

MANAGEMENT DISCUSSION AND ANALYSIS

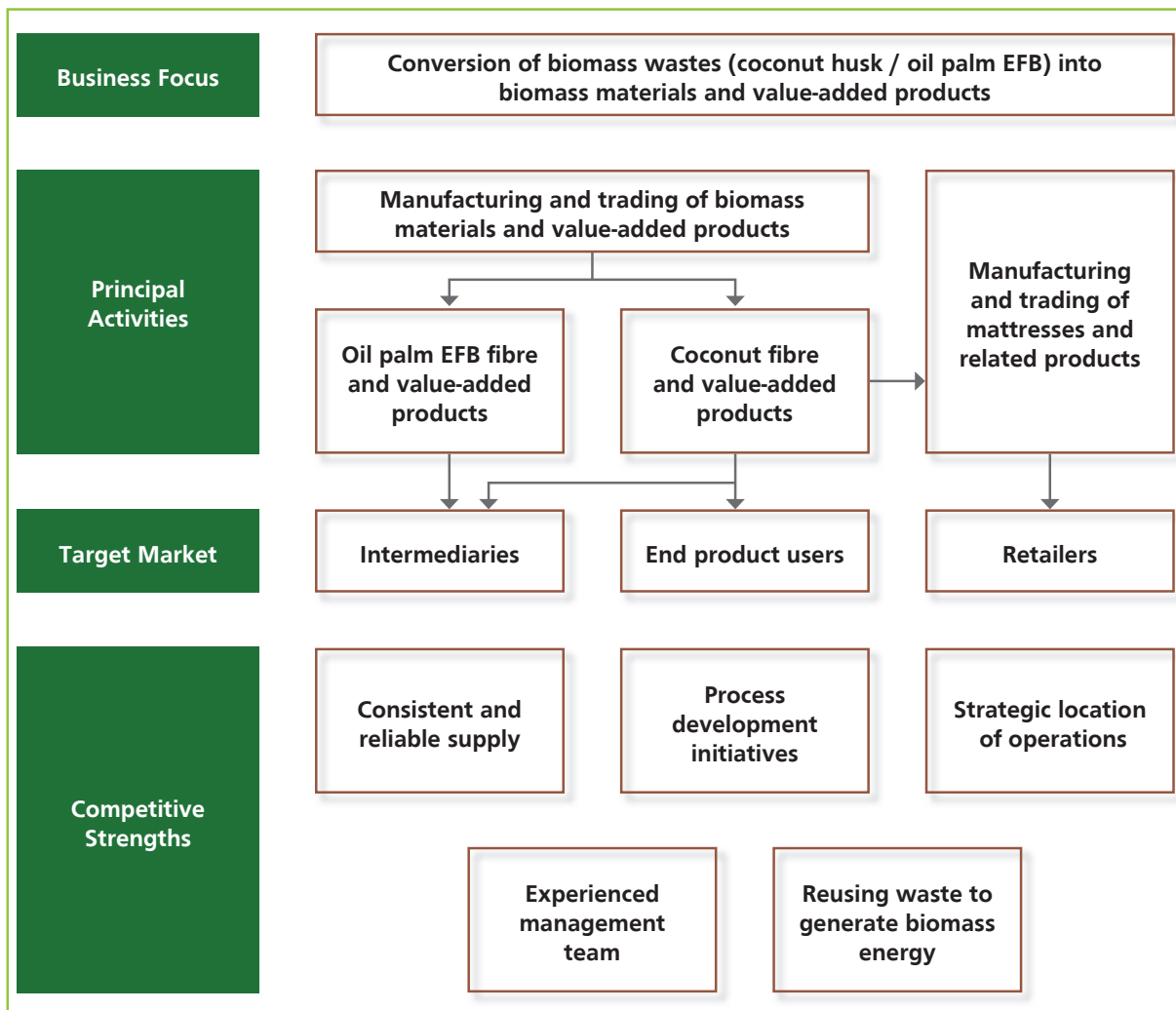
OVERVIEW OF THE GROUP'S OPERATIONS

Our Group is principally involved in the manufacturing, and trading of biomass materials and value-added products focusing on:

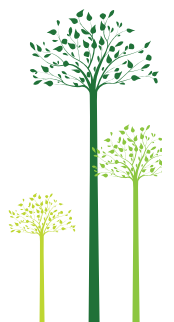
- (i) Oil palm empty fruit bunch ("EFB") fibre and value-added products; and
- (ii) Coconut fibre and value-added products.

Apart from upstream activities, our Group has also ventured downstream to manufacture and distribute our own-brands of mattresses and related products utilising primarily the coconut fibre produced internally.

Our Group's business model is as depicted below:



During the financial year under review, our oil palm EFB fibres were primarily exported to China with other products primarily distributed within the domestic market in Malaysia.



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL RESULTS & CONDITION

- Financial Performance

	2021 RM'000	2020 RM'000	Year-on-Year Variance (%)
Revenue			
Biomass materials and value-added products	49,586	77,229	-35.79
Mattresses and related products	24,008	24,882	-3.51
	73,594	102,111	-27.93
Profitability			
Gross profit ("GP")	12,695	1,755	623.36
<i>GP margin</i>	17.25%	1.72%	
Loss before tax ("LBT")	(18,198)	(43,312)	57.98
<i>LBT margin</i>	-24.73%	-42.42%	
Net loss for the year ("LAT")	(20,092)	(42,904)	53.17
<i>LAT margin</i>	-27.30%	-42.02%	

For Year Ended ("FYE") 31 March 2021 vs 15 Months ("15M") For Period Ended ("FPE") 31 March 2020

The Group's revenue for the FYE 31 March 2021 decreased by RM28.52 million (or 27.93%) to RM73.59 million (15M FPE 30 March 2020: RM102.11 million) (the annualised revenue for the 12M FYE 31 March 2020 was RM81.69 million) due to lower sales performance of the biomass division by RM27.64 million (or 35.79%) to RM49.59 million (FYE 31 March 2020: RM77.23 million) (the annualised revenue of the biomass division for the 12M FPE 31 March 2020 was RM61.78 million) arising from:

The moderation of sales performance was primarily attributable to the decrease in sales volume of oil palm EFB fibre during the financial year under review by approximately 61.57% as compared to preceding year corresponding year.

The Group's LAT for the FYE 31 March 2021 increased by RM22.81 million (or 53.17%) to RM20.09 million (15M FPE 31 March 2020: LAT of RM42.90 million) (the annualised LAT for the 12M FPE 31 March 2020 was RM34.32 million) mainly due to:

- Lower revenue and increasing cost of sales which resulted in lower gross profit recorded;
- 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; and
- Increase in administrative and other expenses as a result of provision of impairment on trade receivables, machineries from biomass division.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL RESULTS & CONDITION (CONT'D)

- Financial Position**

	2021 RM'000	2020 RM'000	Year-on-Year Variance (%)
Total assets	77,611	117,564	-33.98
Total liabilities	41,946	81,289	-48.40
Shareholders' equity	35,429	36,071	-1.78
Net assets per share (sen)	66.78	106.23	

As at 31 March 2021, our Group's total assets and total liabilities stood at RM77.61 million and RM117.56 million respectively, representing decrease of 33.98% and decrease of 48.40% as compared to the preceding year.

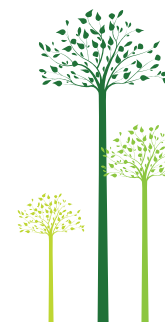
As at 31 March 2021, our shareholders' equity remained at a positive level, stood at RM35.43 million (2020: RM36.07 million).

- Liquidity**

	2021 Days	2020 Days	Changes Day
Trade receivables' turnover period ⁽¹⁾	47	71	- 24 days
Inventories' turnover period ⁽²⁾	27	24	+ 3 days
Trade payables' turnover period ⁽²⁾	25	22	+ 3 days
Cash conversion cycle	49	73	- 24 days

⁽¹⁾ This is derived using the formula: (Closing balance as at year-end / Total revenue) x 365 days

⁽²⁾ This is derived using the formula: (Closing balance as at year-end / Cost of sales) x 365 days



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL RESULTS & CONDITION (CONT'D)

- Liquidity (cont'd)**

Our Group managed to improve the cash conversion cycle from 73 days in the FYE 2020 to 49 days in the FYE 2021.

	2021 RM'000	2020 RM'000
Cash flows from operating activities	9,304	11,413
Cash flow from/(used in) investing activities	19,532	(5,536)
Cash flow used in financing activities	(17,600)	(16,587)
Net movements in cash and cash equivalents	11,236	(10,710)
Cash and cash equivalents at end of financial year:		
Cash and bank balances	8,454	5,909
Deposits with licensed banks	950	2,029
	9,404	7,938
Less:		
Deposits pledges to licensed banks	(950)	(2,029)
Bank overdrafts included in borrowings	(8,950)	(17,632)
	(496)	(11,723)
Current ratio (times)	1.10	0.88

Our Group's current ratio had improve from 0.88 times in the preceding year to 1.10 times for the financial year under review, as a result of disposal of land in Mukim 4, Distric of Seberang Perai Selatan, Penang and buildings erected thereon, by Heng Huat's indirect wholly-owned subsidiaries by HK Kitaran Sdn Bhd to SBJ Property Sdn Bhd for a cash consideration of RM22,000,000.

- Capital Expenditure Requirements, Capital Structure and Capital Resources**

	2021 RM'000	2020 RM'000
Capital Commitment		
Capital expenditure in respect of purchase of property, plant and equipment		
Contracted but not provided for	540	595

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL RESULTS & CONDITION (CONT'D)

- **Capital Expenditure Requirements, Capital Structure and Capital Resources (cont'd)**

As of 31 March 2021, our Group did not incur any new expansion or future project.

Borrowings	2021 RM'000	2020 RM'000
Short terms (repayable within 12 months)	13,353	30,712
Long terms (repayable within 12 months)	7,573	12,275
	20,926	42,987
Gearing ratio (times) Borrowing /Shareholders' Equity	0.59	1.19

During the financial year under review, our Group's gearing ratio decreased to 0.59 time as compared to 1.19 time in prior year. Our borrowings decrease by RM22.06 million or 51.32% from RM42.99 million in the preceding year to RM20.93 million as at 31 March 2021.

The decrease in our Group's borrowings was primarily attributable to the following:

- Repayment of borrowing of bankers' acceptance, bank overdraft, hire-purchase and term loan.

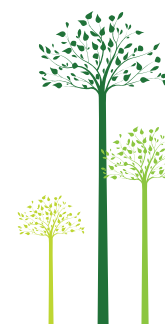
Our Group will evaluate the capital requirements and capital structure on a regular basis, to ensure that adequate capital resources are available to meet the working capital requirements and expansion needs and gearing ratio is maintained within a reasonable range.

REVIEW OF OPERATING ACTIVITIES

Proposed Disposal of Land in Mukim 4, District of Seberang Perai Selatan Penang

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")

On 30 July 2020, shareholders of the Company have approved the Proposed Disposal at the Extraordinary General Meeting ("EGM").



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

REVIEW OF OPERATING ACTIVITIES (CONT'D)

Proposed Fund Raising: Private Placement 10% and 30%

On 15 June 2020, the Company announced to undertake the following:

- (i) Proposed private placement of up to 3,395,700 new shares of the Company, representing approximately 10% of the existing number of issued and paid up shares of the Company ("Proposed 10% Placement"); and
- (ii) Proposed private placement of up to 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").

The Proposed 10% Placement had been completed on 20 July 2020 following the listing of and quotation of the 3,395,700 placement shares at RM0.33 per placement share on the ACE Market of Bursa.

The Proposed 30% Placement is subject to and conditional upon the approvals from:

- (i) Bursa Securities for the listing of and quotation for placement shares on the ACE Market of Bursa Securities; and
- (ii) Shareholders of the Company at an extraordinary general meeting to be convened.

On 9 February 2021, Company had announced that Company decided not to proceed with the implementation of the 30% Placement, with the reason being that the Company will announce a proposed renounceable rights issue of shares with warrants to enable all shareholders of the Company to participate in the Company's fund-raising efforts.

Propose Fund Raising: Multiple Exercise

On 13 August 2020, the Company announced to undertake the following:

- (i) Proposed settlement of debt owing to selected creditors of the Group in aggregate sum of RM7,750,272 to be fully satisfied through the issuance of 24,219,600 new ordinary shares of the Company at an issue price of RM0.32 each ("Proposed Debt Settlement with Creditors");
- (ii) Proposed settlement of debt owing to directors of the Company in the aggregate sum of RM7,000,000 to be fully satisfied through the issuance of 21,875,000 new ordinary shares of the Company at an issue price of RM0.32 each ("Proposed Debt Settlement with Directors");
- (iii) Proposed issuance of 9,024,300 new ordinary shares at an issue price of RM0.41 each, to satisfy the total purchase consideration of RM3,699,963 for two separate acquisition of land by HH Land and Development Sdn. Bhd. ("HH Land"), a wholly-owned subsidiary of the Company ("Proposed Issuance of Consideration Shares"). HH Land was incorporated on 20 July 2020.
- (iv) Proposed share issuance scheme of up to 30% of the total number of issued ordinary shares of the Company (excluding any treasury shares) at any one time during the duration of the share issuance scheme ("Proposed SIS"). The Proposed SIS will involve the granting of SIS options ("SIS Options") to the eligible directors and employees of the Company and its subsidiaries (excluding subsidiaries which are dormant), who meet the criteria of eligibility for participation in the Proposed SIS, to subscribe for new ordinary shares of the Company in accordance with the by-laws of the Proposed SIS.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

REVIEW OF OPERATING ACTIVITIES (CONT'D)

Propose Fund Raising: Multiple Exercise (cont'd)

The Proposed Multiple Proposal was subsequently approved by the shareholders of the Company in the Extraordinary General Meeting held on 2 December 2020.

The proposed issuance new ordinary shares for settlement of debt owing to selected creditor has been completed on 10 December 2020 and 30 December 2020, following the listing of 21,810,500 and 2,409,100 of new ordinary shares respectively on ACE Market of Bursa Securities.

The proposed issuance new ordinary shares for settlement of debt owing to director has been completed on 10 December 2020, following the listing of 21,875,000 of new ordinary shares on ACE Market of Bursa Securities.

The proposed issuance new ordinary shares for two separate acquisitions of land by HH Land and Development Sdn Bhd has been completed on 10 December 2020 and 15 December 2020, following the listing of 3,414,600 and 5,609,700 of new ordinary shares respectively on ACE Market of Bursa Securities.

Proposed Fund Raising: Rights Issue of Shares with Warrants

On 9 February 2021, the Company announcement to undertaking the following:

Proposed renounceable rights issue of up to 46,235,800 new ordinary shares in Heng Huat on the basis of 1 rights share for every 2 existing Heng Huat shares held on an entitlement date to be determined, together with up to 69,353,700 free detachable warrants on the basis of 3 warrants for every 2 rights shares subscribed.

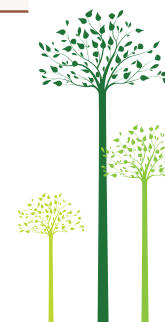
The Proposed Rights Issue was subsequently approved by the shareholders of the Company in the Extraordinary General Meeting held on 23 March 2020.

On 17 May 2021, Company announce that the Rights Issue has been completed with the listing of and quotation for 46,235,733 Rights Shares together with 69,353,589 Warrants on the ACE Market of Bursa Securities.

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.

ANTICIPATED OR KNOW RISK

Principal Risk	Description/Consequences	Strategies to Mitigate Risk
Dependent on single market	<ul style="list-style-type: none"> - The biomass products are sold mainly to customers in China. - The products are suitable and acceptable in the China market. - Any changes in China's ruling and economic may give significant impact to the company. 	<ul style="list-style-type: none"> - Exploring new market such as Australia, Japan and Korea. - Diversifying the product range. - Participating in roadshow and exhibition.



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FORWARD LOOKING STATEMENT

Prospect

The global economy is recovering, and is expected to expand by 5.6 percent in 2021 and 4.3 percent in 2022. The strength of the near term recovery is, to a large extent, attributable to a few major economies, such as the United States and China. In many other economies, the pickup is projected to be less robust than previously envisioned, partly due to the continued spread of the virus and slow vaccine distribution of COVID-19.

(Source: Global Economic Prospects – June 2021, World Bank Group)

Notwithstanding that, our Group remain cautiously optimistic that orders for oil palm EFB fibre from China in the mid and long term will be promising backed by the rising population in China and increasing demand for raw material alternatives that are cheaper, natural and environmentally-friendly.

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.

Barring any unforeseen circumstances and adverse external economic factors, the Board of Directors is of the view that the Group's financial performance for the financial year ending 31 March 2022 will remain positive.

DIVIDEND POLICY

Our Company presently does not have any formal dividend policy. The declaration of interim dividends and the recommendation of any final dividends are subject to the discretion of our Board of Directors and any final dividend proposed is subject to our shareholders' approval.

Our Board of Directors seeks to adopt a stable and sustainable dividend policy to allow our shareholders to participate in the profits of our Group while maintaining an optimal capital structure and ensuring sufficient funds for our future growth. In determining the payment of dividends, our Board of Directors take into consideration, amongst other factors, the operational performance, financial condition, capital expenditure plans and business expansion plans of Group.