HENG HUAT RESOURCES GROUP BERHAD

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

INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2018

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

	Individual Quarter		Cumulative Period	
	Current Year Quarter 31.12.2018 (1) RM'000	**Preceding Year Corresponding Quarter 31.12.2017 RM'000**	**Current Year Period 31.12.2018 (1) RM'000**	**Preceding Year Corresponding Period 31.12.2017 RM'000 (audited)**
Revenue	27,679	29,704	114,722	115,241
Cost of sales	(19,226)	(22,128)	(81,111)	(76,390)
Gross profit ("GP")	8,453	7,576	33,611	38,851
Other income	554	91	1,499	1,398
Selling and distribution expenses	(4,962)	(4,899)	(20,345)	(20,751)
Administrative and other expenses	(6,591)	(3,842)	(15,261)	(13,996)
Finance costs	(847)	(846)	(3,380)	(3,259)
(Loss)/Profit before tax	(3,393)	(1,920)	(3,876)	2,243
Tax (expenses)/income	(19)	(474)	400	(1,976)
(Loss)/Profit after tax/ Total comprehensive income/(loss)	**(3,412)**	**(2,394)**	**(3,476)**	**267**
(Loss)/Profit for the financial year/ Total comprehensive income/(loss) attributable to:				
- Owners of Heng Huat	(3,408)	(2,412)	(3,501)	366
- Non-controlling interests	(4)	18	25	(99)
	(3,412)	**(2,394)**	**(3,476)**	**267**
(Loss)/Earnings per share attributable to owners of Heng Huat:				
- Basic (sen) (2)	(1.09)	(0.78)	(1.13)	0.12
- 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 2017 and the accompanying explanatory notes attached to this interim financial report.*

(2) *Kindly refer to **Note B8** for further details.*

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	As at 31.12.2018 [1] RM'000 (unaudited)	As at 31.12.2017 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	92,863	105,259
Intangible assets	3,061	4,258
	95,924	109,517
Current Assets		
Inventories	13,126	11,078
Derivative asset	-	131
Current tax assets	495	233
Trade and other receivables	33,018	37,708
Cash and cash equivalents	10,165	9,451
	56,804	58,601
TOTAL ASSETS	**152,728**	**168,118**
Equity		
Share capital	40,538	36,324
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	43,590	48,189
	78,943	79,328
Non-controlling interests	268	482
Total Equity	**79,211**	**79,810**
Non-Current Liabilities		
Borrowings	17,755	21,656
Deferred tax liabilities	1,114	1,945
	18,869	23,601
Current Liabilities		
Trade and other payables	25,625	27,955
Derivative liabilities	25	-
Current tax liabilities	25	353
Borrowings	28,973	36,399
	54,648	64,707
Total Liabilities	**73,517**	**88,308**
TOTAL EQUITY AND LIABILITIES	**152,728**	**168,118**
NET ASSETS PER SHARE (RM)	**0.232**[2]	**0.257**[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 2017 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 year 31 December 2018 of 339,570,045 ordinary shares ("**Shares**").*

(3) *Calculated based on the Company's existing issued and paid-up share capital for the financial year 31 December 2017 of 308,700,045 ordinary shares ("**Shares**").*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	[------ Non-distributable ------]		*Distributable*			
	Share capital 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 2018	36,324	(5,185)	48,188	**79,327**	483	**79,810**
Adjustment of MFRS recognition:						
- MFRS 9	-	-	(732)	**(732)**	-	**(732)**
- MFRS 15	-	-	(365)	**(365)**	-	**(365)**
Total comprehensive loss for the financial year	-	-	(3,501)	**(3,501)**	25	**(3,476)**
Dividend paid to non-controlling shareholders of a subsidiary	-	-	-	-	(240)	**(240)**
Issuance of new shares pursuant to private placement, net of expenses	4,214	-	-	4,214	-	4,214
At 31 December 2018	40,538	(5,185)	43,590	**78,943**	268	**79,211**

	[---------------- 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 2017	30,870	5,454	(5,185)	44,697	**75,836**	3,707	**79,543**
Total comprehensive income for the financial year	-	-	-	366	**366**	(99)	**267**
Acquisition of non-controlling interests without a change in control	-	-	-	3,125	**3,125**	(3,125)	-
Transfer pursuant to Companies Act, 2016	5,454	(5,454)	-	-	-	-	-
At 31 December 2017	36,324	-	(5,185)	48,188	**79,327**	483	**79,810**

<u>Note:</u>
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 2017 and the accompanying explanatory notes attached to this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Year-to-date ended	
	31.12.2018 RM'000	31.12.2017 RM'000 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before tax	(3,876)	2,243
Adjustments for:		
Amortisation of intangible assets	1,197	1,197
Bad debts written-off	25	131
Depreciation of property, plant and equipment	10,106	10,256
Loss in relation to fire damage	-	566
Fair value adjustment on derivative instruments	156	(653)
Gain on disposal of property, plant and equipment	(134)	(21)
Loss on disposal of subsidiary	2,255	-
Property, plant and equipment written-off	61	29
Provision for impairment of receivables	558	228
Interest expense	3,380	3,259
Interest income	(73)	(94)
Unrealised gain on foreign exchange	(414)	(1,332)
Operating profit before working capital changes	13,241	15,810
(Increase)/Decrease in inventories	(2,048)	(4,289)
(Increase)/Decrease in trade and other receivables	3,424	(7,067)
Increase/(Decrease) in trade and other payables	(2,330)	5,276
	12,287	9,730
Tax paid	(797)	(386)
Net cash from operating activities	**11,490**	**9,344**
CASH FLOWS FROM INVESTING ACTIVITIES		
Development cost incurred	-	(2)
Interest received	73	94
Proceeds from disposal of property, plant and equipment	1,344	1,446
Proceeds from disposal of subsidiary	3,018	-
Purchase of property, plant and equipment	(1,951)	(8,915)
Changes in fixed deposits pledged with licensed banks	738	148
Net cash generated from/(used in) investing activities	**3,222**	**(7,229)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling shareholders of a subsidiary	(240)	-
Interest paid	(3,380)	(3,259)
Proceeds from issuance of shares pursuant to private placement, net of expenses	4,214	-
Net (repayment)/drawdown of bankers' acceptance	(4,532)	1,563
Net repayment of term loans	(2,342)	(2,222)
Net repayment of hire purchase payables	(4,596)	(5,540)
Net cash from/(used in) financing activities	**(10,876)**	**(9,458)**
Net changes in cash and cash equivalents	3,836	(7,343)
Effects of foreign exchange	(2)	95
Cash and cash equivalents at beginning of the financial year	(4,814)	2,434
Cash and cash equivalents at end of the financial year	**(980)**	**(4,814)**

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

	Year-to-date ended	
	31.12.2018 RM'000	**31.12.2017 RM'000 (audited)**
Cash and cash equivalents comprise the following:		
Cash and bank balances	8,500	7,048
Fixed deposits pledged to financial institutions	1,665	2,403
	10,165	9,451
Less: Bank overdraft	(9,480)	(11,862)
Less: Fixed deposits pledged to financial institutions	(1,665)	(2,403)
	(980)	**(4,814)**

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 2017 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 2017 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 2017.

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 2017, except for the adoption of the following MFRS and Amendments to MFRSs as disclosed below:

<u>Effective for annual periods commencing on or after 1 January 2018</u>

- Amendments to MFRS 1 (*Annual Improvements to MFRS Standards 2014 – 2016 Cycle*)
- Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- MFRS 9 *Financial Instruments (IFRS 9 as issued by IASB in July 2014)*
- MFRS 15 *Revenue from Contracts with Customers*
- Clarifications to MFRS 15
- Amendments to MFRS 128 (*Annual Improvements to MFRS Standards 2014 – 2016 Cycle*)
- Amendments to MFRS 140 *Transfers of Investment Property*
- IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts* *** [See MFRS 4 Paragraphs 46 and 48 for the effective date] ***

The adoption of the above MFRS and Amendments to MFRSs did not have any significant financial impact to the Group, other as disclosed below:

A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

MFRS 9 *Financial Instruments*

MFRS 9 is effective for annual periods beginning on or after 1 January 2018. MFRS 9 introduces new requirements for classification and measurement of financial instruments, impairment assessment based on the Expected Credit Loss ("ECL") model and hedge accounting.

The Group has applied MFRS 9 retrospectively on the initial application date of 1 January 2018 and has elected not to restate comparatives.

The adoption of MFRS 9 did not have any significant effects on the interim financial report upon their initial application, except for the effect of applying the impairment assessment based on the ECL model on trade receivables.

The Group has applied forward-looking impairment policy to calculate the expected credit losses on all trade receivables. For the purpose of assessing the new ECL impairment model, the Group had categorised the customers into segments of customers portfolio based on past repayment records, credit terms provided as well as assessing the economic factors of each individual market it operates in.

MFRS 15 *Revenue from Contracts with Customers*

The Group has early adopted MFRS 15 in the current financial year. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods and services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

In summary, the impacts of adopting both MFRS 9 and MFRS 15 to opening balances are as follows:

Statement of financial position

	Previously stated on 31.12.2017 RM'000	**Effects of MFRS 9 RM'000**	**Effects of MFRS 15 RM'000**	**Restated on 01.01.2018 RM'000**
Assets				
Trade receivables	37,708	(732)	(365)	36,611
Impact to assets	37,708	(732)	(365)	36,611
Equity				
Retained earnings	48,189	(732)	(365)	47,092

A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Effective for annual periods commencing on or after 1 January 2019

- MFRS 16 Leases
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 112 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 119 *(Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*

Effective for annual periods commencing on or after 1 January 2020

- Amendments to MFRS 2 *Share-based Payment*
- Amendments to MFRS 3 *Business Combinations*
- Amendments to MFRS 6 *Exploration for and Evaluation of Mineral Resources*
- Amendments to MFRS 101 *Presentation of Financial Statements*
- Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to MFRS 134 *Interim Financial Reporting*
- IC Interpretation 132 *Amendments to IC Interpretation 132 Intangible Assets - Web Site Costs*

Effective for annual periods commencing on or after 1 January 2021

- MFRS 17 *Insurance Contracts*

Deferred (date to be determined by MASB)

- Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group is in the process of assessing the impact of implementing these accounting standards and amendments, 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 2017 were not subject to any qualification.

A4. SEASONALITY OR CYCLICALITY OF OPERATION

Save for oil palm empty fruit bunch ("EFB") fibre, the Group's biomass materials and value-added products are not significantly affected by seasonal/cyclical effects. Demand for the Group's oil palm EFB fibre generally experience a decline during the Chinese New Year season mainly due to slowdown in logistics services and business activities in China during this period as businesses are closed for holidays during the festive season.

The Group typically experience higher sales of mattresses and related products prior to major festive season such as Chinese New Year and Hari Raya in tandem with the expected increase in household spending for such items during such periods.

A5. UNUSUAL ITEMS

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group during the current quarter and financial year under review.

A6. MATERIAL CHANGES IN ESTIMATES

There were no significant changes in estimates of amounts reported in prior financial years that have a material impact on the current quarter and financial year under review.

A7. DEBTS AND EQUITY SECURITIES

The Company had, on 20 December 2018, completed the private placement of 30,870,000 new ordinary shares at an issue price of RM0.139 per ordinary share. Total gross proceeds raised from the private placement amounted to RM4,290,930.

Save for the above, 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

The Board of Directors did not recommend any payment of dividend during the current quarter and financial year under review. (*FYE 31 December 2017: Nil*)

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

There were no material events subsequent to the end of current quarter and financial year under review that have not have been reflected in this interim financial report or announced to the Bursa Securities.

A10. CHANGES IN THE COMPOSITION OF THE GROUP

The Group, through Heng Huat Industries Holdings Sdn. Bhd. ("**HHIH**"), had on 24 September 2018 entered into a share sale agreement with Arah Kawasan Sdn. Bhd. ("**AKSB**") for the disposal of the entire issued and paid-up share capital of HK Palm Fibre Manufacturer Sdn. Bhd. ("**HKPF**") comprising 500,000 ordinary shares for a total cash consideration of RM2,700,000. Relevant details on the disposal had been announced to the Bursa Securities.

The disposal of shares in HKPF has been completed on 11 December 2018.

Save for the above, 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

There were no material capital commitments in respect of property, plant and equipment which were not provided in the financial statements as at 31 December 2018.

	As at 31.12.2018 RM'000
Property, plant and equipment	
Approved but not contracted for	-
Contracted but not provided for	4,120
	4,120

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 year 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	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Segment Revenue				
Biomass materials and related products	25,576	25,464	100,740	101,463
Mattresses and related products	4,517	6,555	23,059	23,041
	30,093	32,019	123,799	124,504
Elimination of intragroup transactions	(2,414)	(2,315)	(9,077)	(9,263)
Revenue from external customers	**27,679**	**29,704**	**114,722**	**115,241**
Segment Results				
Biomass materials and related products	432	(1,351)	826	4,046
Mattresses and related products	(281)	(197)	(217)	(397)
	151	(1,548)	609	3,649
Unallocated corporate income and expenses (net)	7,428	(372)	18,247	(1,213)
Elimination of intragroup transactions and profits	(10,972)	-	(22,732)	(193)
(Loss)/Profit before tax of the Group	**(3,393)**	**(1.920)**	**(3,876)**	**2,243**
Segment Assets				
Biomass materials and related products	139,187	159,466	139,187	159,466
Mattresses and related products	15,962	18,106	15,962	18,106
	155,149	177,572	155,149	177,572
Tax assets	495	233	495	233
Unallocated assets	26,925	15,218	26,925	15,218
Elimination of intragroup balances and profits	(29,841)	(24,905)	(29,841)	(24,905)
Total assets of the Group	**152,728**	**168,118**	**152,728**	**168,118**
Segment Liabilities				
Biomass materials and related products	82,321	87,357	82,321	87,357
Mattresses and related products	13,803	15,545	13,803	15,545
	96,124	102,902	96,124	102,902
Tax liabilities	1,140	2,298	1,140	2,298
Unallocated liabilities	5,656	7,614	5,656	7,614
Elimination of intragroup balances and profits	(29,403)	(24,506)	(29,403)	(24,506)
Total liabilities of the Group	**73,517**	**88,308**	**73,517**	**88,308**

A14. RELATED PARTY TRANSACTIONS

	Current quarter ended		Year-to-date ended	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Purchase of oil palm EFB ^	-	-	-	319
Renting of a single storey office annexed with a single storey detached factory used for oil palm EFB fibre manufacturing ^	-	-	-	30
Renting of two storey office with single storey detached factory used for mattress production and warehouse	152	78	509	312
Renting of vacant land for placement of portable cabins used for staff accommodation	30	30	120	120

^ *Upon completion of the acquisition of the remaining 50% equity stake in HK Palm Fibre on 26 May 2017, the supplier of oil palm EFB (i.e. Arah Kawasan Sdn Bhd) has ceased to be a related party. Any subsequent purchase of oil palm EFB from the said supplier will no longer be considered as related party transaction.*

The above transactions are necessary for the Group's day-to-day operations and are undertaken in the ordinary course of business. The above transactions are carried out on terms not more favourable to the related parties than those generally available to the public, which are not to the detriment of the non-controlling shareholders of the Group.

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

B1. ANALYSIS OF PERFORMANCE

Revenue

Our Group's total revenue for the current quarter and financial year ended 31 December 2018 stood at RM27.68 million and RM114.72 million respectively, representing a decrease of RM2.02 million or 6.80% and RM0.52 million or 0.45% respectively as compared to the preceding year corresponding quarter and preceding year.

Current Quarter Under Review

The moderation of sales performance was primarily attributable to the decrease in sales volume of oil palm EFB fibre, where total quantities sold during the current quarter under review has reduced by approximately 12.86% as compared to the preceding year corresponding quarter.

The decrease in sales volume of oil palm EFB fibre was partially offset by the following:

(i) Increase in in sales volume of bio-oil, a secondary product derived from the manufacturing process of oil palm EFB fibre, which has improved by approximately 48.61% as compared to the preceding year corresponding quarter; and

(ii) Increase in average selling prices of oil palm EFB fibre, which has increased by approximately 8.93% as compared to the preceding year corresponding quarter.

Current Financial Year Under Review

The moderation of sales performance was primarily attributable to the following factors:

(i) Decrease in sales volume of oil palm EFB fibre during the financial year under review by approximately 7.57% as compared to preceding year. The decrease was in tandem with the gradual slowdown in economic growth of China; and

(ii) Decrease in average selling prices of oil palm EFB fibre, which has reduced by approximately 1.51% as compared to the preceding year.

The moderation of sales performance for oil palm EFB fibre was partially offset by the increase in sales volume of bio-oil, which has improved by approximately 44.34% as compared to the preceding year.

Loss Before Tax

Our Group reported a loss before tax of approximately RM3.39 million and RM3.88 million respectively for the current quarter and the financial year under review, representing a decrease of approximately 76.72% and 272.80% respectively, as compared to the preceding year corresponding quarter and preceding year.

B1. ANALYSIS OF PERFORMANCE (cont'd)

The moderation of financial performance for the current quarter and financial year under review, as compared to the preceding year corresponding quarter and preceding year, was primarily due to the following factors:

(i) One-off, non-recurring loss arising from the disposal of shares in HKPF; and

(ii) Moderation of sales performance mainly due to softer demand for oil palm EFB fibre.

Loss After Tax

In line with the moderation of financial performance as explained above, our Group reported a loss after tax of approximately RM3.41 million and RM3.48 million respectively, for the current quarter and the financial year under review.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 31.12.2018	Preceding quarter ended 30.09.2018
	RM'000	RM'000
(Loss)/Profit before tax	(3,393)	9

Our Group recorded a loss before tax of approximately RM3.39 million for the current quarter ended 31 December 2018, as compared to a profit before tax of RM0.01 million. This was primarily due to:

(i) One-off, non-recurring loss arising from the disposal of a subsidiary, HKPF; and

(ii) Softer sales during the current quarter under review.

B3. PROSPECTS

Moving forward, our Group expect the orders for oil palm EFB fibre from China, being the primary market, will experience greater degree of volatility as gradual slowdown in economic growth is expected to continue. Authorities in China have shifted to looser monetary and fiscal policies in response to a more challenging external environment, including heightened trade tensions. They have cut reserve requirements, reduced taxes and fees, increased export tax rebates, and accelerated issuance of special purpose local government bonds to bolster infrastructure spending *(Source: Global Economic Prospects – January 2019, World Bank Group).*

B3. PROSPECTS (cont'd)

As an attempt to mitigate the gradual slowdown in economic growth of China, our Group is focusing on the market coverage expansion to the rest of the Asia region besides China. 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 operations for the financial year ending 31 December 2019 will back to positive.

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 EXPENSES/INCOME

	Current quarter ended 31.12.2018 RM'000	**Year-to-date ended 31.12.2018 RM'000**
Current tax (expense)/income	(370)	(191)
Deferred tax income	351	591
Total tax (expense)/income	(19)	400

Our Group recorded total tax expenses of approximately RM19,000 for the current quarter under review.

For the financial year under review, our Group recorded total tax income of approximately RM400,000; primarily due to over-provision of income tax expenses in prior year for one of our Group's operating subsidiaries, reversal of deferred tax liabilities and recognition of deferred tax assets in relation to losses incurred by our Group's operating subsidiaries.

B6. STATUS OF CORPORATE PROPOSALS

(i) Proposed Private Placement

On 27 November 2018, on behalf of the Board, Affin Hwang Investment Bank Berhad ("**Affin Hwang IB**") announced that the Company proposed to undertake proposed private placement of up to 10% of the total number of issued shares of the Company (excluding treasury shares, if any), to third party investor(s) to be identified at a later date and at an issue price to be determined later ("**Proposed Private Placement**"). Relevant details on the Proposed Private Placement had been announced to the Bursa Securities.

The Proposed Private Placement has been completed on 20 December 2018, where a total of 30,870,000 new shares were placed out. Total gross proceeds raised amounted to RM4,290,930. The status of utilisation of the proceeds as at 31 December 2018 is as follow:

Purpose	Intended Timeframe for Utilisation	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation RM'000	Deviation %
i. Payment to trade and other payables	Within 12 months	2,575	2,120	455	17.7
ii. Staff-related costs such as staff salaries, bonuses, statutory contribution and welfare expenses	Within 12 months	858	400	458	53.4
		858	400	458	53.4
iii. General administrative and operating expenses such as rental, utilities, telephone and sundry expenses	Within 12 months				
Total		**4,291**	**2,920**	**1,371**	**32.0**

The remaining balance of the proceeds is expected to be utilised during the financial year ending 31 December 2019.

B6. STATUS OF CORPORATE PROPOSALS (cont'd)

(ii) Proposed Acquisition of Land

On 31 December 2018, the Company had announced that HK Kitaran Sdn Bhd ("**HKKSB**"), a wholly-owned subsidiary of HHIH who in turn is a wholly-owned subsidiary of the Company, had entered into a conditional sale and purchase agreement with HK Alliance Sdn Bhd ("**HKASB**") for the proposed acquisition of a piece of freehold industrial land measuring 9,147 square meter located at Sungai Baong, Seberang Perai Selatan, Negeri Pulau Pinang for a cash consideration of RM3,800,000 ("**Proposed Acquisition**"). Relevant details on the Proposed Acquisition had been announced to the Bursa Securities.

Barring any unforeseen circumstances and subject to the conditions of sale being satisfied, the Proposed Acquisition is expected to be completed by the second quarter of 2019.

Save as disclosed above, there is no corporate proposal announced but not completed as at the date of this report.

B7. BORROWINGS

The Group's borrowings as at 31 December 2018 are as follows:

	Short Term (Within 12 months) **RM'000**	**Long Term** (> 12 months) **RM'000**	**Total** **RM'000**
Secured and guaranteed			
Bankers' acceptance	12,078	-	12,078
Bank overdrafts	9,480	-	9,480
Hire purchase payables	3,543	4,720	8,263
Term loans	3,872	13,035	16,907
Total Borrowings	**28,973**	**17,755**	**46,728**

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

B8. EARNINGS PER SHARE

Basic Earnings per Share ("BEPS")

	Current quarter ended		Year-to-date ended	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Basic earnings per share				
Profit/(Loss) attributable to equity holders of the parent	(3,408)	(2,412)	(3,501)	367
Weighted average number of ordinary shares in issue ('000)	312,727	308,700	309,715	308,700
BEPS (sen)	(1.09)	(0.78)	(1.13)	0.12

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 2018.

B9. CHANGES IN MATERIAL LITIGATION

As at the date of this report, there is no litigation or arbitration, which has a material effect on the financial position of the Group, and the Board of Directors are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

B10. DISCLOSURE ON SELECTED INCOME/EXPENSE ITEMS

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

	Current quarter ended 31.12.2018 RM'000	Year-to-date ended 31.12.2018 RM'000
Interest income	16	73
Other income including investment income	32	307
Interest expense	(847)	(3,380)
Depreciation expenses	(2,336)	(10,106)
Amortisation expenses	(299)	(1,197)
Bad debts written-off	-	(25)
Net foreign exchange gain/(loss)	19	(345)
Gain on disposal of property, plant and equipment	-	134
Fair value loss on derivative instruments	208	(156)
Provision of impairment of receivables	(290)	(558)
Property, plant and equipment written off	-	(61)
Provision for doubtful debts and write-off of receivables	-	-
Intangible assets written off	-	-
Impairment of assets	-	-
Provision for and write off of inventories	-	-
Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	-
Exceptional items	-	-

B11. FINANCIAL INSTRUMENTS

Derivatives

The Group have entered into forward foreign currency contracts to operationally hedge forecast sales collection denominated in foreign currency that are expected to occur at various dates within the next 12 months from the end of the reporting period.

As at 31 December 2018, the Group have the following outstanding forward currency contracts:

Type of Derivatives	[----Contract/ Notional Value-----] USD'000	RM'000 equivalent	Fair value as at 30.09.2018 RM'000
Forward Foreign Currency Contracts			
- Less than 1 year	876	3,594	3,569
	876	3,594	3,569

The fair value of a forward foreign currency contract is the amount that would be payable or receivable upon termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and the forward exchange rate as at the end of each reporting period applied to a contract of similar amount and maturity profile.

The difference between the forward rates entered into, and the market rates, is recognised as derivatives liability or asset as applicable with a corresponding amount reported in the profit or loss.

There is no change to the policies in relation to the derivatives since the last financial year ended 31 December 2017 in respect of the followings:

(i) the credit risk market risk and liquidity risk associated with the derivatives;

(ii) the cash requirements of the derivatives;

(iii) the policies in place for mitigating or controlling the risks associated with the derivatives; and

(iv) the related accounting policies.

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

The Group recorded net fair value loss of approximately RM156,000 during the financial year under review, as a result of reversal of derivative asset associated with forward foreign currency contracts which lapsed during the current quarter under review and after offsetting fair value changes of the forward foreign currency contracts entered into by the Group and outstanding as at 31 December 2018.