,348	(501)	41,505

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

	Balance as At 1.1.2012 RM'000	Current charge RM'000	Disposals RM'000	Balance as At 31.12.2012 RM'000
2012				
Accumulated depreciation				
Freehold land	0	0	0	0
Factory building	21	127	0	148
Electrical installation	32	49	0	81
Motor vehicles	196	457	(11)	642
Office equipment, furniture and fittings	16	92	0	108
Machinery and equipment	544	1,171	(79)	1,636
	809	1,896	(90)	2,615

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

	Balance as At 1.1.2013 RM'000	Additions RM'000	Disposals RM'000	Balance as At 31.12.2013 RM'000
2013				
At cost				
Freehold land	8,673	0	0	8,673
Factory building	7,307	226	0	7,533
Electrical installation	854	1,461	0	2,315
Motor vehicles	3,117	145	(41)	3,221
Office equipment, furniture and fittings	691	31	#	722
Machinery and equipment	20,863	3,242	(5)	24,100
	41,505	5,105	(46)	46,564

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

	Balance as At 1.1.2013 RM'000	Current charge RM'000	Disposals RM'000	Written off RM'000	Balance as At 31.12.2013 RM'000
2013					
Accumulated depreciation					
Freehold land	0	0	0	0	0
Factory building	148	149	0	0	297
Electrical installation	81	174	0	0	255
Motor vehicles	642	641	(26)	0	1,257
Office equipment, furniture and fittings	108	107	#	0	215
Machinery and equipment	1,636	2,174	0	0	3,810
	2,615	3,245	(26)	0	5,834

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.9 Property, plant and equipment (continued)**

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Net carrying amount			
Freehold land	1,795	8,673	8,673
Factory building	6,212	7,159	7,236
Electrical installation	278	773	2,060
Motor vehicles	1,480	2,475	1,964
Office equipment, furniture and fittings	223	583	507
Machinery and equipment	8,861	19,227	20,290
Capital Work in progress	0	0	0
	<u>18,849</u>	<u>38,890</u>	<u>40,730</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

- (a) During the financial year, HK Kitaran made the following cash payments to purchase property, plant and equipment:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Purchase of property, plant and equipment	13,143	22,348	5,106
Financed by hire purchase and term loan arrangements	(7,302)	(18,845)	(1,787)
Cash payments on purchase of property, plant and equipment	5,841	3,503	3,319

- (b) The carrying amount of property, plant and equipment of HK Kitaran acquired under hire purchase arrangements are as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Plant and equipment	3,793	10,565	12,886
Motor vehicles	1,097	2,108	1,635
	4,890	12,673	2,921

9.7.10 Research & Development

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Research & development, at cost	281	281	281
Add: Addition	0	0	112
Less: Amortisation	0	(56)	(112)
Carrying amount	281	225	281

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.11 Inventories

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
At cost			
Raw material	47	3	28
Packing material	54	23	8
Finished goods	38	122	508
Spare parts	0	0	187
	139	148	731

9.7.12 Trade and other receivables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade receivables	3,149	7,724	10,686
Non-trade receivables	220	683	8
Deposits	196	314	71
Prepayments	278	837	846
Amount due by related parties	40	2	0
Amount owing by ultimate holding company	0	0	3,050
Amount owing by holding companies	0	1,465	0
Amount owing by fellow subsidiaries	0	2,115	2,882
	3,883	13,140	17,543

- (a) Trade receivables are non-interest bearing and are the normal credit trade terms granted by the Company range from 30 to 40 days. They are recognised at their original invoice amounts which represent their fair value on initial recognition.
- (b) Amount owing by related parties, amount owing by fellow subsidiaries and amount owing by holding companies are unsecured, interest-free and repayable on demand in cash and cash equivalents.
- (c) The currency exposure profile of receivables is as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Ringgit Malaysia	2,892	5,668	7,257
Renminbi	991	5,046	7,618
US Dollar	0	2,426	2,668
	3,883	13,140	17,543

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.12 Trade and other receivables (continued)

(d) The ageing analysis of trade receivables of HK Kitaran are as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

Neither past due nor impaired	2,538	2,230	9,773
Past due, not impaired			
1 to 30 days	611	1,801	850
31 to 60 days	0	2,537	63
61 to 90 days	0	49	0
91 to 120 days	0	80	0
More than 120 days	0	1,027	0
	611	5,494	913
Total trade receivables	3,149	7,724	10,686

Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with HK Kitaran.

None of the trade receivables of HK Kitaran that are neither past due nor impaired have been renegotiated during the financial year.

Trade receivables that are past due but not impaired

HK Kitaran has trade receivables amounting to RM913,000 (2012:RM5,494,000 and 2011:RM611,000) that are past due at the reporting date but not impaired.

The management is confident that the amounts are recoverable as these accounts are still active.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.13 Cash and cash equivalents

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Fixed deposits	1,293	995	863
Deposits with licensed banks	0	558	1,011
	<u>1,293</u>	<u>1,553</u>	<u>1,874</u>

- (a) Cash and cash equivalents are denominated in RM.
- (b) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Cash and bank balances	1,293	995	863
Deposits with licensed banks	0	558	1,011
	<u>1,293</u>	<u>1,553</u>	<u>1,874</u>
Less: Bank overdraft including in borrowings	(39)	(115)	(703)
Deposits pledged to licensed banks	0	(558)	(1,011)
	<u>1,254</u>	<u>880</u>	<u>160</u>

9.7.14 Share capital

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Authorised:			
Ordinary shares of RM1 each			
At 1 January	500	1,000	1,000
Additions during the financial year, at par	500	0	0
At 31 December	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Issued and fully paid:			
Ordinary shares of RM1 each			
At 1 January	200	1,000	1,000
Issued during the financial year, at par	800	0	0
At 31 December	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.15 Trade and other payables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Current			
Trade payables	377	1,688	744
Non trade-payables	4,164	1,411	2,546
Amount owing to immediate holding company	1,600	1,600	1,704
Amount owing to fellow subsidiaries	0	#	1,111
Amount owing to Directors	0	0	0
Deposits received	0	0	0
Accruals	658	655	706
Total current liabilities	6,799	5,354	6,811
Non-current			
Amount owing to related parties	0	0	0
Amount owing to immediate holding company	0	334	0
Amount owing to holding company	6	0	0
Amount owing to fellow subsidiaries	344	99	0
	350	433	0
	7,149	5,787	6,811

- (a) Trade and other payables are denominated in RM.
- (b) The amount owing to holding company is unsecured, interest free and repayable on demand in cash and cash equivalents.
- (b) The amount owing to fellow subsidiary companies are unsecured, interest free and repayable on demand in cash and cash equivalents.
- (d) Trade payables are non-interest bearing and the normal trade credit terms granted to HK Kitaran is 90 days (2012: 90 days and 2011: 90 days)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.16 Borrowings

		← As at 31 December →		
Section		2011 RM'000	2012 RM'000	2013 RM'000
Current liabilities				
Term loan	9.7.16	588	1,705	1,899
Hire purchase payables	9.7.17	826	2,878	2,988
Bank overdraft	9.7.18	40	116	703
Banker's acceptance		0	3,467	4,954
		<u>1,454</u>	<u>8,166</u>	<u>10,544</u>
Non-current liabilities				
Term loan	9.7.16	5,186	11,667	9,653
Hire purchase payables	9.7.17	2,506	9,522	8,231
		<u>7,692</u>	<u>21,189</u>	<u>17,884</u>
Total borrowings				
Term loan	9.7.16	5,774	13,372	11,552
Hire purchase payables	9.7.17	3,332	12,400	11,219
Bank overdraft	9.7.18	40	116	703
Banker's acceptance		0	3,467	4,954
		<u>9,146</u>	<u>29,355</u>	<u>28,428</u>

All borrowings are denominated in RM.

9.7.17 Term loan

The term loan of HK Kitaran is secured by:

- legal charge over the HK Kitaran's land and building (Section 9.7.9)
- joint and several guarantee by the Directors; and
- Corporate guarantee provided by the immediate holding company and fellow subsidiary companies

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.18 Hire purchase payables

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Representing hire purchase liabilities:			
- current	826	2,878	2,988
- non-current	2,505	9,521	8,231
	<u>3,331</u>	<u>12,399</u>	<u>11,219</u>
Minimum hire purchase repayments:			
- Not later than one (1) year	1,030	3,530	3,757
- Later than 1 year and not later than five (5) years	2,782	10,639	8,770
	<u>3,812</u>	<u>14,169</u>	<u>12,527</u>
Future finance charges on hire purchase	(481)	(1,770)	(1,308)
Present value of hire purchase liabilities	<u>3,331</u>	<u>12,399</u>	<u>11,219</u>
Present value of hire purchase liabilities:			
- Not later than one (1) year	826	2,878	2,988
- Later than 1 year and not later than five (5) years	2,505	9,521	8,231
	<u>3,331</u>	<u>12,399</u>	<u>11,219</u>
	← As at 31 December →		
	2011 %	2012 %	2013 %
Weighted average effective interest rate			
Hire purchase payables	<u>6.81</u>	<u>6.26</u>	<u>6.20</u>

9.7.19 Bank Overdraft

Bank overdraft of HK Kitaran is secured by joint and several guarantee by the Directors and corporate guarantee provided by a fellow subsidiary company.

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.20 Dividend**

Dividend declared and paid is as follows:

Financial year ended
31 December 2011

	Gross dividend per share RM	Amount of dividend RM'000
Single tier interim dividend	0.186	186,000

9.7.21 Employee benefits

	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Salaries, wages and allowances	1,499	3,945	5,800
Contributions to defined contribution plan	80	166	244
Social security contributions	6	18	23
Other benefits	116	325	110
	1,701	4,454	6,177

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.22 Related party transaction

(a) Identities of related parties

Parties are considered to be related to HK Kitaran if HK Kitaran has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HK Kitaran and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

HK Kitaran has controlling related party relationship with its direct and indirect subsidiaries and its immediate and ultimate holding company.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, HK Kitaran had the following transactions with its related parties during the financial year:

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
<u>Purchase of empty fruit bunch from a fellow subsidiary company:</u>			
HK Palm Fibre Manufacturer Sdn. Bhd.	0	267	0
<u>Management fee paid to holding company:</u>			
Heng Huat Industries Holdings Sdn. Bhd.	150	180	180
<u>Advances from a fellow subsidiary company</u>			
HK Fibre Sdn. Bhd.	150	180	180
<u>Advances to a fellow subsidiary company</u>			
HK Palm Fibre Manufacturer Sdn. Bhd.	0	1,155	0
<u>Purchase of mattress from a fellow subsidiary company</u>			
Fibre Star Marketing Sdn. Bhd.	0	9	0

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.23 Financial instruments****(a) Capital management**

The primary objective of HK Kitaran's capital management is to ensure that HK Kitaran would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

HK Kitaran manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HK Kitaran may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Kitaran is not subject to any externally imposed capital requirements.

HK Kitaran monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. HK Kitaran includes within net debt, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Loan and Borrowings	9.7.16	9,146	29,355	28,428
Trade and other payables	9.7.15	6,799	5,354	6,811
Total liabilities		15,945	34,709	35,239
Less: Cash and cash equivalents	9.7.13	(1,293)	(1,553)	(1,874)
Net debt		14,652	33,156	33,365
Equity		8,165	18,029	25,963
Net debt		14,652	33,156	33,365
Total capital		22,817	51,185	59,328
Gearing ratio		64%	65%	56%

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.23 Financial instruments (continued)

(b) Categories of financial instruments

	Section	As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Financial assets				
<i>Loans and receivables</i>				
Trade and other receivables (excludes deposits and prepayments)	9.7.12	3,409	11,989	16,627
Cash and cash equivalents	9.7.13	1,293	1,553	1,874
		<u>4,702</u>	<u>13,542</u>	<u>18,501</u>

	Section	As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Financial liabilities				
<i>Other financial liabilities</i>				
Trade and other payables	9.7.15	6,799	5,787	6,811
Borrowings	9.7.16	9,145	29,355	28,428
		<u>15,944</u>	<u>35,142</u>	<u>35,239</u>

(c) Fair values of financial instruments

The fair values of financial instruments that are not carried at fair value and whose carrying amounts do not approximate its fair values are as follows:

	Section	Carrying amount RM'000	Fair value RM'000
At 31.12.2011			
Hire purchase payables	9.7.17	<u>3,332</u>	<u>3,328</u>
At 31.12.2012			
Hire purchase payables	9.7.17	<u>12,400</u>	<u>12,064</u>
At 31.12.2013			
Hire purchase payables	9.7.17	<u>11,219</u>	<u>11,219</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.23 Financial instruments (continued)

(d) Determination of fair value

Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follow:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amount of financial assets and liabilities, such as trade and other receivables, trade and other payables and term loan, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

- (ii) Hire purchase payables

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of borrowing at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.24 Financial risk management objectives and policies**

HK Kitaran's overall financial risk management objective is to ensure that HK Kitaran creates value for its shareholders whilst minimising the potential adverse effects on its financial performance and positions. HK Kitaran is mainly exposed to credit risk, interest rate risk, foreign currency risk and liquidity and cash flow risk. Information on the management of the related exposures are detailed below:

(a) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is HK Kitaran's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HK Kitaran is exposed to minimal credit risk.

HK Kitaran's primary exposure to credit risk arises through its trade receivables. HK Kitaran's trading terms with its customers normally requires deposits in advance. The credit period is generally for a period of one (1) month, extending up to three (3) months for major customers. Each customer has a maximum credit limit and HK Kitaran seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Credit risk concentration profile

HK Kitaran determines concentration of credit risk by monitoring the country and industry sector profiles of its trade receivables on an ongoing basis. The credit risk concentration profile of HK Kitaran's trade receivables at the end of the reporting period are as follows:

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
By country			
Malaysia	2,158	251	3,214
People's Republic of China	991	5,046	5,046
United States	0	2,426	2,426
	<u>3,149</u>	<u>7,723</u>	<u>10,686</u>

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Section 9.7.12 to the financial statements. Deposits with banks and other financial institutions, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Section 9.7.12.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies

(b) Liquidity and cash flow risk

HK Kitaran actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HK Kitaran measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance HK Kitaran's activities.

The table below summarises the maturity profile of HK Kitaran's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Trade and other payables	6,799	350	7,149
Borrowings	1,454	7,691	9,145
Total undiscounted financial liabilities	8,253	8,041	16,294

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.24 Financial risk management objectives and policies (continued)****(b) Liquidity and cash flow risk (continued)**

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Trade and other payables	5,354	433	5,787
Borrowings	8,166	21,189	29,355
Total undiscounted financial liabilities	13,520	21,622	35,142

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Trade and other payables	6,811	0	6,811
Borrowings	10,544	17,884	28,428
Total undiscounted financial liabilities	17,355	17,884	35,239

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of HK Kitaran's financial instruments will fluctuate because of changes in market interest rates.

HK Kitaran's exposure to interest rate risk arises primarily from variable loans and borrowings. These interest-bearing borrowings are monitored to ensure HK Kitaran enjoys competitive borrowing rates.

As at the reporting date, HK Kitaran does not engage any interest hedging instruments in respect of such interest rate fluctuations.

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.24 Financial risk management objectives and policies (continued)****(c) Interest rate risk**Sensitivity analysis for interest rate risk

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which HK Kitaran has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which HK Kitaran has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

	← 2011 RM	As at 31 December 2012 RM	→ 2013 RM
Applicable interest rate:			
Increase 10 basis points	(1)	(66)	(45)
Decrease 10 basis points	1	66	45

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Kitaran's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2011					
Fixed rate					
Hire purchase payables	9.7.17	6.81	826	2,505	3,331
Floating rate					
Bank overdraft	9.7.18	7.60	39	0	39
Term loan	9.7.16	6.05	588	5,186	5,774

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Kitaran's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2012					
Fixed rate					
Hire purchase payables	9.7.17	6.29	2,806	9,594	12,400
Floating rate					
Bank overdraft	9.7.18	8.10	115	0	115
Term loan	9.7.16	5.19	1,705	11,667	13,372

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13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Kitaran's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2013					
Fixed rate					
Hire purchase payables	9.7.17	6.29	2,988	8,231	11,219
Floating rate					
Bank overdraft	9.7.18	8.10	703	0	703
Term loan	9.7.16	5.19	1,899	9,653	11,552

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies (continued)

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at the reporting date, HK Kitaran does not engage any foreign currency hedging instruments in respect of such foreign exchange fluctuations.

Transactional currency exposures arise from sales to East Asia customer. These sales are priced in RM but invoiced in the currencies of the customers involved.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of HK Kitaran's profit net of tax to a reasonably possible change in the RMB and USD exchange rates against the functional currency of HK Kitaran with all the other variables held constant.

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
RMB/RM - strengthen by 5%	(99)	(189)	(286)
- weaken by 5%	99	189	286
USD/RM - strengthen by 5%	0	(91)	(100)
- weaken by 5%	0	91	100

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre

9.8.1 Statements of profit or loss and other comprehensive income of HK Fibre

The statements of profit or loss and other comprehensive income of HK Fibre which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue 9.8.5	4,596	9,667	12,516
Cost of sales	(3,148)	(6,080)	(7,362)
Gross profit	1,448	3,587	5,154
Other income	9	16	108
Selling and distribution expenses	(281)	(616)	(455)
Administrative and other expenses	(452)	(447)	(562)
Finance costs 9.8.6	(57)	(68)	(152)
Profit before tax 9.8.7	667	2,472	4,093
Tax (expense)/income 9.8.8	0	(128)	(769)
Profit for the financial year	667	2,344	3,324
Other comprehensive income	0	0	0
Total comprehensive income	667	2,344	3,324

#- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.1 Statements of profit or loss and other comprehensive income of HK Fiber (continued)

The statements of profit or loss and other comprehensive income of HK Fibre which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
EBITDA	995	2,879	4,624
Number of ordinary shares of RM1.00 each ('000)	500	500	500
Weighted average number of ordinary shares of RM1.00 each ('000)	500	500	500
Gross earnings per share (RM)	1.33	4.94	8.19
Net earnings per share (RM)	1.33	4.69	6.65
GP margin (%)	31.51	37.11	41.18
PBT margin (%)	14.51	25.57	32.70
EBITDA margin (%)	21.65	29.78	36.94
Effective tax rate (%)	0	5.18	18.79

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.2 Statements of financial position of HK Fibre

The statements of financial position of HK Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Section				
ASSETS				
Non-current asset				
Property, plant and equipment	9.8.9	1,709	2,032	5,583
Current assets				
Inventories	9.8.10	89	467	493
Trade and other receivables	9.8.11	1,120	3,267	5,267
Current tax asset		0	0	102
Cash and cash equivalents	9.8.12	633	907	1,299
Total current assets		1,842	4,641	7,161
TOTAL ASSETS		3,551	6,673	12,744
EQUITY AND LIABILITIES				
Share capital	9.8.13	500	500	500
Retained earnings		1,319	3,663	6,987
TOTAL EQUITY		1,819	4,163	7,487

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.2 Statements of financial position of HK Fibre (continued)

The statements of financial position of HK Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
LIABILITIES			
Non-current liabilities			
Borrowings 9.8.15	840	628	3,052
Deferred tax liability	0	0	250
	840	628	3,302
Current liabilities			
Trade and other payables 9.8.14	441	1,102	1,043
Current tax liability	0	32	0
Borrowings 9.8.15	451	748	912
Total current liabilities	892	1,882	1,955
TOTAL LIABILITIES	1,732	2,510	5,257
TOTAL EQUITY AND LIABILITIES	3,551	6,673	12,744

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.2 Statements of financial position of HK Fibre (continued)

The statements of financial position of HK Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	500	500	500
Net assets	1,819	4,163	7,487
Net assets per ordinary share of RM1.00 each (RM)	3.64	8.33	14.97
Trade receivables' turnover period (days)	43	89	66
Trade payables' turnover period (days)	10	26	22
Inventories turnover periods (days)			
- Raw material	1	28	19
- Finished goods	5	11	15
Gearing ratio (times)	0.71	0.33	0.53

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.3 Statements of cash flows of HK Fibre

The statements of cash flows of HK Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	667	2,472	4,093
Adjustments for:			
Interest income	(9)	(15)	(17)
Gain on foreign exchange	0	0	(90)
Depreciation for property, plant and equipment	271	339	377
Loss/(Gain) on disposal of property, plant and equipment	#	0	0
Interest expense	51	65	148
Operating profit before working capital changes	979	2,861	4,511
(Increase)/Decrease in inventories	135	(379)	(26)
(Increase)/Decrease in trade and other receivables	(841)	(2,147)	(1,909)
Increase/ (decrease) in trade and other payables	(57)	661	(59)
	216	996	2,517
Interest paid	(51)	(65)	(148)
Tax paid	0	(96)	(653)
Net cash flow from operating activities	165	835	1,716

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.3 Statements of cash flows of HK Fibre (continued)

The statements of cash flows of HK Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment 9.8.9 (a)	(440)	(568)	(1,899)
Interest income	9	15	17
Proceeds from disposal of property, plant and equipment	14	0	0
Net changes in fixed deposit pledged to a licensed bank 9.8.12	(134)	(21)	322
Net cash flow used in investing activities	(551)	(574)	(1,560)
CASH FLOW FROM FINANCING ACTIVITIES			
Drawdown of term loan	750	100	1,300
Repayment of hire purchase payables	(43)	(69)	(136)
Repayment of term loan	(233)	(288)	(460)
Net cash flow from/(used in) financing activities	474	(257)	704
NET CHANGE IN CASH AND CASH EQUIVALENTS	88	4	860
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	(46)	42	46
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR 9.8.12 (d)	42	46	906

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.4 Statements of changes in equity of HK Fibre

The statements of changes in equity of HK Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

	Share capital RM'000	Distributable	Total RM'000
		Retained earnings RM'000	
At 1 January 2011	500	652	1,152
Effect of adoption of MFRS 1	0	0	0
Restated balance as at 1 January 2011	500	652	1,152
Profit for the financial year	0	667	667
Total comprehensive income	0	667	667
As at 31 December 2011	500	1,319	1,819

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.4 Statements of changes in equity of HK Fibre (continued)**

The statements of changes in equity of HK Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	Share capital RM'000	<u>Distributable</u> Retained earnings RM'000	Total RM'000
At 1 January 2012	500	1,319	1,819
Profit for the financial year	0	2,344	2,344
Total comprehensive income	0	2,344	2,344
At 31 December 2012	500	3,663	4,163
At 1 January 2013	500	3,663	4,163
Profit for the financial year	0	3,324	3,324
Total comprehensive income	0	3,324	3,324
At 31 December 2013	500	6,987	7,487

9.8.5 Revenue

Revenue represents invoiced value of goods sold net of returns and discounts.

9.8.6 Finance costs

	2011 RM'000	FYE 31 December 2012 RM'000	2013 RM'000
Bank charges	6	2	4
Interest on bank overdrafts	14	25	35
Interest on hire purchases	6	9	42
Interest on term loan	32	32	71
	<u>58</u>	<u>68</u>	<u>152</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.7 Profit before tax

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Profit before tax is arrived after charging:			
Audit fee	5	5	7
Bad debt written off	0	0	0
Depreciation of property, plant and equipment	271	339	377
Directors' remuneration			
- other emolument	0	0	0
Loss on disposal of property, plant and equipment	#	0	0
Rental	63	63	5
Staff cost	880	1,143	2,043
Interest expenses on:			
-bank overdraft	14	25	35
-hire purchase	6	9	42
-term loan	32	32	71
and crediting:			
Interest income	9	15	17

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.8 Tax (expense)/income

	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
The major components of the tax (income)/expense are:			
Current tax expense based on profit for the year	0	128	362
Underprovision of tax expense in prior year	0	0	157
	0	128	519
Deferred tax expense (Section 9.8.16)			
-relating to origination and reversal of temporary differences	0	0	64
-(over)/underprovision of deferred tax in respect of prior year	0	0	186
	0	0	769
Reconciliation of tax (income)/expense and accounting profit:			
Accounting profit before tax	667	2,472	4,093
Tax rate (%)	25	25	25
Tax at the applicable tax rate	167	618	1,023
Tax effects of:			
- exempted income	(196)	(4)	(25)
- expenses not deductible for tax purposes	29	86	42
- tax exempt income under pioneer status	0	(572)	(614)
Underprovision of tax expense in prior year	0	0	157
(Over)/Underprovision of deferred tax in respect of prior year	0	0	186
Tax (income)/expense for the financial year	0	128	769

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of shareholders. HK Fibre does not have any Section 108 tax credit and thus it will be automatically moved to the new single tier dividend system.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.9 Property, plant and equipment

	Balance as at 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Balance as at 31.12.2011 RM'000
2011				
At cost				
Container	18	0	0	18
Electrical installation	172	0	0	171
Furniture and fittings	6	0	0	6
Machinery and equipment	1,320	68	(27)	1,361
Motor vehicles	255	79	0	334
Office equipment	17	0	0	17
Renovation	509	349	0	858
Signboard	2	0	0	2
	2,299	496	(27)	2,767

	Balance as at 1.1.2011 RM'000	Current charge RM'000	Disposals RM'000	Balance as at 31.12.2011 RM'000
Accumulated depreciation				
Container	6	2	0	8
Electrical installation	56	17	0	73
Furniture and fittings	1	#	0	3
Machinery and equipment	433	136	(13)	555
Motor vehicles	124	60	0	184
Office equipment	5	1	0	5
Renovation	176	54	0	230
Signboard	#	#	0	#
	801	271	(13)	1,058

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.9 Property, plant and equipment (continued)

	Balance as at 1.1.2012 RM'000	Additions RM'000	Balance as At 31.12.2012 RM'000
2012			
At cost			
Container	18	0	18
Electrical installation	171	0	171
Furniture and fittings	6	0	6
Machinery and equipment	1,361	491	1,852
Motor vehicles	334	118	452
Office equipment	17	3	20
Renovation	858	50	908
Signboard	2	0	2
	<u>2,767</u>	<u>662</u>	<u>3,429</u>
	Balance as at 1.1.2012 RM'000	Current charge RM'000	Balance as at 31.12.2012 RM'000
2012			
Accumulated depreciation			
Container	8	2	10
Electrical installation	73	17	90
Furniture and fittings	3	#	3
Machinery and equipment	555	154	709
Motor vehicles	184	74	258
Office equipment	5	2	7
Renovation	230	90	320
Signboard	#	#	#
	<u>1,058</u>	<u>339</u>	<u>1,397</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.9 Property, plant and equipment (continued)

	Balance as at 1.1.2013 RM'000	Additions RM'000	Disposals RM'000	Balance as at 31.12.2013 RM'000
2013				
At cost				
Land	0	807	0	807
Container	18	0	0	18
Electrical installation	171	0	0	172
Furniture and fittings	6	0	0	6
Machinery and equipment	1,852	2,963	0	4,815
Motor vehicles	452	0	0	452
Office equipment	20	0	0	20
Renovation	908	158	0	1,066
Signboard	2	0	0	2
	<u>3,429</u>	<u>3,929</u>	<u>0</u>	<u>7,358</u>

	Balance as At 1.1.2013 RM'000	Current charge RM'000	Disposals RM'000	Balance as At 31.12.2013 RM'000
2013				
Accumulated depreciation				
Land	0	0	0	0
Container	10	2	0	12
Electrical installation	90	18	0	108
Furniture and fittings	3	#	0	4
Machinery and equipment	709	192	0	901
Motor vehicles	258	70	0	328
Office equipment	7	2	0	9
Renovation	320	93	0	413
Signboard	#	#	0	#
	<u>1,397</u>	<u>377</u>	<u>0</u>	<u>1,775</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.9 Property, plant and equipment (continued)

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Net carrying amount			
Land	0	0	807
Container	10	8	6
Electrical installation	98	81	64
Furniture and fittings	3	3	2
Machinery and equipment	806	1,143	3,914
Motor vehicles	150	194	124
Office equipment	12	13	11
Renovation	628	588	653
Signboard	2	2	2
	<u>1,709</u>	<u>2,032</u>	<u>5,583</u>

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.9 Property, plant and equipment (continued)**

- (a) During the financial year, HK Fibre made the following cash payments to purchase property, plant and equipment:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Purchase of property, plant and equipment	496	662	3,929
Financed by hire purchase arrangements	(56)	(94)	(2,030)
Cash payments on purchase of property, plant and equipment	440	568	1,899

- (b) The carrying amount of property, plant and equipment of HK Fibre acquired under hire purchase arrangements are as follows:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Motor vehicles	81	165	118
Machinery and equipment	0	0	2,818
	81	165	2,936

9.8.10 Inventories

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
At cost			
Raw Materials	4	254	152
Packing material	46	34	34
Finished goods	39	180	307
	89	468	493

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.11 Trade and other receivables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade receivables	532	2,343	2,245
Non-trade receivables	37	4	15
Amount owing by a fellow subsidiary company	373	537	2,775
Amount owing by a related party	68	0	0
Amount owing by holding company	63	62	53
Deposits	42	263	41
Prepayments	5	58	138
	<u>1,120</u>	<u>3,267</u>	<u>5,267</u>

(a) Trade receivables are non-interest bearing and are generally on 30 to 90 days. They are recognised at their original invoice amounts which represent their fair value on initial recognition.

(b) The ageing analysis of trade receivables of HK Fibre are as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

Neither past due nor impaired	354	920	2,235
Past due, not impaired			
1 to 30 days	161	646	10
31 to 60 days	#	467	0
61 to 90 days	2	285	0
> 120 days	15	25	0
	<u>178</u>	<u>1,423</u>	<u>10</u>
Total trade receivables	<u>532</u>	<u>2,343</u>	<u>2,245</u>

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.11 Trade and other receivables (continued)**Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with HK Fibre.

None of HK Fibre's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Trade receivables that are past due but not impaired

HK Fibre has trade receivables amounting to RM10,000 (2012:RM1,423,000 and 2011: RM178,000) that are past due at the reporting date but not impaired.

The management is confident that the amounts are recoverable as these accounts are still active.

(c) The currency exposure profile of receivables is as follows:

	← 2011 RM'000	As at 31 December 2012 RM'000	2013 RM'000 →
Ringgit Malaysia	755	2,737	5,201
US Dollar	0	530	66
Chinese Renmimbi	365	0	0
	1,120	3,267	5,267

(d) The amount owing by a fellow subsidiary company, a related party and holding company are unsecured, interest free and have no fixed terms of repayment.

(e) Information on financial risks of trade and other receivables are disclosed in Section 9.8.23 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.12 Cash and cash equivalents

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	463	484	162
Cash and bank balances	170	423	1,137
	<u>633</u>	<u>907</u>	<u>1,299</u>

- (a) Information on financial risks of cash and cash equivalents are disclosed in Section 9.8.23.
- (b) The fixed deposits are pledged as security for bank guarantee granted to the Company.
- (c) All cash and cash equivalents are denominated in RM.
- (d) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	463	484	162
Cash and bank balances	170	423	1,137
	<u>633</u>	<u>907</u>	<u>1,299</u>
Less: Fixed deposits pledged to licensed banks	(463)	(484)	(162)
Less: Bank overdrafts included in borrowings	(129)	(377)	(231)
	<u>41</u>	<u>46</u>	<u>906</u>

9.8.13 Share capital

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Authorised:			
Ordinary shares of RM1 each	<u>500</u>	<u>500</u>	<u>500</u>
Issued and fully paid:			
Ordinary shares of RM1 each	<u>500</u>	<u>500</u>	<u>500</u>

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.14 Trade and other payables**

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Trade payables	82	426	446
Non trade-payables	147	256	326
Amount owing to holding company		0	0
Amount owing to a fellow subsidiary company	0	0	0
Amount owing to a related party			
- trade	1	274	95
- non trade	0	0	0
Amount owing to Directors	125	0	0
Accruals	86	146	176
	<u>441</u>	<u>1,102</u>	<u>1,043</u>

- (a) Trade payables are non-interest bearing and the normal trade credit term granted to HK Fibre is 60 days.
- (b) The amount owing to Directors is non-trade in nature, unsecured, interest free and repayable on demand.
- (c) The amount owing to a related party is unsecured, interest free and has no fixed terms of repayment.
- The related party is a company incorporated in Malaysia, in which certain Directors of HK Fibre have significant and controlling financial interests.
- (d) Trade and other payables are denominated in RM.
- (e) Information on financial risks of trade and other payables are disclosed in section 9.8.23 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.15 Borrowings**

		← As at 31 December →		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Current liabilities				
Term loan	9.8.16	275	319	282
Hire purchase payables	9.8.17	47	52	399
Bank overdraft		129	377	231
		<u>451</u>	<u>748</u>	<u>912</u>
Non-current liabilities				
Term loan	9.8.16	807	575	1,452
Hire purchase payables	9.8.17	33	53	1,600
		<u>840</u>	<u>628</u>	<u>3,052</u>
Total borrowings				
Term loan	9.8.16	1,082	894	1,734
Hire purchase payables	9.8.17	80	105	1,999
Bank overdraft		129	377	231
		<u>1,291</u>	<u>1,376</u>	<u>3,964</u>

The currency profile of borrowings of HK Fibre is in RM.

9.8.16 Term loan

The bank borrowings are covered by way of the following:

- Facility Agreement to be stamped for RM770,000.
- Jointly and severally guaranteed by three Directors of HK Fibre.
- Fresh Syarikat Jaminan Pembiayaan Perniagaan Bhd (SJPP) guarantee of RM616,000 (80% of term loan limit).
- Fresh Specific Debenture for RM770,000 over machinery and equipment financed by the Bank for the manufacturing of palm fibre.

Information on financial risks of hire purchase liabilities is disclosed in Section 9.8.23 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.17 Hire purchase payables

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Representing hire purchase liabilities:			
- current	47	52	399
- non-current	33	53	1,600
	<u>80</u>	<u>105</u>	<u>1,999</u>
Hire purchase liabilities:			
Minimum hire purchase repayments:			
- Not later than one (1) year	52	58	528
- Later than 1 year and not later than five (5) years	35	55	1,813
	<u>87</u>	<u>113</u>	<u>2,341</u>
Future finance charges on hire purchase	(7)	(8)	(342)
Present value of hire purchase liabilities	<u>80</u>	<u>105</u>	<u>1,999</u>
Present value of hire purchase liabilities:			
- Not later than one (1) year	47	52	399
- Later than 1 year and not later than five (5) years	33	53	1,600
	<u>80</u>	<u>105</u>	<u>1,999</u>

Information on financial risk of hire purchase liabilities is disclosed in Section 9.8.23 to the financial statements.

9.8.18 Deferred taxation

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
As at 1 January	0	0	0
Recognised in profit or loss:			
-property, plant and equipment	0	0	64
-(over)/underprovision in respect of prior year	0	0	186
At 31 December	<u>0</u>	<u>0</u>	<u>250</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.19 Employee benefits

	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Salaries, wages and allowances	823	1,090	1,967
Contributions to defined contribution plan	44	39	54
Social security contributions	7	6	7
Other benefits	6	8	15
	<u>880</u>	<u>1,143</u>	<u>2,043</u>

9.8.20 Related party transaction

(a) Identities of related parties

Parties are considered to be related to HK Fibre if HK Fibre has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HK Fibre and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

HK Fibre has controlling related party relationship with its fellow subsidiaries companies and its holding company.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre(continued)****9.8.20 Related party transaction**

- (b) In addition to the transactions and balances detailed elsewhere in the financial statements, HK Fibre had the following transactions with related parties during the financial year:

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
<u>Purchase of products from a related party:</u>			
Heng Huat Manufacturer Sdn. Bhd.	0	614	0
<u>Sales of products to a related party:</u>			
Heng Huat Furniture Sdn. Bhd.	0	461	0
Heng Huat Manufacturer Sdn. Bhd.	0	1,040	0
HK Kitaran Sdn. Bhd.	0	0	4
<u>Sales of products to a fellow subsidiary company</u>			
Fiber Star (M) Sdn. Bhd.	0	1,244	3,552
<u>Sales commission paid to a fellow subsidiary company</u>			
-HK Mega Industries Sdn. Bhd. (Formerly known as HK Mega Trading Sdn. Bhd.)	0	0	0
<u>Holding company:</u>			
Management fee paid			
-Heng Huat Industries Holdings Sdn. Bhd.	90	120	120

The related party transactions described above were under taken on terms and conditions not materially different from those obtainable from transactions with unrelated parties.

Information regarding outstanding balances arising from related party transactions as at 31 December 2013 are disclosed in Sections 9.8.11 and 9.8.14 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.21 Financial instruments

(a) Capital management

The primary objective of HK Fibre's capital management is to ensure that HK Fibre would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of HK Fibre remains unchanged from that in the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Fibre manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HK Fibre may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Fibre is not subject to any externally imposed capital requirements.

HK Fibre monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. HK Fibre includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Borrowings	9.8.15	1,291	1,376	3,964
Trade and other payables	9.8.14	441	1,102	1,043
Total liabilities		1,732	2,478	5,007
Less: Cash and cash equivalents	9.8.12	(633)	(907)	(1,299)
Net debt		1,099	1,571	3,708
Equity		1,819	4,163	7,487
Net debt		1,099	1,571	3,708
Total capital		2,918	5,734	11,195
Gearing ratio		38%	27%	33%

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.22 Financial instruments (continued)

(b) Categories of financial instruments

		←	As at 31 December		→
			2011	2012	2013
			RM'000	RM'000	RM'000
Section					
Financial assets					
<i>Loans and receivables</i>					
Trade and other receivables (excludes deposits and prepayments)					
9.8.11			1,073	2,946	5,088
Cash and cash equivalents	9.8.12		633	907	1,299
			<u>1,706</u>	<u>3,853</u>	<u>6,387</u>
		←	As at 31 December		→
			2011	2012	2013
			RM'000	RM'000	RM'000
Financial liabilities					
<i>Other financial liabilities</i>					
Trade and other payables					
9.8.14			441	1,102	1,043
Borrowings	9.8.15		1,291	1,376	3,964
			<u>1,732</u>	<u>2,478</u>	<u>5,007</u>

(c) Determination of fair value

Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follow:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value

The carrying amount of financial assets and liabilities, such as trade and other receivables, trade and other payables and term loan, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

- (ii) Hire purchase payables

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of borrowing at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre(continued)****9.8.23 Financial risk management objectives and policies**

HK Fibre's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

HK Fibre operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the Company's financial risk management policies. HK Fibre is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(a) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is HK Fibre's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HK Fibre is exposed to minimal credit risk.

HK Fibre's primary exposure to credit risk arises through its trade receivables. HK Fibre trading terms with its customers normally requires deposits in advance. The credit period is generally for a period of one (1) month, extending up to three (3) months for major customers. Each customer has a maximum credit limit and HK Fibre seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Section 9.8.11 to the financial statements. Deposits with banks and other financial institutions, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Section 9.8.11.

(b) Liquidity and cash flow risk

HK Fibre actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HK Fibre measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance HK Fibre's activities.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.23 Financial risk management objectives and policies (continued)

(b) Liquidity and cash flow risk (continued)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of HK Fibre's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Trade and other payables	441	-	441
Borrowings	450	839	1,289
Total undiscounted financial liabilities	891	839	1,730

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Trade and other payables	1,102	0	1,102
Borrowings	748	628	1,376
Total undiscounted financial liabilities	1,850	628	2,478

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Trade and other payables	1,043	0	1,043
Borrowings	912	3,052	3,964
Total undiscounted financial liabilities	1,955	3,052	5,007

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre(continued)****9.8.23 Financial risk management objectives and policies (continued)****(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of HK Fibre's financial instruments will fluctuate because of changes in market interest rates.

HK Fibre's exposure to interest rate risk arises primarily from variable loans and borrowings. These interest-bearing borrowings are monitored to ensure HK Fibre enjoys competitive borrowing rates. Fixed deposits are placed at fixed rates and management endeavours to obtain the best rate available in the market.

As at the reporting date, HK Fibre does not engage any interest hedging instruments in respect of such interest rate fluctuations.

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Fibre's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2011					
Fixed rate					
Fixed deposits	9.8.12	3.15	463	0	463
Hire purchase payables	9.8.17	7.81	47	33	80
Floating rate					
Bank overdraft		8.35	128	0	128
Term loan	9.8.16	7.09	275	806	1,081

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre(continued)****9.8.23 Financial risk management objectives and policies (continued)****(c) Interest rate risk (continued)**

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Fibre's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2012					
Fixed rate					
Fixed deposits	9.8.12	3.15	484	0	484
Hire purchase payables	9.8.17	7.81	52	53	105
Floating rate					
Bank overdraft		8.35	376	0	376
Term loan	9.8.16	7.09	319	575	894

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2013					
Fixed rate					
Fixed deposits	9.8.12	3.15	162	0	162
Hire purchase payables	9.8.17	7.81	399	1600	1,999
Floating rate					
Bank overdraft		8.35	231	0	231
Term loan	9.8.16	7.09	282	1,452	1,734

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.8 HK Fibre(continued)**9.8.24 Adjustments and reclassifications****(d) Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at the reporting date, HK Fibre does not engage any foreign currency hedging instruments in respect of such foreign exchange fluctuations.

Transactional currency exposures arise from sales to East Asia customer. These sales are priced in RM but invoiced in the currencies of the customers involved.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of HK Fibre's profit net of tax to a reasonably possible change in the RMB and USD exchange rates against the functional currency of HK Fibre with all the other variables held constant.

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
RMB/RM - strengthen by 5%	62	0	0
- weaken by 5%	(62)	0	0
USD/RM - strengthen by 5%	0	26	3
- weaken by 5%	0	(26)	(3)

9.0 SUBSEQUENT EVENTS

There were no significant subsequent events between the date of the latest financial statements used in the preparation of this report and the date of this report which will affect materially the contents of this report.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

Yours faithfully

A handwritten signature in black ink that reads 'BDO'.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Ooi Thiam Poh'.

Ooi Thiam Poh
2495/01/16 (J)
Chartered Accountant

13. ACCOUNTANTS' REPORT *(Cont'd)*

Appendix 1

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP SDN. BHD.**

(Company No. 969678-D)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Resources Group Sdn. Bhd. which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 25 November 2011 (Date of incorporation) to 31 December 2011, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 46.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP SDN. BHD. (continued)
(Company No. 969678-D)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial period from 25 November 2011 (Date of incorporation) to 31 December 2011.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely representing the BDO firm.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, reading 'Koay Theam Hock'.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD
(Company No. 969678-D)
(Incorporated in Malaysia)**

Report on the Financial Statements

We have audited the financial statements of Heng Huat Resources Group Berhad which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 13 to 94.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD(continued)
(Company No. 969678-D)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD(continued)
(Company No. 969678-D)
(Incorporated in Malaysia)

Other Matters

As stated in Note 3 to the financial statements, Heng Huat Resources Group Berhad adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011 and 25 November 2011 for the Group and for the Company respectively. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011, 25 November 2011 and 1 January 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as at 31 December 2012 and financial performance and cash flows for the year then ended.

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be 'BDO'.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Koay Theam Hock'.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD**
(Company No. 969678-D)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Resources Group Berhad, which comprise statements of financial position as at 31 December 2013 of the Group and of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 103.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD (continued)

(Company No. 969678-D)

(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely belonging to a representative of BDO.

BDO

AF : 0206

Chartered Accountants

A stylized signature in black ink, likely belonging to Kay Theam Hock.

Kay Theam Hock

2141/04/15 (J)

Chartered Accountant

Penang

Dated : 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FIBRE STAR MARKETING SDN. BHD.**

(Company No. 973299-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star Marketing Sdn. Bhd. which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 29 December 2011 (Date of incorporation) to 31 December 2011, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 46.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FIBRE STAR MARKETING SDN. BHD. (continued)
(Company No. 973299-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial period from 29 December 2011 (Date of incorporation) to 31 December 2011.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in black ink.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD.**

(Company No. 973299-X)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star Marketing Sdn. Bhd. which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 49.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT *(Cont'd)*



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD. (continued)
(Company No. 973299-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 29 December 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 29 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 29 December 2011 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD.(continued)
(Company No. 973299-X)
(Incorporated in Malaysia)

Other Matters (continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature in black ink, likely belonging to a representative of BDO.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD.**
(Company No. 973299-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star Marketing Sdn. Bhd. which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 52.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD.(continued)
(Company No. 973299-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature in black ink, likely belonging to a representative of BDO.

BDO
AF : 0206
Chartered Accountants

Penang

Dated : 09 APR 2014

A handwritten signature in black ink, belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FIBRE STAR (M) SDN. BHD.**
(Company No. 973296-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star (M) Sdn. Bhd. which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 29 December 2011 (Date of incorporation) to 31 December 2011, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 46.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FIBRE STAR (M) SDN. BHD. (continued)
(Company No. 973296-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial period from 29 December 2011 (Date of incorporation) to 31 December 2011.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, written in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in a cursive, handwritten style.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.
(Company No. 973296-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star (M) Sdn. Bhd. which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 51.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.(continued)
(Company No. 973296-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 29 December 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 29 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 29 December 2011 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.(continued)
(Company No. 973296-M)
(Incorporated in Malaysia)

Other Matters (continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, appearing as a series of loops and curves.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Koay Theam Hock'.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



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Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.
(Company No. 973296-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star (M) Sdn. Bhd. which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 52.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.(continued)
(Company No. 973296-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely belonging to a representative of BDO.

BDO
AF : 0206
Chartered Accountants

A stylized signature in black ink, likely belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD.**
(Company No. 859511-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Palm Fibre Manufacturer Sdn. Bhd., which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 74.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD. (continued)
(Company No. 859511-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants
Penang

A handwritten signature of Koay Theam Hock, written in black ink.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Dated: 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD.**

(Company No. 859511-M)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Palm Fibre Manufacturer Sdn. Bhd., which comprise statement of financial position as at 31 December 2012, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 63.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements; whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD. (continued)
(Company No. 859511-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD. (continued)
(Company No. 859511-M)
(Incorporated in Malaysia)

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature in black ink, likely representing the BDO firm.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated: 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD.
(Company No. 859511-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Palm Fibre Manufacturer Sdn. Bhd., which comprise statement of financial position as at 31 December 2013, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 57.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD. (continued)
(Company No. 859511-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely belonging to a representative of BDO.

BDO
AF : 0206
Chartered Accountants

A stylized signature in black ink, likely belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated: 09 APR 2014

13. ACCOUNTANTS' REPORT (*Cont'd*)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK MEGA INDUSTRIES SDN. BHD.

(FORMERLY KNOWN AS HK MEGA TRADING SDN. BHD.)

(Company No. 776763-X)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Mega Industries Sdn. Bhd. (formerly known as HK Mega Trading Sdn. Bhd.) which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 60.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK MEGA INDUSTRIES SDN. BHD.

(FORMERLY KNOWN AS HK MEGA TRADING SDN. BHD.) (continued)

(Company No. 776763-X)

(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of a representative from BDO.

BDO

AF : 0206

Chartered Accountants

Penang

Dated : 30 APR 2012

A stylized signature of Koay Theam Hock.

Koay Theam Hock

2141/04/13 (J)

Chartered Accountant

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD.

(Company No. 776763-X)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Mega Industries Sdn. Bhd. which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 44.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD. (Continued)
(Company No. 776763-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD. (Continued)
(Company No. 776763-X)
(Incorporated in Malaysia)

Other Matters (Continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be 'BDO'.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Koay Theam Hock'.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD.
(Company No. 776763-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Mega Industries Sdn. Bhd. which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 41.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD. (Continued)
(Company No. 776763-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature in black ink, likely representing a BDO representative.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, identified as Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(FORMERLY KNOWN AS HK VISION SDN.BHD.)**

(Company No. 779222-P)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Industries Holdings Sdn. Bhd. (formerly known as HK Vision Sdn. Bhd.), which comprise the statements of financial position as at 31 December 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 92.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT *(Cont'd)*



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(FORMERLY KNOWN AS HK VISION SDN.BHD.)(Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(FORMERLY KNOWN AS HK VISION SDN.BHD.)(Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, consisting of a series of loops and curves.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(Company No. 779222-P)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Industries Holdings Sdn. Bhd., which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 49.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT *(Cont'd)*



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD. (Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD. (Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Other Matters (Continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be 'BDO'.

BDO
AF: 0206
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Koay Theam Hock'.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Date: 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(Company No. 779222-P)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Industries Holdings Sdn. Bhd., which comprise statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 46.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD. (Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely belonging to a representative of BDO.

BDO
AF: 0206
Chartered Accountants

A handwritten signature in black ink, identified as Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang,
Date: 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK KITARAN SDN. BHD.
(Company No. 881898-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Kitaran Sdn. Bhd., which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 76.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK KITARAN SDN. BHD. (continued)
(Company No. 881898-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in black ink.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD.
(Company No. 881898-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Kitaran Sdn. Bhd., which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 66.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD. (Continued)
(Company No. 881898-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT *(Cont'd)*



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD. (Continued)
(Company No. 881898-X)
(Incorporated in Malaysia)

Other Matters (Continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in black ink. The signature is fluid and cursive, with the first letter 'K' being particularly large and prominent.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 15 MAY 2013

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD.
(Company No. 881898-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Kitaran Sdn. Bhd., which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 62.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD. (continued)
(Company No. 881898-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, flowing script.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in a cursive style.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD.

(Company No. 765548-H)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Fibre Sdn. Bhd., which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 71.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD. (CONTINUED)
(Company No. 765548-H)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of the BDO firm, written in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in a cursive, handwritten style.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD.
(Company No. 765548-H)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Fibre Sdn. Bhd., which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 63.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD. (continued)
(Company No. 765548-H)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD. (continued)
(Company No. 765548-H)
(Incorporated in Malaysia)

Other Matters (continued)

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be 'BDO' with a stylized flourish.

BDO
AF : 0206
Chartered Accountants

Penang

Dated : 06 JUN 2013

A handwritten signature in black ink, appearing to be 'Koay Theam Hock' with a stylized flourish.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD.**
(Company No. 765548-H)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Fibre Sdn. Bhd., which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 59.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD. (continued)
(Company No. 765548-H)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

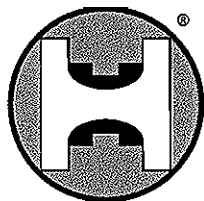
Penang

Dated : 09 APR 2014

A handwritten signature of Koay Theam Hock, written in a cursive style.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

14. DIRECTORS' REPORT



HENG HUAT RESOURCES GROUP BERHAD

(Company No. 969678-D)

Lot. 2945 (Plot A2) Jalan Sungai Baong, Kawasan Perindustrian Perabot, Sungai Baong, Mukim 5
14200 Sungai Bakap, Seberang Perai Selatan, Pulau Pinang, Malaysia.
Tel: 604-582 5888, Fax: 04-582 1888

Date: 18 JUNE 2014

Registered Office:
51-9-A, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang

The shareholders of Heng Huat Resources Group Berhad ("Heng Huat" or "Company")

Dear Sirs/Madams

On behalf of the Board of Directors of Heng Huat, I report after due and careful enquiry that during the period from 31 December 2013 (being the date to which the last audited financial statements of our Company and subsidiary companies ("Group") have been made) up to the date of this letter (being a date not earlier than 14 days before the issuance of this Prospectus):

- (i) the business of our Group have, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of our Group which have adversely affected the trading or the value of the assets of our Group;
- (iii) the current assets of our Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) there are no material contingent liabilities by reason of any guarantee or indemnities given by our Group;
- (v) since the last audited financial statements of our Group, there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of our Group; and
- (vi) since the last audited financial statements of our Group and save as disclosed in the Accountants' Report enclosed in this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of our Group.

Yours faithfully

For and on behalf of the Board of Directors
HENG HUAT RESOURCES GROUP BERHAD


H'NG CHOON SENG
MANAGING DIRECTOR

15. ADDITIONAL INFORMATION

15.1 SHARE CAPITAL

- (i) No securities will be allotted or issued on the basis of this Prospectus later than twelve (12) months after the date of this Prospectus.
- (ii) None of the capital of our Company or our subsidiary companies are under option or agreed conditionally or unconditionally to be put under option.
- (iii) There is no scheme involving our employees in the capital of our Company or our subsidiary companies.
- (iv) Save as disclosed in Section 8.1 of this Prospectus, there are no other persons who are able to, directly or indirectly, jointly or severally, exercise control over our Company or our subsidiary companies.
- (v) There is no limitation on the right to own securities, including limitations on the right of non-resident or foreign shareholders to hold or exercise voting rights on our Shares imposed by the applicable Malaysian law or by our Memorandum and Articles of Association.

15.2 ARTICLES OF ASSOCIATION

The following provisions relate to the remuneration of directors, voting and borrowing powers of directors, transfer of securities and changes in capital and variation of class rights as reproduced from our Articles of Association ("Articles"). The words and expressions appearing in the following provisions shall bear the same meaning used in our Articles unless they are otherwise defined here or the context otherwise requires:

(i) Remuneration of Directors

90. Directors' Remuneration

The fees payable to the Directors shall from time to time be determined by an Ordinary Resolution of the Company in general meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree Provided Always that:-

- (a) *salaries payable to executive Director(s) may not include a commission on or percentage of turnover;*
- (b) *fees payable to non-executive Directors shall be a fixed sum and not by a commission on or percentage of profits or turnover;*
- (c) *any fee paid to an alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter; and*
- (d) *fees payable to Directors shall not be increased except pursuant to an Ordinary Resolution passed at a general meeting, where notice of the proposed increase has been given in the notice convening the meeting.*

15. ADDITIONAL INFORMATION (Cont'd)**91. Reimbursement of expenses**

- (1) *The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending board meetings of the Company.*
- (2) *If by arrangement with the Directors, any Director shall perform or render any special duties or services outside his ordinary duties as a Director in particular without limiting to the generality of the foregoing if any Director being willing shall be called upon to perform extra services or to make any special efforts in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Company may remunerate the Director so doing a special remuneration in addition to his Director's fees and such special remuneration may be by way fixed sum or otherwise as may be arranged.*

(ii) Voting Powers and Borrowing Powers of Directors**109. Disclosure of Interest & Restriction on Discussion and Voting**

Every Director shall declare his interest in the Company and his interest in any contract or proposed contract with the Company as may be required by law. Subject to Section 131A of the Act, a Director shall not participate in any discussion or vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly an interest and if he shall do so his vote shall not be counted. A Director shall, notwithstanding his interest, be counted in the quorum for any meeting where a decision is to be taken upon any contract or proposed contract or arrangement in which he is in any way interested.

110. Power to vote

Subject to Article 109, a Director may vote in respect of:-

- (a) *any arrangement for giving the Director himself or any other Director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company or any of its subsidiaries; or*
- (b) *any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of security.*

94. Directors' borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or its subsidiaries.

15. ADDITIONAL INFORMATION (Cont'd)**(iii) Transfer of Securities****23. Transfer of shares**

The transfer of any listed security or class of any listed security of the Company, shall be by way of book entry by Bursa Depository in accordance with the Rules of Bursa Depository and, notwithstanding sections 103 and 104 of the Act, but subject to section 107C(2) of the Act and any exemption that may be made from compliance with section 107C(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the listed securities.

24. Transferor's Right

Subject to any written law, the instrument of transfer of any security that is not deposited with Bursa Depository shall be in writing and in any usual or common form or in any other form which the Directors may approve. The instrument of transfer shall be executed by or on behalf of the transferor and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register of Members thereof.

25. Deposited Security

Bursa Depository may refuse to register any transfer of the Deposited Security that does not comply with the Central Depositories Act and the Rules of Bursa Depository.

26. No liability for fraudulent transfer

Neither the Company nor its Directors nor any of its officers shall incur any liability for any transfer of shares apparently made by sufficient parties, although the same may, by reason of any fraud or other cause not known to the Company or its Directors or other officers be legally inoperative or insufficient to pass the property in the shares proposed or professed to be transferred and although transferred, the transfer may, as between the transferor and transferee be liable to be set aside and notwithstanding that the Company may have notice of such transfer. And in every such case, the transferee, his executors, administrators and assignees alone shall be entitled to be recognised as the holder of such shares and the previous holder shall so far as the Company is concerned, be deemed to have transferred his whole title hereto.

27. No transfer to infant, bankrupt or person of unsound mind

No shares shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

28. Renunciation

Subject to the provisions of these Articles, the Directors may recognise a renunciation of any shares by the allottee thereof in favour of some other persons.

29. Suspension of registration

The registration of transfer may be suspended at such times and for such periods as the Directors may from time to time determine not exceeding in the whole thirty (30) days in any year. At least Ten (10) market days' notice of intention to close the Register shall be published in a daily newspaper circulating in Malaysia and shall also be given to Bursa Securities. The said notice shall state the reason for which the Register is being closed. At least three (3) market days before the notice shall be given to Bursa Depository to prepare the appropriate Record of Depositors.

15. ADDITIONAL INFORMATION (Cont'd)**30. Death of Member**

In the case of the death of a Member, the legal representatives of the deceased shall be the only person recognised by the Company as having any title to his interest in the shares but nothing herein contained shall release the estate of the deceased Member from any liability in respect of the shares which had been held by the deceased Member.

31. Share of deceased or bankrupt Member

Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member may, upon such evidence being produced as may from time to time properly be required by the Directors and subject as hereinafter provided, elect either to be registered himself as holder of the share or to have a person nominated by him registered as the transferee thereof, but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy.

32. Notice of election

If the person so becoming entitled elects to be registered himself, he shall deliver or send to the Company, a notice in writing signed by him stating that he so elects. If he elects to have another person registered, he shall testify his election by executing to that person a transfer of the shares. All the limitations, restrictions and provisions of these Articles relating to the rights to transfer shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by that Member.

(iv) Changes in Capital and Variation of Class Rights**4. Allotment of shares**

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares and subject to the provisions of these Articles, the Central Depositories Act, any other requirements of the Securities Commission, the Act and to the provisions of any resolution of the Company, shares in the Company for the time being unissued (whether forming part of the original capital or of any increase in capital) are under the control of the Directors who may issue, allot or otherwise dispose of such shares to such persons, on such terms and conditions, with such preferred, deferred or other special rights and subject to such restrictions and at such times as the Directors may determine but the Directors in making any issue of shares shall comply with the following conditions:-

- (a) no shares shall be issued at a discount except in compliance with the provisions of Section 59 of the Act;*
- (b) in the case of shares other than ordinary shares, no special rights shall be attached until the same have been expressed in these Articles and in the resolution creating the same;*
- (c) no shares shall be issued which shall have the effect of transferring a controlling interest in the Company without the prior approval of the Members in general meeting;*

15. ADDITIONAL INFORMATION (Cont'd)

- (d) every issue of shares or options to employees and/or Directors of the Company and its subsidiaries under an Employee Share Option Scheme shall be approved by the Members in general meeting; and
- (e) no Director shall participate in a Share Issuance Scheme unless the Members in a general meeting have approved the specific allotment to be made to such Director.

5. Rights of preference shareholders

- (1) Subject to the Act, Securities Laws and any other requirements of the Commission, any preference shares may with the sanction of an Ordinary Resolution be issued on the terms that they are or at the option of the Company are liable to be redeemed and the Company shall not issue preference shares ranking in priority over preference shares already issued but may issue preference shares ranking equally therewith.
- (2) A holder of preference shares must have a right to vote in each of the following circumstances:-
 - (a) when the dividend or part of the dividend on the share is in arrears for more than six (6) months;
 - (b) on a proposal to reduce the Company's share capital;
 - (c) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
 - (d) on a proposal that affects the rights attached to the preference shares;
 - (e) on a proposal to wind up the Company; and
 - (f) during the winding up of the Company.
- (3) A holder of preference shares must be entitled to the same rights as a holder of ordinary shares in relation to receiving notices, reports, audited financial statements and attending meetings.

6. Repayment of preference capital

Notwithstanding Article 5, the repayment of preference capital other than redeemable preference capital or any alteration of preference shareholders' rights shall only be made pursuant to a Special Resolution of the preference shareholders concerned PROVIDED ALWAYS that where the necessary majority for such a Special Resolution is not obtained at the meeting, consent in writing obtained from the holders of three fourths (3/4) of the preference capital concerned within two (2) months of the meeting shall be as valid and effectual as a Special Resolution carried at the meeting.

15. ADDITIONAL INFORMATION (Cont'd)

7. *Modification of class rights*

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied or abrogated with the consent in writing of the holders of three fourths (3/4) of the issued shares of that class or with the sanction of a Special Resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of these Articles relating to general meetings shall mutatis mutandis apply so that the necessary quorum shall be two (2) persons at least holding or representing by proxy one-third (1/3) of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll. To every such Special Resolution the provisions of Section 152 of the Act shall apply with such adaptations as are necessary.

8. *Alteration of rights by issuance of new shares*

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall, unless otherwise expressly provided by the terms of issue of the shares of that class be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects pari passu therewith.

48. *Power to increase capital*

Subject to the provisions of the Securities Laws, the Company may from time to time, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued shall have been fully called up or not, by Ordinary Resolution increase its share capital by the creation and issue of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital or otherwise as the Company by the resolution authorising such increase may direct.

49. *Offer of new shares*

Subject to any direction to the contrary that may be given by the Company in general meeting, all new shares or other convertible securities of whatever kind for the time being unissued and not allotted and any new shares or securities from time to time to be created shall, before they are issued, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled. The offer shall be made by notice specifying the number of shares or securities offered and limiting a time within which the offer, if not accepted shall be deemed to be declined and after the expiration of that time or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may also dispose of any new shares or securities which (by reason of the ratio which the new shares or securities bear to the shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered under this Article.

15. ADDITIONAL INFORMATION (Cont'd)

50. Ranking of new shares

Except so far as otherwise provided by the conditions of issue in these Articles, any share capital raised by the creation of new shares shall be considered as part of the original share capital of the Company and shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the original share capital.

51. Power to alter capital

The Company may by Ordinary Resolution and subject to the Securities Laws:-

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;*
- (b) subdivide its share capital or any part thereof into shares of smaller amount than is fixed by the Memorandum of Association of the Company by subdivision of its existing shares or any of them, subject nevertheless to the provisions of the Act and so that as between the resulting shares, one (1) or more of such shares may, by the resolution by which such subdivision is effected, be given any preference or advantage as regards dividend, return of capital, voting or otherwise over the others or any other of such shares;*
- (c) cancel shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the amount of the shares so cancelled; and*
- (d) subject to the provisions of these Articles and the Act, convert and/or re-classify any class of shares into any other class of shares.*

52. Power to reduce capital

The Company may by Special Resolution, subject to the Securities Laws, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner authorised by the Act and subject to any consent required by law.

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15. ADDITIONAL INFORMATION (Cont'd)**15.3 MATERIAL CONTRACTS**

Save as disclosed below, there are no material contracts (including contracts not in writing), not being contracts in the ordinary course of business, that have been entered into by our Group within the two (2) years preceding the date of this Prospectus:

On 27 June 2014, Heng Huat entered into an Underwriting Agreement with Kenanga IB for the underwriting of 7,000,000 Public Issue Shares for an underwriting commission of 2.50% of the total value of the underwritten Shares at the IPO Price.

15.4 MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, neither we nor our subsidiary companies are engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, including any proceedings pending or threatened against our Company or our subsidiary companies, or of any fact likely to give rise to any proceeding which may materially and adversely affect our financial position or business.

15.5 REPATRIATION OF CAPITAL AND REMITTANCE OF PROFIT

As our Group does not physically operate in other countries, there is no governmental law, decree, regulation or other requirement which may affect the repatriation of capital and the remittance of profit by or to our Group.

15.6 PUBLIC TAKE-OVER OFFERS

None of the following has occurred in the last financial year or the current financial year up to the LPD:

- (i) Public take-over offers by third parties for our Shares; and
- (ii) Public take-over offers by our Company for other companies' shares.

15.7 CONSENTS

The written consents of our Adviser, Sponsor, Underwriter and Placement Agent, Corporate Finance Adviser, Solicitors, Principal Bankers, Issuing House, Share Registrar and Company Secretary for inclusion in this Prospectus of their names and all references thereto in the manner, form and context in which their names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn.

The written consent of the Auditors and Reporting Accountants for the inclusion of its name, Accountants' Report, Letter on Pro forma Consolidated Financial Information of Heng Huat and all references thereto in the manner, form and context in which they appear in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of the Independent Market Researcher for the inclusion in this Prospectus of its name and Executive Summary of the Independent Market Research Report and all references thereto in the manner, form and context in which they appear in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

15. ADDITIONAL INFORMATION (Cont'd)**15.8 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected at our Registered Office during normal business hours for a period of twelve (12) months from the date of this Prospectus:

- (i) Memorandum and Articles of Association of our Company;
- (ii) Material contracts as referred to in Section 15.3 of this Prospectus;
- (iii) Reporting Accountants' Letter on the Pro forma Consolidated Financial Information as included in Section 11.5 of this Prospectus;
- (iv) Accountants' Report as included in Section 13 of this Prospectus;
- (v) Independent Market Research Report referred to in this Prospectus and the Executive Summary thereof as included in Section 7 of this Prospectus;
- (vi) Directors' Report as included in Section 14 of this Prospectus;
- (vii) Audited financial statements of:-
 - (a) Heng Huat for the financial period from 25 November 2011 (date of incorporation) to 31 December 2011, FYE 31 December 2012 and 2013;
 - (b) Fibre Star for the financial period from 29 December 2011 (date of incorporation) to 31 December 2011, FYE 31 December 2012 and 2013;
 - (c) Fibre Star Marketing for the financial period from 29 December 2011 (date of incorporation) to 31 December 2011, FYE 31 December 2012 and 2013;
 - (d) HH Industries for the past three (3) FYE 31 December 2011 to 2013;
 - (e) HK Fibre for the past three (3) FYE 31 December 2011 to 2013;
 - (f) HK Kitaran for the past three (3) FYE 31 December 2011 to 2013;
 - (g) HK Mega for the past three (3) FYE 31 December 2011 to 2013; and
 - (h) HK Palm Fibre for the past three (3) FYE 31 December 2011 to 2013.
- (viii) Letters of consent as referred to in Section 15.7 of this Prospectus.

15.9 RESPONSIBILITY STATEMENT

Our Directors, Promoters and Offeror 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 are no false or misleading statement or other facts the omission of which would make any statement herein false or misleading.

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.

WYNCORP Advisory Sdn Bhd, being our Corporate Finance Adviser, 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.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE**16.1 OPENING AND CLOSING OF APPLICATION**

Application for our IPO Shares will open at 10.00 a.m. on 30 June 2014 and will remain open until 5.00 p.m. on 16 July 2014 or such later date or dates as our Board, Promoters and Offeror, together with Kenanga IB, may mutually decide at their absolute discretion. 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.**

16.2 ELIGIBILITY

You can only apply for our IPO Shares if you fulfil **all** of the following:

- (i) You must have a CDS account. If you do not have a CDS account, you may open one by contacting any of the ADAs listed in Section 16.14 of this Prospectus;
- (ii) You must be **one** of the following:
 - (a) A Malaysian citizen with a Malaysian address who is at least 18 years old as at the closing date of the application; or
 - (b) A corporation/ institution incorporated in Malaysia with a Malaysian address; or
 - (c) A superannuation, co-operative, foundation, provident or pension fund established or operating in Malaysia.

We will not accept applications from trustees, persons under 18 years of age, sole proprietorships, partnerships or other incorporated bodies or associations, other than corporations / institutions referred to in (b) or (c) above; and

- (iii) You are not a director or employee of Equiniti or their immediate family members.

16.3 CATEGORY OF INVESTORS

Application for our IPO Shares must be made using the method designated for each of the four categories of investors as follows:

Category of investors	Application Method
Malaysian Public (for individuals)	White Application Form or Electronic Share Application ⁽¹⁾ or Internet Share Application ⁽²⁾
Malaysian Public (for non-individuals, e.g. corporations, institutions, etc.)	White Application Form
Eligible employees and persons who have contributed to the success of the Group	Pink Form
Selected investors via private placement	Separate letters/forms delivered to the respective investors

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Note:

(1) *The following processing fee per ESA will be charged by the respective Participating Financial Institutions:*

- *Affin Bank Berhad – No fee will be charged for application by their account holders;*
- *AmBank (M) Berhad – RM1.00;*
- *CIMB Bank Berhad – RM2.50;*
- *HSBC Bank Malaysia Berhad – RM2.50;*
- *Malaysia Banking Berhad – RM1.00;*
- *Public Bank Berhad – RM2.00;*
- *RHB Bank Berhad – RM2.50; or*
- *Standard Chartered Bank Malaysia Berhad (at selected branches only) – RM2.50.*

(2) *The following processing fee per ISA will be charged by the respective Internet Participating Financial Institution:*

- *Affin Bank Berhad (www.affinOnline.com) - No fee will be charged for application by their account holders;*
- *Affin Investment Bank Berhad (www.affinTrade.com) – No fee will be charged for application by their account holders;*
- *CIMB Investment Bank Berhad (www.eipocimb.com) – RM2.00 for payment via CIMB Bank Berhad or via Malayan Banking Berhad;*
- *CIMB Bank Berhad (www.cimbclicks.com.my) - RM2.00 for applicants with CDS Accounts held with CIMB Investment Bank Berhad and RM2.50 for applicants with CDS Accounts with other ADAs;*
- *Malayan Banking Berhad (www.maybank2u.com.my) – RM1.00;*
- *RHB Bank Berhad (www.rhbbank.com.my) – RM2.50; or*
- *Public Bank Berhad (www.pbebank.com) – RM2.00.*

16.4 PROCEDURES FOR APPLICATION

Only one application from each applicant will be considered and an application must be for at least 100 Shares or multiples thereof. **Multiple applications will not be accepted.** If you submit multiple applications in your own name or by using the name of others, with or without their consent, you commit an offence under Section 179 of the CMSA and if convicted, may be punished with a minimum fine of RM1 million and a jail term of up to 10 years under Section 182 of the CMSA.

16.5 PROCEDURES FOR APPLICATION BY WAY OF AN APPLICATION FORM

The public, the identified investors and other investors should follow the following procedures in making an application:

Step 1: Obtain application documents

Obtain the Application Form together with the Official 'A' and 'B' envelopes and this Prospectus. These documents can be obtained subject to availability from the following parties:

- (a) Kenanga IB;
- (b) Participating organisations of Bursa Securities;
- (c) Members of the Association of Banks in Malaysia;
- (d) Members of the Malaysian Investment Banking Association; and
- (e) Equiniti.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**Step 2: Read the Prospectus**

In accordance with Section 232(2) of the CMSA, the Application Form is accompanied by this Prospectus. You are advised to read and understand this Prospectus before making your application.

Step 3: Complete the Application Form

Complete the relevant Application Form legibly and **STRICTLY** in accordance with the notes and instructions printed on it and in this Prospectus.

(i) Personal particulars

You must ensure that your personal particulars submitted in your application are identical with the records maintained by Bursa Depository. Please inform Bursa Depository promptly of any changes to your personal particulars.

If you are an individual and you are not a member of the armed forces or police, your name and national registration identity card ("NRIC") number or passport number must be the same as that stated in:

- (a) your NRIC/passport;
- (b) any valid temporary identity document issued by the National Registration Department from time to time; or
- (c) your 'Rcsit Pengenalan Sementara (KPPK 09)' issued pursuant to Peraturan 5(5), Peraturan-peraturan Pendaftaran Negara 1990.

If you are a member of the armed forces or police, your name and your armed forces or police personnel number, as the case may be, must be the same as that stated in your authority card.

If you are a corporation/institution, your name and incorporation number must be the same as that stated in your certificate of incorporation.

(ii) CDS account number

You must state your CDS account number in the space provided in the Application Form. Invalid, nominee or third party CDS accounts will **not** be accepted.

(iii) Details of payment

You must state the details of your payment in the appropriate boxes provided in the Application Form.

(iv) Number of Shares applied

Your application must be for at least 100 Shares or multiples thereof.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**Step 4: Prepare appropriate form of payment**

Prepare the correct form of payment in RM for the FULL amount payable for our IPO Shares based on the IPO Price, which is RM0.45 per Share.

Payment must be made in favour of **EQSB SHARE ISSUE ACCOUNT NO. 655** and crossed '**A/C PAYEE ONLY**' (excluding ATM statements) and endorsed on the reverse side with your name and address. We only accept the following forms of payment:

- (i) banker's draft or cashier's order purchased within Malaysia only and drawn on a bank in Kuala Lumpur;
- (ii) money order or postal order (for applicants from Sabah and Sarawak only);
- (iii) Guaranteed Giro Order ("GGO") from Bank Simpanan Nasional Malaysia Berhad; or
- (iv) ATM statement obtained only from any of the following financial institutions:
 - Alliance Bank Malaysia Berhad;
 - Hong Leong Bank Berhad;
 - Malayan Banking Berhad; or
 - RHB Bank Berhad.

We will not accept applications with excess or insufficient remittances or inappropriate forms of payment.

Step 5: Finalise application

Insert the Application Form with the appropriate payment and a legible photocopy of your identification document (NRIC/passport/valid temporary identity document issued by the National Registration Department/'Resit Pengenalan Sementara (KPPK 09)'/authority card/certificate of incorporation) into the Official 'A' envelope and seal it. Write your name and address on the outside of the Official 'A' and 'B' envelopes. The name and address written must be identical to your name and address as per your NRIC/passport/valid temporary identity document issued by the National Registration Department/'Resit Pengenalan Sementara (KPPK 09)'/authority card/certificate of incorporation. Affix a stamp on the Official 'A' envelope and insert the Official 'A' envelope into the Official 'B' envelope.

Step 6: Submit application

You can submit your application in the Official 'B' envelope by either one of the following methods:

- (a) despatch by **ORDINARY POST** to:
Equiniti Services Sdn Bhd (11324-H)
Level 8, Menara MIDF
82, Jalan Raja Chulan
50200 Kuala Lumpur
P.O.BOX 11122
50736 Kuala Lumpur; or
- (b) **DELIVERY BY HAND** and deposited in the Drop-in Boxes provided at Ground Floor, Menara MIDF, 82 Jalan Raja Chulan, 50200 Kuala Lumpur.

so as to arrive not later than 5.00 p.m. on 16 July 2014 or such later date or dates as our Board, Promoters and Offeror, together with Kenanga IB, may mutually decide at their absolute discretion.

No acknowledgement of receipt of Application Form or application monies will be made.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**16.6 PROCEDURES FOR APPLICATION BY WAY OF AN ELECTRONIC SHARE APPLICATION (FOR INDIVIDUAL MALAYSIAN PUBLIC ONLY)**

Applications for our IPO Shares by way of ESA are only applicable to Malaysian public who are individuals. Please read carefully and follow the terms of this Prospectus, the procedures, terms and conditions for ESA and the procedures set out on the ATM screens of the Participating Financial Institution before making an ESA.

16.6.1 Steps for ESA through a Participating Financial Institution's ATM

You may apply for our IPO Shares *via* the ATM of the Participating Financial Institution by choosing the ESA option. Mandatory statements required for the application are set out in Section 16.6.3 below. You are to enter at least the following information through the ATM where the instructions on the ATM screen at which you enter your ESA require you to do so:

- Personal Identification Number ("PIN");
- EQSB Share Issue Account Number 655;
- CDS Account Number;
- Number of IPO Shares applied for and/or the RM amount to be debited from the account; and
- Confirmation of several mandatory statements.

16.6.2 Participating Financial Institutions

ESA may be made through an ATM of the following Participating Financial Institutions and their branches:

- Affin Bank Berhad;
- AmBank (M) Berhad;
- CIMB Bank Berhad;
- HSBC Bank Malaysia Berhad;
- Malayan Banking Berhad;
- Public Bank Berhad;
- RHB Bank Berhad; or
- Standard Chartered Bank Malaysia Berhad (at selected branches only).

16.6.3 Terms and conditions of Electronic Share Application

The procedures for ESA are set out on the ATM screens of the relevant Participating Financial Institutions ("Steps"). For illustration purposes, the procedures for ESA at ATMs are set out in Section 16.6.1 above. The Steps set out the actions that you must take at the ATM to complete an ESA. Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for ESA set out below before making an ESA.

You must have a CDS Account to be eligible to utilise the facility. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted. You must have an existing account with, and be an ATM cardholder of, one of the Participating Financial Institutions before you can make an ESA. An ATM card issued by one of the Participating Financial Institutions cannot be used to apply for our IPO Shares at an ATM belonging to other Participating Financial Institutions. Upon the completion of your ESA transaction, you will receive a computer-generated transaction slip ("Transaction Record") confirming the details of your ESA. The Transaction Record is only a record of the completed transaction at the ATM and not a record of the receipt of the ESA or any data relating to such an ESA by our Company or Equiniti. You must retain the Transaction Record and should not submit the Transaction Record with any Application Form.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Upon the closing for the application for our IPO Shares on 16 July 2014 at 5.00 p.m. or such later date or dates as our Board, Promoters and Offeror, together with Kenanga IB, in their absolute discretion may mutually decide ("Closing Date and Time"), the Participating Financial Institutions shall submit magnetic tapes containing their respective customers' applications for our IPO Shares to Equiniti as soon as practicable but not later than 12.00 p.m. of the 2nd business day after the Closing Date and Time.

You are allowed to make an ESA for our IPO Shares *via* an ATM that accepts the ATM cards of the Participating Financial Institution with which you have an account at one of its branches, subject to you making only one application.

You must ensure that you use your own CDS account number when making an ESA. If you have a joint account with any Participating Financial Institution, you must ensure that you enter your own CDS account number when using an ATM card issued to you in your own name. Your application will be rejected if you fail to comply with the foregoing.

The ESA shall be made on, and subject to, the above terms and conditions as well as the terms and conditions appearing below:

- (i) The ESA shall be made in connection with and subject to the terms of this Prospectus and our Memorandum and Articles of Association.
- (ii) You are required to confirm the following statements (by pressing predesignated keys (or buttons) on the ATM keyboard) and undertake that the following information given are true and correct:
 - You have attained 18 years of age as at the closing date of the share application;
 - You are a Malaysian citizen residing in Malaysia;
 - You have read this Prospectus and understood and agreed with the terms and conditions of this application;
 - This is the only application that you are submitting; and
 - You hereby give consent to the Participating Financial Institution and Bursa Depository to disclose information pertaining to you and your account with the Participating Financial Institution and Bursa Depository to Equiniti or other relevant regulatory bodies.

The application will not be successfully completed and cannot be recorded as a completed transaction at the ATM unless you complete all the Steps required by the Participating Financial Institution. By doing so, you shall be treated as signifying your confirmation of each of the above statements as well as giving consent in accordance with the relevant laws of Malaysia including Section 97 of the Banking and Financial Institutions Act, 1989 and Section 45 of the Central Depositories Act to the disclosure by the relevant Participating Financial Institution or Bursa Depository, as the case may be, of any of your particulars to Equiniti, or any relevant regulatory bodies.

- (iii) You confirm that you are not applying for our IPO Shares as a nominee of any other person and that any ESA that you make is made by you as the beneficial owner. You shall only make one ESA and shall not make any other application for our IPO Shares, whether at the ATMs of any Participating Financial Institution or on the prescribed Application Forms.
- (iv) You must have sufficient funds in your account with the relevant Participating Financial Institution at the time you make your ESA, failing which your ESA will not be completed. Any ESA, which does not strictly conform to the instructions set out on the screens of the ATM through which the ESA is being made, will be rejected.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- (v) You agree and undertake to subscribe for or purchase and to accept the number of IPO Shares applied for as stated on the Transaction Record or any lesser number of IPO Shares that may be allotted or allocated to you in respect of your ESA. In the event that we decide to allot or allocate any lesser number of such IPO Shares or not to allot or allocate any IPO Shares to you, you agree to accept any such decision as final. If your ESA is successful, your confirmation (by your action of pressing the designated key on the ATM) of the number of IPO Shares applied for shall signify, and shall be treated as, your acceptance of the number of IPO Shares that may be allotted or allocated to you and to be bound by our Memorandum and Articles of Association.

- (vi) Equiniti, on the authority of our Directors, reserves the right to reject any ESA or accept any ESA in part only without assigning any reason therefor. Due consideration will be given to the desirability of allotting or allocating our IPO Shares to a reasonable number of applicants with a view to establishing an adequate market for our Shares.

- (vii) If your ESA is not accepted or accepted in part only, the relevant Participating Financial Institution will be informed of the non-successful or partially successful application within two (2) Market Days after the balloting date. If your ESA is not successful, the relevant Participating Financial Institution will credit the full amount of the application monies without interest into your account with that Participating Financial Institution within two (2) Market Days after the receipt of confirmation from Equiniti. You may check your account on the fifth (5th) Market Day from the balloting date.

If your ESA is accepted in part only, the relevant Participating Financial Institution will credit the balance of the application monies without interest into your account with that Participating Financial Institution within two (2) Market Days after the receipt of confirmation from Equiniti. A number of applications will, however, be held in reserve to replace any successfully balloted applications, which are subsequently rejected. For such applications which are subsequently rejected, the application monies without interest will be refunded to you by Equiniti by crediting into your account with the Participating Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti.

Should you encounter any problems with your application, you may refer to the Participating Financial Institutions.

- (viii) You request and authorise us:

- (a) to credit our IPO Shares allotted or allocated to you into your CDS account; and
- (b) to issue share certificate(s) representing such IPO Shares allotted or allocated in the name of Bursa Malaysia Depository Nominees Sdn Bhd and send the same to Bursa Depository.

- (ix) You acknowledge that your ESA is subject to risks of electrical, electronic, technical and computer-related faults and breakdowns, fires and other events beyond our control, Equiniti or the Participating Financial Institution and irrevocably agree that if:

- (a) our Company or Equiniti did not receive your ESA; and
- (b) data relating to your ESA is wholly or partially lost, corrupted or not otherwise accessible, or not transmitted or communicated to us or Equiniti, you shall be deemed not to have made an ESA and you shall not claim whatsoever against our Company, Equiniti or the Participating Financial Institution for our IPO Shares applied for or for any compensation, loss or damage.

- (x) All your particulars in the records of the relevant Participating Financial Institution at the time you make your ESA shall be deemed to be true and correct and we, Equiniti and the relevant Participating Financial Institution shall be entitled to rely on the accuracy thereof.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- (xi) You shall ensure that your personal particulars as recorded by both Bursa Depository and the relevant Participating Financial Institution are correct and identical. You must inform Bursa Depository promptly of any change in address failing which the notification letter of successful allocation will be sent to your registered or correspondence address last maintained with Bursa Depository.
- (xii) By making and completing an ESA, you agree that:
 - (a) in consideration of our Company agreeing to allow and accept the making of any application for our IPO Shares *via* the ESA facility established by the Participating Financial Institutions at their respective ATMs, your ESA is irrevocable;
 - (b) our Company, the Participating Financial Institutions, Bursa Depository and Equiniti shall not be liable for any delays, failures or inaccuracies in the processing of data relating to your ESA due to a breakdown or failure of transmission or communication facilities or to any cause beyond our/their control;
 - (c) notwithstanding the receipt of any payment by or on behalf of our Company, the acceptance of your offer to subscribe for and purchase our IPO Shares for which your ESA has been successfully completed shall be constituted by the issue of notices of successful allocation for prescribed securities, in respect of the said IPO Shares;
 - (d) you irrevocably authorise Bursa Depository to complete and sign on your behalf as transferee or renounee any instrument of transfer and/or other documents required for the issue or transfer of our IPO Shares allocated to you; and
 - (e) we agree that in relation to any legal action or proceedings arising out of or in relation with the contract between the parties and/or the ESA scheme and/or any terms herein, all rights, obligations and liabilities shall be construed and determined in accordance with the laws of Malaysia and with all directives, rules, regulations and notices from regulatory bodies and that we irrevocably submit to the jurisdiction of the Courts of Malaysia.
- (xiii) If you are successful in your ESA, our Directors reserve the right to require you to appear in person at the registered office of Equiniti within 14 days from the date of the notice issued to you to ascertain your application is genuine and valid. Our Directors shall not be responsible for any loss or non-receipt of the said notice nor shall they be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.
- (xiv) Equiniti, on the authority of our Directors, reserves the right to reject any application which does not conform to these instructions.

16.7 PROCEDURES FOR APPLICATION BY WAY OF AN INTERNET SHARE APPLICATION**16.7.1 Steps for Internet Share Application**

The exact steps for in respect of the IPO Shares are as set out on the internet financial services website of the Internet Participating Financial Institutions.

For illustration purposes only, we have set out below possible steps for an application for the IPO Shares using ISA. The steps set out the actions that you must take at the Internet financial services website of the Internet Participating Financial Institution to complete an ISA.

PLEASE NOTE THAT THE ACTUAL STEPS FOR INTERNET SHARE APPLICATIONS CONTAINED IN THE INTERNET FINANCIAL SERVICES WEBSITE OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTIONS MAY DIFFER FROM THE STEPS OUTLINED BELOW.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

- (i) Connect to the internet financial services website of the Internet Participating Financial Institution with which you have an account.
- (ii) Login to the internet financial services facility by entering your user identification and PIN/password.
- (iii) Navigate to the section of the website on applications in respect of initial public offerings.
- (iv) Select the counter in respect of the IPO Shares to launch the Electronic Prospectus and the terms and conditions of the ISA.
- (v) Select the designated hyperlink on the screen to accept the abovementioned terms and conditions, having read and understood such terms and conditions.
- (vi) At the next screen, complete the online application form.
- (vii) Check that the information contained in the online application form such as the share counter, NRIC number, CDS Account number, number of IPO Shares applied for and the account number to debit are correct, and select the designated hyperlink on the screen to confirm and submit the online application form.
- (viii) By confirming such information, you will undertake that the following mandatory statements are true and correct:
 - you have attained eighteen (18) years of age as at the closing date of the share application;
 - you are a Malaysian citizen residing in Malaysia;
 - you have, prior to making the ISA, received and/or had access to a printed/ electronic copy of this Prospectus, the contents of which you have read and understood;
 - you agree to all the terms and conditions of the ISA as set out in this Prospectus and have carefully considered the risk factors set out in this Prospectus, in addition to all other information contained in this Prospectus before making the ISA for our IPO Shares;
 - the ISA is the only application that you are submitting for our IPO Shares;
 - you authorise the Internet Participating Financial Institution or the Authorised Financial Institution to deduct the full amount payable for our IPO Shares from your account with the Internet Participating Financial Institution or the Authorised Financial Institution;
 - you give your express consent in accordance with the relevant laws of Malaysia (including but not limited to Section 99 of the Banking and Financial Institutions Act, 1989 and Section 45 of the Securities Industry (Central Depositories) Act, 1991) to the disclosure by the Internet Participating Financial Institution, the Authorised Financial Institution and/or Bursa Depository, as the case may be, of information pertaining to you, the ISA made by you or your account with the Internet Participating Financial Institution, to Equiniti and the Authorised Financial Institution, the SC and any other relevant authority;
 - YOU ARE NOT APPLYING FOR OUR IPO SHARES AS A NOMINEE OF ANY OTHER PERSON AND THE APPLICATION IS MADE IN YOUR OWN NAME, AS THE BENEFICIAL OWNER AND SUBJECT TO THE RISKS REFERRED TO IN THIS PROSPECTUS; AND

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

- you authorise the Internet Participating Financial Institution to disclose and transfer to any person, including any government or regulatory authority in any jurisdiction, us, Bursa Securities or other relevant parties in connection with our Public Issue, all information relating to you if required by any law, regulation, court order or any government or regulatory authority in any jurisdiction or if such disclosure and transfer is, in the reasonable opinion of the Internet Participating Financial Institution, necessary for the provision of the ISA services or if such disclosure is requested or required in connection with the Public Issue. Further, the Internet Participating Financial Institution will take reasonable precautions to preserve the confidentiality of information relating to you furnished by you to the Internet Participating Financial Institution in connection with the use of the ISA services.
- (ix) Upon submission of the online application form, you will be linked to the website of the Authorised Financial Institution to effect the online payment of the application money for our Public Issue.
- (x) As soon as the transaction is completed, a message from the Authorised Financial Institution pertaining to the payment status will appear on the screen of the website through which the online payment of the application of the Public Issue is being made.
- (xi) Subsequent to the above, the Internet Participating Financial Institution shall confirm that the ISA has been completed, via the Confirmation Screen on its website.
- (xii) You are advised to print out the Confirmation Screen for reference and retention.

16.7.2 Terms and Conditions for Internet Share Application

Your application for our IPO Shares may be made through the internet financial services website of the Internet Participating Financial Institutions.

YOU ARE ADVISED NOT TO APPLY FOR OUR IPO SHARES THROUGH ANY WEBSITE OTHER THAN THE INTERNET FINANCIAL SERVICES WEBSITE OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTIONS.

Internet Participating Financial Institution

ISAs may be made through the internet financial services websites of the following Internet Participating Financial Institutions:

- CIMB Bank Berhad at www.cimbclicks.com.my;
- CIMB Investment Bank Berhad at www.eipocimb.com;
- Malayan Banking Berhad at www.maybank2u.com.my;
- Affin Bank Berhad at www.affinOnline.com;
- RHB Bank Berhad at www.rhb.com.my;
- Public Bank Berhad at www.pbebank.com; or
- Affin Investment Bank Berhad at www.affinTrade.com

PLEASE READ THE TERMS OF THIS PROSPECTUS, THE TERMS AND CONDITIONS FOR INTERNET SHARE APPLICATIONS SET OUT HEREIN AND THE STEPS FOR INTERNET SHARE APPLICATIONS SET OUT HEREIN CAREFULLY PRIOR TO MAKING AN INTERNET SHARE APPLICATION.

THE EXACT TERMS AND CONDITIONS AND ITS SEQUENCE FOR INTERNET SHARE APPLICATIONS IN RESPECT OF THE IPO SHARES ARE AS SET OUT ON THE INTERNET FINANCIAL SERVICES WEBSITE OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTIONS.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

PLEASE NOTE THAT THE ACTUAL TERMS AND CONDITIONS OUTLINED BELOW SUPPLEMENT THE ADDITIONAL TERMS AND CONDITIONS FOR INTERNET SHARE APPLICATION CONTAINED IN THE INTERNET FINANCIAL SERVICES WEBSITES OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTIONS.

An ISA shall be made on and shall be subject to the terms and conditions as set out below:

(i) In order to make an ISA, you must:

- be an individual with a CDS account and in the case of a joint account, an individual CDS account registered in your name which is to be used for the purpose of the application if you are making the application instead of a CDS account registered in the joint account holder's name;
- have an existing account with access to internet financial services facilities with an Internet Participating Financial Institution. You must have ready your user identification ("User ID") and Personal Identification Numbers ("PIN")/ password for the relevant internet financial services facilities; and
- be a Malaysian citizen and have a Malaysian address.

You are advised to note that a User ID and PIN/ password issued by one of the Internet Participating Financial Institutions cannot be used to apply for the IPO Shares at internet financial service websites of other Internet Participating Financial Institutions.

(ii) An ISA shall be made on and shall be subject to the terms of this Prospectus and our Memorandum and Articles of Association.

(iii) You are required to confirm the following statements (by selecting the designated hyperlink on the relevant screen of the internet financial services website of the Internet Participating Financial Institution) and to undertake that the following information given is true and correct:

- you have attained eighteen (18) years of age as at the date of the application for the IPO Shares;
- you are a Malaysian citizen residing in Malaysia;
- you have, prior to making the ISA, received and/or have had access to a printed/ electronic copy of this Prospectus, the contents of which you have read and understood;
- you agree to all the terms and conditions of the Internet Share Application as set out in this Prospectus and have carefully considered the risk factors set out in this Prospectus, in addition to all other information contained in this Prospectus before making the ISA for the IPO Shares;
- the ISA is the only application that you are submitting for our IPO Shares;
- you authorise the Internet Participating Financial Institution or the Authorised Financial Institution to deduct the full amount payable for IPO Shares from your account with the Internet Participating Financial Institution or the Authorised Financial Institution;

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- you give express consent in accordance with the relevant laws of Malaysia (including but not limited to Section 99 of the Banking and Financial Institutions Act, 1989 and Section 45 of the Securities Industry (Central Depositories) Act, 1991) to the disclosure by the Internet Participating Financial Institution, the Authorised Financial Institution and/or Bursa Depository, as the case may be, of information pertaining to you, the ISA made by you or your account with the Internet Participating Financial Institution, to Equiniti and the Authorised Financial Institution, the SC and any other relevant authority;
 - YOU ARE NOT APPLYING FOR OUR IPO SHARES AS A NOMINEE OF ANY OTHER PERSON AND THE APPLICATION IS MADE IN YOUR OWN NAME, AS THE BENEFICIAL OWNER AND SUBJECT TO THE RISKS REFERRED TO IN THIS PROSPECTUS; AND
 - you authorise the Internet Participating Financial Institution to disclose transfer to any person, including any government or regulatory authority in any jurisdiction, us, Bursa Securities or other relevant parties in connection with the Public Issue, all information relating to you if required by any law, regulation, court order or any government or regulatory authority in any jurisdiction or if such disclosure and transfer is, in the reasonable opinion of the Internet Participating Financial Institution, necessary for the provision of the ISA services or if such disclosure is requested or required in connection with the Public Issue. Further, the Internet Participating Financial Institution will take reasonable precautions to preserve the confidentiality of information relating to you furnished by you to the Internet Participating Financial Institution in connection with the use of the ISA services.
- (iv) Your application will not be successfully completed and cannot be recorded as a completed application unless you have completed all relevant application steps and procedures for the ISA which would result in the internet financial services website displaying the Confirmation Screen.
- For the purposes of this Prospectus, "Confirmation Screen" shall mean the screen which appears or is displayed on the internet financial services website, which confirms that the ISA has been completed and states the details of your ISA, including the number of IPO Shares applied for which can be printed out by you for your records.
- Upon the display of the Confirmation Screen, you shall be deemed to have confirmed the truth of the statements set out in Section 16.7.2(iii) of this Prospectus.
- (v) You must have sufficient funds in your account with the Internet Participating Financial Institution or the Authorised Financial Institution at the time of making the ISA, to cover and pay for our IPO Shares and the related processing fees, charges and expenses, if any, to be incurred, failing which the ISA will not be deemed complete, notwithstanding the display of the Confirmation Screen. Any ISA which does not conform strictly to the instructions set out in this Prospectus or any instructions displayed on the screens of the internet financial services website through which the ISA is made shall be rejected.
- (vi) You irrevocably agree and undertake to subscribe for and to accept the number of IPO Shares applied for as stated on the Confirmation Screen or any lesser number of IPO Shares that may be allotted or allocated to you in respect of the ISA. In the event that we decide to allot or allocate any lesser number of such IPO Shares or not to allot or allocate any IPO Shares to you, you agree to accept our decision as final.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

In the course of completing the ISA on the website of the Internet Participating Financial Institution, your confirmation of the number of IPO Shares applied for (by way of your action of clicking the designated hyperlink on the relevant screen of the website) shall be deemed to signify and shall be treated as:

- your acceptance of the number of IPO Shares that may be allotted or allocated to you in the event that your ISA is successful or successful in part, as the case may be; and
 - your agreement to be bound by our Memorandum and Articles of Association.
- (vii) You are fully aware that multiple or suspected multiple ISAs for the IPO Shares will be rejected. Equiniti on the authority of our Board reserves the right to reject any ISA or accept any ISA in part only without assigning any reason therefor. We will give due consideration to the desirability of allotting or allocating the IPO Shares to a reasonable number of applicants with a view to establishing a liquid and adequate market for our Shares.
- (viii) If your ISA is unsuccessful or successful in part only, Equiniti shall inform the relevant Internet Participating Financial Institution of the unsuccessful or partially successful ISA within two (2) Market Days after the balloting date. Where your ISA is unsuccessful, the relevant Internet Participating Financial Institution will credit or arrange with the Authorised Financial Institution to credit the full amount of the application monies, in Ringgit Malaysia (without interest or any share of revenue or other benefit arising therefrom) into your account with the Internet Participating Financial Institution or the Authorised Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti.

If your ISA is successful in part only, the relevant Internet Participating Financial Institution will credit the balance of the application monies, in Ringgit Malaysia (without interest or any share of revenue or other benefit arising therefrom) into your account with the Internet Participating Financial Institution or the Authorised Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti. We will, however, hold in reserve a number of applications to replace any successfully balloted applications that are subsequently rejected. If your application held in reserve is subsequently rejected, your application monies will be refunded, in Ringgit Malaysia (without interest or any share of revenue or other benefit arising therefrom) to you by the Internet Participating Financial Institution by crediting into your account with the Internet Participating Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti.

For applications that are held in reserve and which are subsequently unsuccessful (or partly successful), the Internet Participating Financial Institution will credit into your account the application monies (or any part thereof but without interest or any share of revenue or other benefit arising therefrom) within two (2) Market Days after the receipt of confirmation from Equiniti.

Except where Equiniti is required to refund application monies, it is the sole responsibility of the Internet Participating Financial Institution to ensure the timely refund of application monies from unsuccessful or partially successful ISAs. Therefore, you are strongly advised to consult the Internet Participating Financial Institution through which the application was made in respect of the mode or procedure of enquiring on the status of the ISA in order to determine the status or exact number of IPO Shares allotted or allocated, if any, before trading of our IPO Shares on Bursa Securities.

- (ix) ISAs will be closed at 5.00 p.m. on 16 July 2014 or such other date(s) as our Directors, Promoters and Offeror, together with Kenanga IB may mutually decide in their absolute discretion. An ISA is deemed to be received only upon its completion that is when the Confirmation Screen is displayed on the internet financial services website. You are advised to print out and retain a copy of the Confirmation Screen for record purposes. Late ISAs will not be accepted.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- (x) You irrevocably agrees and acknowledge that the ISA is subject to risk of electrical, electronic, technical and computer-related faults and breakdowns, faults with computer software, problems occurring during data transnission, computer security threats such as viruses, hackers and crackers, fires, acts of God and other events beyond our control and the control of Equiniti or the Internet Participating Financial Institutions and the Authorised Financial Institution. If, in any such event, we, Equiniti and/or the Internet Participating Financial Institution and/or the Authorised Financial Institution do not receive your ISA and/or the payment therefor, or in the event that any data relating to the ISA or the tape or any other devices containing such data is lost, corrupted, destroyed or otherwise not accessible, whether wholly or partially and for any reason whatsoever, you shall be deemed not to have made an ISA and you shall have no claim whatsoever against us, Equiniti or the Internet Participating Financial Institution and the Authorised Financial Institution in relation to the IPO Shares applied for or for any compensation, loss or damage whatsoever, as a consequence thereof or arising therefrom.

- (xi) All your particulars in the records of the relevant Internet Participating Financial Institution at the time you make your ISA shall be deemed to be true and correct, and we, Equiniti, the relevant Internet Participating Financial Institutions and all other persons who, are entitled or allowed under the law to such information or where you expressly consent to the provision of such information shall be entitled to rely on the accuracy thereof.

You shall ensure that your personal particulars as recorded by both Bursa Depository and the Internet Participating Financial Institution are correct and identical. Otherwise, your ISA is liable to be rejected. The notification letter on successful allotment or allocation will be sent to your registered address last maintained with Bursa Depository. It is your responsibility to notify the Internet Participating Financial Institution and Bursa Depository of any changes in your personal particulars that may occur from time to time.

- (xii) By making and completing an ISA, you are deemed to have agreed that:

- in consideration of us making available the ISA facility to you through the Internet Participating Institution acting as our agents, the ISA is irrevocable;
- you have irrevocably requested and authorised us to register the IPO Shares allotted or allocated to you for deposit into your CDS Account;
- neither us nor the Internet Participating Financial Institution shall be liable for any delay, failure or inaccuracy in the recording, storage or transmission or delivery of data relating to the ISA to Equiniti or Bursa Depository due to any breakdown or failure of transmission, delivery or communication facilities or due to any risk referred to in **Section 16.7.2(x)** of this Prospectus or to any cause beyond their control;
- you shall hold the Internet Participating Financial Institution harmless from any damages, claims or losses whatsoever, as a consequence of or arising from any rejection of your ISA by Equiniti, us and/or the Internet Participating Financial Institution for reasons of multiple application, suspected multiple application, inaccurate and/or incomplete details provided by you, or any other cause beyond the control of the Internet Participating Financial Institution;
- the acceptance of your offer to subscribe for our IPO Shares for which your ISA has been successfully completed shall be constituted by written notification in the form of the issue of a notice of allotment by us or on our behalf and not otherwise, notwithstanding the receipt of any payment by us or on our behalf;
- you are not entitled to exercise any remedy of rescission for misrepresentation at any time after we have accepted your ISA;

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- in making the ISA, you have relied solely on the information contained in this Prospectus. We, Kenanga IB and any other person involved in the Public Issue shall not be liable for any information not contained in this Prospectus which you may have relied on in making the ISA; and
- the acceptance of your ISA and the contract resulting therefrom under our Public Issue shall be governed by and construed in accordance with the laws of Malaysia, and the applicant irrevocably submits to the jurisdiction of the courts of Malaysia.

16.8 AUTHORITY OF OUR BOARD AND EQUINITI

If you are successful in your application, our Board reserve the right to require you to appear in person at the registered office of Equiniti within fourteen (14) days from the date of the notice issued to you to ascertain your application is genuine and valid. Our Board are not responsible for any loss or non-receipt of the said notice nor shall they be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

Applicants will be selected in a manner to be determined by our Board. Due consideration will be given to the desirability of allotting or allocating our IPO Shares to a reasonable number of applicants with a view to establishing an adequate market for our Shares.

Equiniti, on the authority of our Board, reserves the right to:

- (i) reject applications which do not conform to the instructions in this Prospectus or are illegible, incomplete or inaccurate;
- (ii) reject or accept any application, in whole or in part, on a non-discriminatory basis without giving any reason; and
- (iii) bank in all application monies from unsuccessful / partially successful applicants which would subsequently be refunded without interest by registered post.

16.9 OVER/UNDER-SUBSCRIPTION

In the event of an over-subscription, Equiniti will conduct a ballot in a manner as approved by our Board to determine acceptance of applications. In determining the manner of balloting, our Board will consider the desirability of distributing our IPO Shares in a fair and equitable manner to a reasonable number of applicants for the purpose of broadening our shareholding base and establishing an adequate market in the trading of our Shares.

Pursuant to the Listing Requirements, we are required to have at least 25% of our enlarged issued and paid-up share capital to be held by a minimum number of 200 public shareholders holding not less than 100 Shares each upon our Listing and completion of this Public Issue. We expect to achieve this at the point of our Listing. However, in the event that the above requirement is not met, we may not be allowed to proceed with our Listing. In the event thereof, monies paid in respect of all applications will be returned without interest.

In the event of an under-subscription for our IPO Shares reserved for application by the Public, all such IPO Shares not applied for will be subscribed by our Underwriter pursuant to the Underwriting Agreement.

In the event of an under-subscription of IPO Shares by our eligible employees and persons who have contributed to the success of our Group, such IPO Shares will be made available for Application by the Malaysian Public. Likewise, in the event of an under-subscription of IPO Shares by the Malaysian Public, such IPO Shares will be made available for application by our eligible employees and persons who have contributed to our success.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Our IPO Shares reserved for subscription by identified investors will not be underwritten as written irrevocable undertakings to subscribe for such IPO Shares have been procured from the respective identified investors.

Where your successfully balloted application under White Application Form is subsequently rejected, the full amount of your application monies, will be refunded without interest to you within 10 Market Days from the date of the final ballot of the application list to your address registered with the Bursa Depository.

Where your successfully balloted application under ESA or ISA is subsequently rejected, the full amount of your application monies, will be refunded without interest to you by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institution respectively.

16.10 UNSUCCESSFUL/PARTIALLY SUCCESSFUL APPLICANTS

If you are unsuccessful/partially successful in your application, we will return your application monies without interest in the following manner:

16.10.1 For applications by way of Application Form

- (i) The application monies or the balance of it, as the case may be, will be returned to you via the self-addressed and stamped Official 'A' envelope you provided by ordinary post (for fully unsuccessful applications) or by registered post to your last address maintained with Bursa Depository (for partially successful applications) within ten (10) Market Days from the date of the final ballot.
- (ii) If your application was rejected because you did not provide a CDS account number, your application monies will be sent to the address stated in the NRIC or 'Resit Pengenalan Sementara (KPPK 09)' or any valid temporary identity document issued by the National Registration Department from time to time at your own risk.
- (iii) Equiniti reserves the right to bank in all application monies from unsuccessful applicants. These monies will be refunded by registered post to your last address maintained with Bursa Depository or as per item (ii) above, as the case may be, at your own risk within ten (10) Market Days from the date of the final ballot.

16.10.2 For applications by way of Electronic Share Application

- (i) Equiniti shall inform the Participating Financial Institutions of the non-successful or partially successful applications within two (2) Market Days after the balloting date. The application monies or the balance of it will be credited into your account with the Participating Financial Institution without interest within two (2) Market Days after the receipt of confirmation from Equiniti.
- (ii) You may check your account on the fifth (5th) Market Day from the balloting date.
- (iii) A number of applications will be reserved to replace any balloted applications which are rejected. The application monies relating to these applications which are subsequently rejected will be refunded without interest by the Participating Financial Institution by crediting into your account with the Participating Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti. For applications that are held in reserve and are subsequently unsuccessful (or only partly successful), the relevant Participating Financial Institution will credit the application money (or part thereof) into your account without interest within two (2) Market Days after the receipt of confirmation from Equiniti.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

16.10.3 For applications by way of Internet Share Application

- (i) Equiniti shall inform the Internet Participating Financial Institutions of the non-successful or partially successful applications within two (2) Market Days after the balloting date. The application monies or the balance of it will be credited into your account with the Internet Participating Financial Institution without interest within two (2) Market Days after the receipt of confirmation from Equiniti.
- (ii) You may check your account on the fifth (5th) Market Day from the balloting date.
- (iii) A number of applications will be reserved to replace any balloted applications which are rejected. The application monies relating to these applications which are subsequently rejected will be refunded without interest by the Internet Participating Financial Institution by crediting into your account with the Internet Participating Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti. For applications that are held in reserve and are subsequently unsuccessful (or only partly successful), the relevant Participating Financial Institution will credit the application money (or part thereof) into your account without interest within two (2) Market Days after the receipt of confirmation from Equiniti.

16.11 SUCCESSFUL APPLICANTS

If you are successful in your application:

- (i) our Shares allocated to you will be credited into your CDS account. We will not be issuing any share certificates to you; and
- (ii) a notice of allotment will be despatched to you at the address last maintained with Bursa Depository where you have an existing CDS account at your own risk prior to our Listing. This is your only acknowledgement of acceptance of your application.

16.12 CDS ACCOUNTS

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, Bursa Securities has prescribed our IPO Shares as "Prescribed Securities". Therefore, our IPO Shares offered through this Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the aforesaid Act and Rules of Bursa Depository.

Following the above, in accordance with Section 29 of the Central Depositories Act, all dealings in our Shares, including our IPO Shares, will be by book entries through CDS accounts. No Share certificates will be issued but notices of allotment or transfer shall be despatched.

You must have a CDS account when applying for our IPO Shares. If you do not presently have a CDS account, you should open a CDS account at an ADA prior to making an application for our IPO Shares.

In the case of an application by way of Application Form, you should state your CDS account number in the space provided on the Application Form and you shall be deemed to have authorised Bursa Depository to disclose information pertaining to your CDS account to Equiniti or our Company.

In the case of an application by way of ESA, you shall furnish your CDS account number to the Participating Financial Institution by way of keying in your CDS account number if the instructions on the ATM screen require you to do so.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

In the case of an application by way of ISA, only an applicant who has a CDS account can make an ISA. In certain cases, only an applicant who has a CDS account opened with the Internet Participating Financial Institution can make an ISA. Arising therewith, the applicant's CDS account number would automatically appear in the e-IPO online application form.

Failure to comply with these specific instructions or inaccuracy in the CDS account number, arising from use of invalid, third party or nominee accounts, may result in your application being rejected. If a successful applicant fails to state his/her CDS account number, Equiniti, on the authority of our Directors, will reject the application. Equiniti, on the authority of our Directors, also reserves the right to reject any incomplete and/or inaccurate application. Applications may also be rejected if the applicants' particulars provided in the Application Forms, or in the case of ESA or ISA, if the records of the Participating Financial Institutions at the time of making the ESA or ISA, differ from those in Bursa Depository's records, such as the identity card number, name and nationality.

16.13 ENQUIRIES

You may contact Equiniti if you have any queries on the White Application Form at (603) 2166 0933 or (603) 2166 0811. If you have any enquiry with regards to your ESA, you may refer to the relevant Participating Financial Institution. If you have any enquiry with regards to your ISA, you may refer to the relevant Internet Participating Financial Institution and Authorised Financial Institution.

You may check the status of your application by logging into Equiniti's website at www.equiniti.com.my or by calling Equiniti at (603) 2166 0933 or (603) 2166 0811 or your ADA at the telephone number as stated in Section 16.14 below between five (5) to ten (10) Market Days (during office hours only) after the balloting date.

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16. PROCEDURES FOR APPLICATION AND ACCEPTANCE**16.14 LIST OF ADAS**

The list of ADAs and their respective addresses, telephone numbers and broker codes are as follows:

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KUALA LUMPUR			
AFFIN INVESTMENT BANK BERHAD Ground Mezzanine & 3rd Floor Chulan Tower No. 3, Jalan Conlay 50450 Kuala Lumpur Tel No.: 03-2143 8668	028-001	AFFIN INVESTMENT BANK BERHAD No. 38A & 40A Jalan Midah 1 Taman Midah, Cheras 56000 Kuala Lumpur Tel No.: 03-9130 8803	028-005
ALLIANCE INVESTMENT BANK BERHAD 17 th Floor, Menara Multi-Purpose Capital Square No. 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Tel No.: 03-2604 6333	076-001	AMINVESTMENT BANK BERHAD 8-9, 11-18, 21-25 Floor Bangunan AmBank Group 55, Jalan Raja Chulan 50200 Kuala Lumpur Tel No.: 03-2036 2633	086-001
BIMB SECURITIES SDN BHD 32 nd Floor, Menara Multi-Purpose Capital Square No. 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Tel No.: 03-2691 8887	024-001	CIMB INVESTMENT BANK BERHAD 10 th Floor, Bangunan CIMB Prineipal Office MENARA CIMB Jalan Stesen Sentral 2 Kuala Lumpur Sentral 50470 Kuala Lumpur Tel No.: 03-2261 8888	065-001
CITIGROUP GLOBAL MARKETS MALAYSIA SDN BHD Level 43, Menara Citibank 165 Jalan Ampang 50450 Kuala Lumpur Tel No.: 03-2383 3890	038-001	CLSA SECURITIES SDN BHD Suite 20-01, Aras 20 Menara Dion2 27 Jalan Sultan Ismail 50250 Kuala Lumpur Tel No.: 03-2056 7888	033-001
CREDIT SUISSE SECURITIES (MALAYSIA) SDN BHD Suite 7.6, Level 7 Menara IMC8 Jalan Sultan Ismail 50250 Kuala Lumpur Tel No.: 2723 2020	036-001	FA SECURITIES SDN BHD A-10-1 & A-10-1 Level 10, Menara UOA Bangsar No. 5, Jalan Bangsar Utama 1 59000 Kuala Lumpur Tel No.: 2288 1676	021-002
HONG LEONG INVESTMENT BANK BERHAD Level 6-8, 13, 22 & 23 Menara HLA No. 3, Jalan Kia Peng 50450 Kuala Lumpur Tel No.: 03-2168 1168	066-001	HONG LEONG INVESTMENT BANK BERHAD 18 th & 21 st Floor Menara Raja Laut 288, Jalan Raja Laut 50350 Kuala Lumpur Tel No.: 03-2691 0200	066-006
HWANGDBS INVESTMENT BANK BERHAD 2 nd Floor, Bangunan AHP No. 2, Jalan Tun Mohd Fuad 3 Taman Tun Dr. Ismail 60000 Kuala Lumpur Tel No.: 03-7710 6688	068-009	HWANGDBS INVESTMENT BANK BERHAD 7 th , 22 nd and 23 rd Floor Menara Keck Seng 203, Jalan Bukit Bintang 55100 Kuala Lumpur Tel No.: 03-2711 6888	068-014

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
HWANGDBS INVESTMENT BANK BERHAD No. 57-10 Level 10 The Boulevard, Mid Valley City Lingkaran Syed Putra 59000 Kuala Lumpur Tel No.: 03-2287 2273	068-017	INTER-PACIFIC SECURITIES SDN BHD West Wing, Level 13 Berjaya Times Square No. 1, Jalan Imbi 55100 Kuala Lumpur Tel No.: 03-2117 1888	054-001
INTER-PACIFIC SECURITIES SDN BHD Ground Floor, 7-0-8 Jalan 3/109F Danau Business Centre Danau Desa 58100 Kuala Lumpur Tel No.: 03-7984 7796	054-003	JPMORGAN SECURITIES (MALAYSIA) SDN BHD Level 18, Integra Tower The Intermark 348 Jalan Tun Razak 50400, Kuala Lumpur Tel No.: 03-2270470	035-001
JUPITER SECURITIES SDN BHD Level 8 & 9, Menara Olympia 8, Jalan Raja Chulan 50200 Kuala Lumpur Tel No.: 03-2034 1888	055-001	KAF-SEAGROATT & CAMPBELL SECURITIES SDN BHD 11 th - 14 th Floor Chulan Tower No. 3, Jalan Conlay 50450 Kuala Lumpur Tel No.: 03-2168 8800	053-001
KENANGA INVESTMENT BANK BERHAD 4-10, 15-16, 18 & 20 Floor Kenanga International Jalan Sultan Ismail 50250 Kuala Lumpur Tel No.: 03-2164 9080	073-001	KENANGA INVESTMENT BANK BERHAD M3-A-7 & M3-A-8 Jalan Pandan Indah 4/3A Pandan Indah 55100 Kuala Lumpur Tel No.: 03-4297 8806	073-020
KENANGA INVESTMENT BANK BERHAD Ground Mezzanine, 1 st & 2 nd Floor (West & Center Wing) & 1 st Floor East Wing Bangunan ECM Libra 8, Jalan Damansara Endah Damansara Heights 50490 Kuala Lumpur Tel No.: 03-2089 2888	073-021	KENANGA INVESTMENT BANK BERHAD 1 st Floor, Wisma Genting Jalan Sultan Ismail 50250 Kuala Lumpur Tel No.: 03-2178 1133	073-029
M & A SECURITIES SDN BHD Level 1-2, No. 45 & 47 and No. 43-6 The Boulevard, Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Tel No.: 03-2282 1820	057-002	M & A SECURITIES SDN BHD 22A & 22A-1 Jalan Kuchai Maju 1 Kuchai Entrepreneurs' Park Off Jalan Kuchai Lama 58200, Kuala Lumpur Tel No.: 03-2282 1820	057-004
MACQUARIE CAPITAL SECURITIES(MALAYSIA) SDN BHD Level 10, Menara Dion 27 Jalan Sultan Ismail 50250, Kuala Lumpur Tel. No.: 03-2059 8833	032-001	MAYBANK INVESTMENT BANK BERHAD 5-13 Floor, Mayban Life Tower Dataran Maybank No. 1, Jalan Maarof 59000 Kuala Lumpur Tel No.: 03-2297 8888	098-001

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
MERCURY SECURITIES SDN BHD L-7-2, No.2 Jalan Solaris Solaris Mont Kiara 50480 Kuala Lumpur Tel No.: 03-6203 7227	093-002	MIDF AMANAH INVESTMENT BANK BERHAD 8 th , 9 th , 10 th , 11 th & 12 th Floor Menara MIDF 82, Jalan Raja Chulan 50200 Kuala Lumpur Tel No.: 03-2173 8888	026-001
NOMURA SECURITIES MALAYSIA SDN BHD Suite 16.5, Level 16 Menara IMC, Letter Box 47 8 Jalan Sultan Ismail 50250 Kuala Lumpur Tel No. 2027 6811	037-001	PM SECURITIES SDN BHD Ground Floor Menara PMI No. 2, Jalan Changkat Ceylon 50200 Kuala Lumpur Tel No.: 03-2146 3000	064-001
PUBLIC INVESTMENT BANK BERHAD 27 th Floor, Bangunan Public Bank No. 6, Jalan Sultan Sulaiman 50000 Kuala Lumpur Tel No.: 03-2031 3011	051-001	RHB INVESTMENT BANK BERHAD Level 10, Tower One RHB Centre Jalan Tun Razak 50400 Kuala Lumpur Tel No.: 03-9287 3888	087-001
RHB INVESTMENT BANK BERHAD 12 th , 15 th , 20 th & 21 st Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Tel No.: 03-2333 8333	087-018	RHB INVESTMENT BANK BERHAD No. 62, 62-1, 64 & 64-1 Vista Magna Jalan Prima, Metro Prima Kepong 52100 Kuala Lumpur Tel No.: 03-6257 5869	087-028
RHB INVESTMENT BANK BERHAD No. 5 & 7 Jalan Pandan Indah 4/33 Pandan Indah 55100 Kuala Lumpur Tel No.: 03-4280 4798	087-054	RHB INVESTMENT BANK BERHAD Ground, 1 st , 2 nd & 3 rd Floor No. 55, Zone J4 Jalan Radin Anum Bandar Baru Seri Petaling 57000 Kuala Lumpur Tel No.: 03-9058 7222	087-058
TA SECURITIES HOLDINGS BERHAD Floor 13-16, 23, 28-30, 34 & 35 Menara TA One No. 22, Jalan P. Ramlee 50250 Kuala Lumpur Tel No.: 03-2072 1277	058-003	UBS SECURITIES MALAYSIA SDN BHD Level 7 Wisma Hong Leong 18, Jalan Perak 50450, Kuala Lumpur Tel No.: 03-2781 1100	031-001
UOB KAY HIAN SECURITIES (M) SDN BHD N3, Plaza Damas 60, Jalan Sri Hartamas 1 Sri Hartamas 50480 Kuala Lumpur Tel No.: 03-6201 1155	078-004	UOB KAY HIAN SECURITIES (M) SDN BHD Ground & 19th Floor Menara Keck Seng 203 Jalan Bukit Bintang 55100 Kuala Lumpur Tel No.: 03-2147 1888	078-010

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
SELANGOR DARUL EHSAN			
AFFIN INVESTMENT BANK BERHAD 2 nd , 3 rd & 4 th Floor Wisma Amsteel Securities No. 1, Lintang Pekan Baru Off Jalan Meru 41050 Klang Selangor Darul Ehsan Tel No.: 03-3343 9999	028-002	AFFIN INVESTMENT BANK BERHAD Lot 229, 2 nd Floor, The Curve No. 6, Jalan PJU 7/3 Mutiarra Damansara 47800 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7729 8016	028-003
AMINVESTMENT BANK BERHAD 4 th Floor, Plaza Damansara Utama No 2, Jalan SS 21/60 47400 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7710 6613	086-003	CIMB INVESTMENT BANK BERHAD Level G & Level 1 Tropicana City Office Tower No.3 Jalan SS20/27 47400 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7717 3388	065-009
HONG LEONG INVESTMENT BANK BERHAD Level 10 1 First Avenue Bandar Utama 47800 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7724 6888	066-002	HWANGDBS INVESTMENT BANK BERHAD 16 th , 18 th -20 th Floor Plaza Masalam No. 2, Jalan Tengku Ampuan Zabedah E9/E Section 9 40100 Shah Alam Selangor Darul Ehsan Tel No.: 03-5513 3288	068-002
HWANGDBS INVESTMENT BANK BERHAD East Wing & Centre Link Floor 3A, Wisma Consplant 2 No. 7, Jalan SS16/1 47500 Subang Jaya Selangor Darul Ehsan Tel No.: 03-5635 6688	068-010	INTER-PACIFIC SECURITIES SDN BHD No. 77 & 79, Jalan 2/3A Pusat Bandar Utara KM12, Jalan Ipoh Selayang 68100 Batu Caves Selangor Darul Ehsan Tel No.: 03-6137 1888	054-006
JF APEX SECURITIES BERHAD 3 rd , 5 th , 6 th and 10 th Floor Menara Apex Off Jalan Semenyih Bukit Mewah 43000 Kajang Selangor Darul Ehsan Tel No.: 03-8736 1118	079-001	JF APEX SECURITIES BERHAD 16 th Floor, Menara Choy Fook On No. 1B, Jalan Yong Shook Lin 46050 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7620 1118	079-002
JUPITER SECURITIES SDN BHD No. 42 – 46, 3 rd Floor Jalan SS19/1D 47500 Subang Jaya Selangor Darul Ehsan Tel No.: 03-5632 4838	055-004	KENANGA INVESTMENT BANK BERHAD Ground – Fifth Floor East Wing, Quattro West No. 4, Lorong Persiaran Barat 46200 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7862 6200	073-005

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KENANGA INVESTMENT BANK BERHAD 55C (2 nd Floor) Jalan USJ 10/1F 47610 Subang Jaya Selangor Darul Ehsan Tel No : 03-8024 1682	073-006	KENANGA INVESTMENT BANK BERHAD Lot 240, 2nd Floor The Curve No.6, Jalan PJU 7/3 Mutiarra Damansara 47800 Petaling Jaya Selangor Darul Ehsan Tel No : 03-7725 9095	073-016
KENANGA INVESTMENT BANK BERHAD Level 1 East Wing Wisma Consplant 2 No. 7, Jalan SS16/1 47500 Subang Jaya Selangor Darul Ehsan Tel No.: 03-5621 2118	073-030	KENANGA INVESTMENT BANK BERHAD No. 35, Ground, 1 st 2 nd Floor Jalan Tiara 3 Bandar Baru Klang 41150 Klang Selangor Darul Ehsan Tel No.: 03-3348 8080	073-035
MALACCA SECURITIES SDN BHD Subang Jaya Branch No. 16, Jalan SS15/4B 47500 Subang Jaya Selangor Darul Ehsan Tel No.: 03-5636 1533	012-002	MALACCA SECURITIES SDN BHD SS2 Petaling Jaya Branch No. 58A & 60A Jalan SS2/67 47300 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7876 1533	012-003
MAYBANK INVESTMENT BANK BERHAD Level 8 68 Jalan Batai Laut 4 Taman Bukit Camerlang 41300 Klang Selangor Darul Ehsan Tel No.: 03-3050 8888	098-003	MAYBANK INVESTMENT BANK BERHAD Wisma Bently Music Level 1, No. 3, Jalan PJU 7/2 Mutiarra Damansara 47800 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7718 8888	098-004
PM SECURITIES SDN BHD No. 157 & 159, Jalan Kenari 23/A Bandar Puchong Jaya 47100 Puchong Selangor Darul Ehsan Tel No.: 03-8070 0773	064-003	PM SECURITIES SDN BHD No. 18 & 20, Jalan Tiara 2 Bandar Baru Klang 41150 Klang Selangor Darul Ehsan Tel No.: 03-3341 5300	064-007
RHB INVESTMENT BANK BERHAD 24, 24M, 24A, 26M, 28M. 28A & 30, 30M & 30A Jalan SS2/63 47300 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7873 6366	087-011	RHB INVESTMENT BANK BERHAD No. 37, Jalan Semenyih 43000 Kajang Selangor Darul Ehsan Tel No.: 03-8736 3378	087-045
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 15, Jalan Bandar Rawang 4 48000 Rawang Selangor Darul Ehsan Tel No.: 03-6092 8916	087-047	RHB INVESTMENT BANK BERHAD Ground & Mezzanine Floor No. 87 & 89, Jalan Susur Pusat Perniagaan NBC Batu 1 ½, Jalan Meru 41050 Klang Selangor Darul Ehsan Tel No.: 03-3343 9180	087-048

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
RHB INVESTMENT BANK BERHAD Ground Floor and First Floor No. 13 Jalan Kenari 3 Bandar Puchong Jaya 47100 Puchong Selangor Darul Ehsan Tel No.: 03-8070 6899	087-049	RHB INVESTMENT BANK BERHAD 11-1 11-2, Jalan PJU 5/12 Dataran Sunway Kota Damansara 47810 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-6148 3361	087-051
RHB INVESTMENT BANK BERHAD Unit 1B & 2B, USJ 10/1J 47610 UEP Subang Jaya Selangor Darul Ehsan Tel No.: 03-8023 6518	087-059	SJ SECURITIES SDN BHD Ground Floor, Podium Block Wisma Synergy Lot 72, Persiaran Jubli Perak Section 22 40000 Shah Alam Selangor Darul Ehsan Tel No.: 03-5192 0202	096-001
SJ SECURITIES SDN BHD 101B, Jalan SS 15/5 ^a 47500, Subang Jaya Selangor Darul Ehsan Tel No.: 03-5631 7888	096-002	SJ SECURITIES SDN BHD No.74-2, Jalan Batu Nilam 5 Bandar Bukit Tinggi 41200 Klang Selangor Darul Ehsan Tel No.: 03-3122 1915	096-004
TA SECURITIES HOLDINGS BERHAD No. 2-1, 2-2, 2-3 & 4-2 Jalan USJ 9/5T Subang Business Centre 47620 UEP Subang Jaya Selangor Darul Ehsan Tel No.: 03-8025 1880	058-005	TA SECURITIES HOLDINGS BERHAD Damansara Utama Branch 2 nd Floor, Wisma TA No. 1A, Jalan SS 20/1 Damansara Utama 47400 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7795 5713	058-007
PERAK DARUL RIDZUAN			
CIMB INVESTMENT BANK BERHAD Ground, 1 st , 2 nd and 3 rd Floor No.8, 8A-C, Persiaran Greentown 4C Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2088 688	065-010	HONG LEONG INVESTMENT BANK BERHAD 51-53, Persiaran Greenhill 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2530 888	066-003
HWANGDBS INVESTMENT BANK BERHAD Ground, Level 1, 2 & 3 21, Jalan Stesen 30400 Taiping Perak Darul Ridzuan Tel No.: 05-8066 688	068-003	HWANGDBS INVESTMENT BANK BERHAD Ground, 1 st Floor & 2 nd Floor No.22, Persiaran Greentown 1 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2559 988	068-015
KENANGA INVESTMENT BANK BERHAD No. 63, Ground, 1 st , 2 nd & 4 th Floor Persiaran Greenhill 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2422 828	073-022	KENANGA INVESTMENT BANK BERHAD No. 7B-1, Jalan Laman Intan Bandar Baru Teluk Intan 36000 Teluk Intan Perak Darul Ridzuan Tel No.: 05-6222 828	073-026

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KENANGA INVESTMENT BANK BERHAD Ground Floor No. 25 & 25A Jalan Jaya 2, Medan Jaya 32000 Sitiawan Perak Darul Ridzuan Tel No.: 05-6939 828	073-031	M & A SECURITIES SDN BHD 5 th , 6 th , & Unit 8A M & A Building 52A, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan Tel No.: 05-2419 800	057-001
MAYBANK INVESTMENT BANK BERHAD B-G-04 (Ground Floor), Level 1 & 2 No. 42, Persiaran Greentown 1 Pusat Dagangan Greentown 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2453 400	098-002	RHB INVESTMENT BANK BERHAD Ground & 1st Floor No. 17, Jalan Intan 2, Bandar Baru 36000 Teluk Intan Perak Darul Ridzuan Tel No.: 05-6236 498	087-014
RHB INVESTMENT BANK BERHAD Ground, 1 st Floor, No. 23 & 25 Jalan Lumut 32000 Sitiawan Perak Darul Ridzuan Tel No.: 05-6921 228	087-016	RHB INVESTMENT BANK BERHAD 21-25, Jalan Seenivasagam Greentown 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2415 100	087-023
RHB INVESTMENT BANK BERHAD Ground Floor, No.40, 42 & 44 Jalan Berek 34000 Taiping Perak Darul Ridzuan Tel No.: 05-8088 229	087-034	RHB INVESTMENT BANK BERHAD 72, Ground Floor Jalan Idris 31900 Kampar Perak Darul Ridzuan Tel No.: 05-4651 261	087-044
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 2, Jalan Wawasan 4 Taman Wawasan 34200 Parit Buntar Perak Darul Ridzuan Tel No.: 05-7170 888	087-052	TA SECURITIES HOLDINGS BERHAD Ground, 1 st & 2 nd Floor Plaza Teh Teng Seng No. 227, Jalan Raja Permaisuri Bainun 30250 Ipoh Perak Darul Ridzuan Tel No.: 05-2531 313	058-001
UOB KAY HIAN SECURITIES (M) SDN BHD 29G, Jalan Intan 2 Bandar Baru 36000 Teluk Intan Perak Darul Ridzuan Tel No : 05-6216 010	078-009		
PULAU PINANG			
ALLIANCE INVESTMENT BANK BERHAD Ground & Mezzanine Floor, Bangunan Berkath, 21 Beach Street, 10300, Georgetown Tel No : 04-2611 688	076-015	AMINVESTMENT BANK BERHAD Mezzanine Floor & Level 3 No. 37, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel No : 04-2261 818	086-004

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
AMINVESTMENT BANK BERHAD Level 3 No. 15, Lebu Pantai 10300 Pulau Pinang Tel No : 04-2618 688	086-007	CIMB INVESTMENT BANK BERHAD Ground Floor Suite 1.01, Menara Boustead Penang 39, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel No.: 04-2385 900	065-003
HWANGDBS INVESTMENT BANK BERHAD Level 2, 3, 4, 7 & 8 Wisma Sri Pinang 60, Green Hall 10200 Pulau Pinang Tel No.: 04-2636 996	068-001	HWANGDBS INVESTMENT BANK BERHAD No. 2 & 4 Jalan Perda Barat Bandar Perda 14000 Bukit Mertajam Pulau Pinang Tel No.: 04-5372 882	068-006
INTER-PACIFIC SECURITIES SDN BHD Ground Floor, Mezzanine & 8th Floor Sentral Tower No. 3, Penang Street 10200 Pulau Pinang Tel No.: 04-2690 888	054-002	JUPITER SECURITIES SDN BHD 20-1 & 20-2 Persiaran Bayan Indah Bayan Bay Sungai Nibong 11900 Bayan Lepas Penang Tel No.: 04-641 2881	055-003
KENANGA INVESTMENT BANK BERHAD 7 th , 8 th & 16 th Floor Menara Boustead 39, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel No.: 04-2283 355	073-023	M & A SECURITIES SDN BHD 332H-1 & 332G-2, Harmony Square Jalan Perak 11600 Georgetown Pulau Pinang Tel No.: 04-2817 611	057-005
M & A SECURITIES SDN BHD 216, 216A, 218 and 218A Pengkalan Weld Lebu Macallum 10300 Pulau Pinang Tel No.: 04-2617 611	057-008	MALACCA SECURITIES SDN BHD Prima Tanjung Suite 98-3-13A Jalan Fettes 11200 Tanjung Tokong Pulau Pinang Tel No.: 04-8981 525	012-004
MERCURY SECURITIES SDN BHD Ground, 1 st , 2 nd & 3 rd Floor Wisma UMNO Lorong Bagan Luar Dua Seberang Perai 12000 Butterworth Pulau Pinang Tel No.: 04-3322 123	093-001	MERCURY SECURITIES SDN BHD 2 nd Floor Standard Chartered Bank Chambers 2 Lebu Pantai 10300 Pulau Pinang Tel No.: 04-2639 118	093-004
MERCURY SECURITIES SDN BHD 70-1-22 Jalan Mahsuri 11900 Bandar Bayan Baru Penang Tel No.: 04-6400 822	093-006	PM SECURITIES SDN BHD Level 25, Menara BHL 51, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel No.: 04-2273 000	064-004

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 2677, Jalan Chain Ferry Taman Inderawasih 13600 Seberang Prai Pulau Pinang Tel No.: 04-3900 022	087-005	RHB INVESTMENT BANK BERHAD Ground & Upper Floor No. 11A, Jalan Keranji Off Jalan Padang Lallang 14000 Bukit Mertajam Pulau Pinang Tel No.: 04-5402 888	087-015
RHB INVESTMENT BANK BERHAD 834, Ground Floor & First Floor 835, First Floor Jalan Besar, Sungai Bakap 14200 Sungai Jawi Seberang Perai Selatan Pulau Pinang Tel No.: 04-5831 888	087-032	RHB INVESTMENT BANK BERHAD 64 & 64-D Tingkat Bawah-Tingkat 3 & Tingkat 5-Tingkat 8 Lebuh Bishop 10200 Pulau Pinang Tel No.: 04-2634 222	087-033
RHB INVESTMENT BANK BERHAD Ground & 1st Floor No. 15-G-5, 15-G-6, 15-1-5, 15-1-6, 15-2-5, 15-2-6 & 15-2-24 Medan Kampung Relau (Bayan Point) 11950 Pulau Pinang Tel No.: 04-6404 888	087-042	RHB INVESTMENT BANK BERHAD 41-A, 41-B and 41-C Lintang Angsana Bandar Baru Air Itam 11500 Pulau Pinang Tel No.: 04-8352 988	087-056
SJ SECURITIES SDN BHD 12 th Floor, Office Tower Hotel Royal Penang No.3 Jalan Larut 10050 Georgetown Penang Tel No.: 04-2289 836	096-003	UOB KAY HIAN SECURITIES (M) SDN BHD 1 st , 2 nd & 3 rd Floor Bangunan Heng Guan 171 Jalan Burmah 10050 Pulau Pinang Tel No.: 04-2299 318	078-002
UOB KAY HIAN SECURITIES (M) SDN BHD Ground & 1 st Floor No. 2, Jalan Perniagaan 2 Pusat Perniagaan Alma 14000 Bukit Mertajam Pulau Pinang Tel No.: 04-5541 388	078-003		
PERLIS INDRA KAYANGAN			
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 39, Taman Suriani Persiaran Jubli Emas 01000 Kangar Perlis Indra Kayangan Tel No : 04-9793 888	087-060		

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KEDAH DARUL AMAN			
ALLIANCE INVESTMENT BANK BERHAD 2 nd Floor, Wisma PKNK Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman Tel No.: 04-7317 088	076-004	HWANGDBS INVESTMENT BANK BERHAD No. 70A, B & C, Jalan Mawar 1 Taman Pekan Baru 08000 Sungai Petani Kedah Darul Aman Tel No.: 04-4256 666	068-011
RHB INVESTMENT BANK BERHAD No. 112, Jalan Pengkalan Taman Pekan Baru 08000 Sungai Petani Kedah Darul Aman Tel No.: 04-4204 888	087-017	RHB INVESTMENT BANK BERHAD 35, Ground Floor Jalan Suria 1, Jalan Bayu 09000 Kulim Kedah Darul Aman Tel No.: 04-4964 888	087-019
RHB INVESTMENT BANK BERHAD 214-A, 214-B, 215-A & 215-B Medan Putra, Jalan Putra 05150 Alor Setar Kedah Darul Aman Tel No.: 04-7209 888	087-021	UOB KAY HIAN SECURITIES (M) SDN BHD Lot 4, 5 & 5A, 1 st Floor EMUM 55 No. 55, Jalan Gangsa Kawasan Perusahaan Mergong 2 Seberang Jalan Putra 05150 Alor Setar Kedah Darul Aman Tel No.: 04-7322 111	078-007
NEGERI SEMBILAN DARUL KHUSUS			
HWANGDBS INVESTMENT BANK BERHAD 1 st Floor 105, 107 & 109 Jalan Yam Tuan 70000 Seremban Negeri Sembilan Darul Khusus Tel No.: 06-7612 288	068-007	HWANGDBS INVESTMENT BANK BERHAD No. 6, Upper Level Jalan Mahligai 72100 Bahau Negeri Sembilan Darul Khusus Tel No.: 06-4553 188	068-013
KENANGA INVESTMENT BANK BERHAD 1C-1 & 1D-1, First Floor Jalan Tunku Munawir 70000 Seremban Negeri Sembilan Darul Khusus Tel No.: 06-7655 998	073-033	MAYBANK INVESTMENT BANK BERHAD Wisam HM Ground Floor No. 43 Jalan Dr. Krishnan 70000, Seremban Negeri Sembilan Darul Khusus Tel No.: 06-7669 555	098-005
PM SECURITIES SDN BHD 1 st , 2 nd & 3 rd Floor 19-21, Jalan Kong Sang 70000 Seremban Negeri Sembilan Darul Khusus Tel No.: 06-7623 131	064-002	RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor, No. 32 & 33 Jalan Dato' Bandar Tunggal 70000 Seremban Negeri Sembilan Darul Khusus Tel No : 06-7641 641	087-024
RHB INVESTMENT BANK BERHAD 1 st Floor, No. 3601, Jalan Besar 73000 Tampin Negeri Sembilan Darul Khusus Tel No : 06-4421 000	087-037	RHB INVESTMENT BANK BERHAD Ground & Mezzanine Floor No. 346 & 347, Batu ½, Jalan Pantai 71000 Port Dickson Negeri Sembilan Darul Khusus Tel No.: 06-6461 234	087-046

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
MELAKA			
CIMB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 191, Taman Melaka Raya Off Jalan Parameswara 75000 Melaka Tel No :06-2898 800	065-006	KENANGA INVESTMENT BANK BERHAD 71 (Ground, A&B) & 73(Ground, A&B), Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel No.: 06-2881 720	073-028
KENANGA INVESTMENT BANK BERHAD 22A & 22A-1 and 26 & 26-1 Jalan MP 10 Taman Merdeka Permai 75350 Batu Berendam Melaka Tel No.: 06-3372 550	073-034	MALACCA SECURITIES SDN BHD No. 1, 3 & 5, Jalan PPM 9 Plaza Pandan Malim (Business Park) Balai Panjang, P. O. Box 248 75250 Melaka Tel No.: 06-3371 533	012-001
MERCURY SECURITIES SDN BHD No. 81-B & 83-B Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel No.: 06-2921 898	093-003	PM SECURITIES SDN BHD No. 13, Jalan PM2 Plaza Mahkota 75000 Melaka Tel No.: 06-2866 008	064-006
RHB INVESTMENT BANK BERHAD No. 19, 21 & 23 Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel No.: 06-2833 622	087-002	RHB INVESTMENT BANK BERHAD 579, 580 & 581 Taman Melaka Raya 75000 Melaka Tel No.: 06-2825 211	087-026
TA SECURITIES HOLDINGS BERHAD No. 59, 59A & 59B Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel No.: 06-2862 618	058-008		
JOHOR DARUL TAKZIM			
ALLIANCE INVESTMENT BANK BERHAD No. 73, Ground & 1 st Floor Jalan Rambutan 86000 Kluang Johor Darul Takzim Tel No.: 07-7717 922	076-006	AMINVESTMENT BANK BERHAD 2 nd , 3 rd , 4 th Floor, Penggaram Complex 1, Jalan Abdul Rahman 83000 Batu Pahat Johor Darul Takzim Tel No.: 07-4342 282	086-002
AMINVESTMENT BANK BERHAD 18 th & 31 st Floor Selesa Tower Jalan Dato' Abdullah Tahir 80300 Johor Bahru Johor Darul Takzim Tel No.: 07-3343 855	086-006	CIMB INVESTMENT BANK BERHAD No. 73 Ground Floor, No. 73A First Floor & No.79A First Floor Jalan Kuning Dua 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3405 888	065-011

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
HONG LEONG INVESTMENT BANK BERHAD 1st Floor, No. 9, Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim Tel No : 07-4313 688	066-004	HONG LEONG INVESTMENT BANK BERHAD Suite 25.02, Level 25 Johor Bahru City Square (Office Tower) No. 106-108, Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim Tel No : 07-2227 388	066-005
HWANGDBS INVESTMENT BANK BERHAD Level 7, Johor Bahru City Square (Office Tower) 106-108, Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim Tel No.: 07-2222 692	068-004	INTER-PACIFIC SECURITIES SDN BHD 95, Jalan Tun Abdul Razak 80000 Johor Bahru Johor Darul Takzim Tel No.: 07-2231 211	054-004
JUPITER SECURITIES SDN BHD 3.01 Jalan Molek 1/8 Taman Molek 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3538 878	055-002	KENANGA INVESTMENT BANK BERHAD Level 2, Menara Pelangi Jalan Kuning, Taman Pelangi 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3333 600	073-004
KENANGA INVESTMENT BANK BERHAD No. 31, Lorong Dato' Ahmad Jalan Khalidi 84000 Muar Johor Darul Takzim Tel No.: 06-9542 711	073-008	KENANGA INVESTMENT BANK BERHAD Ground & Mezzanine Floor No. 34, Jalan Genuang 85000 Segamat Johor Darul Takzim Tel No.: 07-9333 515	073-009
KENANGA INVESTMENT BANK BERHAD No. 33 & 35 (Ground & 1st Floor A&B) Jalan Syed Abdul Hamid Sagaff 86000 Kluang Johor Darul Takzim Tel No.: 07-7771 161	073-010	KENANGA INVESTMENT BANK BERHAD Ground Floor No. 4 Jalan Dataran 1 Taman Bandar Tangkak 84900 Tangkak Johor Darul Takzim Tel No.: 06-9782 292	073-011
KENANGA INVESTMENT BANK BERHAD No. 24, 24A & 24B Jalan Penjaja 3 Kim Park Centre 83000 Batu Pahat Johor Darul Takzim Tel No.: 07-4326 963	073-017	KENANGA INVESTMENT BANK BERHAD Suite 16-02, 16-03 & 16-03A Level 16, Manara MSC Cyberport No. 5, Jalan Bukit Meldrum 80300 Johor Bahru Johor Darul Takzim Tel No.: 07-2237 423	073-019

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KENANGA INVESTMENT BANK BERHAD No. 57, 59 & 61, Jalan Ali 84000 Muar Johor Darul Takzim Tel No.: 06-9532 222	073-024	KENANGA INVESTMENT BANK BERHAD Ground Floor No. 234, Jalan Besar Taman Semberong Baru 83700 Yong Peng Johor Darul Takzim Tel No.: 07-4678 885	073-025
M & A SECURITIES SDN BHD Suite 5.3A, Level 5 Menara Pelangi Jalan Kuning, Taman Pelangi 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3381 233	057-003	M & A SECURITIES SDN BHD 26 Jalan Indah 16/5 Taman Bukit Indah 81200 Johor Bahru Johor Darul Takzim Tel No.: 07-2366 288	057-006
M & A SECURITIES SDN BHD No. 27,27A & 27 B Jalan Molek 3/10, Taman Molek 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3551 988	057-007	MALACCA SECURITIES SDN BHD 74 Jalan Serampang Taman Pelangi 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3351 533	012-005
MERCURY SECURITIES SDN BHD Suite 17.1, Level 17 Menara Pelangi Jalan Kuning, Taman Pelangi 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3316 992	093-005	PM SECURITIES SDN BHD No. 41, Jalan Molek 2/4 Taman Molek 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3513 232	064-005
PM SECURITIES SDN BHD Ground & 1 st Floor No. 43 & 43A, Jalan Penjaja 3 Taman Kim's Park Business Centre 83000 Batu Pahat Johor Darul Takzim Tel No.: 07-4333608	064-008	RHB INVESTMENT BANK BERHAD 6 th Floor, Wisma Tiong-Hua 8, Jalan Keris, Taman Sri Tebrau 80050 Johor Bahru Johor Darul Takzim Tel No.: 07-2788 821	087-006
RHB INVESTMENT BANK BERHAD 53, 53-A & 53-B Jalan Sultanah 83000 Batu Pahat Johor Darul Takzim Tel No.: 07-4380 288	087-009	RHB INVESTMENT BANK BERHAD No. 33-1, 1st & 2nd Floor Jalan Ali 84000 Muar Johor Darul Takzim Tel No.: 06-9538 262	087-025
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 119 & 121 Jalan Sutera Tanjung 8/2 Taman Sutera Utama 81300 Skudai Johor Darul Takzim Tel No.: 07-5577 628	087-029	RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 3, Jalan Susur Utama 2/1 Taman Utama 85000 Segamat Johor Darul Takzim Tel No.: 07-9321 543	087-030

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 40 Jalan Haji Mana 86000 Kluang Johor Darul Takzim Tel No.: 07-7769 655	087-031	RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 10, Jalan Anggerik 1 Taman Kulai Utama 81000 Kulai Johor Darul Takzim Tel No.: 07-6626 288	087-035
RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 343, Jalan Muar 84900 Tangkak Johor Darul Takzim Tel No.: 06-9787 180	087-038	RHB INVESTMENT BANK BERHAD 1 st Floor, No. 2 & 4 Jalan Makmur, Taman Sri Aman 85300 Labis Johor Darul Takzim Tel No.: 07-9256 881	087-039
RHB INVESTMENT BANK BERHAD 2 nd Floor, No. 21 & 23 Jalan Molek 1/30 Taman Molek 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3522 293	087-043	TA SECURITIES HOLDINGS BERHAD 7A Jalan Genuang Perdana Taman Genuang Perdana 85000 Segamat Johor Darul Takzim Tel No.: 07-9435 278	058-009
UOB KAY HIAN SECURITIES (M) SDN BHD 42-8, Main Road Kulai Besar 81000 Kulai Johor Darul Takzim Tel No.: 07-6637 398	078-005	UOB KAY HIAN SECURITIES (M) SDN BHD No. 70, 70-01, 70-02 Jalan Rosmerah 2/17 Taman Johor Jaya 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3513 218	078-006
UOB KAY HIAN SECURITIES (M) SDN BHD No. 171 (Ground Floor) Jalan Bestari 1/5 Taman Nusa Bestari 81300 Skudai Johor Darul Takzim Tel No : 07-5121 633	078-008		
KELANTAN DARUL NAIM			
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 3953-H PT225, 1 st Floor, Jalan Kebun Sultan 15350 Kota Bharu Kelantan Darul Naim Tel No.: 09-7430 077	087-020	TA SECURITIES HOLDINGS BERHAD 298, Jalan Tok Hakim 15000 Kota Bharu Kelantan Darul Naim Tel No.: 09-7432 288	058-004

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
PAHANG DARUL MAKMUR			
ALLIANCE INVESTMENT BANK BERHAD Ground, Mezzanine & 1st Floor B-400, Jalan Berserah 25300 Kuantan Pahang Darul Makmur Tel No.: 09-5660 800	076-002	CIMB INVESTMENT BANK BERHAD Ground 1 st & 2 nd Floor No. A-27 Jalan Dato' Lim Hoe Lek 25200 Kuantan Pahang Darul Makmur Tel No.: 09-5057 800	065-007
JUPITER SECURITIES SDN BHD 2 nd Floor, Lot No. 25 Jalan Chui Yin 28700 Bentong Pahang Darul Makmur Tel No.: 09-2234 136	055-005	KENANGA INVESTMENT BANK BERHAD A15, A17 & A19, Ground Floor Jalan Tun Ismail 2 Sri Dagangan 2 25000 Kuantan Pahang Darul Makmur Tel No.: 09-5171 698	073-027
RHB INVESTMENT BANK BERHAD B32 & B34, Lorong Tun Ismail 8 Seri Dagangan II 25000 Kuantan Pahang Darul Makmur Tel No.: 09-5173 811	087-007	RHB INVESTMENT BANK BERHAD Ground Floor 98 Jalan Pasdec 28700 Bentong Pahang Darul Makmur Tel No.: 09-2234 943	087-022
RHB INVESTMENT BANK BERHAD Ground Floor No. 76-A, Persiaran Camelia 4 Tanah Rata 39000 Cameron Highlands Pahang Darul Makmur Tel No.: 05-4914 913	087-041		
TERENGGANU DARUL IMAN			
ALLIANCE INVESTMENT BANK BERHAD Ground & Mezzanine Floor Wisma Kam Choon 101, Jalan Kampung Tiong 20100 Kuala Terengganu Terengganu Darul Iman Tel No.: 09-6317 922	076-009	FA SECURITIES SDN BHD No. 51 & 51A Ground, Mezzanine & 1st Floor Jalan Tok Lam 20100 Kuala Terengganu Terengganu Darul Iman Tel No.: 09-6238 128	021-001
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor 9651, Cukai Utama Jalan Kubang Kurus 24000 Kemaman Terengganu Darul Iman Tel No.: 09-8583 109	087-027	RHB INVESTMENT BANK BERHAD 31A, Ground Floor 31A & 31B, 1 st Floor Jalan Sultan Ismail 20200 Kuala Terengganu Terengganu Darul Iman Tel No.: 09-6261 816	087-055

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
SABAH			
CIMB INVESTMENT BANK BERHAD 1 st & 2 nd Floor Central Building No. 28, Jalan Sagunting 88000 Kota Kinabalu Sabah Tel No : 088-328 878	065-005	HWANGDBS INVESTMENT BANK BERHAD Suite 1-9-E1, 9 th Floor, CPS Tower Centre Point Sabah No. 1, Jalan Centre Point 88000 Kota Kinabalu Sabah Tel No.: 088-311 688	068-008
KENANGA INVESTMENT BANK BERHAD Aras 8, Wisma Great Eastern 68, Jalan Gaya 88000 Kota Kinabalu Sabah Tel No.: 088-236 188	073-032	RHB INVESTMENT BANK BERHAD 5 th Floor, Wisma BSN Sabah Jalan Kemajuan, Karamunsing 88000 Kota Kinabalu Sabah Tel No.: 088-269 788	087-010
RHB INVESTMENT BANK BERHAD Lot 14-0, Ground Floor Lorong Lintas Plaza 2 Lintas Plaza, Off Jalan Lintas 88300 Kota Kinabalu Sabah Tel No : 088-258 618	087-036	RHB INVESTMENT BANK BERHAD Ground Floor, Block 2 Lot 4 & Lot 5, Bandar Indah, Mile 4 North Road 91000 Sandakan Sabah Tel No : 089-229 286	087-057
UOB KAY HIAN SECURITIES (M) SDN BHD 11, Equity House, Block K Sadong Jaya, Karamunsing 88100 Kota Kinabalu Sabah Tel No.: 088-234 090	078-011		
SARAWAK			
AMINVESTMENT BANK BERHAD No. 164, 166 & 168 1 st , 2 nd & 3 rd Floor Jalan Abell 93100 Kuching Sarawak Tel No : 082-244 791	086-005	CIMB INVESTMENT BANK BERHAD Level 1, Wisma STA 26 Jalan Datuk Abang Abdul Rahim 93450 Kuching Sarawak Tel No.: 082-358 606	065-004
CIMB INVESTMENT BANK BERHAD No. 6A, Ground Floor Jalan Bako, Off Brooke Drive 96000 Sibu Sarawak Tel No.: 084-367 700	065-008	HWANGDBS INVESTMENT BANK BERHAD Ground Floor & 1 st Floor No. 1, Jalan Pending 1 st Floor, No. 3, Jalan Pending 93450 Kuching Sarawak Tel No.: 082-341 999	068-005

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
HWANGDBS INVESTMENT BANK BERHAD No. 282, 1 st Floor Park City Commercial Centre Phase 4, Jalan Tun Ahmad Zaidi 97000 Bintulu Sarawak Tel No.: 086-330 008	068-016	KENANGA INVESTMENT BANK BERHAD Lot 2465, Jalan Boulevard Utama Boulevard Commercial Centre 98000 Miri Sarawak Tel No.: 085-435 577	073-002
KENANGA INVESTMENT BANK BERHAD Level 1-5, Wisma Mahmud Jalan Sungai Sarawak 93100 Kuching Sarawak Tel No.: 082-338 000	073-003	KENANGA INVESTMENT BANK BERHAD No. 11-12, (Ground & 1 st Floor) Lorong Kampung Datu 3 96000 Sibul Sarawak Tel No.: 084-313 855	073-012
KENANGA INVESTMENT BANK BERHAD Ground Floor of Survey Lot No. 4203 Parkcity Commerce Square Phase 6, Jalan Diwarta 97000, Bintulu Sarawak Tel No.: 086-337 588	073-018	KENANGA INVESTMENT BANK BERHAD Suite 9 & 10, 3 rd Floor, Yung Kong Abell Lot 365, Section 50 Jalan Abell 93100 Kuching Sarawak Tel No.: 082-248 877	073-036
RHB INVESTMENT BANK BERHAD Yung Kong Abell Units No. 1-10, 2 nd Floor Lot 365, Section 50 Jalan Abell 93100 Kuching Sarawak Tel No.: 082-250 888	087-003	RHB INVESTMENT BANK BERHAD Lot 170 & 171 Section 49, K.T.L.D Jalan Chan Chin Ann 93100 Kuching Sarawak Tel No.: 082-422 252	087-008
RHB INVESTMENT BANK BERHAD Lot 1268, 1 st & 2 nd Floor Lot 1269, 2 nd Floor Centre Point Commercial Centre Jalan Melayu 98000 Miri Sarawak Tel No : 085-422 788	087-012	RHB INVESTMENT BANK BERHAD 102, Pusat Pedada Jalan Pedada 96000 Sibul Sarawak Tel No.: 084-329 100	087-013
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 10, Jalan Bersatu 96100 Sarikei Sarawak Tel No.: 084-654 100	087-050	RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 221, Parkcity Commerce Square Phase III, Jalan Tun Ahmad Zaidi 97000 Bintulu Sarawak Tel No.: 086-311 770	087-053

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
TA SECURITIES HOLDINGS BERHAD 12G, Jalan Kampong Datu 96000 Sibu Sarawak Tel No.: 084-319 998	058-002	TA SECURITIES HOLDINGS BERHAD 2 nd Floor, (Bahagian Hadapan) Bangunan Binamas Lot 138, Section 54 Jalan Pandung 93100 Kuching Sarawak Tel No.: 082-236 333	058-006

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