

Notes To The Financial Statements (cont'd)

31 MARCH 2023

9. INVESTMENT IN SUBSIDIARIES (CONT'D)

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
	2023	2022	
	%	%	
Direct			
Alam Fibre Sdn. Bhd. ("AFSB")	100	-	Manufacturing and trading of coconut biomass materials and value-added products.
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	Property developer, trading in real estate property and investment holding.
HH Properties Kulim Sdn. Bhd. ("HHPK")	100	100	Real property, property development, property management, property trading and investment holding but has not commence operation during the financial year
MG Furniture Sdn. Bhd. ("MGF")	51	51	Manufacturing and sale of furniture.
Indirect - held through HHIH			
HK Fibre Sdn. Bhd. ("HKF")	97	97	Manufacturing and trading of coconut biomass materials and value-added products.
HK Kitaran Sdn. Bhd. ("HKK")	100	100	Manufacturing and trading of oil palm biomass materials and value-added products.
Sabut Kelapa Terengganu Sdn. Bhd. ("SKT")	97	97	Manufacturing and trading of coconut biomass materials and value-added products. The Company has ceased its operation during the financial year.

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9. INVESTMENT IN SUBSIDIARIES (CONT'D)

Name of Company	Effective Equity Interest		Principal Activities
	2023	2022	
	%	%	
Indirect - held through MGF			
MG Furniture Innovation Sdn. Bhd. ("MGFI")	51	-	Manufacturing and sale of furniture.
Indirect - held through HHL D			
KN G Resource Enterprise Sdn. Bhd. ("KN G")	51	-	Property developer, trading in real estate property and investment holding.
HH Eastern Realty Sdn. Bhd. ("HHER")	100	-	Investment holding.
HH Supreme Realty Sdn. Bhd. ("HHSR")	100	-	Real estate activities with own or leased property and investment holding.
* HH Northern Point Sdn. Bhd. ("HHNP")	100	-	Processing and manufacturing of paints. The company has ceased its operation as at the end of financial year.

* Not audited by Grant Thornton Malaysia PLT.

2023

(i) Acquisition of subsidiaries

AFSB

On 1 August 2022, the Company had acquired 10 ordinary shares, representing 100% equity interest in AFSB for a total cash consideration of RM10.

MGFI

On 22 July 2022, the subsidiary of the Company, MGF had acquired 2,500,100 ordinary shares, representing 100% equity interest in MGFI for a total cash consideration of RM10.

HHER

On 14 September 2022, the subsidiary of the Company, HHL D had acquired 100 ordinary shares, representing 100% equity interest in HHER for a total cash consideration of RM4,167,069.

HHSR

On 11 November 2022, the subsidiary of the Company, HHL D had incorporated a wholly-owned subsidiary, HHSR for a total cash consideration of RM100.

HHNP

On 30 September 2022, the subsidiary of the Company, HHL D had acquired 1,880,001 ordinary shares, representing 100% equity interest in HHER for a total cash consideration of RM2,370,000.

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9. INVESTMENT IN SUBSIDIARIES (CONT'D)

(ii) The financial information relevant to the acquisition of AFSB, MGFI, HHER and HHNP are as follows:

Fair value of identifiable assets acquired and liabilities assumed

	AFSB RM	MGFI RM	HHER RM	HHNP RM	Total RM
Investment properties	-	-	4,174,505	7,339,524	11,514,029
Current tax assets	-	-	-	58,254	58,254
Cash and cash equivalents	1,273	19,457	203	25,182	46,115
Deferred tax liabilities	-	-	-	(691,037)	(691,037)
Borrowings	-	-	-	(4,326,302)	(4,326,302)
Payables	<u>(1,263)</u>	<u>(51,570)</u>	<u>(7,639)</u>	<u>(35,621)</u>	<u>(96,093)</u>
Net identified assets acquired	10	(32,113)	4,167,069	2,370,000	6,504,966
Less: Non-controlling interests	-	32,123	-	-	32,123
	<u>10</u>	<u>10</u>	<u>4,167,069</u>	<u>2,370,000</u>	<u>6,537,089</u>
Less: Total purchase consideration transferred	<u>(10)</u>	<u>(10)</u>	<u>(4,167,069)</u>	<u>(2,370,000)</u>	<u>(6,537,089)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Net cash arising from acquisitions

	AFSB RM	MGFI RM	HHER RM	HHNP RM	Total RM
Purchase consideration settled in cash	10	10	4,167,069	2,370,000	6,537,089
Less: Cash and cash equivalents of subsidiaries acquired	<u>(1,273)</u>	<u>(19,457)</u>	<u>(203)</u>	<u>(25,182)</u>	<u>(46,115)</u>
Net cash (inflow)/outflow	<u>(1,263)</u>	<u>(19,447)</u>	<u>4,166,866</u>	<u>2,344,818</u>	<u>6,490,974</u>

Notes To The Financial Statements (cont'd)

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9. INVESTMENT IN SUBSIDIARIES (CONT'D)

(iii) Investment in Convertible Redeemable Preference Shares ("CRPS")

During the financial year, the Company had capitalised the debts owing from its subsidiaries by way of subscribing to the CRPS issued by respective subsidiaries at an issue price of RM1.00 per share. The details of the CRPS are as follows:

Subsidiaries	Number of CRPS	Amount of CRPS RM
FSM	15,117,000	15,117,000
HHL D	17,323,000	17,323,000
HHPK	28,078,000	28,078,000
HHER	2,000,000	2,000,000
ALSB	2,134,000	2,134,000
HHSR	6,007,000	6,007,000
	<u>70,659,000</u>	<u>70,659,000</u>

The salient terms of the CRPS are as follows:

- (i) The CRPS shall rank *pari passu* among themselves and in priority to dividend payment to the ordinary shares of the respective subsidiaries but after all secured and unsecured obligations of the subsidiaries.
- (ii) The entitlement of dividend is at the absolute discretion of the Board of Directors of the respective subsidiaries and at a rate that shall not be less than RM0.01 per share.
- (iii) The CRPS shall be redeemed in whole or in part at the discretion of the respective Board of Directors of subsidiaries at any time by giving one month written notice up to an amount not more than 3 times of the issue price.
- (iv) The CRPS is convertible into ordinary shares at any time prior to the commencement of the winding up of the respective subsidiaries and before any date fixed for redemption. The Company shall be entitled to convert part or the whole of the CRPS into ordinary shares on the basis of one (1) CRPS for one (1) new fully paid-up ordinary share of the respective subsidiaries.
- (v) The CRPS shall not be assigned, offered, sold, transferred or otherwise disposed directly or indirectly in any manner whatsoever without first obtaining the written consent/approval of the Board of Directors of the respective subsidiaries.
- (vi) The CRPS rank *pari passu* with the ordinary shares as regards to the right to a return of capital in proportion to the amount of the total issue price paid or credited as being paid on the share on a winding up of the subsidiaries company and the right to participate in a distribution of surplus assets on a winding up of the respective subsidiaries. The CRPS has no voting rights in general meeting.

Notes To The Financial Statements (cont'd)

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9. INVESTMENT IN SUBSIDIARIES (CONT'D)

2022

(i) Acquisition of subsidiaries

KNG

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

MGF

On 30 March 2022, the Company had acquired 1,020,000 ordinary shares, representing 51% equity interest in 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. (collectively referred to as "Vendors"), the Vendors have guaranteed that the aggregate profit after tax of MGF attributable to the Company for the 12-months 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.

(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	MGF	Total
	RM	RM	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>
Net identifiable assets acquired	485,284	40,829,087	41,314,371

Notes To The Financial Statements (cont'd)

31 MARCH 2023

9. INVESTMENT IN SUBSIDIARIES (CONT'D)

2022 (cont'd)

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

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	<u>(213,033)</u>	<u>(20,314,999)</u>	<u>(20,528,032)</u>
	272,251	20,514,088	20,786,339
Less: Total purchase considerations transferred	<u>(272,251)</u>	<u>(28,000,000)</u>	<u>(28,272,251)</u>
Goodwill	<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	<u>(125,335)</u>	<u>(10,017,185)</u>	<u>(10,142,520)</u>
Net cash outflow/(inflow)	<u>146,916</u>	<u>(10,017,185)</u>	<u>(9,870,269)</u>

Subsidiary with material non-controlling interests ("NCI")

The Group's subsidiary, namely MGF has material non-controlling interests which are set out below. The equity interests held by non-controlling interests are as follows:

	Carrying amount of NCI RM	Profit/(Loss) allocated to NCI RM	Equity interest held by NCI	
			2023 %	2022 %
MGF	23,407,011	3,092,012	49	49
Others*	<u>(17,012)</u>	<u>(373,783)</u>	-	-
	<u>23,389,999</u>	<u>2,718,229</u>		

* Others comprise of individually immaterial non-controlling interests' subsidiaries, namely MGFI, KNG, HKF and SKT.

Notes To The Financial Statements (cont'd)

31 MARCH 2023

9. INVESTMENT IN SUBSIDIARIES (CONT'D)

Subsidiary with material non-controlling interests ("NCI") (Cont'd)

Summarised financial information of subsidiaries which have non-controlling interests that are material to the Group is set out below. The summarised financial information presented below is the amount before intercompany elimination.

GROUP

	MGF RM
As at 31 March 2023	
Non-current assets	43,384,585
Non-current liabilities	(13,526,205)
Current assets	27,238,563
Current liabilities	<u>(9,327,533)</u>
Net assets	<u>47,769,410</u>
Year ended 31 March 2023	
Revenue	<u>57,118,237</u>
Profit for the financial year, representing total comprehensive income for the financial year	<u>6,310,229</u>
Net cash generated from/(used in):	
Operating activities	8,980,165
Investing activities	771,777
Financing activities	<u>(6,841,415)</u>
Net change in cash and cash equivalents	<u>2,910,527</u>
As at 31 March 2022	
Non-current assets	45,661,386
Non-current liabilities	(12,718,248)
Current assets	27,647,212
Current liabilities	<u>(19,131,169)</u>
Net assets	<u>41,459,181</u>

* Only net assets information was presented as at 31 March 2022 as the acquisition of MGF was completed near to the financial year end i.e. on 30 March 2022.

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 17 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.