

# Management Discussion And Analysis

## OVERVIEW OF THE GROUP'S OPERATIONS

Heng Huat is an investment holding company with subsidiaries involved in following business activities as following:

- (i) Oil palm empty fruit bunch ("EFB") fibre and value-added products,
- (ii) Coconut fibre and value-added products;
- (iii) Fully-Integrated fibre mattress, kids' bed and other bedding accessories; and
- (iv) Property development and management.

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.

## FINANCIAL RESULTS & CONDITION

### • Financial Performance

	2022 RM'000	2021 RM'000	Year-on-Year Variance (%)
Revenue			
Biomass materials and value-added products	80,985	49,586	63.32
Mattresses and related products	22,517	24,008	-6.21
	<b>103,502</b>	<b>73,594</b>	<b>40.64</b>
Profitability			
Gross profit "GP"	37,667	12,695	196.71
<i>GP margin</i>	36.39%	17.25%	
Profit/(Loss) before tax "(PBT)"	14,847	(18,198)	
<i>(PBT) margin</i>	14.34%	-24.73%	181.59
Net profit/(loss) for the year "(PAT)"	14,756	(20,092)	
<i>(PAT) margin</i>	14.26%	-27.30%	173.44

The Group's revenue for the financial year ended ("FYE") 31 March 2022 increased by RM29.91 million (or 40.64%) to RM103.50 million was arising from:

The increase of sales performance was primarily attributable to the increase in sales volume of biomass materials and related products segment, where total quantities sold during the financial year under review improved by approximately 56.74% and 87.64% as compared to preceding year corresponding year.

The Group's PAT for the FYE 31 March 2022 increased by RM34.85 million (or 173.44%) to RM14.76 million mainly due to:

- i. Increase in margin of biomass products as a result of financial and operation restructuring by the management;
- ii. Increase in quantity demanded from market; and
- iii. Impairment loss on property, plant and equipment and allowance for expected credit loss amounting to RM11.17 million and RM12.89 million respectively for the FYE 31 March 2021.

The revenue growth was, however, partially offset by an administrative and other expenses mainly due to one off non-recurring transaction incurred during the financial year under review. The non-cash expenses amounted RM7.64 million recognised was in relation to the equity-settled share-based payment transactions.

# Management Discussion And Analysis (Cont'd)

## FINANCIAL RESULTS & CONDITION (CONT'D)

### • Financial Position

	2022 <sup>(1)</sup> RM'000	2021 RM'000	Year-on-Year Variance (%)
Total assets	134,789	77,611	73.67
Total liabilities	34,130	41,946	-18.63
Shareholders' equity	100,191	35,429	182.79
<b>Net assets per share (sen)</b>	<b>74.46</b>	<b>66.78</b>	

<sup>(1)</sup>Excluded the impacts of the newly acquired subsidiary, MG Furniture Sdn Bhd on 30 March 2022.

As at 31 March 2022, our Group's total assets and total liabilities stood at RM134.79 million and RM34.13 million respectively, representing an increase of 73.67% and a decrease of 18.63% as compared to the preceding year.

As at 31 March 2022, our shareholders' equity remained at a positive level, stood at RM100.19 million (2021: RM35.43 million).

### • Liquidity

	2022 <sup>(3)</sup> RM'000	2021 Days	Changes Day
Trade receivables' turnover period <sup>(1)</sup>	34	47	- 13 days
Inventories' turnover period <sup>(2)</sup>	33	27	+ 6 days
Trade payables' turnover period <sup>(2)</sup>	24	25	- 1 days
<b>Cash conversion cycle</b>	<b>43</b>	<b>49</b>	<b>- 6 days</b>

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

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

<sup>(3)</sup>Excluded the impacts of the newly acquired subsidiary, MG Furniture Sdn Bhd on 30 March 2022.

# Management Discussion And Analysis (Cont'd)

## FINANCIAL RESULTS & CONDITION (CONT'D)

### • Liquidity (cont'd)

Our Group managed to improve the cash conversion cycle from 49 days in the FYE 2021 to 43 days in the FYE 2022.

	2022 <sup>(1)</sup> RM'000	2021 RM'000
Cash flows from operating activities	27,394	9,304
Cash flow (used in)/from investing activities	(41,403)	19,532
Cash flow from/(used in) financing activities	36,327	(17,600)
<b>Net movements in cash and cash equivalents</b>	<b>22,318</b>	<b>11,236</b>
Cash and cash equivalents at the end of the financial year:		
Cash and bank balances	19,825	8,454
Deposits with licensed banks	2,422	950
Short-term investments	2,000	-
	24,247	9,404
Less:		
Deposits pledged to licensed banks	(2,422)	(950)
Bank overdrafts included in borrowings	-	(8,950)
	<b>21,825</b>	<b>(496)</b>
<b>Current ratio (times)</b>	<b>2.15</b>	<b>1.10</b>

<sup>(1)</sup>Excluded the impacts of the newly acquired subsidiary, MG Furniture Sdn Bhd on 30 March 2022.

Our Group's current ratio had improved from 1.10 times in the preceding year to 2.15 times for the financial year under review, mainly due to lower borrowings as there is no utilisation of overdraft facilities and improvement in cash and cash equivalents which derived from collection received from increased sales during the financial year.

# Management Discussion And Analysis (Cont'd)

## FINANCIAL RESULTS & CONDITION (CONT'D)

### • Capital Expenditure Requirements, Capital Structure and Capital Resources

Capital Commitment	2022 RM'000	2021 RM'000
Capital expenditure in respect of purchase of property, plant and equipment		
Approved but not contracted for	107	-
Contracted but not provided for	10,366	540
	<b>10,473</b>	540

As of 31 March 2022, our Group did not incur any new expansion or future project.

Borrowings	2022 <sup>(1)</sup> RM'000	2021 RM'000
Short terms (repayable within 12 months)	2,186	13,353
Long terms (repayable more than 12 months)	6,371	7,573
	<b>8,557</b>	<b>20,926</b>
<b>Gearing ratio (times) Borrowings /Shareholders' Equity</b>	<b>0.09</b>	<b>0.59</b>

<sup>(1)</sup>Excluded the impacts of the newly acquired subsidiary, MG Furniture Sdn Bhd on 30 March 2022.

During the financial year under review, our Group's gearing ratio decreased to 0.09 time as compared to 0.59 time in prior year. Our borrowings decreased by RM12.37 million or 59.11% from RM20.93 million in the preceding year to RM8.56 million as at 31 March 2022.

The decrease in our Group's borrowings was primarily attributable to repayment of bankers' acceptance, bank overdrafts, finance lease liabilities and term loans.

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 Fund Raising: Rights Issue of Shares with Warrants

On 9 February 2021, the Company announced to undertake the proposed renounceable rights issue ("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, 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 announced 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 Malaysia Securities Berhad ("Bursa Securities").

# Management Discussion And Analysis (Cont'd)

## REVIEW OF OPERATING ACTIVITIES (CONT'D)

### Proposed Multiple Proposal: Announcement dated 25 October 2021

On 9 February 2021, the Company announced that the additional listing application in relation to the Proposed Acquisitions has been submitted to Bursa Securities.

On 14 February 2022, the Company announced that Bursa Securities had, vide its letter dated 14 February 2022, resolved to approve the following:

- i. listing and quotation of 65,116,279 new ordinary shares in Heng Huat to be issued pursuant to the Proposed MG Furniture Acquisition;
- ii. listing and quotation of 30,232,558 new ordinary shares in Heng Huat to be issued pursuant to the Proposed Lots 1222 & 1223 Acquisition;
- iii. listing and quotation of 604,651 new ordinary shares in Heng Huat to be issued pursuant to the Proposed Lots 2312 & 2337 Acquisition; and
- iv. listing and quotation of 46,511,627 new ordinary shares in Heng Huat to be issued pursuant to the Proposed Kulim Land Acquisition.

The approval granted by Bursa Securities for the listing and quotation of the new ordinary shares in Heng Huat is subject to the following conditions:

- a. Heng Huat and TA Securities Holdings Berhad ("TA Securities") must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed MG Furniture Acquisition, Proposed Lots 1222 & 1223 Acquisition, Proposed Lots 2312 & 2337 Acquisition and Proposed Kulim Land Acquisition.
- b. Heng Huat and TA Securities to inform Bursa Securities upon the completion of the Proposed MG Furniture Acquisition, Proposed Lots 1222 & 1223 Acquisition, Proposed Lots 2312 & 2337 Acquisition and Proposed Kulim Land Acquisition, respectively.
- c. 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 MG Furniture Acquisition, Proposed Lots 1222 & 1223 Acquisition, Proposed Lots 2312 & 2337 Acquisition and Proposed Kulim Land Acquisition are completed.
- d. Compliance by Heng Huat with the public shareholding spread upon completion of the Proposed MG Furniture Acquisition, Proposed Lots 1222 & 1223 Acquisition, Proposed Lots 2312 & 2337 Acquisition and Proposed Kulim Land Acquisition, respectively. In this connection, TA Securities is to furnish a schedule containing the information set out in Appendix 8E, Chapter 8 of the Listing Requirements to Bursa Securities, prior to the allotment and issuance of the Consideration Shares.
- e. Heng Huat to furnish Bursa Securities with a certified true copy of the resolutions passed by the shareholders in general meeting approving the Proposed MG Furniture Acquisition, Proposed Lots 1222 & 1223 Acquisition, Proposed Lots 2312 & 2337 Acquisition, Proposed Kulim Land Acquisition and Proposed Diversification.

The Proposed Multiple Proposal was subsequently approved by the shareholders of the Company in the Extraordinary General Meeting held on 15 March 2022.

The proposed issuance new ordinary shares for above acquisition has been completed on 30 March 2022, following the listing of 283,128,874 of total ordinary shares on ACE Market of Bursa Securities.

## *Management Discussion And Analysis* (Cont'd)

### REVIEW OF OPERATING ACTIVITIES (CONT'D)

#### Proposed Bonus Issue: Announcement dated 13 January 2022

On 13 January 2022, the Company announced to undertake Proposed Bonus Issue.

On 14 January 2022, the Company announced that the additional listing application in relation to the Proposed Bonus Issue has been submitted to Bursa Securities.

On 14 February 2022, the Company announced that Bursa Securities had, vide its letter dated 14 February 2022, resolved to approve the following:

- i. up to 588,189,057 Bonus Shares to be issued pursuant to the Proposed Bonus Issue;
- ii. up to 101,422,671 Additional Warrants to be issued pursuant to the adjustment arising from the Proposed Bonus Issue; and
- iii. up to 101,422,671 additional new Heng Huat Shares to be issued pursuant to the exercise of the Additional Warrants.

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

- a. Heng Huat and TA Securities must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Bonus Issue;
- b. Heng Huat and TA Securities to inform Bursa Securities upon the completion of the Proposed Bonus Issue;
- c. 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 Bonus Issue is completed; and
- d. Heng Huat and TA Securities are required to make the relevant announcements pursuant to Rule 6.36(2)(a), Rule 6.36(2)(b) and Rule 6.36(4) of the Listing Requirements.

The Additional Warrants and Bonus Shares must be listed simultaneously.

The Proposed Bonus Issue was subsequently approved by the shareholders of the Company in the Extraordinary General Meeting held on 15 March 2022.

The proposed issuance new ordinary shares for above acquisition has been completed on 18 April 2022, following the listing of 424,693,236 Bonus Shares and 101,095,710 new Warrants arising from the adjustment to the number of outstanding Warrants pursuant to the Bonus Issue respectively on 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 financial year under review and up to date of Board of Directors' resolution.

# Management Discussion And Analysis (Cont'd)

## ANTICIPATED OR KNOW RISK

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

## FORWARD LOOKING STATEMENT

### Prospect

Heng Huat Group has been facing challenges in its existing business of manufacturing and trading of biomass materials and value-added products because the COVID-19 pandemic had reduced demand from its China-based customers. In addition, the movement control orders imposed periodically in the last two years to contain the COVID-19 pandemic has affected palm oil and coconut as well as related industries operations in Malaysia as a result of the imposition of lockdowns to curb the spread of the virus which have led to supply chain disruption, resulting in higher logistics costs and delivery delays.

Going forward, MG Furniture is expected to expand Heng Huat Group's marketing, distribution and customer coverage to developed countries with growth opportunities in the export market for the custom-made furniture that are currently served by MG Furniture. MG Furniture's network of distributors/retailers and/or customers can be used to market Heng Huat Group's mattresses and other related products overseas beginning immediately after the completion of the Proposed MG Furniture Acquisition. Heng Huat Group expects to launch the comprehensive bedding package in the market immediately after the completion of the Proposed MG Furniture Acquisition with no additional financial resources are required as the bedding package would be a repackaging of existing Heng Huat and MG Furniture products into a new product.

Heng Huat Group's strategic plan to diversify its business to include property development is part of its longer-term plan to increase its revenue stream, starting with the Kulim Land which is strategically located within close proximity of Kulim Hi-Tech Park.

As the COVID-19 pandemic is still evolving, Heng Huat Group will closely monitor the developments arising from the COVID-19 pandemic to ascertain the magnitude of the impact and has taken proactive measures to mitigate the impact such as adopting stricter cost control measures, improving asset utilisation and aligning Heng Huat Group's cost structure with current production levels. Heng Huat Group is confident that it will be able to navigate through these headwinds through the support of its ongoing initiatives.

*(Source: The management of Heng Huat)*

## *Management Discussion And Analysis* (Cont'd)

### **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.