

Notes to the Financial Statements (Cont'd)

31 MARCH 2022

9. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2022 RM	2021 RM
Unquoted shares, at cost		
Balance at beginning	65,248,200	31,230,000
Additions	28,000,000	34,018,200
Allocation of SIS expenses in respect of share options granted to the employees of subsidiaries	4,463,222	-
	97,711,422	65,248,200
Less: Accumulated impairment losses	(11,499,999)	(11,499,999)
	86,211,423	53,748,201

The details of the subsidiaries, all of which were incorporated and their principal place of business are in Malaysia are as follows:

Name of Company	Effective Equity Interest		Principal Activities
	2022 %	2021 %	
Direct			
Heng Huat Industries Holdings Sdn. Bhd. ("HHIH")	100	100	Investment holdings.
Fibre Star (M) Sdn. Bhd. ("FSM")	100	100	Manufacturing and marketing of mattress 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.
HH Land and Development Sdn. Bhd. ("HHLD")	100	100	Investment holding but has not commence operation.
HH Properties Kulim Sdn. Bhd. (formerly known as HH Ecometal Recycling Sdn. Bhd.)	100	100	Property development, management and construction, investment holding and wholesale of waste and scrap material but has not commence operation.
* MG Furniture Sdn. Bhd. ("MGF")	51	-	Manufacturing and sale of furniture.

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9. INVESTMENT IN SUBSIDIARIES (cont'd)

The details of the subsidiaries, all of which were incorporated in Malaysia are as follows (cont'd):

Name of Company	Effective		Principal Activities
	Equity Interest 2022	2021	
	%	%	
Indirect - held through HHHH			
HK Fibre Sdn. Bhd.	97	97	Manufacturing and trading of coconut biomass materials and value-added products.
HK Kitaran Sdn. Bhd.	100	100	Manufacturing and trading of oil palm biomass materials and value-added products.
Sabut Kelapa Terengganu Sdn. Bhd.	97	97	Manufacturing and trading of coconut biomass materials and value-added products.
Indirect - held through HHL D			
* KNG Resource Enterprise Sdn. Bhd.	51	-	Dormant

* Not audited by Grant Thornton Malaysia PLT.

2022

(i) Acquisition of subsidiaries

KNG Resource Enterprise Sdn. Bhd. ("KNG")

On 8 March 2022, the subsidiary of the Company, HHL D had acquired 312,250 ordinary shares, representing 51% equity interest in KNG for a total cash consideration of RM272,251.

MG Furniture Sdn. Bhd. ("MGF")

On 30 March 2022, the Company had acquired 1,020,000 ordinary shares, representing 51% equity interest in MG Furniture Sdn. Bhd. ("MGF") for a purchase consideration of RM28,000,000 satisfied via issuance of 65,116,279 new ordinary shares of the Company at an issue price of RM0.43 per ordinary shares.

In accordance with the Profit Guarantee Agreement and Supplemental Profit Guarantee Agreement ("Profit Guarantee Agreements") dated 25 October 2021 and 23 February 2022 respectively entered by the Company with the previous shareholders and the existing minority shareholder, CFamillie Holdings Sdn. Bhd. ("CFamillie") (collectively referred to as "Vendors"), the Vendors have guaranteed that the aggregate profit after tax of MGF attributable to the Company for the financial year ending 31 July 2022 and 31 July 2023 ("Guarantee Period") will be no less than RM5,999,640 ("Profit Guaranteed Amount"). The profit guarantee is secured against 13,952,651 ordinary shares of the Company ("Pledged Shares") belonging to the Vendors.

In the event the Vendors fail to achieve the Profit Guaranteed Amount within the Guarantee Period, the Vendors shall on demand pay and compensate the Company for the shortfall. If the Vendors fail to pay for the shortfall within the period provided, the Company has the right to sell or dispose the Pledge Shares in the open market as settlement.

Notes to the Financial Statements (Cont'd)

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9. INVESTMENT IN SUBSIDIARIES (cont'd)

2022 (cont'd)

(ii) The financial information relevant to the acquisition of KNG and MGF are as follows:

Fair value of identifiable assets acquired and liabilities assumed

	KNG RM	MGF RM	Total RM
Property, plant and equipment	-	26,788,142	26,788,142
Investment properties	-	5,263,643	5,263,643
Right-of-use assets	-	115,229	115,229
Intangible assets	-	12,903,994	12,903,994
Inventories	-	9,260,864	9,260,864
Receivables	925,522	8,959,541	9,885,063
Cash and cash equivalents	125,335	10,017,185	10,142,520
Deferred taxation	(500)	(1,412,094)	(1,412,594)
Payables	(550,453)	(11,516,114)	(12,066,567)
Contract liabilities	-	(1,025,646)	(1,025,646)
Borrowings	-	(18,070,228)	(18,070,228)
Lease liabilities	-	(122,442)	(122,442)
Tax liabilities	(14,620)	(332,987)	(347,607)
	<u>485,284</u>	<u>40,829,087</u>	<u>41,314,371</u>

Goodwill arising from acquisitions

	KNG RM	MGF RM	Total RM
Fair value of net identifiable assets acquired	485,284	40,829,087	41,314,371
Less: Non-controlling interests	(213,033)	(20,314,999)	(20,528,032)
	<u>272,251</u>	<u>20,514,088</u>	<u>20,786,339</u>
Less: Total purchase considerations transferred	(272,251)	(28,000,000)	(28,272,251)
	<u>-</u>	<u>(7,485,912)</u>	<u>(7,485,912)</u>

Net cash arising from acquisitions

	KNG RM	MGF RM	Total RM
Purchase consideration settled in cash	272,251	-	272,251
Less: Cash and cash equivalents of subsidiaries acquired	(125,335)	(10,017,185)	(10,142,520)
	<u>146,916</u>	<u>(10,017,185)</u>	<u>(9,870,269)</u>

Notes to the Financial Statements (Cont'd)

31 MARCH 2022

9. INVESTMENT IN SUBSIDIARIES (cont'd)

2021

(i) Incorporation of subsidiaries

On 20 July 2020, the Company had incorporated a wholly-owned subsidiary, HHLD in Malaysia with an issued and paid-up share capital of RM100 comprising 100 ordinary shares. On 1 January 2021, the Company increased its investment in HHLD by RM3,704,000 to RM3,704,100 through the subscription of an additional 3,704,000 new ordinary shares at an issue price of RM1 per share.

On 15 October 2020, the Company had incorporated a wholly-owned subsidiary, HHER in Malaysia with an issued and paid-up share capital of RM100 comprising 100 ordinary shares.

(ii) Subscription of ordinary shares in subsidiaries

On 1 January 2021, the Company had subscribed to 653,000, 27,327,000 and 2,334,000 new ordinary shares at an issue price of RM1 per share in FSM, HKGM and HKP respectively. The new ordinary shares were fully paid up through conversion of the amount owing by the respective subsidiaries to the Company collectively amounting to RM30,314,000.

Subsidiary with material non-controlling interests

The Group's subsidiary, namely MGF has material non-controlling interests as set out below:

	MGF
	2021
NCI percentage of ownership interest and voting interest (%)	<u>49%</u>
Carrying amount of NCI (RM)	<u>20,314,999</u>

Summarised financial information before intercompany elimination

	RM
As at 31 March 2022	
Non-current assets	45,661,386
Non-current liabilities	(12,718,248)
Current assets	27,647,212
Current liabilities	(19,131,169)
Net assets	<u>41,459,181</u>

10. KEYMAN INSURANCE CONTRACTS

Keyman insurance contracts relate to the insurance policies insured for the directors of a subsidiary of the Company. The keyman insurance contracts are denominated in Ringgit Malaysia.

The keyman insurance contracts represent the expected cash value from the life insurance policies which have been assigned to licensed banks as security for banking facilities granted to a subsidiary as disclosed in Note 16 to the financial statements.

Upon maturity of the life insurance policies (between 2024 to 2030), the expected cash value shall be withdrawn by the directors and returned to the subsidiary.