



HENG HUAT RESOURCES GROUP BERHAD

(Company No. 969678-D)
(Incorporated in Malaysia under the Companies Act, 2016)

INTERIM FINANCIAL REPORT FOR THE FIFTH QUARTER ENDED 31 MARCH 2020

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

	Individual Quarter		Cumulative Period	
	Current Year Quarter 31.03.2020 ⁽¹⁾ RM'000	Preceding Year Corresponding Quarter 31.03.2019 RM'000	Current Year Period 31.03.2020 ⁽¹⁾ RM'000	Preceding Year Corresponding Period 31.03.2019 RM'000
Revenue	12,958	23,672	102,111	138,394
Cost of sales	(28,766)	(19,791)	(100,297)	(114,713)
Gross profit/(loss) ("GP")	(15,808)	3,881	1,874	23,681
Other income	623	377	1,415	1,876
Administrative and marketing expenses	(4,834)	(3,540)	(42,030)	(25,335)
Finance costs	(758)	(823)	(3,845)	(4,203)
Loss before tax	(20,777)	(105)	(42,646)	(3,981)
Tax income/(expenses)	384	342	408	742
(Loss)/Profit after tax/ Total comprehensive loss	(20,393)	237	(42,238)	(3,239)
(Loss)/Profit for the financial period/ Total comprehensive (loss)/income attributable to:				
- Owners of Heng Huat	(20,396)	224	(42,210)	(3,277)
- Non-controlling interests	3	13	(28)	38
	(20,393)	237	(42,238)	(3,239)
(Loss)/Earnings per share attributable to owners of Heng Huat:				
- Basic(sen) ⁽²⁾	(60.06)	0.07	(15.12)	(1.04)
- Diluted(sen) ⁽²⁾	N/A	N/A	N/A	N/A

Notes:

N/A Not applicable.

⁽¹⁾ 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 2018 and the accompanying explanatory notes attached to this interim financial report.

⁽²⁾ Kindly refer to Note **B8** for further details.

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

	As at 31.03.2020 ⁽¹⁾ RM'000 (unaudited)	As at 31.12.2018 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	56,214	92,864
Right of use assets	858	-
Intangible assets	178	3,060
	57,250	95,924
Current Assets		
Inventories	6,554	13,127
Trade and other receivables	23,710	32,640
Asset held for sales	22,000	-
Current tax assets	782	495
Cash and cash equivalents	7,938	10,180
	60,984	56,442
TOTAL ASSETS	118,234	152,366
Equity		
Share capital	40,538	40,538
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	1,384	43,594
	36,737	78,947
Non-controlling interests	205	265
Total Equity	36,942	79,212
Non-Current Liabilities		
Borrowings	14,947	17,744
Lease liabilities	184	-
Deferred tax liabilities	647	1,114
	15,778	18,858
Current Liabilities		
Trade and other payables	36,762	25,245
Derivative liability	7	25
Current tax liability	-	26
Lease liabilities	705	-
Borrowings	28,040	29,000
	65,514	54,296
Total Liabilities	81,292	73,154
TOTAL EQUITY AND LIABILITIES	118,234	152,366
NET ASSETS PER SHARE (RM)⁽²⁾	0.104	0.225

Notes:

⁽¹⁾ 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 2018 and the accompanying explanatory notes attached to this interim financial report.

⁽²⁾ Calculated based on the Company's weighted average issued and paid-up share capital for the financial year ended as detailed in Note B8.



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

	[----- Non-distributable -----]	Distributable	Total attributable to owners of the Parent RM'000	Non- controlling interests RM'000	Total equity RM'000	
	Share capital RM'000	Reorganisation debit reserve RM'000	Retained earnings RM'000			
At 1 January 2019	40,538	(5,185)	43,594	78,947	265	79,212
Acquisition of new subsidiary	-	-	-	-	(32)	(32)
Total comprehensive loss for the financial period	-	-	(42,210)	(42,210)	(28)	(42,238)
At 31 March 2020	40,538	(5,185)	1,384	36,737	205	36,942
At 1 January 2018	36,324	(5,185)	48,191	79,330	483	79,813
Adjustment of MFRS recognition:						
- MFRS 9			(732)	(732)	-	(732)
- MFRS 15			(362)	(362)	(3)	(365)
Total comprehensive (loss)/income for the financial period	-	-	(3,277)	(3,277)	38	(3,239)
Dividend paid to non-controlling shareholders of a subsidiary	-	-	-	-	(240)	(240)
Issuance of new shares pursuant to private placement, net of expenses	4,214	-	-	4,214	-	4,214
At 31 March 2019	40,538	(5,185)	43,820	79,173	278	79,451

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 2018 and the accompanying explanatory notes attached to this interim financial report.



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

	Year-to-date ended	
	31.03.2020 RM'000	31.12.2018 RM'000 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(42,646)	(3,876)
<u>Adjustments for:</u>		
Amortisation of intangible assets	1,256	1,197
Bad debts written-off	155	24
Depreciation of property, plant and equipment	11,670	10,122
Impairment of property, plant and equipment	10,171	-
Fair value adjustment on derivative instruments	(18)	156
Depreciation of right of use	880	-
Gain on disposal of property, plant and equipment	(187)	(137)
Loss on disposal of subsidiary	79	2,865
Property, plant and equipment written-off	220	192
Intangible assets written off	3,026	-
Provision/(Reversal) for impairment of receivables	10,905	674
Interest expense	3,845	3,380
Interest income	(38)	(74)
Unrealised gain on foreign exchange	(408)	177
	<hr/>	<hr/>
Operating profit before working capital changes	(1,090)	14,700
Decrease/(Increase) in inventories	6,573	(359)
(Increase)/Decrease in trade and other receivables	(1,211)	(1,158)
Increase/(Decrease) in trade and other payables	7,800	(715)
	<hr/>	<hr/>
Tax paid	12,072	12,468
	(372)	(796)
	<hr/>	<hr/>
Net cash from operating activities	11,700	11,672
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	38	74
Proceeds from disposal of property, plant and equipment	456	1,104
Proceeds from disposal of subsidiary	-	3,018
Purchase of property, plant and equipment	(5,661)	(2,010)
Purchase of intangible asset	(188)	-
Purchase of subsidiary	(200)	-
Changes in fixed deposits pledged with licensed banks	457	660
	<hr/>	<hr/>
Net cash (used in)/from investing activities	(5,098)	2,846
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling shareholders of a subsidiary	-	(240)
Interest paid	(3,743)	(3,380)
Proceeds from issuance of shares pursuant to private placement, net of expenses	-	4,214
Net repayment of lease liabilities	(951)	-
Net drawdown/repayment of bankers' acceptance	(7,982)	(4,532)
Net drawdown/repayment of term loans	55	(2,342)
Net repayment of hire purchase payables	(3,967)	(4,440)
	<hr/>	<hr/>
Net cash used in financing activities	(16,588)	(10,720)
Net changes in cash and cash equivalents	(9,986)	3,798
Effects of foreign exchange	-	(42)
Cash and cash equivalents at beginning of the financial period	(994)	(4,814)
	<hr/>	<hr/>
Cash and cash equivalents at end of the financial period	(10,980)	(1,058)



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

	Year-to-date ended	
	31.03.2020 RM'000	31.12.2018 RM'000 (audited)
Cash and cash equivalents comprise the following:		
Cash and bank balances	6,652	8,438
Fixed deposits pledged to financial institutions	1,286	1,742
	<hr/>	<hr/>
Less: Bank overdraft	7,938	10,180
Less: Fixed deposits pledged to financial institutions	(17,632)	(9,496)
	(1,286)	(1,742)
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	(10,980)	(1,058)

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 2018 and the accompanying explanatory notes attached to this interim financial report.



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 2018 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 2018.

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 2018, 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 2019

- MFRS 16 Leases
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 112 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 119 (*Plan Amendment, Curtailment or Settlement*)
- Amendments to MFRS 123 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*

The adoption of the above MFRS and Amendments to MFRSs did not have any significant financial impact to the Group, other as disclosed below:

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 2020

- Amendments to *References to the Conceptual Framework in MFRS Standard*
- Amendments to MFRS 3 *Definition of a Business*
- Amendments to MFRS 101 and MFRS 108 *Definition of Material*

Effective for annual periods commencing on or after 1 January 2021

- MFRS 17 *Insurance Contracts*



A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 2018 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.

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

On 18 November 2019, on behalf of the Board of Directors of Heng Huat ("Board"), TA Securities Holdings Berhad ("TA Securities") wishes to announce that the Company proposes to undertake the following Proposals:

- i. proposed consolidation of every 10 existing ordinary shares in Heng Huat ("**Heng Huat Shares**") into 1 new Heng Huat Share ("**Consolidated Share**") ("**Proposed Share Consolidation**"); and



A7. DEBTS AND EQUITY SECURITIES (cont'd)

- ii. proposed renounceable rights issue of up to 237,699,028 new Heng Huat Shares (“**Rights Shares**”) on the basis of 7 Rights Shares for every 1 Consolidated Share held on an entitlement date to be determined later (“**Entitlement Date**”), together with up to 135,828,016 free detachable warrants (“**Warrants**”) on the basis of 4 Warrants for every 7 Rights Shares subscribed for (“**Proposed Rights Issue**”).

Bursa Securities had vide its letter dated 6 December 2019 granted its conditional approval for the following:

- a. proposed Share Consolidation;
- b. listing and quotation of up to 237,699,028 Rights Shares to be issued pursuant to the Proposed Rights Issue;
- c. admission to the Official List and listing and quotation of up to 135,828,016 Warrants to be issued pursuant to the Proposed Rights Issue; and
- d. listing and quotation of up to 135,828,016 Shares to be issued arising from the exercise of the Warrants.

The Proposed Share Consolidation and Proposed Rights Issue was subsequently approved by the shareholders of the Company in the extraordinary general meeting held on 9 January 2020.

On 15 January 2020, the Company had announced that the entitlement date for the Proposed Share Consolidation is fixed on 30 January 2020.

The Proposed Share Consolidation has been completed on 31 January 2020, following the listing of and quotation for 33,957,001 Consolidated Shares on the ACE Market of Bursa Securities with effect from 9.00 a.m. on 31 January 2020.

Save from the above, 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 and financial period under review. (*FYE 31 December 2018: Nil*)

A9. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

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 or announced to the Bursa Securities.

A10. CHANGES IN THE COMPOSITION OF THE GROUP

The Group, through Heng Huat Industries Holdings Sdn. Bhd. (“**HHIH**”), had on 5 September 2019 entered into a share sale agreement with Khor Chin Hock (“**KCH**”) to acquire 97% equity interests in Sabut Kelapa Terengganu Sdn Bhd representing 97 ordinary shares for a cash consideration of RM200,000.



A10. CHANGES IN THE COMPOSITION OF THE GROUP

Save for the above, 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.

A12. CAPITAL COMMITMENTS

The Group's capital commitments in respect of property, plant and equipment which were not provided in the financial statements as at 31 March 2020 is as follows:

	As at 31.03.2020 RM'000
Property, plant and equipment	
Approved but not contracted for	-
Contracted but not provided for	595
	<u>595</u>

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 (Con't)

	Current quarter ended		Year-to-date ended	
	31.03.2020	31.03.2019	31.03.2020	31.03.2019
	RM'000	RM'000	RM'000	RM'000
<u>Segment Revenue</u>				
Biomass materials and related products	9,007	21,711	86,349	122,451
Mattresses and related products	5,013	4,339	24,882	27,398
	14,020	26,050	111,231	149,849
Elimination of intragroup transactions	(1,062)	(2,378)	(9,120)	(11,455)
Revenue from external customers	12,958	23,672	102,111	138,394

<u>Segment Results</u>				
Biomass materials and related products	(18,762)	565	(38,591)	1,391
Mattresses and related products	(741)	(490)	(1,686)	(707)
	(19,503)	75	(40,277)	684
Unallocated corporate income and expenses(net)	(1,274)	(180)	(2,369)	(4,665)
Elimination of intragroup transactions and profits	-	-	-	-
Loss before tax of the Group	(20,777)	(105)	(42,646)	(3,981)

	Current quarter ended		Year-to-date ended	
	31.03.2020	31.03.2019	31.03.2020	31.03.2019
	RM'000	RM'000	RM'000	RM'000
<u>Segment Assets</u>				
Biomass materials and related products	109,367	141,561	109,367	141,561
Mattresses and related products	17,899	15,586	17,899	15,586
	127,266	157,147	127,266	157,147
Tax assets	782	478	782	478
Unallocated assets	29,038	26,950	29,038	26,950
Elimination of intragroup balances and profits	(38,852)	(33,208)	(38,852)	(33,208)
Total assets of the Group	118,234	23,672	118,234	151,367

<u>Segment Liabilities</u>				
Biomass materials and related products	91,951	84,199	91,951	84,199
Mattresses and related products	17,468	13,921	17,468	13,921
	109,419	98,120	109,419	98,120
Tax liabilities	647	678	647	678
Unallocated liabilities	9,196	5,900	9,196	5,900
Elimination of intragroup balances and profits	(37,970)	(32,782)	(37,970)	(32,782)
Total liabilities of the Group	81,292	71,916	81,292	71,916



A14. RELATED PARTY TRANSACTIONS

	Current quarter ended		Year-to-date ended	
	31.03.2020	31.03.2019	31.03.2020	31.03.2019
	RM'000	RM'000	RM'000	RM'000
Renting of two storey office with single storey detached factory used for mattress production and warehouse	152	78	759	660
Renting of vacant land for placement of portable cabins used for staff accommodation	30	30	150	150

The above transactions are necessary for the Group's day-to-day operations and are undertaken in the ordinary course of business. The above transactions are carried out on terms not more favourable to the related parties than those generally available to the public, which are not to the detriment of the non-controlling shareholders of the Group.

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

B1. ANALYSIS OF PERFORMANCE

	Individual Quarter		Cumulative Period					
	Current year quarter	Preceding year Corresponding Quarter	Changes		Current year period	Preceding year Corresponding Period	Changes	
	31.03.2020 RM'000	31.03.2019 RM'000	RM'000	%	31.03.2020 RM'000	31.03.2019 RM'000	RM'000	%
Revenue	12,958	23,672	(10,714)	-45.26	102,111	138,394	(36,283)	-26.22
Loss before tax	(20,777)	(105)	(20,672)	-19,687.62	(42,646)	(3,981)	(38,665)	-971.24
Loss after tax	(20,393)	237	(20,630)	-8,704.64	(42,238)	(3,239)	(38,999)	-1,204.04

Revenue

For the current quarter and financial period ended 31 December 2019, the Group recorded revenue of RM12.96 million and RM102.11 million respectively, representing decrease of approximately RM10.71 million or 45.26% and RM36.28 million or 26.22% respectively as compared to the preceding year corresponding quarter and period.

The main reason for the decreased was due to weak local and global demand across the world caused by the US-China trade war and COVID-19 outbreak. Lockdown measures undertaken by various countries during the quarter under review have resulted in major disruption in business activities, in particular the lockdown by China in January 2020 has adversely affected the Group export sales to its major customers in China. Besides, the Movement Control Order (“MCO”) imposed since 18 March 2020 to contain COVID-19 outbreak has restricted the plantation workforce, which in turn affected the palm oil estate and its related industries operations.

Current Quarter Under Review

The moderation of sales performance was primarily attributable to the following factors:

- i. Decrease in sales volume of oil palm EFB fibre, where total quantities sold during the current quarter under review by approximately 60.41% as compared to the preceding year corresponding quarter;
- ii. Decrease in average selling prices of oil palm EFB fibre, which has decrease by approximately 27.03% as compared to the preceding year corresponding quarter; and
- iii. Decrease in sales volume of bio-oil, a secondary product derived from manufacturing process of oil palm EFB fibre, by approximately 87.50%.

However, the moderation of sales performance was partially offset by the increase in average selling price of bio-oil, which has improved approximately 42.93% as compared to the preceding year corresponding quarter.

Current Financial Period Under Review

The moderation of sales performance was primarily attributable to the following factors:

- i. Decrease in sales volume of oil palm EFB fibre during the financial period under review by approximately 28.29% as compared to preceding year corresponding period;



B1. ANALYSIS OF PERFORMANCE (Con't)

- ii. Decrease in average selling prices of oil palm EFB fibre, which has reduced by approximately 13.67% as compared to the preceding year corresponding period;
- iii. Decrease in sales volume of bio-oil, which has dropped by approximately 25.39% as compared to the preceding year corresponding period; and
- iv. Decrease in average selling price of bio-oil, a secondary product derived from manufacturing process of oil palm EFB fibre, by approximately 5.49%.

(Loss) Before Tax

Our Group reported a loss before tax of approximately RM20.78 million and RM42.65 million respectively for the current quarter and financial period, representing a decrease of approximately 19,687.62% and decrease of 971.24% respectively as compared to the preceding year corresponding quarter and period.

The moderation of financial performance for the current quarter and financial period under review, as compared to the preceding year corresponding quarter and period, was primarily due to the following factors:

- i. Lower revenue and increasing cost of sales which resulted in lower gross profit recorded;
- ii. Increase in administrative and other expenses as a result of provision of impairment on trade receivables, machineries and research and development cost for palm fibre business; and
- iii. Lower gross profit margin achieved, as a result of higher average unit cost arising from lower production output. The Group, after taken into consideration the prevailing uncertainties in the market, has temporarily controlled the production volume to prevent the risk of overstocking which could lead to quality issue consequently.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 31.03.2020	Preceding quarter ended 31.12.2019
	RM'000	RM'000
Loss before tax	(20,777)	(15,072)

Our Group recorded a loss before tax of approximately RM20.78 million for the current quarter ended 31 March 2020, as compared to a loss before tax of RM15.07 million.



B3. PROSPECTS

The COVID-19 pandemic and its subsequent containment measures undertaken around the world has disrupted the global supply chains, severely impacted the global economic activity in the first half of 2020. Nevertheless, the economy is anticipated to slowly recover in the second half of 2020 as the outbreak eases and containment measures are gradually being lifted, and production activity resumes, particularly in China. Against this backdrop, the global economy is expected to contract by 3% in 2020. The global economy is projected to rebound to 5.8% in 2021 as the economic activity recover. Similarly, the Malaysian Government is mindful of various external challenges, such as uncertainties surrounding the spread of COVID-19, commodity supply shock, continued trade tensions between United States of America-China trade and domestic policy uncertainties that may bring economic headwinds for the local economy. Hence, the growth of the biomass materials market for coconut and oil palm EFB fibres in Malaysia is expected to be affected by this development in 2020 going in to 2021 as well.

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

Factors priming growth within the market is likely to come from a combination of market demand drivers including sustained demand from China, the population growth and greater affluence which spurs demand for end-products, and growing applications of natural fibre. Meanwhile, in terms of supply, the various market drivers including strong governmental support, increasing domestic and foreign investments and initiatives, the increase of oil palm production and better legislation enforcement on environmental protection would help fuel development of the supply environment going forward. The Malaysian government, both at federal and state levels have generally increased their attention towards environment protection and sustainability efforts. Biomass materials such as coconut and oil palm EFB fibres will play a key role in Malaysia's emerging "green" economy.

(Source: Independent Market Report by Protégé Associates).

The Board will monitor the market development closely, and ensure that prompt actions are taken in response to the changes. Moreover, the Board will, from time to time, identify appropriate new business venture/ opportunity to enhance and expand the Group's revenue base and source.

The Group expects 2020 to be a challenging year.

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

	Current quarter ended 31.03.2020 RM'000	Year-to-date ended 31.03.2020 RM'000
Current tax expense	243	(59)
Deferred tax income	141	467
Total tax income	384	408

Our Group recorded total tax income of approximately RM408,000 during the current quarter and financial period under review, as compared to the applicable statutory tax rate of 24%, was primarily due to deferred tax asset recognised in relation to the losses incurred by the Group's operating subsidiaries.

B6. STATUS OF CORPORATE PROPOSALS

i. Proposed Private Placement

Gross Proceeds from public issue of 30,870,000 new Shares in conjunction with the private placement of the Company on 20 December 2018.

As at 31 March 2020, the gross proceeds from public issue had been fully utilised in the following manner:

Purpose	Intended Time frame for Utilisation	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation	
				RM'000	%
i. Payment to trade and other payables	Within 12 months	2,575	2,575	-	-
ii. Staff-related costs such as staff salaries, bonuses, statutory contribution and welfare expenses	Within 12 months	858	858	-	-
iii. General administrative and operating expenses such as rental, utilities, telephone and sundry expenses	Within 12 months	858	858	-	-
Total		4,291	4,291	-	-

i. Proposed Acquisition of Land

On 31 December 2018, the Company had announced that HK Kitaran Sdn Bhd ("HKKSB"), a wholly-owned subsidiary of HHIH who in turn is a wholly-owned subsidiary of the Company, had entered into a conditional sale and purchase agreement with HK Alliance Sdn Bhd ("HKASB") for the proposed acquisition of a piece of freehold industrial land measuring 9,147 square meter located at Sungai Baong, Seberang Perai Selatan, Negeri Pulau Pinang for a cash consideration of RM3,800,000 ("Proposed Acquisition"). Relevant details on the Proposed Acquisition had been announced to the Bursa Securities.

Barring any unforeseen circumstances and subject to the conditions of sale being satisfied, the Proposed Acquisition is expected to be completed by March of 2020.



B6. STATUS OF CORPORATE PROPOSALS (Con't)

ii. Proposed Rights Issue

On 18 November 2019, on behalf of the Board, TA Securities announced that the Company proposed to undertake the following:

- a. Proposed share consolidation. Details are disclosed under Note A7 (i); and
- b. Proposed Rights issue. Details are disclosed under Note A7 (ii).

B7. BORROWINGS

The Group's borrowings as at 31 March 2020 are as follows:

	Short Term (Within 12 months) RM'000	Long Term (> 12 months) RM'000	Total RM'000
<i>Secured and guaranteed</i>			
Bankers' acceptance	4,096	-	4,096
Bank overdrafts	17,632	-	17,632
Hire purchase payables	2,289	2,008	4,297
Term loans	4,023	12,939	16,962
Total Borrowings	28,040	14,947	42,987

All the borrowings are denominated in Ringgit Malaysia (RM), and obtained from financial institutions based in Malaysia.

B8. EARNINGS PER SHARE

Basic Earnings per Share ("BEPS")

	Current quarter ended		Year-to-date ended	
	31.03.2020	31.03.2019	31.03.2020	31.03.2019
	RM'000	RM'000	RM'000	RM'000
Basic earnings per share				
Loss attributable to equity holders of the parent	(20,396)	224	(42,210)	(3,277)
Weighted average number of ordinary shares in issue ('000)	33,957	339,570	229,269	315,552
BEPS (sen)	(60.06)	0.07	(14.10)	(1.04)

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 2020.



B9. 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.

B10. DISCLOSURE ON SELECTED INCOME/EXPENSE ITEMS

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

	Current quarter ended 31.03.2020 RM'000	Year-to-date ended 31.03.2020 RM'000
Interest income	9	47
Other income including investment income	90	369
Interest expense	(758)	(3,845)
Depreciation expenses	(2,347)	(11,670)
Amortisation expenses	(253)	(1,256)
Bad debts written-off	-	(155)
Net foreign exchange loss	(16)	(408)
(Loss)/Gain on disposal of property, plant and equipment	(35)	108
Fair value (loss)/gain on derivative instruments	(38)	18
Reversal of impairment of receivables	1,996	3,253
Property, plant and equipment written off	208	220
Provision for doubtful debts and write-off of receivables	(4,419)	(14,158)
Intangible assets written off	(2,893)	(3,026)
Impairment of assets	(10,171)	(10,171)
Provision for and write off of inventories	-	-
Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	-
Exceptional items	-	-

B11. 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 2020, the Group have the following outstanding forward currency contracts:

Type of Derivatives	[----Contract/ Notional Value-----]		Fair value as at 31.03.2020
	USD'000	RM'000 equivalent	RM'000
Forward Foreign Currency Contracts			
- Less than 1 year	77	324	7
	77	324	7



B11. FINANCIAL INSTRUMENTS

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.

There is no change to the policies in relation to the derivatives since the last financial year ended 31 December 2018 in respect of the followings:

- (i) the credit risk market risk and liquidity risk associated with the derivatives;
- (ii) the cash requirements of the derivatives;
- (iii) the policies in place for mitigating or controlling the risks associated with the derivatives;
and
- (iv) the related accounting policies.

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

The Group recorded net fair value gain of approximately RM18,000 during the financial period under review, as a result of reversal of derivative asset associated with forward foreign currency contracts which lapsed during the current quarter under review and after offsetting fair value changes of the forward foreign currency contracts entered into by the Group and outstanding as at 31 March 2020.