

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018 (CONT'D)

7. INTANGIBLE ASSETS (Cont'd)

	← At 31.12.2017 →		
	Cost	Accumulated amortisation	Carrying amount
	RM	RM	RM
Goodwill	42,981	0	42,981
Development costs	6,260,912	(2,047,956)	4,212,956
Trademarks	3,858	(1,924)	1,934
	6,307,751	(2,049,880)	4,257,871

8. INVESTMENTS IN SUBSIDIARIES

	Company	
	2018	2017
	RM	RM
At cost		
Unquoted shares	31,730,097	31,730,097
Less: Accumulated impairment losses	(500,000)	(500,000)
	31,230,097	31,230,097

Details of the subsidiaries, all incorporated in Malaysia, are as follows:

Name of company	Effective interest in equity		Principal activities
	2018	2017	
	%	%	
Heng Huat Industries Holdings Sdn. Bhd. ("HHIH")	100%	100%	Investment holding
Fibre Star Marketing Sdn. Bhd. ("FS Marketing")	100%	100%	Ceased operation
Fibre Star (M) Sdn.Bhd. ("Fibre Star")	100%	100%	Manufacturing and marketing of mattresses and related products
HK Gua Musang Sdn. Bhd. ("HKGM")	100%	100%	Manufacturing and trading of oil palm biomass materials and value-added products
HK Power Sdn. Bhd. ("HKP")	100%	100%	Operator of power plant and boiler turbine system for electricity generation and steam production
Sabut Kelapa Saujana Setiu Terengganu Sdn. Bhd. ("SKT")	97%	97%	Dormant

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018 (CONT'D)

8. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of company	Effective interest in equity		Principal activities
	2018	2017	
	%	%	
<u>Subsidiaries of HHIH</u>			
HK Fibre Sdn. Bhd. ("HKF")	97%	97%	Manufacturing and trading of coconut biomass materials and value-added products
HK Mega Industries Sdn. Bhd. ("HKM")	100%	100%	Dormant
HK Kitaran Sdn. Bhd. ("HK Kitaran")	100%	100%	Manufacturing and trading of oil palm biomass materials and value-added products
HK Palm Fibre Manufacturer Sdn. Bhd. ("HK Palm")	0%	100%	Manufacturing and trading of oil palm biomass materials

All subsidiaries are audited by BDO PLT in Malaysia.

(a) Disposal of a subsidiary - HK Palm

On 11 December 2018, the Group disposed of its entire interest in HK Palm for cash consideration of RM3,018,348. Accordingly, HK Palm ceased to be a subsidiary of the Group.

The details of the disposal of a subsidiary was as follows:

	Note	As at date of disposal RM
Property, plant and equipment	6	5,493,547
Inventories		795,593
Trade and other receivables		881,464
Current tax assets		16,127
Trade and other payables		(1,064,808)
Deferred tax liabilities	19	(239,101)
Total identified net assets disposed		5,882,822
Net proceeds from disposal		(3,018,348)
Goodwill on disposal	7	543
Loss on disposal		<u>2,865,017</u>
Proceeds from disposal		3,018,348
Cash and cash equivalents of a subsidiary disposed off		<u>0</u>
Cash flow on disposal, net of cash and cash equivalents of a subsidiary disposed		<u>3,018,348</u>

The financial results of the subsidiary disposed were insignificant to the Group.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018 (CONT'D)

8. INVESTMENTS IN SUBSIDIARIES (Cont'd)

- (b) Acquisition of remaining equity interest from non-controlling interest- HK Palm

In the previous financial year, HHIH, a wholly owned subsidiary, acquired the remaining 50% equity interest in HK Palm for a consideration of RM2 satisfied by cash. The carrying amount of net assets of HK Palm in the Group's financial statements on the date of acquisition was RM6,250,820. The Group adjusted the differences arose from the increase in stake with a reduction in retained earnings of RM3,125,408 and non-controlling interest of RM3,125,410.

- (c) Subscription of additional shares in wholly-owned subsidiaries

In the previous financial year, the Company subscribed for an additional 9,000,000 and 2,800,000 ordinary shares of RM1 each in wholly-owned subsidiaries, HKGM and HKP respectively which was satisfied by way of capitalisation of RM9,000,000 and RM2,800,000 of the amount owing by HKGM and HKP respectively to the Company. Consequently, there was no change in the effective equity interest held by the Company in HKGM and HKP respectively.

- (d) Incorporation of a subsidiary- Sabut Kelapa Saujana Setiu Terengganu Sdn. Bhd.

In the previous financial year, a new wholly-owned subsidiary, namely SKT had been incorporated in Malaysia on 18 September 2017 by subscribing for 97 ordinary shares of RM 1 each, representing the 97% of the total issued share capital of SKT.

SKT had not commenced its commercial operations as at 31 December 2018.

- (e) The subsidiaries of the Group that have non-controlling interests ('NCI') are as follows:

	Other individual immaterial subsidiaries	Total
2018		
NCI percentage of ownership interest and voting interest	3%	
Carrying amount of NCI (RM)	264,619	264,619
Profit allocated to NCI (RM)	25,180	25,180
Dividend paid to non-controlling interests	240,000	240,000

The NCI of the subsidiaries that are not wholly owned by the Group are deemed to be immaterial.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018 (CONT'D)

8. INVESTMENTS IN SUBSIDIARIES (Cont'd)

(e) The subsidiaries of the Group that have non-controlling interests ('NCI') are as follows: (Cont'd)

	HK Palm	Other individual immaterial subsidiary	Total
2017			
NCI percentage of ownership interest and voting interest	50%		
Carrying amount of NCI (RM)	0 ^	482,568	482,568
(Loss)/Profit allocated to NCI (RM)	(154,296)	55,518	(98,778)

^ Acquisition of non-controlling interests during the financial year as disclosed in Note 8(b) to the financial statements.

9. INVENTORIES

	Group	
	2018 RM	2017 RM
At cost		
Raw materials	2,414,261	3,251,002
Work-in-progress	40,855	36,149
Packing materials	371,816	453,894
Finished goods	9,776,497	6,627,424
Spare parts	523,913	709,230
	<u>13,127,342</u>	<u>11,077,699</u>

During the financial year, inventories of the Group recognised as cost of sales amounted to RM32,283,436 (2017: RM32,077,352).

10. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
Group	Contract amount RM	Liability RM	Contract amount RM	Asset RM
Forward currency contract	3,593,930	(25,388)	3,549,414	131,048