HENG HUAT RESOURCES GROUP BERHAD

(Company No. 969678-D)
(Incorporated in Malaysia under the Companies Act, 1965)

INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2015

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

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30.9.2015 [1] RM'000	Preceding Year Corresponding Quarter 30.9.2014 RM'000	Current Year Period 30.9.2015 [1] RM'000	Preceding Year Corresponding Period 30.9.2014 RM'000
Revenue	18,043	23,077	71,072	68,454
Cost of sales	(11,283)	(12,722)	(40,829)	(38,002)
Gross profit ("GP")	6,760	10,355	30,243	30,452
Other income	2,446	131	2,849	291
Selling and distribution expenses	(2,931)	(4,109)	(11,638)	(12,368)
Administrative and other expenses	(2,945)	(3,574)	(7,361)	(7,037)
Finance costs	(352)	(519)	(1,155)	(1,644)
Profit before taxation ("PBT")	2,978	2,284	12,938	9,694
Tax income/ (expenses)	(80)	(595)	(560)	(1,501)
Profit after taxation ("PAT")	**2,898**	**1,689**	**12,378**	**8,193**
Other comprehensive income	-	-	-	-
Total comprehensive income	**2,898**	**1,689**	**12,378**	**8,193**
Profit for the financial period/ Total comprehensive income attributable to:				
- Owners of Heng Huat	2,507	1,247	10,458	6,971
- Non-controlling interests	391	442	1,920	1,222
	2,898	**1,689**	**12,378**	**8,193**
Earnings per share attributable to owners of Heng Huat:				
- Basic (sen) [2]	0.81	0.43 [@]	3.39	2.72 [@]
- Diluted (sen) [2]	N/A	N/A	N/A	N/A

Notes:

N/A Not applicable.

[1] *The unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to this interim financial report.*

[2] *Kindly refer to **Note B10** for further details.*

[@] *The basic earnings per share attributable to owners of Heng Huat for the quarter and financial period ended 30 September 2014 have been adjusted retrospectively to reflect the effect of bonus issue in accordance with the requirements of MFRS 133 Earnings per Share. Further details on the bonus issue are disclosed under **Note A7**.*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	As at 30.9.2015 [1] RM'000 (unaudited)	As at 31.12.2014 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	73,390	62,292
Intangible assets	886	1,145
	74,276	63,437
Current Assets		
Inventories	7,430	5,890
Trade and other receivables	31,496	21,570
Current tax assets	601	452
Cash and cash equivalents	8,620	17,666
	48,147	45,578
TOTAL ASSETS	**122,423**	**109,015**
Equity		
Share capital	30,870	20,580
Share premium	5,454	15,863
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	46,309	36,880
	77,448	68,138
Non-controlling interests	5,714	4,594
Total Equity	**83,162**	**72,732**
Non-Current Liabilities		
Borrowings	10,740	15,494
Deferred tax liabilities	807	682
	11,547	16,176
Current Liabilities		
Trade and other payables	11,444	10,447
Derivative liability	359	214
Borrowings	15,911	9,435
Current tax liabilities	-	11
	27,714	20,107
Total Liabilities	**39,261**	**36,283**
TOTAL EQUITY AND LIABILITIES	**122,423**	**109,015**
NET ASSETS PER SHARE (RM)	**0.25** [2]	**0.33** [3]

Notes:

[1] *The unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to this interim financial report.*

[2] *Calculated based on the Company's existing issued and paid-up share capital for the financial period ended 30 September 2015 of 308,700,045 ordinary shares of RM0.10 each ("**Shares**").*

[3] *Calculated based on the Company's existing issued and paid-up share capital for the financial year ended 31 December 2014 of 205,800,030 Shares.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	[--------- Non-Distributable --------]			*Distributable*			
	Share capital RM'000	**Share premium RM'000**	**Reorganisation reserve RM'000**	**Retained earnings RM'000**	**Total attributable to owners of the Company RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
At 1 January 2015	20,580	15,863	(5,185)	36,880	**68,138**	4,594	**72,732**
Dividend paid to non-controlling shareholder of a subsidiary	-	-	-	-	-	(800)	**(800)**
Dividend paid to shareholders of the parent	-	-	-	(1,029)	**(1,029)**	-	**(1,029)**
Bonus issue	10,290	(10,409)	-	-	**(119)**	-	**(119)**
Total comprehensive income for the financial period	-	-	-	10,458	**10,458**	1,920	**12,378**
At 30 September 2015	30,870	5,454	(5,185)	46,309	**77,448**	5,714	**83,162**
At 1 January 2014	15,930	-	(5,185)	26,601	**37,346**	2,502	**39,848**
Issuance of ordinary shares pursuant to Public Issue and Listing, net of related expenses	4,650	15,863	-	-	**20,513**	-	**20,513**
Dividend paid to non-controlling shareholder of a subsidiary	-	-	-	-	**-**	(200)	**(200)**
Total comprehensive income for the financial period	-	-	-	6,971	**6,971**	1,222	**8,193**
At 30 September 2014	20,580	15,863	(5,185)	33,572	**64,830**	3,524	**68,354**

Note:

The unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Year-to-date ended	
	30.9.2015 RM'000	30.9.2014 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	12,938	9,694
Adjustments for:		
Amortisation of intangible assets	259	43
Bad debts written off	164	-
Depreciation of property, plant and equipment	5,400	4,296
Fair value adjustment on derivative instruments	145	-
Interest expense	1,155	1,644
Interest income	(104)	(60)
Loss/ (Gain) on disposal of property, plant and equipment	47	(47)
Unrealised gain on foreign exchange	(2,377)	-
Operating profit before working capital changes	17,627	15,570
Decrease/(Increase) in inventories	(1,540)	(2,070)
Increase in trade and other receivables	(7,782)	(317)
Increase in trade and other payables	1,452	(2,044)
	9,757	11,139
Tax paid	(595)	(823)
Net cash from operating activities	**9,162**	**10,316**
CASH FLOWS FROM INVESTING ACTIVITIES		
Development costs incurred	-	(693)
Interest received	104	60
Proceeds from disposal of property, plant and equipment	399	167
Purchase of property, plant and equipment	(15,312)	(7,048)
Changes in fixed deposits pledged with licensed banks	(44)	(33)
Net cash used in investing activities	**(14,853)**	**(7,547)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling shareholders of a subsidiary	(800)	(200)
Dividend paid to shareholders of the parent	(1,029)	-
Interest paid	(1,155)	(1,644)
Issuance of ordinary shares pursuant to Public Issue and Listing, net of related expenses	-	20,513
Incidental costs directly attributable to Bonus Issue	(119)	-
Net drawdown of bankers' acceptance	5,189	(1,405)
Drawdown of term loan	2,936	-
Repayment of term loans	(7,050)	(1,899)
Net repayment of hire purchase payables	(2,526)	(1,517)
Net cash used in financing activities	**(4,554)**	**13,848**
Net changes in cash and cash equivalents	(10,245)	16,617
Effects of foreign exchange	69	-
Cash and cash equivalents at beginning of the financial period	15,213	2,183
Cash and cash equivalents at end of the financial period	**5,037**	**18,800**

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

	Year-to-date ended	
	30.9.2015 (1)	30.9.2014
	RM'000	RM'000
Cash and cash equivalents comprise the following:		
Cash and bank balances	6,365	19,095
Fixed deposits pledged to financial institutions	2,255	2,157
	8,620	21,252
Less: Bank overdraft	(1,328)	(295)
Less: Fixed deposits pledged to financial institutions	(2,255)	(2,157)
	5,037	**18,800**

Note:

The unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2014 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 year ended 31 December 2014 and the accompanying explanatory notes attached to this interim financial report. The explanatory notes contained herein provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2014.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation applied in the preparation of these unaudited interim financial statements are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2014, except for the adoption of the following Amendments to MFRSs during the current financial period as disclosed below:

<u>Effective for annual periods commencing on or after 1 July 2014</u>

- Amendment to MFRS 2 (Annual Improvements to MFRSs 2010 – 2012 Cycle)
- Amendment to MFRS 3 (Annual Improvements to MFRSs 2010 – 2012 Cycle)
- Amendment to MFRS 3 (Annual Improvements to MFRSs 2011 – 2013 Cycle)
- Amendment to MFRS 8 (Annual Improvements to MFRSs 2010 – 2012 Cycle)
- Amendment to MFRS 13 (Annual Improvements to MFRSs 2011 – 2013 Cycle)
- Amendment to MFRS 116 (Annual Improvements to MFRSs 2010 – 2012 Cycle)
- Defined Benefit Plans: Employee Contributions (Amendments to MFRS 119)
- Amendment to MFRS 124 (Annual Improvements to MFRSs 2010 – 2012 Cycle)
- Amendment to MFRS 138 (Annual Improvements to MFRSs 2010 – 2012 Cycle)
- Amendment to MFRS 140 (Annual Improvements to MFRSs 2011 – 2013 Cycle)

The adoption of the above Amendments to MFRSs did not have any significant financial impact to the Group.

A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The following MFRSs and Amendments to MFRSs have been issued by the MASB but are not yet effective to the Group:

Effective for annual periods commencing on or after 1 January 2016

- Amendments to MFRS 5 (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Amendments to MFRS 7 (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)
- Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 10, MFRS 12 and MFRS 128)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to MFRS 11)
- MFRS 14 Regulatory Deferral Accounts
- Disclosure Initiative (Amendments to MFRS 101)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138)
- Agriculture: Bearer Plants (Amendments to MFRS 116 and MFRS 141)
- Amendments to MFRS 119 (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Equity Method in Separate Financial Statements (Amendments to MFRS 127)
- Amendments to MFRS 134 (Annual Improvements to MFRSs 2012 – 2014 Cycle)

Effective for annual periods commencing on or after 1 January 2018

- MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014)
- MFRS 15 Revenue from Contracts with Customers

The Group is in the process of assessing the impact of implementing these accounting standards, amendments and interpretations, since the effects would only be observable for the future financial years.

A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the Group's most recent annual audited financial statements for the financial year ended 31 December 2014 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 a slowdown in logistics services in China during this period as some of these logistics services are closed 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

Not applicable as there were no estimates being reported during the prior financial years.

A7. DEBTS AND EQUITY SECURITIES

- Proposed Bonus Issue

  On 11 May 2015, on behalf of Board of Directors of the Company ("**the Board**"), Kenanga Investment Bank Berhad ("**Kenanga IB**") announced that the Company proposed to undertake a proposed bonus issue of 102,900,015 new ordinary shares of RM0.10 each in Heng Huat ("Shares") to be credited as fully paid-up on the basis of one (1) new Share for every two (2) existing Shares held on an entitlement date to be determined later ("**Proposed Bonus Issue**");

  Bursa Securities had vide its letter dated 27 May 2015 granted its conditional approval for the listing of and quotation for the 102,900,015 new Shares to be issued pursuant to the Proposed Bonus Issue.

  The Proposed Bonus Issue was subsequently approved by the shareholders of the Company in the extraordinary general meeting held on 25 June 2015.

  On 29 June 2015, the Company had announced that the entitlement date for the Proposed Bonus Issue is fixed on 14 July 2015.

  The Proposed Bonus Issue has been completed on 15 July 2015, following the listing of and quotation for the 102,900,015 new Shares issued and allotted to the shareholders of the Company on the ACE Market of Bursa Securities.

Save for the Proposed Bonus Issue, there were no other issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the current quarter and financial period under review.

A8. DIVIDEND PAID/ DECLARED

On 27 January 2015, the Company had declared a first interim single tier dividend of 5% per share at par value (equivalent to 0.5 sen per share) in respect of financial year ending 31 December 2015, amounting to RM1,029,000 which was subsequently paid on 31 March 2015.

The Board of Directors did not recommend any payment of dividend during the current quarter under review.

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

Save for the Corporate Proposals as disclosed under **Note B6**, there were no other material events subsequent to the end of current quarter and financial period under review that have not been reflected in this interim financial report.

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.

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 for in the financial statements as at 30 September 2015 is as follows:

	As at 30.9.2015 RM'000
Property, plant and equipment	
Approved but not contracted for	10,635
Contracted but not provided for	19,204
	29,839

A13. SEGMENT INFORMATION

The Group, through its subsidiaries, are principally engaged in manufacturing and trading of biomass materials and manufacturing and trading of mattresses and related products. There is no change to the principal activities of the Group during the current quarter and financial period under review.

The Group has arrived at two (2) reportable segments that are organised and managed separately according to the nature of products, specific expertise and technologies requirements, which requires different business and marketing strategies. The reportable segments are summarised as follows:

(i) Biomass materials and related products

Manufacturing and trading of coconut fibre and related products, and oil palm EFB fibre and related products.

(ii) Mattresses and related products

Manufacturing and trading of mattresses and related products.

A13. SEGMENT INFORMATION (cont'd)

	Current quarter ended		Year-to-date ended	
	30.9.2015	**30.9.2014**	**30.9.2015**	**30.9.2014**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Segment Revenue				
Biomass materials and related products	13,696	18,556	55,391	54,968
Mattresses and related products	5,144	9,123	24,411	27,380
	18,840	27,679	79,802	82,348
Elimination of intragroup transactions	(797)	(4,602)	(8,730)	(13,894)
Revenue from external customers	**18,043**	**23,077**	**71,072**	**68,454**
Segment Results				
Biomass materials and related products	3,877	4,315	13,830	12,029
Mattresses and related products	(374)	(131)	(49)	14
	3,503	4,184	13,781	12,043
Unallocated corporate income and expenses (net)	(600)	(1,506)	(1,135)	(2,187)
Elimination of intragroup transactions and profits	75	(394)	292	162
Profit before tax of the Group	**2,978**	**2,284**	**12,938**	**9,694**
Segment Assets				
Biomass materials and related products	107,936	86,543	107,936	86,543
Mattresses and related products	17,876	19,098	17,876	19,098
	125,812	105,641	125,812	105,641
Tax assets	601	448	601	448
Unallocated assets	30,724	19,130	30,724	19,130
Elimination of intragroup balances and profits	(34,714)	(14,673)	(34,714)	(14,673)
Total assets of the Group	**122,423**	**110,546**	**122,423**	**110,546**
Segment Liabilities				
Biomass materials and related products	50,225	36,970	50,225	36,970
Mattresses and related products	15,073	16,039	15,073	16,039
	65,298	53,009	65,298	53,009
Tax liabilities	807	1,966	807	1,966
Unallocated liabilities	7,911	1,742	7,911	1,742
Elimination of intragroup balances and profits	(34,755)	(14,525)	(34,755)	(14,525)
Total liabilities of the Group	**39,261**	**42,192**	**39,261**	**42,192**

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

B1. ANALYSIS OF PERFORMANCE

Revenue

For the current quarter ended 30 September 2015, the Group recorded revenue of RM18.04 million, representing a decrease of approximately RM5.04 million or 21.84% as compared to the revenue of RM23.08 million registered in the preceding year corresponding quarter, primarily attributable to:

i. Lower sales of oil palm EFB fibre to China market, as the market sentiment within the China's operating environment have been weighed down by the economic uncertainties in recent months, and in line with the Group's initiative to mitigate the credit risk exposure by lowering the sales to customers with outstanding balance exceeding credit period; and

ii. Decrease in average selling prices of oil palm EFB fibre during the current quarter under review. The Group has reduced the average selling prices of the oil palm EFB fibre during the current quarter under review to strengthen the Group's market competitiveness, in view of the prevailing economic uncertainties.

For the financial period ended 30 September 2015, the Group recorded revenue of RM71.07 million, representing an improvement of approximately RM2.62 million or 3.83% as compared to the revenue of RM68.45 million registered in the preceding year corresponding period, primarily attributable to:

i. Increase in average selling prices of oil palm EFB fibre by approximately 17.64% during the financial period under review as compared to the preceding year corresponding period; and

ii. Additional revenue contribution from Geotextiles, as compared to the preceding year corresponding period.

Profit before Taxation ("PBT")

For the current quarter ended 30 September 2015, the Group reported PBT of RM2.98 million, representing an increase of approximately RM0.70 million or 30.70% as compared to the PBT of RM2.28 million recorded in the preceding year corresponding quarter. This was primarily due to foreign exchange gain originating in the ordinary course of business arising from sales denominated in US Dollar and Renminbi, as a result of the weakening of Ringgit Malaysia.

For the financial period ended 30 September 2015, the Group reported PBT of RM12.94 million, representing an increase of approximately RM3.25 million or 33.54% as compared to the PBT of RM9.69 million recorded in the preceding year corresponding period. This was in line with the revenue growth recorded during the financial period under review, as well as the foreign exchange gain as explained above.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 30.9.2015	Preceding quarter ended 30.6.2015
	RM'000	**RM'000**
Profit before taxation ("PBT")	2,978	6,192

The Group's PBT for the current quarter ended 30 September 2015 has reduced by approximately RM3.21 million or 51.86%, from RM6.19 million in the preceding quarter ended 30 June 2015 to RM2.98 million in the current quarter under review.

The decrease in the Group's PBT for to current quarter ended 30 September 2015, as compared to the preceding quarter ended 30 June 2015, was mainly due to:

i. Lower sales of oil palm EFB fibre to China market, as the market sentiment within the China's operating environment have been weighed down by the economic uncertainties in recent months, and in line with the Group's initiative to mitigate the credit risk exposure by lowering the sales to customers with outstanding balance exceeding credit period; and

ii. Lower gross profit margin recorded during the current quarter under review as compared to the preceding quarter ended 30 June 2015, primarily due to the decrease in average selling prices of oil palm EFB fibre. The Group has reduced the average selling prices of the oil palm EFB fibre during the current quarter under review to strengthen the Group's market competitiveness, in view of the prevailing economic uncertainties.

B3. PROSPECTS

China, being the primary market for the Group's oil palm EFB fibre, had in recent months shadowed by uncertainties arising from/ associated with the China's stock market turmoil, slowdown of the China's economic growth and the devaluation of Renminbi.

Although the market sentiment and demand is likely to be affected in the short-term period, the Group is cautiously optimistic that the prospects for biomass materials and value-added products remain promising over the middle and long term periods.

As disclosed in the Prospectus of the Company dated 30 June 2014, the estimated revenue for biomass materials – coconut fibre and oil palm EFB fibre market in Malaysia stood at RM92.40 million in 2013. By 2018, this is expected to grow to RM180.40 million, representing a compounded annual growth rate of 14.32% over the next five (5) years. Further, the recent banning of new coal-fired plants in Beijing, Shanghai and Guangzhou of China is likely to spur demand for cleaner, alternative source of energy including Briquette *(Source: Independent Market Report by Protégé Associates)*.

Based on the above and the recurring demand for the Group's oil palm EFB fibre as well as other value-added biomass products (i.e. Briquette and Geotextiles) to-date, the Board of Directors is of the view that the Group will be able to achieve commendable financial performance for the financial year ending 31 December 2015.

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 30.9.2015 RM'000	Year-to-date ended 30.9.2015 RM'000
Current tax expense	44	435
Deferred tax expense	36	125
	80	560
Effective tax rate	2.69%	4.33%

The effective tax rates for the current quarter and financial period ended 30 September 2015 of 2.69% and 4.33% respectively are lower as compared to the applicable statutory tax rate of 25% mainly due to the pioneer status tax incentives awarded to our operating subsidiaries by Ministry of International Trade and Industry (MITI) in the prior years.

Details of the applicable tax exemption granted to the Group are listed below:

Company	Tax Exemption Period	Exempted Products
HK Fibre Sdn Bhd	Five (5) years, from 1 April 2012 to 31 March 2017	Coconut fibre sheet
HK Kitaran Sdn Bhd	Ten (10) years, from 1 July 2010 to 30 June 2020	Fibre from palm biomass
HK Kitaran Sdn Bhd	Five (5) years, from 1 February 2013 to 31 January 2018	Briquette from palm biomass
HK Palm Fibre Manufacturer Sdn Bhd	Five (5) years, from 24 February 2014 to 23 February 2019	Fibre from palm biomass

B6. STATUS OF CORPORATE PROPOSALS

(i) Acquisition of leasehold industrial land

On 13 October 2014, the Company had announced that HK Gua Musang Sdn Bhd, a wholly-owned subsidiary of the Company, had entered into a conditional sale and purchase agreement with Eleplas Wood Technology Sdn Bhd for the proposed acquisition of a piece of leasehold industrial land measuring 44,461 square meter located at Bandar Gua Musang, Jajahan Gua Musang, Negeri Kelantan ("**Gua Musang Land**") for a cash consideration of RM3,670,000 ("**Proposed Acquisition of Leasehold Land**").

The Proposed Acquisition of Leasehold Land has been completed on 19 August 2015, upon registration of the land title in the name of HK Gua Musang Sdn Bhd and settlement of all the outstanding purchase consideration.

(ii) Proposed Bonus Issue, Transfer of Listing and Amendments to Articles of Association

On 11 May 2015, on behalf of the Board, Kenanga IB announced that the Company proposed to undertake the following:

(i) Proposed Bonus Issue (details are disclosed under **Note A7**);
(ii) Proposed transfer of the listing of and quotation for the entire issued and paid-up share capital of Heng Huat from the ACE Market to the Main Market of Bursa Securities ("**Proposed Transfer**"); and
(iii) Proposed amendments to the Articles of Association of the Company ("**Proposed Amendments**").

(Collectively referred to as "the Proposals")

The Proposed Transfer is proposed to be implemented upon completion of the Proposed Bonus Issue. The Proposed Transfer and the Proposed Amendments are inter-conditional upon each other.

Proposed Transfer and Proposed Amendments

On 2 September 2015, on behalf of the Board, Kenanga IB announced that the application in relation to the Proposed Transfer has been submitted to the Securities Commission Malaysia ("**SC**"). As of to-date, the Company is still awaiting the decision from SC for the Proposed Transfer.

B6. STATUS OF CORPORATE PROPOSALS (cont'd)

(iii) Acquisition of biomass co-generation power plant

On 22 June 2015, the Company had announced that HK Power Sdn Bhd, a wholly-owned subsidiary of the Company, had entered into a contract with Advance Boilers Sdn Bhd for the design, supply, delivery to site, installation and commissioning of one (1) unit of 1,077 electrical kilowatts (eKW) biomass co-generation power plant ("Power Plant") for a cash consideration of RM8,810,000 ("**Proposed Acquisition of Power Plant**").

Relevant details on the Proposed Acquisition of Power Plant has been announced to Bursa Securities on the same date.

Barring any unforeseen circumstances and subject to obtaining of the requisite approvals from the relevant authorities, the Proposed Acquisition and the construction of the Power Plant and its construction is expected to be completed by the third quarter of 2016.

Save as disclosed above, there are no other corporate proposals announced but not completed as at the date of this announcement.

B7. UTILISATION OF PROCEEDS

Gross Proceeds from public issue of 46,500,000 new Shares in conjunction with the listing of the Company on the ACE Market of Bursa Securities on 25 July 2014

The status of utilisation, as of 30 September 2015, is as follows:

	Purpose	Intended Time Frame for Use (from listing date)	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation Amount RM'000	%
(i)	Capital expenditure	Within 36 months	4,000	800	3,200[(1)]	80.00
(ii)	Repayment of borrowings	Within 12 months	9,378	9,378	-	-
(iii)	Working capital	Within 12 months	4,547	4,547	-	-
(iv)	Estimated listing expenses	Upon Listing	3,000	3,000	-	-
	Total gross proceeds		20,925	17,715	3,200	15.29

Note:

(1) As disclosed in the Prospectus dated 30 June 2014, Heng Huat has originally earmarked RM3.20 million of the IPO Proceeds for the extension of production facility through the construction of a new production facility adjacent to factory located at No. H.S. (D) 6714, Lot 2940, Mukim 4, Daerah Seberang Perai Selatan, Pulau Pinang (also known as Plant 1). The new production facility will be a single storey factory building with a built-up area of approximately 80,000 sq. ft. and will be used as a warehouse and/or to house new production lines ("**Proposed Extension**").

B7. UTILISATION OF PROCEEDS (cont'd)

Revision to the Intended Purpose for the Utilisation of IPO Proceeds

The Board, after due consideration, has approved a revision to the intended purpose for the unutilised portion of the IPO Proceeds amounting to RM3.20 million ("**Unutilised IPO Proceeds**"). The Unutilised IPO Proceeds, originally earmarked for the Proposed Extension, is now reallocated to part finance the construction of new production facility at Gua Musang Land which is estimated to cost approximately RM31.0 million ("**Gua Musang Expansion**").

The Board is of the opinion that it is more beneficial to the Group to prioritise the Gua Musang Expansion. As such, for time being, the Board has decided not to pursue further with the Proposed Extension.

The estimated cost and timeframe for completion of the Gua Musang Expansion is detailed below:

Capital Expenditure	**Estimated Cost RM'000**	**Estimated Timeframe for Completion**
Construction of factory building	8,190	Second quarter, 2016
Purchase and installation of machineries for processing of oil palm EFB fibre	12,000	Second quarter, 2016
Purchase and installation of biomass co-generation power plant	8,810	Third quarter, 2016
Purchase of motor vehicles and other equipment	2,000	First quarter, 2016
Total estimated cost	**31,000**	

The above estimated cost will be funded by a combination of external borrowings, Unutilised IPO Proceeds and internally generated funds. The exact breakdown between the sources of funding will be decided by the Board at a later date depending on the circumstance.

B8. BORROWINGS

The Group's borrowings as at 30 September 2015 are as follows:-

	Short Term RM'000	**Long Term RM'000**	**Total RM'000**
Secured and guaranteed			
Bankers' acceptance	8,957	-	8,957
Bank overdrafts	1,328	-	1,328
Hire purchase payables	3,351	3,979	7,330
Term loans	2,275	6,761	9,036
Total Borrowings	**15,911**	**10,740**	**26,651**

All the borrowings are denominated in Ringgit Malaysia (RM).

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. EARNINGS PER SHARE

Basic Earnings per Share ("BEPS")

	Current quarter ended		Year-to-date ended	
	30.9.2015 RM'000	**30.9.2014 RM'000**	**30.9.2015 RM'000**	**30.9.2014 RM'000**
Basic earnings per share				
Profit attributable to equity holders of the parent	2,507	1,247	10,458	6,971
Weighted average number of ordinary shares in issue ('000)	205,800	193,670	205,800	170,882
Effect of bonus issue (1 for 2)	102,900	96,835	102,900	85,441
Adjusted weighted average number of ordinary shares in issue ('000)	308,700	290,505	308,700	256,323
	sen	**sen**	**sen**	**sen**
BEPS	0.81	0.43	3.39	2.72

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 September 2015.

B11. DISCLOSURE ON REALISED AND UNREALISED PROFIT/LOSS

The retained earnings of the Group as at 30 September 2015 are analysed as follows:

	As at 30.9.2015 RM'000	**As at 31.12.2014 RM'000**
The retained earnings of the Company and its subsidiaries:		
- Realised	55,877	46,739
- Unrealised	1,211	(132)
	57,088	46,607
Add: Consolidation adjustments	(10,779)	(9,727)
Total Group retained earnings as per consolidated financial statements	**46,309**	**36,880**

B12. DISCLOSURE ON SELECTED EXPENSE/ INCOME ITEMS

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

	Current quarter ended 30.9.2015 RM'000	Year-to-date Ended 30.9.2015 RM'000
Interest income	27	104
Other income including investment income	103	257
Interest expense	(352)	(1,155)
Depreciation expenses	(1,890)	(5,400)
Amortisation expenses	(84)	(259)
Net foreign exchange gain/ (loss)	2,258	2,488
Net loss on disposal of property, plant and equipment	-	(47)
Fair value loss on derivative instruments	(145)	(145)
Provision for and write off of receivables	(100)	(164)
Property, plant and equipment written off	-	-
Provision for and write off of inventories	-	-
Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	-
Impairment of assets	-	-
Exceptional items	-	-

* *Less than RM1,000*

B13. 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 (6) months from the end of the reporting period. As at 30 September 2015, the Group have the following outstanding forward currency contracts:

Maturity Period	**[------- Contract Value -------]** USD'000	RM'000 equivalent	**Fair value as at 30 September 2015 RM'000**
- By October 2015	50	186	153
- By December 2015	450	1,710	1,435
- By July 2016	100	395	344
	600	2,291	1,932

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.

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

During the current quarter under review, the Group recorded net fair value loss of approximately RM145,000 arising from fair value changes of the forward foreign currency contracts entered into by the Group.

There is no change to the policies in relation to the derivatives since the last financial year ended 31 December 2014.