



# **HENG HUAT RESOURCES GROUP BERHAD**

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

## **INTERIM FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 30 JUNE 2020**

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

|   | Individual Quarter  |   | Cumulative Period  |  |
|---|---|---|--|--|
|   | Current<br>Year<br>Quarter<br>30.06.2020 <sup>(1)</sup><br>RM'000 | Preceding<br>Year<br>Corresponding<br>Quarter<br>30.06.2019<br>RM'000 | Current<br>Year<br>Period<br>30.06.2020 <sup>(1)</sup><br>RM'000 | Preceding<br>Year<br>Corresponding<br>Period<br>30.06.2019<br>RM'000 |
| Revenue   | 12,295  | 27,430  | 12,295   | 27,430   |
| Cost of sales   | (13,189)  | (23,854)  | (13,189)   | (23,854)   |
| Gross/(loss) profit   | (894)   | 3,576   | (894)  | 3,576  |
| Other income  | 575   | 155   | 575  | 155  |
| Administrative expenses   | (483)   | (756)   | (483)  | (756)  |
| Marketing expenses  | (1,555)   | (1,981)   | (1,555)  | (1,981)  |
| Finance costs   | (375)   | (791)   | (375)  | (791)  |
| (Loss)/Profit before tax  | (2,732)   | 203   | (2,732)  | 203  |
| Tax expenses  | (128)   | (24)  | (128)  | (24)   |
| <b>(Loss)/Profit after tax/<br/>Total comprehensive/(loss) income</b>                                     | <b>(2,860)</b>  | <b>179</b>  | <b>(2,860)</b>   | <b>179</b>   |
| <b>(Loss)/Profit for the financial period/<br/>Total comprehensive (loss)/income<br/>attributable to:</b> |   |   |  |  |
| - Owners of Heng Huat   | (2,832)   | 177   | (2,832)  | 177  |
| - Non-controlling interests   | (28)  | 2   | (28)   | 2  |
|   | <b>(2,860)</b>  | <b>179</b>  | <b>(2,860)</b>   | <b>179</b>   |
| <b>(Loss)/Earnings per share<br/>attributable to owners of Heng Huat:</b>                                 |   |   |  |  |
| - Basic (sen) <sup>(2)</sup>  | (8.34)  | 0.05  | (8.34)   | 0.05   |
| - Diluted (sen) <sup>(2)</sup>  | N/A   | N/A   | N/A  | N/A  |

Notes:

N/A Not applicable.

<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 period ended 31 March 2020 and the accompanying explanatory notes attached to this interim financial report.

<sup>(2)</sup> Kindly refer to Note **B8** for further details.

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

|  | As at<br>30.06.2020 <sup>(1)</sup><br>RM'000<br>(unaudited) | As at<br>31.03.2020<br>RM'000<br>(audited) |
|--|---|--|
| <b>Non-Current Assets</b>                      |   |  |
| Property, plant and equipment                  | 54,379  | 56,214                                     |
| Right-of-use assets                            | 1,117   | 858  |
| Intangible assets                              | 173   | 178  |
|  | 55,669  | 57,250                                     |
| <b>Current Assets</b>                          |   |  |
| Inventories                                    | 4,879   | 6,554                                      |
| Trade and other receivables                    | 20,043  | 23,040                                     |
| Current tax assets                             | 800   | 782  |
| Cash and cash equivalents                      | 5,739   | 7,938                                      |
| Non-current assets held for sale               | 22,000  | 22,000                                     |
|  | 53,461  | 60,314                                     |
| <b>TOTAL ASSETS</b>                            | <b>109,130</b>  | <b>117,564</b>                             |
| <b>Equity</b>                                  |   |  |
| Share capital                                  | 40,538  | 40,538                                     |
| Reorganisation reserve                         | (5,185)   | (5,185)                                    |
| Accumulated losses (Retained profits)          | (2,120)   | 718  |
|  | 33,233  | 36,071                                     |
| Non-controlling interests                      | 177   | 205  |
| <b>Total Equity</b>                            | <b>33,410</b>   | <b>36,276</b>                              |
| <b>Non-Current Liabilities</b>                 |   |  |
| Lease liabilities                              | 380   | 184  |
| Borrowings                                     | 13,938  | 12,275                                     |
| Deferred tax liabilities                       | 647   | 647  |
|  | 14,965  | 13,106                                     |
| <b>Current Liabilities</b>                     |   |  |
| Trade and other payables                       | 37,221  | 36,757                                     |
| Derivative financial liability                 | -   | 8  |
| Lease liabilities                              | 780   | 705  |
| Borrowings                                     | 22,754  | 30,712                                     |
|  | 60,755  | 68,182                                     |
| <b>Total Liabilities</b>                       | <b>75,720</b>   | <b>81,288</b>                              |
| <b>TOTAL EQUITY AND LIABILITIES</b>            | <b>109,130</b>  | <b>117,564</b>                             |
| <b>NET ASSETS PER SHARE (RM)<sup>(2)</sup></b> | <b>0.095</b>  | <b>0.225</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 period ended 31 March 2020 and the accompanying explanatory notes attached to this interim financial report.

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



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

|   | <i>[----- Non-distributable -----]</i> |  | <i>Distributable</i>                    | <b>Total<br/>attributable to<br/>owners<br/>of the<br/>Parent<br/>RM'000</b> | <b>Non-<br/>controlling<br/>interests<br/>RM'000</b> | <b>Total<br/>equity<br/>RM'000</b> |
|---|--|--|---|--|--|------------------------------------|
|   | <b>Share<br/>capital<br/>RM'000</b>    | <b>Reorganisation<br/>debit<br/>reserve<br/>RM'000</b> | <b>Retained<br/>earnings<br/>RM'000</b> |  |  |                                    |
| At 1 April 2020                                     | 40,538                                 | (5,185)  | 718                                     | <b>36,071</b>  | 205  | <b>36,276</b>                      |
| Adjustment of MFRS recognition:                     |  |  | (6)                                     | (6)  | -  | (6)                                |
| - MFRS 16 lease portion                             |  |  |   |  |  |                                    |
| Total comprehensive loss for the financial period   | -                                      | -  | (2,832)                                 | <b>(2,832)</b>   | (28)   | <b>(2,860)</b>                     |
| At 30 June 2020                                     | <b>40,538</b>                          | <b>(5,185)</b>   | <b>(2,120)</b>                          | <b>33,233</b>  | 177  | <b>33,410</b>                      |
| At 1 April 2019                                     | 40,538                                 | (5,185)  | 43,820                                  | <b>79,173</b>  | 278  | <b>79,451</b>                      |
| Total comprehensive income for the financial period | -                                      | -  | 177                                     | <b>177</b>   | 2  | <b>179</b>                         |
| At 30 June 2019                                     | <b>40,538</b>                          | <b>(5,185)</b>   | <b>43,997</b>                           | <b>79,350</b>  | 280  | <b>79,630</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 period ended 30 March 2020 and the accompanying explanatory notes attached to this interim financial report.



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

|   | Year-to-date ended   |                                   |
|---|----------------------|-----------------------------------|
|   | 30.06.2020<br>RM'000 | 30.06.2019<br>RM'000<br>(audited) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                      |                                   |
| (Loss)/Gain before tax  | (2,732)              | 98                                |
| <u>Adjustments for:</u>   |                      |                                   |
| Amortisation of intangible assets                               | 5                    | 497                               |
| Depreciation of property, plant and equipment                   | 1,821                | 4,630                             |
| Depreciation of right-of-use assets                             | 250                  | -                                 |
| Fair value adjustment on derivative instruments                 | (8)                  | (47)                              |
| Gain on disposal of property, plant and equipment               | (61)                 | (73)                              |
| Property, plant and equipment written-off                       | -                    | 11                                |
| Provision/(Reversal) for impairment of receivables              | -                    | (100)                             |
| Interest expense  | 375                  | 1,614                             |
| Interest income   | (7)                  | (19)                              |
| Unrealised gain on foreign exchange                             | -                    | (96)                              |
| Operating profit before working capital changes                 | (357)                | 6,515                             |
| Decrease/(Increase) in inventories                              | 1,675                | (108)                             |
| Decrease/(Increase) in trade and other receivables              | 2,997                | (5,987)                           |
| Increase/(Decrease) in trade and other payables                 | 469                  | (1,986)                           |
| Tax paid  | (145)                | (250)                             |
| <b>Net cash from/(used in) operating activities</b>             | <b>4,639</b>         | <b>(1,816)</b>                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                      |                                   |
| Interest received   | 7                    | 19                                |
| Proceeds from disposal of property, plant and equipment         | 805                  | 74                                |
| Purchase of property, plant and equipment                       | (79)                 | (1,611)                           |
| Changes in fixed deposits pledged with licensed banks           | 19                   | 844                               |
| <b>Net cash from/(used in) investing activities</b>             | <b>752</b>           | <b>(674)</b>                      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                      |                                   |
| Interest paid   | (375)                | (1,614)                           |
| Net repayment of bankers' acceptance                            | -                    | (725)                             |
| Net (repayment)/drawdown of term loans                          | (692)                | 1,134                             |
| Net repayment of hire purchase payables                         | (510)                | (1,789)                           |
| Net repayment of lease liabilities                              | (158)                | -                                 |
| <b>Net cash used in financing activities</b>                    | <b>(1,735)</b>       | <b>(2,994)</b>                    |
| Net changes in cash and cash equivalents                        | 3,656                | (5,484)                           |
| Effects of foreign exchange                                     | -                    | (66)                              |
| Cash and cash equivalents at beginning of the financial period  | (11,723)             | (1,058)                           |
| <b>Cash and cash equivalents at end of the financial period</b> | <b>(8,067)</b>       | <b>(6,608)</b>                    |



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

|  | Year-to-date ended |                |
|--|--------------------|----------------|
|  | 30.06.2020         | 30.06.2019     |
|  | RM'000             | RM'000         |
| Cash and cash equivalents comprise the following:      |                    | (audited)      |
| Cash and bank balances                                 | 4,472              | 4,737          |
| Fixed deposits pledged to financial institutions       | 1,267              | 899            |
|  | <hr/>              | <hr/>          |
| Less: Bank overdraft                                   | 5,739              | 5,636          |
|  | (12,539)           | (11,345)       |
| Less: Fixed deposits pledged to financial institutions | (1,267)            | (899)          |
|  | <hr/>              | <hr/>          |
|  | <b>(8,067)</b>     | <b>(6,608)</b> |
|  | <hr/> <hr/>        | <hr/> <hr/>    |

Note:

*The unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited consolidated financial statements for the financial period ended 30 March 2020 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 period ended 30 March 2020 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 period ended 30 March 2020.

### A2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group and by the Company are consistent with those of the previous financial years except for the adoption of the following standards that are mandatory for the current financial period:

Effective for annual periods beginning on or after 1 January 2019

*MFRS 16 Leases*

*Amendments to MFRS 9 Financial Instruments: Prepayment Features with Negative Compensation*

*Amendments to MFRS 119 Employee Benefits: Plan Amendment, Curtailment or Settlement*

*Amendments to MFRS 128 Investments in Associates and Joint Ventures: Long-term Interest in Associates and Joint Ventures*

*IC Interpretations 23 Uncertainty over Income Tax Treatments*

*Annual Improvements to MFRS Standards 2015-2017 Cycle*

Initial application for the above standards did not have any material impacts to the financial statements of the Group and of the Company upon adoption except for:

***MFRS 16 Leases***

MFRS 16 supersedes MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 does not have an impact for leases where the Company is the lessor.



## A2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the Group is not required to reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying MFRS 117 and IC Interpretation 4, and the cumulative effect of initially applying this standard is adjusted to the opening balance of the retained profits without the need to restate the comparative information.

The effect of adopting MFRS 16 on 1 January 2019 resulted in the increase of the Group's assets and liabilities as at that date as follows:

### Statements of Financial Position

|                                | RM               |
|--------------------------------|------------------|
| <b>ASSETS</b>                  |                  |
| <b>Non-current assets</b>      |                  |
| Right-of-use assets            | <u>1,737,623</u> |
| <b>LIABILITIES</b>             |                  |
| <b>Non-current liabilities</b> |                  |
| Lease liabilities              | 767,040          |
| <b>Current liabilities</b>     |                  |
| Lease liabilities              | <u>970,583</u>   |
|                                | <u>1,737,623</u> |

Upon adoption of MFRS 16, the Group applied a single recognition and measurement approach for all leases where leases will be recognised as right-of-use asset and corresponding lease liability except for short-term leases and leases of low-value assets where the lease rental payments are recognised as an expense.

- *Leases previously classified as finance leases*

Leases which were previously classified as finance leases under MFRS 117 continue to be treated as such without any changes upon adoption of MFRS 16 on 1 January 2019.

- *Leases previously accounted for as operating leases*

The Group recognised right-of-use asset and lease liability for the lease previously classified as operating lease, except for short-term leases and leases of low-value assets. The right-of-use asset were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The right-of-use asset was recognised based on the amount equal to the lease liability, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liability was recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.





## A2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

### Standards Issued But Not Yet Effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these new and amended standards and interpretations, if applicable, when they become effective.

#### Effective for annual periods beginning on or after 1 January 2020

*Amendments to References to the Conceptual Framework in MFRS Standards*

*Amendments to MFRS 3 Business Combinations: Definition of a Business*

*Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*

*Amendments to MFRS 9, MFRS 139 and MFRS 7 Interest Rate Benchmark Reform*

#### Effective for annual periods beginning on or after 1 June 2020

*Amendments to MFRS 16 Leases: Covid-19 - Related Rent Concessions*

#### Effective for annual periods beginning on or after 1 January 2021

*MFRS 17 Insurance Contracts*

#### Effective for annual periods beginning on or after 1 January 2022

*Amendments to MFRS 3 Business Combinations: Reference to the Conceptual Framework*

*Amendments to MFRS 116 Property, Plant and Equipment: Property, Plant and Equipment – Proceeds before Intended Use*

*Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract*

*Annual Improvements to MFRS Standards 2018 – 2020*

#### Effective for annual periods beginning on or after 1 January 2023

*Amendments to MFRS 101 Presentation of Financial Statement: Classification of Liabilities as Current or Non-current*

#### Effective date yet to be confirmed

*Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The existing *MFRS 4* and *Amendments to MFRS 4* will be withdrawn upon the adoption of the new *MFRS 17* which will take effect on or after 1 January 2021.



**A2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group and of the Company in future periods.

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

The auditors' report on the Group's most recent annual audited financial statements for the financial period ended 30 March 2020 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 period that have a material impact on the current quarter and financial period under review.

**A7. DEBTS AND EQUITY SECURITIES**

**Proposed Fund Raising: Announcement dated 18 November 2019**

On behalf of the Board of Directors of Heng Huat ("Board") Berhad ("Heng Huat"), TA Securities Holdings Berhad had announced 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
- 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**").



## A7. DEBTS AND EQUITY SECURITIES (Cont'd)

### Proposed Fund Raising: Announcement dated 15 June 2020

On behalf of the board of directors of Heng Huat (“**Board**”), TA securities Holdings Berhad (“**TA Securities**”) had announced that the company proposes to undertake the following Proposals:

- i. Proposed private placement of up to 10% of the existing number of issued shares of Heng Huat (excluding any treasury shares) (“**Heng Huat shares**” or “**Shares**”) pursuant to sections 75 and 76 of the companies act 2016 (“**Act**”) (“**Proposed 10% Placement**”); and
- ii. Proposed private placement of up 10,187,100 new shares of the Company, representing approximately 30% of the existing number of issued and paid up shares of the Company (“**Proposed 30% Placement**”).

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. (For Financial Period Ended 30 March 2020: 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

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

## 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.



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## 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 30 June 2020 is as follows:

|                                      | <b>As at<br/>30.06.2020<br/>RM'000</b> |
|--------------------------------------|--|
| <b>Property, plant and equipment</b> |  |
| 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.

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**A13. SEGMENT INFORMATION (Con't)**

|  | Current quarter ended |               | Year-to-date ended |               |
|--|-----------------------|---------------|--------------------|---------------|
|  | 30.06.2020            | 30.06.2019    | 30.06.2020         | 30.06.2019    |
|  | RM'000                | RM'000        | RM'000             | RM'000        |
| <b><u>Segment Revenue</u></b>          |                       |               |                    |               |
| Biomass materials and related products | 9,673                 | 25,195        | 9,673              | 25,195        |
| Mattresses and related products        | 3,782                 | 4,823         | 3,782              | 4,823         |
|  | 13,455                | 30,018        | 13,455             | 30,018        |
| Elimination of intragroup transactions | (1,160)               | (2,588)       | (1,160)            | (2,588)       |
| <b>Revenue from external customers</b> | <b>12,295</b>         | <b>27,430</b> | <b>12,295</b>      | <b>27,430</b> |

|  |                |            |                |            |
|--|----------------|------------|----------------|------------|
| <b><u>Segment Results</u></b>                      |                |            |                |            |
| Biomass materials and related products             | (2,748)        | 298        | (2,748)        | 298        |
| Mattresses and related products                    | 150            | (26)       | 150            | (26)       |
|  | (2,598)        | 272        | (2,598)        | 272        |
| Unallocated corporate income and expenses(net)     | (134)          | (69)       | (134)          | (69)       |
| Elimination of intragroup transactions and profits | -              | -          | -              | -          |
| <b>Loss before tax of the Group</b>                | <b>(2,732)</b> | <b>203</b> | <b>(2,732)</b> | <b>203</b> |

|  | Current quarter ended |                | Year-to-date ended |                |
|--|-----------------------|----------------|--------------------|----------------|
|  | 30.06.2020            | 30.06.2019     | 30.06.2020         | 30.06.2019     |
|  | RM'000                | RM'000         | RM'000             | RM'000         |
| <b><u>Segment Assets</u></b>                   |                       |                |                    |                |
| Biomass materials and related products         | 101,487               | 140,328        | 101,487            | 140,328        |
| Mattresses and related products                | 17,247                | 14,742         | 17,247             | 14,742         |
|  | 118,734               | 155,070        | 118,734            | 155,070        |
| Tax assets                                     | 800                   | 598            | 800                | 598            |
| Unallocated assets                             | 29,689                | 26,384         | 29,689             | 26,384         |
| Elimination of intragroup balances and profits | (40,093)              | (31,278)       | (40,093)           | (31,278)       |
| <b>Total assets of the Group</b>               | <b>109,130</b>        | <b>150,774</b> | <b>109,130</b>     | <b>150,774</b> |

|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| <b><u>Segment Liabilities</u></b>              |               |               |               |               |
| Biomass materials and related products         | 88,016        | 82,774        | 88,016        | 82,774        |
| Mattresses and related products                | 16,684        | 13,116        | 16,684        | 13,116        |
|  | 104,700       | 95,890        | 104,700       | 95,890        |
| Tax liabilities                                | 647           | 673           | 647           | 673           |
| Unallocated liabilities                        | 10,001        | 5,433         | 10,001        | 5,433         |
| Elimination of intragroup balances and profits | (39,628)      | (30,852)      | (39,628)      | (30,852)      |
| <b>Total liabilities of the Group</b>          | <b>75,720</b> | <b>71,144</b> | <b>75,720</b> | <b>71,144</b> |



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**A14. RELATED PARTY TRANSACTIONS**

|   | Current quarter ended |            | Year-to-date ended |            |
|---|-----------------------|------------|--------------------|------------|
|   | 30.06.2020            | 30.06.2019 | 30.06.2020         | 30.06.2019 |
|   | 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                   | 152        | 152                | 152        |
| Renting of vacant land for placement of portable cabins used for staff accommodation                        | -                     | 30         | -                  | 30         |

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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.



**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  |           |
|                 | 30.06.2020<br>RM'000 | 30.06.2019<br>RM'000                 | RM'000            | %         | 30.06.2020<br>RM'000 | 30.06.2019<br>RM'000                | RM'000   | %         |
| Revenue         | 12,295               | 27,430                               | (15,135)          | -55.18    | 12,295               | 27,430                              | (15,135) | -55.18    |
| Loss before tax | (2,732)              | 203                                  | (2,935)           | -1,445.81 | (2,732)              | 203                                 | (2,935)  | -1,445.81 |
| Loss after tax  | (2,860)              | 179                                  | (3,039)           | -1,697.77 | (2,860)              | 179                                 | (3,039)  | -1,697.77 |

**Revenue**

For the current quarter and financial period ended 30 March 2020, the Group recorded revenue of RM12.30 million, representing decrease of approximately RM15.14 million or 55.18% registered in 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.

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 58.37% as compared to the preceding year corresponding quarter and period;
- ii. Decrease in average selling prices of oil palm EFB fibre, which has decrease by approximately 25.76% as compared to the preceding year corresponding quarter and period; and
- iii. Decrease in sales volume of bio-oil, a secondary product derived from manufacturing process of oil palm EFB fibre, by approximately 76.12% as compared to the preceding year corresponding quarter and period.

However, the moderation of sales performance was partially offset by the increase in average selling price of bio-oil, which has improved approximately 22.22% as compared to the preceding year corresponding quarter and period.

**(Loss) Before Tax**

Our Group reported a loss before tax of approximately RM2.73 million for the current quarter and financial period, representing a decrease of approximately RM2.94 million or 1,445.81% as compared to the preceding year corresponding quarter and period.



## B1. ANALYSIS OF PERFORMANCE (Cont'd)

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. 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

|                 | <b>Current<br/>quarter ended<br/>30.06.2020</b> | <b>Preceding<br/>quarter ended<br/>31.03.2020</b> |
|-----------------|---|---|
|                 | <b>RM'000</b>                                   | <b>RM'000</b>                                     |
| Loss before tax | <u>(2,732)</u>                                  | <u>(20,777)</u>                                   |

Our Group recorded a loss before tax of approximately RM0.27 million for the current quarter ended 30 June 2020, as compared to a loss before tax of RM20.78 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.





### B3. PROSPECTS (Cont'd)

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 EXPENSE

|                     | Current quarter<br>ended<br>30.06.2020<br>RM'000 | Year-to-date<br>ended<br>30.06.2020<br>RM'000 |
|---------------------|--|---|
| Current tax expense | (128)  | (128)   |
| Deferred tax income | -  | -   |
| Total tax expense   | (128)  | (128)   |

Our Group recorded total tax expenses of approximately RM128,000 during the current quarter and financial period under review, as compared to the applicable statutory tax rate of 24%, was primarily due to provision of tax from mattress division.

### B6. STATUS OF CORPORATE PROPOSALS

#### **Proposed Fund Raising: Announcement dated 18 November 2019**

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.



## B6. STATUS OF CORPORATE PROPOSALS (Cont'd)

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.

On 14 May 2020, the Company had announced that Company had decided not to proceed with the Rights Issue, which was approved by its shareholders at an EGM on 9 January 2020. The Company's decision was made after carefully considering recent developments which had affected the Company's ability to successfully complete its Rights Issue, including the likelihood that the Minimum Level of Subscription for the Rights Issue will not be able to be met, as well as prevailing market conditions brought about by the Covid-19 pandemic which had led to a downward trend for the Company's share price which is presently lower than the Rights Issue price fixed at RM0.25 each. The Company's share price was RM0.21 on 13 May 2020.

### **Proposed Disposal: Announcement dated 14 May 2020**

On 14 May 2020, the Company announced that HK Kitaran Sdn. Bhd., an indirectly wholly-owned subsidiary had entered into a sale and purchase agreement with SBJ Property Sdn. Bhd. to dispose 5 parcels of adjoining lots of land together with factory-cum-office buildings and other ancillary structures erected on 2 lots of land with a total gross floor area measuring approximately 264,244 square feet ("Property") in Mukim 4, District of Seberang Perai Selatan, Penang for a cash consideration of RM22,000,000 ("Proposed Disposal").

### **Proposed Fund Raising: Announcement dated 15 June 2020**

Company are in the midst to identify interested party for the 10% private placement.

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.

## B7. BORROWINGS

The Group's borrowings as at 30 June 2020 are as follows:

|                                      | Short Term<br>(Within 12 months)<br>RM'000 | Long Term<br>(> 12 months)<br>RM'000 | Total<br>RM'000 |
|--------------------------------------|--|--------------------------------------|-----------------|
| <b><u>Secured and guaranteed</u></b> |  |                                      |                 |
| Bankers' acceptance                  | 4,096                                      | -                                    | 4,096           |
| Bank overdrafts                      | 12,539                                     | -                                    | 12,539          |
| Hire purchase payables               | 2,190                                      | 1,597                                | 3,787           |
| Term loans                           | 3,929                                      | 12,341                               | 16,270          |
| <b>Total Borrowings</b>              | <b>22,754</b>                              | <b>13,938</b>                        | <b>36,692</b>   |

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 |            |
|--|-----------------------|------------|--------------------|------------|
|  | 30.06.2020            | 30.06.2019 | 30.06.2020         | 30.06.2019 |
|  | RM'000                | RM'000     | RM'000             | RM'000     |
| <b>Basic earnings per share</b>                            |                       |            |                    |            |
| Loss attributable to equity holders of the parent          | (2,832)               | 177        | (2,832)            | 177        |
| Weighted average number of ordinary shares in issue ('000) | 33,957                | 339,570    | 33,957             | 339,570    |
| BEPS (sen)   | (8.34)                | 0.05       | (8.34)             | 0.05       |

### 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 30 June 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 | Year-to-date ended |
|---|-----------------------|--------------------|
|   | 30.06.2020            | 30.06.2019         |
|   | RM'000                | RM'000             |
| Interest income   | 7                     | 7                  |
| Other income including investment income                                | -                     | -                  |
| Interest expense  | (375)                 | (375)              |
| Depreciation expenses   | (2,071)               | (2,071)            |
| Amortisation expenses   | (5)                   | (5)                |
| Bad debts written-off   | -                     | -                  |
| Net foreign exchange loss   | -                     | -                  |
| (Loss)/Gain on disposal of property, plant and equipment                | (61)                  | (61)               |
| Fair value (loss)/gain on derivative instruments                        | (8)                   | (8)                |
| Reversal of impairment of receivables                                   | -                     | -                  |
| Property, plant and equipment written off                               | -                     | -                  |
| Provision for doubtful debts and write-off of receivables               | -                     | -                  |
| Intangible assets written off   | -                     | -                  |
| Impairment of assets  | -                     | -                  |
| 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 30 June 2020, the Group have the following outstanding forward currency contracts:

| Type of Derivatives                | [---Contract/ Notional Value---] |                      | Fair value                    |
|------------------------------------|----------------------------------|----------------------|-------------------------------|
|                                    | USD'000                          | RM'000<br>equivalent | as at<br>30.06.2020<br>RM'000 |
| Forward Foreign Currency Contracts |                                  |                      |                               |
| - Less than 1 year                 | 28                               | 120                  | -                             |
|                                    | 28                               | 120                  | -                             |

## 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 period ended 30 March 2020 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 RM8,000 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 30 June 2020.