



# **HENG HUAT RESOURCES GROUP BERHAD**

(Company No. 969678-D)  
(Incorporated in Malaysia under the Companies Act, 1965)

## **INTERIM FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2016**

<b><u>CONTENTS</u></b>	<b><u>PAGE</u></b>
<b>CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>	<b>1</b>
<b>CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>3</b>
<b>CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	<b>4</b>
<b>CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>5 – 6</b>
<b>EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134</b>	<b>7 – 11</b>
<b>ADDITIONAL INFORMATION REQUIRED BY THE ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD</b>	<b>12 – 18</b>



**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME  
(UNAUDITED)**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31.03.2016 <sup>(1)</sup> RM'000	Preceding Year Corresponding Quarter 31.03.2015 RM'000	Current Year Period 31.03.2016 <sup>(1)</sup> RM'000	Preceding Year Corresponding Period 31.03.2015 RM'000
Revenue	20,707	26,460	20,707	26,460
Cost of sales	(12,840)	(15,885)	(12,840)	(15,885)
Gross profit ("GP")	7,867	10,575	7,867	10,575
Other income <sup>(@)</sup>	1,304	222	1,304	222
Selling and distribution expenses	(3,882)	(4,332)	(3,882)	(4,332)
Administrative and other expenses <sup>(@)</sup>	(4,729)	(2,314)	(4,729)	(2,314)
Finance costs	(305)	(383)	(305)	(383)
Profit before taxation ("PBT")	255	3,768	255	3,768
Tax income/(expenses)	45	(249)	45	(249)
<b>Profit after taxation ("PAT") / Total comprehensive income</b>	<b>300</b>	<b>3,519</b>	<b>300</b>	<b>3,519</b>
<b>Profit for the financial period/ Total comprehensive income attributable to:</b>				
- Owners of Heng Huat	339	2,916	339	2,916
- Non-controlling interests	(39)	603	(39)	603
	<b>300</b>	<b>3,519</b>	<b>300</b>	<b>3,519</b>
<b>Earnings per share attributable to owners of Heng Huat:</b>				
- Basic (sen) <sup>(2)</sup>	0.11	0.94 <sup>^</sup>	0.11	0.94 <sup>^</sup>
- Diluted (sen) <sup>(2)</sup>	N/A	N/A	N/A	N/A

Remark:

<sup>@</sup> The other income and administrative and other expenses for the current quarter under review was significantly higher as compared to the corresponding quarter in preceding year due to the foreign exchange effects as disclosed below:

	[--- Quarter ended ---]		[--- Period ended ---]	
	31.03.2016 RM'000	31.03.2015 RM'000	31.03.2016 RM'000	31.03.2015 RM'000
<u>Other income</u>				
Realised gain on foreign exchange	669	299	669	299
<u>Administrative and other expenses</u>				
Unrealised (loss)/gain on foreign exchange	(2,155)	96	(2,155)	96
Realised loss on foreign exchange	(43)	-	(43)	-
	<b>(2,198)</b>	<b>96</b>	<b>(2,198)</b>	<b>96</b>
<b>Net foreign exchange (loss)/gain</b>	<b>(1,529)</b>	<b>395</b>	<b>(1,529)</b>	<b>395</b>

The relatively high unrealised loss on foreign exchange during the current quarter/ period ended 31 March 2016 was primarily due to the re-translation of trade balances denominated in USD at closing rate as of 31 March 2016, where the USD closing rate had weakened from RM4.2900/USD as of 31 December 2015 to RM3.9270/USD as of 31 March 2016. This is an accounting loss with no actual and immediate monetary impact to the Group, and may be reversed if the USD strengthens in subsequent period(s). As of the latest practicable date (i.e. 19 May 2016) prior to the issuance of this interim report, the closing rate of USD has strengthened to RM4.0815/USD.



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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME  
(UNAUDITED)**

(Continued)

Remark:

<sup>^</sup> *The basic earnings per share for quarter and financial period ended 31 March 2015 have been adjusted to reflect the effects of bonus issue completed on 15 July 2015. This is in accordance with the requirements of MFRS 133, where earnings per share calculations for all periods shall be adjusted retrospectively.*

*N/A Not applicable.*

Notes:

<sup>(1)</sup> *The unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.*

<sup>(2)</sup> *Kindly refer to Note B10 for further details.*

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(UNAUDITED)**

	As at 31.03.2016 <sup>(1)</sup> RM'000 (unaudited)	As at 31.12.2015 RM'000 (audited)
<b>Non-Current Assets</b>		
Property, plant and equipment	87,086	81,431
Intangible assets	1,296	961
	88,382	82,392
<b>Current Assets</b>		
Inventories	8,367	7,617
Trade and other receivables	26,418	31,791
Derivative asset	28	-
Current tax assets	373	742
Cash and cash equivalents	10,483	10,469
	45,669	50,619
<b>TOTAL ASSETS</b>	<b>134,051</b>	<b>133,011</b>
<b>Equity</b>		
Share capital	30,870	30,870
Share premium	5,454	5,454
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	44,991	44,652
	76,130	75,791
Non-controlling interests	5,216	5,255
<b>Total Equity</b>	<b>81,346</b>	<b>81,046</b>
<b>Non-Current Liabilities</b>		
Borrowings	17,790	13,942
Deferred tax liabilities	808	895
	18,598	14,837
<b>Current Liabilities</b>		
Trade and other payables	15,267	18,075
Derivative liability	-	108
Borrowings	18,840	18,945
	34,107	37,128
<b>Total Liabilities</b>	<b>52,705</b>	<b>51,965</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>134,051</b>	<b>133,011</b>
<b>NET ASSETS PER SHARE (RM) <sup>(2)</sup></b>	<b>0.25</b>	<b>0.25</b>

Notes:

<sup>(1)</sup> The unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.

<sup>(2)</sup> Calculated based on the Company's existing issued and paid-up share capital of 308,700,045 ordinary shares of RM0.10 each ("Shares").



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(UNAUDITED)**

	[----- Non-Distributable -----]			<i>Distributable</i>	Total attributable to owners of the Company RM'000	Non- controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Share premium RM'000	Reorganisation reserve RM'000	Retained earnings RM'000			
At 1 January 2016	30,870	5,454	(5,185)	44,652	<b>75,791</b>	5,255	<b>81,046</b>
Total comprehensive income for the financial period	-	-	-	339	<b>339</b>	(39)	<b>300</b>
At 31 March 2016	30,870	5,454	(5,185)	44,991	<b>76,130</b>	5,216	<b>81,346</b>
At 1 January 2015	20,580	15,863	(5,185)	36,880	<b>68,138</b>	4,594	<b>72,732</b>
Dividend paid to non-controlling shareholder of a subsidiary	-	-	-	-	-	(800)	<b>(800)</b>
Dividend paid to shareholders of the parent	-	-	-	(1,029)	<b>(1,029)</b>	-	<b>(1,029)</b>
Total comprehensive income for the financial period	-	-	-	2,916	<b>2,916</b>	603	<b>3,519</b>
At 31 March 2015	20,580	15,863	(5,185)	38,767	<b>70,025</b>	4,397	<b>74,422</b>

Note:

The unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)**

	Year-to-date ended	
	31.03.2016 RM'000	31.03.2015 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	255	3,768
<u>Adjustments for:</u>		
Amortisation of intangible assets	64	91
Depreciation of property, plant and equipment	1,809	1,645
Fair value adjustment on derivative instruments	(136)	181
(Gain)/Loss on disposal of property, plant and equipment	*	47
Interest expense	305	383
Interest income	(13)	(52)
Reversal of impairment of receivables	(331)	-
Unrealised loss/(gain) on foreign exchange	2,155	(96)
	4,108	5,967
Operating profit before working capital changes	4,108	5,967
(Increase)/Decrease in inventories	(750)	1,136
Increase in trade and other receivables	3,605	(5,092)
(Decrease)/Increase in trade and other payables	(2,808)	3,069
	4,155	5,080
Tax refund/(paid)	327	(210)
<b>Net cash from operating activities</b>	<b>4,482</b>	<b>4,870</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Development costs incurred	(399)	-
Interest received	13	52
Proceeds from disposal of property, plant and equipment	39	148
Purchase of property, plant and equipment	(4,427)	(4,504)
Changes in fixed deposits pledged with licensed banks	(27)	(11)
<b>Net cash used in investing activities</b>	<b>(4,801)</b>	<b>(4,315)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid to non-controlling shareholders of a subsidiary	-	(800)
Dividend paid to shareholders of the parent	-	(1,029)
Interest paid	(305)	(383)
Net (repayment)/drawdown of bankers' acceptance	(1,587)	1,526
Net drawdown/(repayment) of term loans	3,145	(729)
Net repayment of hire purchase payables	(1,458)	(320)
<b>Net cash used in financing activities</b>	<b>(205)</b>	<b>(1,735)</b>
Net changes in cash and cash equivalents	(524)	(1,180)
Effects of foreign exchange	(56)	58
Cash and cash equivalents at beginning of the financial period	4,660	15,213
<b>Cash and cash equivalents at end of the financial period</b>	<b>4,080</b>	<b>14,091</b>

Remark

\* Less than RM1,000



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)**  
**(UNAUDITED)**

	Year-to-date ended	
	31.03.2016 <sup>(1)</sup>	31.03.2015
	RM'000	RM'000
Cash and cash equivalents comprise the following:		
Cash and bank balances	8,096	14,243
Fixed deposits pledged to financial institutions	2,387	2,222
	10,483	16,465
Less: Bank overdraft	(4,016)	(152)
Less: Fixed deposits pledged to financial institutions	(2,387)	(2,222)
	<b>4,080</b>	<b>14,091</b>

*Note:*

*The unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.*

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## EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134

### A1. BASIS OF PREPARATION

The condensed consolidated interim financial statements as contained in this interim financial report are unaudited and have been prepared under the historical cost convention except otherwise stated.

These unaudited interim financial statements have been prepared in accordance with the requirements of MFRS 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”) and Part K, Rule 9.22 and Appendix 9B of the ACE Market Listing Requirements (“ACE LR”) issued by Bursa Malaysia Securities Berhad (“Bursa Securities”).

These unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial report. The explanatory notes contained herein provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2015.

### A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation applied in the preparation of these unaudited interim financial statements are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2015, except for the adoption of the following MFRS and Amendments to MFRSs as disclosed below:

#### Effective for annual periods commencing on or after 1 January 2016

- Amendments to MFRSs (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Amendments to MFRS 10, MFRS 12 and MFRS 128 Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Amendments to MFRS 101 Disclosure Initiative
- Amendments to MFRS 116 and MFRS 138 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants
- Amendments to MFRS 127 Equity Method in Separate Financial Statements
- MFRS 14 Regulatory Deferral Accounts

The adoption of the above MFRS and Amendments to MFRSs did not have any significant financial impact to the Group.





## **A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

The following MFRSs and Amendments to MFRSs have been issued by the MASB but are not early adopted by the Group:

### Effective for annual periods commencing on or after 1 January 2017

- Amendments to MFRS 107 Disclosure Initiative
- Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses

### Effective for annual periods commencing on or after 1 January 2018

- MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014)
- MFRS 15 Revenue from Contracts with Customers

### Effective for annual periods commencing on or after 1 January 2019

- MFRS 16 Leases

### Deferred (date to be determined by MASB)

- Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group is in the process of assessing the impact of implementing these accounting standards and amendments, since the effects would only be observable for the future financial years.

## **A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors' report on the Group's most recent annual audited financial statements for the financial year ended 31 December 2015 were not subject to any qualification.

## **A4. SEASONALITY OR CYCLICALITY OF OPERATION**

Save for oil palm empty fruit bunch ("EFB") fibre, the Group's biomass materials and value-added products are not significantly affected by seasonal/cyclical effects. Demand for the Group's oil palm EFB fibre generally experience a decline during the Chinese New Year season mainly due to slowdown in logistics services and business activities in China during this period as businesses are closed for holidays during the festive season.

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



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**A5. UNUSUAL ITEMS**

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group during the current quarter and financial period under review.

**A6. MATERIAL CHANGES IN ESTIMATES**

There were no significant changes in estimates of amounts reported in prior financial years that have a material impact on the current quarter and financial period under review.

**A7. DEBTS AND EQUITY SECURITIES**

There were no issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the current quarter and financial period under review.

**A8. DIVIDEND PAID/ DECLARED**

The Board of Directors did not recommend any payment of dividend during the current quarter under review.

**A9. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

There were no material events subsequent to the end of current quarter and financial period under review that have not been reflected in this interim financial report/ announced to the Bursa Securities.

**A10. CHANGES IN THE COMPOSITION OF THE GROUP**

There were no changes in the composition of the Group during the current quarter and financial period under review.

**A11. CHANGES IN CONTINGENT LIABILITIES**

There are no material contingent liabilities as at the date of this report.



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## A12. CAPITAL COMMITMENTS

The Group's capital commitments in respect of property, plant and equipment which were not provided for in the financial statements as at 31 March 2016 is as follows:

	<b>As at 31.03.2016 RM'000</b>
<b>Property, plant and equipment</b>	
Approved but not contracted for	2,144
Contracted but not provided for	16,901
	<hr/>
	<b>19,045</b>
	<hr/> <hr/>

## A13. SEGMENT INFORMATION

The Group, through its subsidiaries, are principally engaged in manufacturing and trading of biomass materials and manufacturing and trading of mattresses and related products. There is no change to the principal activities of the Group during the current quarter and financial period under review.

The Group 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:

- (i) Biomass materials and related products  
  
Manufacturing and trading of coconut fibre and related products, and oil palm EFB fibre and related products.
- (ii) Mattresses and related products  
  
Manufacturing and trading of mattresses and related products.



**A13. SEGMENT INFORMATION (cont'd)**

	Current quarter ended		Year-to-date ended	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	RM'000	RM'000	RM'000	RM'000
<b><u>Segment Revenue</u></b>				
Biomass materials and related products	14,728	19,881	14,728	19,881
Mattresses and related products	6,804	12,648	6,804	12,648
	21,532	32,529	21,532	32,529
Elimination of intragroup transactions	(825)	(6,069)	(825)	(6,069)
<b>Revenue from external customers</b>	<b>20,707</b>	<b>26,460</b>	<b>20,707</b>	<b>26,460</b>
<b><u>Segment Results</u></b>				
Biomass materials and related products	85	3,593	85	3,593
Mattresses and related products	165	283	165	283
	250	3,876	250	3,876
Unallocated corporate income and expenses (net)	(70)	(226)	(70)	(226)
Elimination of intragroup transactions and profits	75	118	75	118
<b>Profit before tax of the Group</b>	<b>255</b>	<b>3,768</b>	<b>255</b>	<b>3,768</b>
<b><u>Segment Assets</u></b>				
Biomass materials and related products	116,062	92,076	116,062	92,076
Mattresses and related products	20,069	20,952	20,069	20,952
	136,131	113,028	136,131	113,028
Tax assets	373	470	373	470
Unallocated assets	31,852	26,134	31,852	26,134
Elimination of intragroup balances and profits	(34,305)	(25,314)	(34,305)	(25,314)
<b>Total assets of the Group</b>	<b>134,051</b>	<b>114,318</b>	<b>134,051</b>	<b>114,318</b>
<b><u>Segment Liabilities</u></b>				
Biomass materials and related products	60,064	42,411	60,064	42,411
Mattresses and related products	17,038	17,729	17,038	17,729
	77,102	60,140	77,102	60,140
Tax liabilities	808	750	808	750
Unallocated liabilities	9,140	4,336	9,140	4,336
Elimination of intragroup balances and profits	(34,345)	(25,330)	(34,345)	(25,330)
<b>Total liabilities of the Group</b>	<b>52,705</b>	<b>39,896</b>	<b>52,705</b>	<b>39,896</b>



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## **ADDITIONAL INFORMATION REQUIRED BY THE ACE MARKET LISTING REQUIREMENTS OF BURSA SECURITIES**

### **B1. ANALYSIS OF PERFORMANCE**

#### **Revenue**

For the current quarter and financial period ended 31 March 2016, the Group recorded revenue of RM20.71 million, representing a decrease of approximately RM5.75 million or 21.73% as compared to the revenue of RM26.46 million registered in the preceding year corresponding quarter and period.

The moderation of sales performance during the current quarter and financial period under review was primarily due to the following factors:

- i. Lower sales of oil palm EFB fibre to China market, as the demand is on gradual recovery after the market sentiment within the China's operating environment was weighed down by the economic uncertainties during the second half of 2015, and in line with the Group's initiative to mitigate the credit risk exposure by lowering the sales to one of the China intermediaries pending the settlement of its outstanding balance exceeding credit period; and

#### **Remark:**

*The outstanding balance exceeding credit period owing by the said China customer has been fully collected subsequent to the period end;*

- ii. Decrease in average selling prices of oil palm EFB fibre, in order to strengthen the Group's market competitiveness, in view of the prevailing economic uncertainties.

#### **Pre-Tax Profit Level**

For the current quarter and financial period ended 31 March 2016, the Group reported a profit before taxation of approximately RM0.26 million, representing a decrease of RM3.51 million or 93.10% as compared to the profit before taxation of RM3.77 million recorded in the preceding year corresponding quarter and period.

The moderation of the profit performance was primarily due to the following factors:

- i. Lower gross profit recorded, in line with the decrease in sales as explained above; and
- ii. Net foreign exchange loss of RM1.53 million recorded by the Group during the current quarter and financial period under review, as compared to a net foreign exchange gain of RM0.40 million registered in the preceding year corresponding quarter and period. This was primarily due to the relatively high unrealised loss on foreign exchange recorded during the current quarter and period under review, arising from the re-translation of trade balances denominated in USD at closing rate as of 31 March 2016, where the USD closing rate had weakened from RM4.2900/USD as of 31 December 2015 to RM3.9270/USD as of 31 March 2016. This is an accounting loss with no actual and immediate monetary impact to the Group, and may be reversed if the USD strengthens in subsequent period(s). As of the latest practicable date (i.e. 19 May 2016) prior to the issuance of this interim report, the closing rate of USD has strengthened to RM4.0815/USD.



**B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER**

	<b>Current quarter ended 31.03.2016</b>	<b>Preceding quarter ended 31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit/(Loss) before taxation	255	(1,591)

The Group reported profit before tax of approximately RM0.26 million for the current quarter ended 31 March 2016, representing an improvement of RM1.85 million or 116.35% as compared to loss before tax of RM1.59 million in the preceding quarter ended 31 December 2015. This was primarily due to higher gross profit recorded during the current quarter under review, attributable to:

- (i) Improved sales of oil palm EFB fibre as a result of increase in demand from China market;
- (ii) Better margin achieved for sales of oil palm EFB fibre as a result of lower unit production cost in line with the increase in production output; and
- (iii) Better margin achieved for mattresses and related products in line with the Group's cost control efforts and marketing efforts.

**B3. PROSPECTS**

Our Group remain cautiously optimistic that the orders for oil palm EFB fibre from China will continue to be stable backed by the rising population in China and increasing demand for raw material alternatives that are cheaper, natural and environmentally-friendly.

Upon completion of our new production factory at Gua Musang, our Group will have an increased capacity that enables us to tap into new customer segments as well as expand our market coverage in China. The new production factory is currently under construction and is targeted to be completed by the fourth quarter of 2016.

Barring any unforeseen circumstances and adverse external economic factors, the Board of Directors is of the view that the Group's financial performance for the financial year ending 31 December 2016 will remain promising.

**B4. PROFIT FORECAST OR PROFIT GUARANTEE**

Not applicable as no profit forecast or profit guarantee has been previously published or issued by the Group.



**B5. TAX INCOME / (EXPENSE)**

	<b>Current quarter ended 31.03.2016 RM'000</b>	<b>Year-to-date ended 31.03.2016 RM'000</b>
Current tax expense	(42)	(42)
Deferred tax income	87	87
Total tax income	<u>45</u>	<u>45</u>
Effective tax rate	<u>+ 17.65%</u>	<u>+ 17.65%</u>

The Group's effective tax rate for the current quarter and financial period under review stood at +17.65% (representing a tax income position).

The tax income position for the current quarter and financial period under review, as compared to the applicable statutory tax rate of 24%, was primarily due to reversal of deferred tax liabilities overprovided in prior year in line with the reduction of corporate tax rate from 25% to 24%.

Generally, the Group's effective tax rate will be lower than the applicable statutory tax rate as the Group's operating subsidiaries were granted tax exemptions as detailed below:

<b>Company</b>	<b>Tax Exemption Period</b>	<b>Exempted Products</b>
HK Fibre Sdn Bhd	Five (5) years, from 1 April 2012 to 31 March 2017	Coconut fibre sheet
HK Kitaran Sdn Bhd	Ten (10) years, from 1 July 2010 to 30 June 2020	Fibre from palm biomass
HK Kitaran Sdn Bhd	Five (5) years, from 1 February 2013 to 31 January 2018	Briquette from palm biomass
HK Palm Fibre Manufacturer Sdn Bhd	Five (5) years, from 24 February 2014 to 23 February 2019	Fibre from palm biomass



## B6. STATUS OF CORPORATE PROPOSALS

### (i) *Proposed Transfer of Listing and Amendments to Articles of Association*

On 11 May 2015, on behalf of the Board, Kenanga Investment Bank Berhad (“KIBB”) announced that the Company proposed to undertake the following:

- (i) Proposed bonus issue of 102,900,015 new ordinary shares of RM0.10 each in Heng Huat (“Shares”) to be credited as fully paid-up on the basis of one (1) new Share for every two (2) existing Shares held on an entitlement date to be determined later (“**Proposed Bonus Issue**”);
- (ii) Proposed transfer of the listing of and quotation for the entire issued and paid-up share capital of Heng Huat from the ACE Market to the Main Market of Bursa Securities (“**Proposed Transfer**”); and
- (iii) Proposed amendments to the Articles of Association of the Company (“**Proposed Amendments**”).

The Proposed Transfer is proposed to be implemented upon completion of the Proposed Bonus Issue. The Proposed Transfer and the Proposed Amendments are inter-conditional upon each other.

#### Proposed Bonus Issue

The Proposed Bonus Issue has been completed on 15 July 2015, following the listing of and quotation for the 102,900,015 new Shares issued and allotted to the shareholders of the Company on the ACE market of Bursa Securities.

#### Proposed Transfer and Proposed Amendments

On 2 September 2015, on behalf of the Board, KIBB announced that the application in relation to the Proposed Transfer has been submitted to the Securities Commission Malaysia (“SC”). As of to-date, the Company is still awaiting the decision from SC for the Proposed Transfer.

### (ii) *Acquisition of biomass co-generation power plant*

On 22 June 2015, the Company had announced that HK Power Sdn Bhd, a wholly-owned subsidiary of the Company, had entered into a contract with Advance Boilers Sdn Bhd for the design, supply, delivery to site, installation and commissioning of one (1) unit of 1,077 electrical kilowatts (eKW) biomass co-generation power plant (“Power Plant”) for a cash consideration of RM8,810,000 (“**Proposed Acquisition of Power Plant**”).

Relevant details on the Proposed Acquisition of Power Plant has been announced to Bursa Securities on the same date.

Barring any unforeseen circumstances and subject to obtaining of the requisite approvals from the relevant authorities, the Proposed Acquisition of the Power Plant and its construction is expected to be completed by the third quarter of 2016.

Save as disclosed above, there are no other corporate proposals announced but not completed as at the date of this announcement.





## B7. BORROWINGS

The Group's borrowings as at 31 March 2016 are as follows:-

	Short Term RM'000	Long Term RM'000	Total RM'000
<b><i>Secured and guaranteed</i></b>			
Bankers' acceptance	8,531	-	8,531
Bank overdrafts	4,016	-	4,016
Hire purchase payables	4,090	4,743	8,833
Term loans	2,203	13,047	15,250
<b>Total Borrowings</b>	<b>18,840</b>	<b>17,790</b>	<b>36,630</b>

All the borrowings are denominated in Ringgit Malaysia (RM).

## B8. CHANGES IN MATERIAL LITIGATION

As at the date of this report, there is no litigation or arbitration, which has a material effect on the financial position of the Group, and the Board of Directors are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

## B9. EARNINGS PER SHARE

Basic Earnings per Share ("BEPS")

	Current quarter ended		Year-to-date ended	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	RM'000	RM'000	RM'000	RM'000
<b>Basic earnings per share</b>				
Profit attributable to equity holders of the parent	339	2,916	339	2,916
Weighted average number of ordinary shares in issue ('000)	308,700	308,700	308,700	308,700
	<b>sen</b>	<b>sen</b>	<b>sen</b>	<b>sen</b>
BEPS	0.11	0.94	0.11	0.94

Diluted Earnings per Share ("DEPS")

No diluted earnings per share is disclosed as the Company does not have any dilutive potential ordinary shares (such as options or convertible instruments) in issue as at 31 March 2016.



#### B10. DISCLOSURE ON REALISED AND UNREALISED PROFIT/LOSS

The retained earnings of the Group as at 31 March 2016 are analysed as follows:

	As at 31.03.2016 RM'000	As at 31.12.2015 RM'000
The retained earnings of the Company and its subsidiaries:		
- Realised	57,914	54,838
- Unrealised	(2,935)	(159)
	54,979	54,679
Add: Consolidation adjustments	(9,988)	(10,027)
	44,991	44,652
<b>Total Group retained earnings as per consolidated financial statements</b>	<b>44,991</b>	<b>44,652</b>

#### B11. DISCLOSURE ON SELECTED INCOME/EXPENSE ITEMS

Included in profit before tax comprised the following income/(expense) items:

	Current quarter ended 31.03.2016 RM'000	Year-to-date ended 31.03.2016 RM'000
Interest income	13	13
Other income including investment income	155	155
Interest expense	(305)	(305)
Depreciation expenses	(1,809)	(1,809)
Amortisation expenses	(64)	(64)
Net foreign exchange (loss)/gain	(1,529)	(1,529)
Gain on disposal of property, plant and equipment	*	*
Fair value gain/(loss) on derivative instruments	136	136
Reversal of impairment of receivables	331	331
Provision for and write off of receivables	-	-
Property, plant and equipment written off	-	-
Provision for and write off of inventories	-	-
Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	-
Exceptional items	-	-

Remark

\* Less than RM1,000



## B12. FINANCIAL INSTRUMENTS

### *Derivatives*

The Group have entered into forward foreign currency contracts to operationally hedge forecast sales collection denominated in foreign currency that are expected to occur at various dates within the next (12) months from the end of the reporting period. As at 31 March 2016, the Group have the following outstanding forward currency contracts:

Maturity Period	[----- Contract Value -----]		Fair value
	USD'000	RM'000 equivalent	as at 31 March 2016 RM'000
- By July 2016	100	393	383
- By December 2016	100	433	471
	100	826	854

The fair value of a forward foreign currency contract is the amount that would be payable or receivable upon termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and the forward exchange rate as at the end of each reporting period applied to a contract of similar amount and maturity profile.

The difference between the forward rates entered into, and the market rates, is recognised as derivatives liability or asset as applicable with a corresponding amount reported in the profit or loss.

### *Gains / (Losses) arising from Fair Value Changes of Financial Liabilities*

The Group recorded net fair value gain of approximately RM28,000 arising from fair value changes of the forward foreign currency contracts entered into by the Group and outstanding as at 31 March 2016.

There is no change to the policies in relation to the derivatives since the last financial year ended 31 December 2015.