



HENG HUAT RESOURCES GROUP BERHAD

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

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2020

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

	Individual Quarter		Cumulative Period	
	Current Year Quarter 30.09.2020 ⁽¹⁾ RM'000	Preceding Year Corresponding Quarter 30.09.2019 RM'000	Current Year Period 30.09.2020 ⁽¹⁾ RM'000	Preceding Year Corresponding Period 30.09.2019 RM'000
Revenue	18,825	21,175	31,120	48,605
Cost of sales	(13,835)	(20,248)	(27,024)	(39,511)
Gross profit	4,990	927	4,096	9,094
Other income	813	29	1,388	184
Marketing expenses	(687)	(808)	(1,170)	(6,155)
Administrative expenses	(7,073)	(6,278)	(8,628)	(8,259)
Finance costs	(314)	(765)	(689)	(1,556)
Loss before tax	(2,271)	(6,895)	(5,003)	(6,692)
Tax expenses	(78)	(110)	(206)	(134)
Total comprehensive loss for the financial period	(2,349)	(7,005)	(5,209)	(6,826)
Total comprehensive (loss)/income attributable to:				
- Owners of Heng Huat	(2,425)	(6,977)	(5,257)	(6,800)
- Non-controlling interests	76	(28)	48	(26)
	(2,349)	(7,005)	(5,209)	(6,826)
Basic loss per share (sen) attributable to owners of Heng Huat:				
- Basic ⁽²⁾	(6.61)	(2.05)	(14.87)	(2.00)
- Diluted ⁽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 period ended 31 March 2020 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 30.09.2020 ⁽¹⁾ RM'000 (unaudited)	As at 31.03.2020 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	47,731	56,214
Right-of-use assets	865	858
Intangible assets	167	178
	48,763	57,250
Current Assets		
Inventories	6,257	6,554
Trade and other receivables	20,963	23,040
Current tax assets	811	782
Cash and cash equivalents	6,218	7,938
Non-current assets held for sale	22,000	22,000
	56,249	60,314
TOTAL ASSETS	105,012	117,564
Equity		
Share capital	41,605	40,538
Reorganisation reserve	(5,185)	(5,185)
Accumulated losses (Retained profits)	(4,547)	718
	31,873	36,071
Non-controlling interests	253	205
Total Equity	32,126	36,276
Non-Current Liabilities		
Lease liabilities	380	184
Borrowings	12,927	12,275
Deferred tax liabilities	647	647
	13,954	13,106
Current Liabilities		
Trade and other payables	38,425	36,757
Derivative financial liability	-	8
Lease liabilities	524	705
Borrowings	19,983	30,712
	58,932	68,182
Total Liabilities	72,886	81,288
TOTAL EQUITY AND LIABILITIES	105,012	117,564
NET ASSETS PER SHARE (RM)⁽²⁾	0.088	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 period ended 31 March 2020 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/period 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 April 2020	40,538	(5,185)	718	36,071	205	36,276
Adjustment of MFRS recognition:			(8)	(8)	-	(8)
- MFRS 16 lease portion						
Total comprehensive loss for the financial period	-	-	(5,257)	(5,257)	48	(5,209)
Issuance of new shares pursuant to private placement, net of expenses	1,067	-	-	1,067	-	1,067
At 30 September 2020	41,605	(5,185)	(4,547)	31,873	253	32,126
At 1 April 2019	40,538	(5,185)	43,820	79,173	278	79,451
Total comprehensive income for the financial period	-	-	(6,800)	(6,800)	(26)	(6,826)
At 30 September 2019	40,538	(5,185)	37,020	72,373	252	72,625

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	
	30.09.2020 RM'000	30.09.2019 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(5,003)	(6,797)
<u>Adjustments for:</u>		
Amortisation of intangible assets	11	750
Depreciation of property, plant and equipment	3,245	6,944
Depreciation of right-of-use assets	502	-
Fair value adjustment on derivative instruments	(8)	(14)
Gain on disposal of property, plant and equipment	(95)	(68)
Property, plant and equipment written-off	-	15
Intangible written-off	-	94
Provision for impairment of property, plant and equipment	5,354	-
Provision for impairment of receivables	-	3,120
Interest expense	689	2,379
Interest income	(12)	(27)
Unrealised gain on foreign exchange	15	402
	<hr/>	<hr/>
Operating profit before working capital changes	4,698	6,798
Decrease in inventories	296	148
Decrease/(Increase) in trade and other receivables	2,062	(9,217)
Increase/(Decrease) in trade and other payables	1,674	(1,613)
	<hr/>	<hr/>
Tax paid	(234)	(365)
	<hr/>	<hr/>
Net cash from/(used in) operating activities	8,496	(4,249)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	12	27
Proceeds from disposal of property, plant and equipment	117	292
Purchase of property, plant and equipment	(232)	(1,821)
Changes in fixed deposits pledged with licensed banks	(5)	837
	<hr/>	<hr/>
Net cash from/(used in) investing activities	(108)	(665)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(689)	(2,379)
Proceed from issuance of ordinary shares	1,121	-
Share issue expenses paid	(54)	-
Net repayment of bankers' acceptance	1,182	1,827
Net (repayment)/drawdown of term loans	(1,389)	192
Net repayment of hire purchase payables	(1,024)	(2,568)
Net repayment of lease liabilities	(414)	-
	<hr/>	<hr/>
Net cash used in financing activities	(1,267)	(2,928)
	<hr/>	<hr/>
Net changes in cash and cash equivalents	7,121	(7,842)
Effects of foreign exchange	-	(1)
Cash and cash equivalents at beginning of the financial period	(10,979)	(1,058)
	<hr/>	<hr/>
Cash and cash equivalents at end of the financial period	(3,858)	(8,901)



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

	Year-to-date ended	
	30.09.2020	30.09.2019
	RM'000	RM'000
		(audited)
Cash and cash equivalents comprise the following:		
Cash and bank balances	4,928	3,276
Fixed deposits pledged to financial institutions	1,290	905
		<hr/>
Less: Bank overdraft	6,218	4,181
	(8,786)	(12,177)
Less: Fixed deposits pledged to financial institutions	(1,290)	(905)
		<hr/>
	(3,858)	(8,901)
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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.



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
ASSETS	
Non-current assets	
Right-of-use assets	<u>1,737,623</u>
LIABILITIES	
Non-current liabilities	
Lease liabilities	767,040
Current liabilities	
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**”).

Proposed Multiple Proposal: Announcement dated 13 August 2020

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 settlement of debt owing to selected creditors of Heng Huat (“**Creditors**”) in the aggregate sum of RM7,750,272 to be fully satisfied through the issuance of 24,219,600 new ordinary shares in Heng Huat (“**Heng Huat Shares**”) (“**Creditor Settlement Shares**”) at an issue price of RM0.32 each (“**Proposed Debt Settlement with Creditors**”);
- ii. Proposed settlement of debt owing to directors of Heng Huat in the aggregate sum of RM7,000,000 to be fully satisfied through the issuance of 21,875,000 new Heng Huat Shares (“**Director Settlement Shares**”) at an issue price of RM0.32 each (“**Proposed Debt Settlement with Directors**”);
- iii. Proposed issuance of 9,024,300 new Heng Huat Shares (“**Consideration Shares**”) at an issue price of RM0.41 each, to satisfy the total purchase consideration of RM3,699,963 for two separate acquisitions of land by HH Land and Development Sdn. Bhd., a wholly-owned subsidiary of Heng Huat (“**HH Land**”) (“**Proposed Issuance of Consideration Shares**”); and
- iv. Proposed share issuance scheme of up to 30% of the total number of issued Heng Huat Shares (excluding any treasury shares) at any one time during the duration of the share issuance scheme (“**Proposed SIS**”).

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

The Company had incorporated two new wholly-owned subsidiaries, namely HH Land and Development Sdn. Bhd. on 20 July 2020 and HH Ecometal Recycling Sdn. Bhd. on 15 October 2020.

There were no other changes in the composition of the Group during the current quarter and financial year 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 30 September 2020 is as follows:

	As at 30.09.2020 RM'000
Property, plant and equipment	
Approved but not contracted for	-
Contracted but not provided for	574
	<u>574</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:



A13. SEGMENT INFORMATION (Con't)

(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.

	Current quarter ended		Year-to-date ended	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
	RM'000	RM'000	RM'000	RM'000
<u>Segment Revenue</u>				
Biomass materials and related products	14,069	18,383	23,742	43,578
Mattresses and related products	6,798	4,505	10,580	9,328
	20,867	22,888	34,322	52,906
Elimination of intragroup transactions	(2,042)	(1,713)	(3,202)	(4,301)
Revenue from external customers	18,825	21,175	31,120	48,605
<u>Segment Results</u>				
Biomass materials and related products	(2,995)	(6,092)	(5,743)	(5,794)
Mattresses and related products	795	(667)	945	(693)
	(2,200)	(6,759)	(4,798)	(6,487)
Unallocated corporate income and expenses(net)	(71)	(136)	(206)	(205)
Elimination of intragroup transactions and profits	-	-	-	-
Loss before tax of the Group	(2,271)	(6,895)	(5,004)	(6,692)
	Current quarter ended		Year-to-date ended	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
	RM'000	RM'000	RM'000	RM'000
<u>Segment Assets</u>				
Biomass materials and related products	98,174	136,123	98,174	136,123
Mattresses and related products	16,196	13,368	16,196	13,368
	114,370	149,491	114,370	149,491
Tax assets	810	718	810	718
Unallocated assets	30,385	25,807	30,385	25,807
Elimination of intragroup balances and profits	(40,553)	(30,085)	(40,553)	(30,085)
Total assets of the Group	105,012	145,931	105,012	145,931



A13. SEGMENT INFORMATION (Con't)

	Current quarter ended		Year-to-date ended	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
	RM'000	RM'000	RM'000	RM'000
<i>Segment Liabilities</i>				
Biomass materials and related products	87,766	84,730	87,766	84,730
Mattresses and related products	14,848	12,424	14,848	12,424
	102,614	97,154	102,614	97,154
Tax liabilities	648	788	648	788
Unallocated liabilities	9,712	5,023	9,712	5,023
Elimination of intragroup balances and profits	(40,088)	(29,659)	(40,088)	(29,659)
Total liabilities of the Group	72,886	73,306	72,886	73,306

A14. RELATED PARTY TRANSACTIONS

	Current quarter ended		Year-to-date ended	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
	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	304	456
Renting of vacant land for placement of portable cabins used for staff accommodation	-	30	-	90

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		Changes		Cumulative Period		Changes	
	Current year quarter	Preceding year Corresponding Quarter			Current year period	Preceding year Corresponding Period		
	30.09.2020 RM'000	30.09.2019 RM'000	RM'000	%	30.09.2020 RM'000	30.09.2019 RM'000	RM'000	%
Revenue	18,825	21,175	(2,350)	(11.10)	31,120	48,605	(17,485)	(35.97)
Loss before tax	(2,271)	(6,895)	4,624	(67.06)	(5,003)	(6,692)	1,689	(25.24)
Loss after tax	(2,349)	(7,005)	4,656	(66.47)	(5,209)	(6,826)	1,617	(23.69)

Revenue

For the current quarter and financial period ended 30 September 2020, the Group recorded revenue of RM18.83 million and RM31.12 during the current quarter and financial period, representing decrease of approximately RM2.35 million or 11.10% and RM17.49 million or 35.97% 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.

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 and financial period under review has reduced by approximately 73.61% and 64.22% respectively as compared to the preceding year corresponding quarter and period;
- ii. Decrease in average selling prices of oil palm EFB fibre, which average selling price sold during the current quarter and financial period under review has reduced by approximately 1.09% and 18.53% respectively 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 during the current quarter and financial period under review had reduced by approximately 18.78% and 47.82% respectively 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 during the current quarter and financial period under review had improved approximately 42.28% and 38.68% approximately and sale performance from mattress division as compared to the preceding year corresponding quarter and period.



B1. ANALYSIS OF PERFORMANCE (Cont'd)

(Loss) Before Tax

Our Group reported a loss before tax of approximately RM2.27 million and RM5.00 million respectively for the current quarter and financial period respectively.

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.
- iii. An impairment loss of RM5.35 million has been recognised in profit and loss to reduce the carrying amount of the property, plant and equipment as these assets were operate less than half capacity following the decision of a subsidiary to cease its oil palm fibre production due to anticipated reduction in demand for the foreseeable future.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 30.09.2020	Preceding quarter ended 30.06.2020
	RM'000	RM'000
Loss before tax	(2,271)	(2,732)

Our Group recorded a loss before tax of approximately RM2.27 million for the current quarter ended 30 September 2020, as compared to a loss before tax of RM2.73 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.



B3. PROSPECTS (Cont'd)

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 EXPENSE

	Current quarter ended 30.09.2020 RM'000	Year-to-date ended 30.09.2020 RM'000
Current tax expense	(78)	(206)
Deferred tax income	-	-
Total tax expense	<u>(78)</u>	<u>(206)</u>

Our Group recorded total tax expenses of approximately RM206,000 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.

On 15 January 2020, 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, 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, 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").

The Proposed disposal have been completed on 30 October 2020.

Proposed Fund Raising: Announcement dated 13 June 2020

On 17 July 2020, Company announced that the Proposed Private Placement has been completed, where a total of 3,395,700 new shares were placed out. Total gross proceeds raised amounted to RM1,120,581. The status of utilisation of the proceeds as per reporting date as follow:

Purpose	Intended Timeframe for Utilisation	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation	
				RM'000	%
i. Repayment of bank borrowings	Within 12 months	997	997	-	-
ii. General administrative and operating expenses	Within 12 months	124	124	-	-
Total		1,121	1,121	-	-



B6. STATUS OF CORPORATE PROPOSALS (Cont'd)

Proposed Multiple Proposal: Announcement dated 13 August 2020

On 14 August 2020, Company announced that the additional listing application in relation to the Proposals has been submitted to Bursa Securities on 14 August 2020.

On 10 November 2020, Company announced that Bursa Securities had, vide its letter dated 9 November 2020, approved the following:

- i. listing of and quotation for 24,219,600 Creditor Settlement Shares to be issued pursuant to the Proposed Debt Settlement with Creditors;
- ii. listing of and quotation for 21,875,000 Director Settlement Shares to be issued pursuant to the Proposed Debt Settlement with Directors;
- iii. listing of and quotation for 9,024,300 Consideration Shares to be issued pursuant to the Proposed Issuance of Consideration Shares;
- iv. listing of and quotation for up to 27,741,400 Placement Shares to be issued pursuant to the Proposed 30% Placement; and
- v. listing of and quotation for such number of new ordinary shares in Heng Huat representing up to 30% of the total number of issued shares in Heng Huat (excluding any treasury shares) at any point in time during the duration of the Proposed SIS, to be issued pursuant to the exercise of SIS Options.

The approval granted by Bursa Securities for the Proposed Debt Settlement with Creditors, Proposed Debt Settlement with Directors, Proposed Issuance of Consideration Shares and Proposed 30% Placement is subject to the following conditions:

- i. Heng Huat and TA Securities must fully comply with the relevant provisions under the ACE Market Listing Requirements (“LR”) pertaining to the implementation of the Proposed Debt Settlement with Creditors, Proposed Debt Settlement with Directors, Proposed Issuance of Consideration Shares and Proposed 30% Placement;
- ii. Heng Huat and TA Securities to inform Bursa Securities upon the completion of the Proposed Debt Settlement with Creditors, Proposed Debt Settlement with Directors, Proposed Issuance of Consideration Shares and Proposed 30% Placement;
- iii. Heng Huat to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities’ approval once the Proposed Debt Settlement with Creditors, Proposed Debt Settlement with Directors, Proposed Issuance of Consideration Shares and Proposed 30% Placement are completed;
- iv. Compliance by Heng Huat with the public shareholding spread upon completion of the Proposals. In this connection, TA Securities is to furnish a schedule containing the information set out in Appendix 8E, Chapter 8 of the LR to Bursa Securities, prior to completion of the Proposed Issuance of Consideration Shares; and
- v. Heng Huat to furnish Bursa Securities with a certified true copy of the resolutions passed by shareholders in the extraordinary general meeting approving the Proposed Debt Settlement with Creditors, Proposed Debt Settlement with Directors, Proposed Issuance of Consideration Shares and Proposed 30% Placement.

The approval granted by Bursa Securities for the Proposed SIS is subject to the following conditions:

- i. TA Securities is required to submit a confirmation to Bursa Securities of full compliance of the Proposed SIS pursuant to Rule 6.44 of the LR and stating the effective date of implementation together with a certified true copy of the resolution passed by the shareholders in the extraordinary general meeting; and



B6. STATUS OF CORPORATE PROPOSALS (Cont'd)

- ii. Heng Huat is required to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of options, pursuant to the Proposed SIS as at the end of each quarter together with a detailed computation of listing fees payable.

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 September 2020 are as follows:

	Short Term (Within 12 months) RM'000	Long Term (> 12 months) RM'000	Total RM'000
<u>Secured and guaranteed</u>			
Bankers' acceptance	5,278	-	5,278
Bank overdrafts	8,786	-	8,786
Hire purchase payables	1,941	1,332	3,273
Term loans	3,978	11,595	15,573
Total Borrowings	19,983	12,927	32,910

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

B8. LOSS PER SHARE

Basic Loss per Share ("BLPS")

	Current quarter ended		Year-to-date ended	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
	RM'000	RM'000	RM'000	RM'000
Basic loss per share				
Loss attributable to equity holders of the parent	(2,425)	(6,977)	(5,257)	(6,800)
Weighted average number of ordinary shares in issue ('000)	36,725	339,570	35,349	339,570
BLPS (sen)	(6.61)	(2.05)	(14.87)	(2.00)

Diluted Loss per Share ("DLPS")

No diluted loss 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 September 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 30.09.2020 RM'000	Year-to-date ended 30.09.2019 RM'000
Interest income	5	12
Other income including investment income	-	-
Interest expense	(314)	(689)
Depreciation expenses	(1,676)	(3,747)
Amortisation expenses	(6)	(11)
Bad debts written-off	-	-
Net foreign exchange loss	-	-
(Loss)/Gain on disposal of property, plant and equipment	(34)	(95)
Fair value (loss)/gain on derivative instruments	-	(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	(5,354)	(5,354)
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 September 2020, the Group have the following outstanding forward currency contracts:

Type of Derivatives	[----Contract/ Notional Value-----]		Fair value as at 30.09.2020
	USD'000	RM'000 equivalent	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 September 2020.