



HENG HUAT RESOURCES GROUP BERHAD

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

INTERIM FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2015

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

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31.12.2015 ⁽¹⁾ RM'000	Preceding Year Corresponding Quarter 31.12.2014 RM'000	Current Year Period 31.12.2015 ⁽¹⁾ RM'000	Preceding Year Corresponding Period 31.12.2014 RM'000 (audited)
Revenue	19,944	23,206	91,016	91,660
Cost of sales	(13,668)	(14,358)	(54,497)	(52,360)
Gross profit ("GP")	6,276	8,848	36,519	39,300
Other income	1,493	738	4,342	1,029
Selling and distribution expenses	(3,477)	(3,695)	(15,115)	(16,063)
Administrative and other expenses	(5,424)	(2,150)	(12,785)	(9,187)
Finance costs	(459)	(496)	(1,614)	(2,140)
(Loss)/Profit before taxation ("PBT")	(1,591)	3,245	11,347	12,939
Tax income/ (expenses)	(125)	1,133	(685)	(368)
(Loss)/Profit after taxation ("PAT")	(1,716)	4,378	10,662	12,571
Other comprehensive income	-	-	-	-
Total comprehensive (loss)/income	(1,716)	4,378	10,662	12,571
(Loss)/Profit for the financial year/ Total comprehensive (loss)/income attributable to:				
- Owners of Heng Huat	(1,657)	3,308	8,801	10,279
- Non-controlling interests	(59)	1,070	1,861	2,292
	(1,716)	4,378	10,662	12,571
Earnings per share attributable to owners of Heng Huat:				
- Basic (sen) ⁽²⁾	(0.54)	1.07 [^]	2.85	3.81 [^]
- 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 for quarter and financial year ended 31 December 2014 have been adjusted to reflect the effects of bonus issue completed on 15 July 2015 (kindly refer to **Note A7** for details on the bonus issue). This is in accordance with the requirements of MFRS 133, where earnings per share calculations for all periods shall be adjusted retrospectively.



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

	As at 31.12.2015 ⁽¹⁾ RM'000 (unaudited)	As at 31.12.2014 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	81,431	62,292
Intangible assets	961	1,145
	82,392	63,437
Current Assets		
Inventories	7,617	5,890
Trade and other receivables	31,791	21,570
Current tax assets	742	452
Cash and cash equivalents	10,469	17,666
	50,619	45,578
TOTAL ASSETS	133,011	109,015
Equity		
Share capital	30,870	20,580
Share premium	5,454	15,863
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	44,652	36,880
	75,791	68,138
Non-controlling interests	5,255	4,594
Total Equity	81,046	72,732
Non-Current Liabilities		
Borrowings	13,942	15,494
Deferred tax liabilities	895	682
	14,837	16,176
Current Liabilities		
Trade and other payables	18,075	10,447
Derivative liability	108	214
Borrowings	18,945	9,435
Current tax liabilities	-	11
	37,128	20,107
Total Liabilities	51,965	36,283
TOTAL EQUITY AND LIABILITIES	133,011	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 31 December 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	Total attributable to owners of the Company	Non- controlling interests	Total equity
	Share capital RM'000	Share premium RM'000	Reorganisation reserve RM'000	Retained earnings RM'000	RM'000	RM'000	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	-	-	-	-	-	(1,200)	(1,200)
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	-	-	-	8,801	8,801	1,861	10,662
At 31 December 2015	30,870	5,454	(5,185)	44,652	75,791	5,255	81,046
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	-	-	-	10,279	10,279	2,292	12,571
At 31 December 2014	20,580	15,863	(5,185)	36,880	68,138	4,594	72,732

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	
	31.12.2015 RM'000	31.12.2014 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	11,347	12,939
<u>Adjustments for:</u>		
Amortisation of intangible assets	343	83
Bad debts written off	167	8
Depreciation of property, plant and equipment	7,342	5,897
Fair value adjustment on derivative instruments	(106)	214
Impairment of property, plant and equipment	-	34
Interest expense	1,614	2,140
Interest income	(159)	(167)
Incidental expenses pursuant to the bonus issue	119	-
Listing expenses	-	1,874
Loss/ (Gain) on disposal of property, plant and equipment	123	(72)
Property, plant and equipment written off	-	76
Provision for impairment of receivables	390	-
Unrealised gain on foreign exchange	(844)	(575)
	<hr/>	<hr/>
Operating profit before working capital changes	20,336	22,451
Decrease/(Increase) in inventories	(1,727)	(1,672)
Increase in trade and other receivables	(10,418)	(1,617)
Increase in trade and other payables	8,083	(778)
	<hr/>	<hr/>
Tax paid	16,274	18,384
	(774)	(966)
	<hr/>	<hr/>
Net cash from operating activities	15,500	17,418
CASH FLOWS FROM INVESTING ACTIVITIES		
Development costs incurred	(159)	(903)
Interest received	159	167
Proceeds from disposal of property, plant and equipment	1,247	194
Purchase of property, plant and equipment	(26,219)	(7,188)
Changes in fixed deposits pledged with licensed banks	(149)	(87)
	<hr/>	<hr/>
Net cash used in investing activities	(25,121)	(7,817)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling shareholders of a subsidiary	(1,200)	(200)
Dividend paid to shareholders of the parent	(1,029)	-
Interest paid	(1,614)	(2,140)
Proceeds from public issue	-	20,925
Share issue and listing expenses	-	(2,286)
Incidental expenses pursuant to the bonus issue	(119)	-
Net drawdown/(repayment) of bankers' acceptance	6,350	(2,268)
Drawdown of term loan	6,505	-
Repayment of term loans	(7,551)	(2,543)
Net repayment of hire purchase payables	(2,640)	(8,059)
	<hr/>	<hr/>
Net cash (used in)/generated from financing activities	(1,298)	3,429
Net changes in cash and cash equivalents	(10,919)	13,030
Effects of foreign exchange	366	-
Cash and cash equivalents at beginning of the financial period	15,213	2,183
	<hr/>	<hr/>
Cash and cash equivalents at end of the financial period	4,660	15,213



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

	Year-to-date ended	
	31.12.2015 ⁽¹⁾	31.12.2014
	RM'000	RM'000
Cash and cash equivalents comprise the following:		
Cash and bank balances	8,109	15,455
Fixed deposits pledged to financial institutions	2,360	2,211
	<hr/>	<hr/>
	10,469	17,666
Less: Bank overdraft	(3,449)	(242)
Less: Fixed deposits pledged to financial institutions	(2,360)	(2,211)
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	4,660	15,213
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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 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 year as disclosed below:

Effective for annual periods commencing on or after 1 July 2014

- 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 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 year 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 year 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 year 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 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 for in the financial statements as at 31 December 2015 is as follows:

	As at 31.12.2015 RM'000
Property, plant and equipment	
Approved but not contracted for	8,818
Contracted but not provided for	13,169
	<u>21,987</u>

A13. SEGMENT INFORMATION

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

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

(i) Biomass materials and related products

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

(ii) Mattresses and related products

Manufacturing and trading of mattresses and related products.



A13. SEGMENT INFORMATION (cont'd)

	Current quarter ended		Year-to-date ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
<u>Segment Revenue</u>				
Biomass materials and related products	14,049	18,075	69,440	73,043
Mattresses and related products	6,912	9,756	31,323	37,136
	20,961	27,831	100,763	110,179
Elimination of intragroup transactions	(1,017)	(4,625)	(9,747)	(18,519)
Revenue from external customers	19,944	23,206	91,016	91,660
<u>Segment Results</u>				
Biomass materials and related products	(1,215)	3,387	12,615	15,416
Mattresses and related products	(1)	(56)	(50)	(42)
	(1,216)	3,331	12,565	15,374
Unallocated corporate income and expenses (net)	(745)	(165)	(1,880)	(2,352)
Elimination of intragroup transactions and profits	370	79	662	(83)
Profit before tax of the Group	(1,591)	3,245	11,347	12,939
<u>Segment Assets</u>				
Biomass materials and related products	117,225	87,787	117,225	87,787
Mattresses and related products	19,397	19,178	19,397	19,178
	136,622	106,965	136,622	106,965
Tax assets	742	452	742	452
Unallocated assets	30,159	25,341	30,159	25,341
Elimination of intragroup balances and profits	(34,512)	(23,743)	(34,512)	(23,743)
Total assets of the Group	133,011	109,015	133,011	109,015
<u>Segment Liabilities</u>				
Biomass materials and related products	61,556	34,899	61,556	34,899
Mattresses and related products	16,614	16,232	16,614	16,232
	78,170	51,131	78,170	51,131
Tax liabilities	895	693	895	693
Unallocated liabilities	7,452	970	7,452	970
Elimination of intragroup balances and profits	(34,552)	(16,511)	(34,552)	(16,511)
Total liabilities of the Group	51,965	36,283	51,965	36,283



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

B1. ANALYSIS OF PERFORMANCE

Revenue

For the current quarter ended 31 December 2015, the Group recorded revenue of RM19.94 million, representing a decrease of approximately RM3.27 million or 14.1% as compared to the revenue of RM23.21 million registered in the preceding year corresponding quarter.

For the financial year ended 31 December 2015, the Group recorded revenue of RM91.02 million, reduced by approximately RM0.64 million or 0.7% as compared to the revenue of RM91.66 million registered in the preceding year.

The moderation of sales performance during the current quarter and financial year under review was primarily due to the following factors:

- 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 the second half of 2015, 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 second half of 2015, in order to strengthen the Group's market competitiveness, in view of the prevailing economic uncertainties.

Pre-Tax Profit Level

For the current quarter ended 31 December 2015, the Group reported a loss before taxation of approximately RM1.59 million, representing a decrease of RM4.84 million or 149.0% as compared to the profit before taxation of RM3.25 million recorded in the preceding year corresponding quarter.

For the financial year ended 31 December 2015, the Group reported a profit before taxation of approximately RM11.35 million, representing a decrease of RM1.59 million as compared to the profit before taxation of RM12.94 million recorded in the preceding year.

The moderation of the profit performance was primarily due to the following factors:

- i. 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 during the second half of 2015 to prevent the risk of overstocking which could lead to quality issue consequently; and
- ii. Increase in administrative expenses as a result of higher payroll costs due to annual increments and higher depreciation charges in line with the additions of property, plant and equipment.



B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 31.12.2015	Preceding quarter ended 30.9.2015
	RM'000	RM'000
(Loss)/Profit before taxation	(1,591)	2,978

The Group recorded loss before taxation of approximately RM1.59 million for the current quarter ended 31 December 2015, representing a decrease of RM4.57 million or 153% as compared to profit before taxation of approximately RM2.98 million achieved in the preceding quarter ended 30 September 2015. This was primarily attributable to the following factors:

- iii. Lower gross profit margin achieved for the current quarter under review as compared to the preceding quarter ended 30 September 2015, 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
- iv. Unrealised foreign exchange losses incurred by the Group during the current quarter under review, as a result of the exchange rate fluctuations for Ringgit Malaysia against US Dollar and Renminbi; as opposed to unrealised foreign exchange gains reported in the preceding quarter ended 30 September 2015.

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 banning of new coal-fired plants in 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 2016.



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 31.12.2015 RM'000	Year-to-date ended 31.12.2015 RM'000
Current tax expenses	38	473
Deferred tax expenses	87	212
Total tax expenses	125	685
Effective tax rate	7.86%	6.04%

The effective tax rates for the current quarter and financial year ended 31 December 2015 of 7.86% and 6.04% 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 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

As of 31 December 2015, the gross proceeds from public issue had been fully utilised in the following manner:

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	4,000	-	-
(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	20,925	-	-



B8. BORROWINGS

The Group's borrowings as at 31 December 2015 are as follows:-

	Short Term RM'000	Long Term RM'000	Total RM'000
<i>Secured and guaranteed</i>			
Bankers' acceptance	10,118	-	10,118
Bank overdrafts	3,449	-	3,449
Hire purchase payables	3,405	3,810	7,215
Term loans	1,973	10,132	12,105
Total Borrowings	18,945	13,942	32,887

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	
	31.12.2015 RM'000	31.12.2014 RM'000	31.12.2015 RM'000	31.12.2014 RM'000
Basic earnings per share				
Profit attributable to equity holders of the parent	(1,657)	3,308	8,801	10,279
Weighted average number of ordinary shares in issue ('000)	205,800	205,800	205,800	179,684
Effect of bonus issue (1 for 2)	102,900	102,900	102,900	89,842
Adjusted weighted average number of ordinary shares in issue ('000)	308,700	308,700	308,700	269,526
	sen	sen	sen	sen
BEPS	(0.54)	1.07	2.85	3.81

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 31 December 2015.



B11. DISCLOSURE ON REALISED AND UNREALISED PROFIT/LOSS

The retained earnings of the Group as at 31 December 2015 are analysed as follows:

	As at 31.12.2015 RM'000	As at 31.12.2014 RM'000
The retained earnings of the Company and its subsidiaries:		
- Realised	54,838	46,739
- Unrealised	(159)	(132)
	54,679	46,607
Add: Consolidation adjustments	(10,027)	(9,727)
	44,652	36,880
Total Group retained earnings as per consolidated financial statements		

B12. DISCLOSURE ON SELECTED EXPENSE/ INCOME ITEMS

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

	Current quarter ended 31.12.2015 RM'000	Year-to-date ended 31.12.2015 RM'000
Interest income	55	159
Other income including investment income	-	176
Interest expense	(459)	(1,614)
Depreciation expenses	(1,942)	(7,342)
Amortisation expenses	(84)	(343)
Net foreign exchange gain/(loss)	(967)	1,521
Net loss on disposal of property, plant and equipment	(76)	(123)
Fair value gain/(loss) on derivative instruments	39	(106)
Provision for and write off of receivables	(393)	(557)
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 (12) months from the end of the reporting period. As at 31 December 2015, the Group have the following outstanding forward currency contracts:

Maturity Period	[----- Contract Value -----]		Fair value
	USD'000	RM'000 equivalent	as at 31 December 2015 RM'000
- By January 2016	50	216	217
- By July 2016	200	788	707
- By October 2016	100	431	427
- By November 2016	100	428	420
- By December 2016	300	1,297	1,281
	750	3,160	3,052

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

The Group recorded fair value loss of approximately RM108,000 arising from fair value changes of the forward foreign currency contracts entered into by the Group and outstanding as at 31 December 2015.

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