

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL RESULTS & CONDITION

### Revenue and Gross Profit Margin

	2024 RM'000	2023 RM'000	Year-on-Year Variance (%)
Revenue			
Biomass materials and related products	62,467	76,865	-18.73
Furniture, mattresses and related products	60,003	77,783	-22.86
Property development and management	1,351	620	117.90
Money lending services	501	-	N/A
	<b>124,322</b>	<b>155,268</b>	<b>-19.93</b>
Profitability			
Gross profit ("GP")	34,309	53,954	-36.41
<i>GP margin</i>	27.60%	34.75%	
Profit before tax ("PBT")	10,217	33,367	-69.38
<i>PBT margin</i>	8.22%	21.49%	
Net profit for the year ("PAT")	7,856	30,012	-73.82
<i>PAT margin</i>	6.32%	19.33%	

The Group achieved a revenue of RM124.32 million in FYE 2024, representing a decrease of 19.93% as compared to RM155.27 million in FYE 2023. The decrease was primarily attributable to the moderation of sales performance in the biomass material segment by 18.73% and the furniture and mattresses segment by 22.86%.

- i. The decline in demand from biomass segment was mainly attributed to price adjustments returning to normalcy, following the previous impact from the geopolitical situation, particularly the Ukraine conflict, which affected the demand for crude palm oil in the market;
- ii. The decline in demand from furniture segment was mainly attributed to market conditions influenced by factors such as inflation and Red Sea crisis by disruptions at critical shipping routes and a slow in market demand.

The gross profit margin in FYE 2024 stood at 27.60% indicating a decrease of 36.41% compared to FYE 2023 at 34.75%. The decrease was primarily due to the increase in cost of sales as a result of higher production costs and moderation of sales performance as explain above.

In line with the moderation of sales performance as explained above, our Group reported a profit before tax of approximately RM10.22 million and a profit after tax RM7.86 million respectively in FYE 2024, representing a decrease of approximately 69.38% and 73.82% respectively as compared to FYE 2023.

## FINANCIAL RESULTS & CONDITION (CONT'D)

### Financial Position

	2024 RM'000	2023 RM'000	Year-on-Year Variance (%)
Total assets	267,387	251,319	6.39
Total liabilities	62,046	62,048	*
Shareholders' equity	183,034	165,880	10.34
<b>Net assets per share (sen)</b>	<b>21.23</b>	<b>22.34</b>	

As at 31 March 2024, our Group's total assets and total liabilities stood at RM267.39 million and RM62.05 million respectively, representing an increase of 6.39% and decrease of insignificant as compared to the preceding year. The Group's shareholders' equity remained at a positive level, stood at RM183.03 million (2023: RM165.88 million).

\*Less than 0.00%

### Liquidity

	2024 Days	2023 Days	Changes Day
Trade receivables' turnover period <sup>(1)</sup>	97	23	+ 74 days
Inventories' turnover period <sup>(2)</sup> *	50	44	+ 6 days
Trade payables' turnover period <sup>(2)</sup>	25	24	+ 1 days
<b>Cash conversion cycle</b>	<b>122</b>	<b>43</b>	<b>+ 79 days</b>

<sup>(1)</sup> This is derived using the formula: (Closing balance as at year-end/Total revenue)x365 days

<sup>(2)</sup> This is derived using the formula: (Closing balance as at year-end/Cost of sales)x365 days

\* Above computation only applies for manufacturing inventories.

The cash conversion cycle was increased from 43 days in the FYE 2023 to 122 days in the FYE 2024. This was due to the increase of trade receivables turnover period by additional segment from credit division which was only commence of business by third quarter of FYE 2024.

## FINANCIAL RESULTS & CONDITION (CONT'D)

### Cash flow Statement

	2024 RM'000	2023 RM'000
Cash flows from operating activities	4,098	40,237
Cash flow used in investing activities	(11,397)	(38,656)
Cash flow (used in)/from financing activities	(6,849)	4,688
<b>Net movements in cash and cash equivalents</b>	<b>(14,148)</b>	<b>6,269</b>
Cash and cash equivalents at the end of the financial year:		
Cash and bank balances	15,408	23,784
Fixed deposits with licensed banks	11,741	9,441
Short-term money market deposit	1,200	600
Bank overdrafts	(8,987)	-
	19,362	33,825
Less:		
Deposits pledged to licensed banks	(5,495)	(5,805)
	<b>13,867</b>	<b>28,020</b>
<b>Current ratio (times)</b>	<b>2.85</b>	<b>3.02</b>

Our Group's current ratio had reduced from 3.02 times in the preceding year to 2.85 times for the financial year under review:

- (i) Mainly due to utilise of bank overdraft for daily working capital for operation purpose during the financial year.
- (ii) This was due to increase of trade receivables from additional segment from credit division which was only commence of business by third quarter of FYE 2024.

### Capital Expenditure Requirements, Capital Structure and Capital Resources

	2024 RM'000	2023 RM'000
<b>Capital Commitment</b>		
Capital expenditure in respect of purchase of property, plant and equipment:		
Approved but not contracted for	-	2,420
Contacted but not provided for	49	131
	<b>49</b>	<b>2,551</b>

As of 31 March 2024, our Group did not incurred any new expansion or future project.

## FINANCIAL RESULTS & CONDITION (CONT'D)

### Borrowing

<b>Borrowings</b>	<b>2024 RM'000</b>	<b>2023 RM'000</b>
Short terms (repayable within 12 months)	11,085	3,347
Long terms (repayable within 12 months)	21,216	28,977
	<b>32,301</b>	<b>32,324</b>
<b>Gearing ratio (times) (Borrowings /Shareholders' Equity)</b>	<b>0.18</b>	<b>0.19</b>

During the financial year under review, our Group's gearing ratio decreased to 0.18 times as compared to 0.19 times in prior year. Our borrowings decreased by RM0.02 million or 0.07% from RM32.32 million in the preceding year to RM32.30 million as at 31 March 2024.

Our Group will evaluate the capital requirements and capital structure on a regular basis, to ensure that adequate capital resources are available to meet the working capital requirements and expansion needs and gearing ratio is maintained within a reasonable range.

## REVIEW OF OPERATING ACTIVITIES

### **Proposed Acquisition: Announcement dated 23 June 2023**

On 23 June 2023, the Board of Directors announced that the HHRG Berhad had on 23 June 2023, accepted the Letter of Irrevocable Offer from Jeenuat Foodstuffs Industries Sdn Berhad, for acceptance to acquire a piece of vacant industrial leasehold land known as Lot 20164, Mukim 13, Daerah Seberang Perai Tengah, Pulau Pinang held under No. Hakmilik PN 10902 for a total purchase consideration of RM15,742,250.

The Board of Directors announced that the HHRG Berhad had on 14 August 2023 entered into an Option Agreement with Jeenuat Foodstuffs Industries Sdn Berhad.

The Board of Directors had on 21 February 2024 announced that Option Agreement be extended for another 6 months commencing from 14 February 2024 and ending on 13 August 2024.

The Board of Directors announced that due to the non-fulfillment of certain terms and conditions of the Option Agreement, the Company has served notice to the Grantor on 9 April 2024, to terminate the Option Agreement and demand the deposit sum and first liquidated damages.

### **Proposed Acquisition: Announcement dated 18 April 2024**

On 18 April 2024, the Board of Directors announced that HHRG Berhad had on 18 April 2024, offered to acquire from Open Road World Sdn Bhd ("ORW"), 51,000 ordinary shares in PKB Open Road (SP Circuit) Sdn Bhd ("PKBOR") and 51 Ordinary Shares in ORIC Development (SP) Sdn Bhd ("ORICD"), representing a 51% equity interest each in PKBOR and ORICD, for a total cash consideration of RM40,000,000. ORW had, on 18 April 2024, agreed to and accepted the offer from HHRG Berhad as stipulated in the Letter of Intent dated 18 April 2024.

The Board of Directors had on 17 May 2024 proposed to ORW to extend the offer period for an additional one (1) month, with a new expiration date of 16 June 2024. This extension will allow the parties to finalize the terms and condition of Share Sale Agreement thoroughly and responsibly.

The Board of Directors announced that it had, on 21 May 2024, entered into the share sale agreements with ORW for the acquisition of PKBOR and ORICD.

## REVIEW OF OPERATING ACTIVITIES (CONT'D)

### **Proposed Acquisition: Announcement dated 18 April 2024 (cont'd)**

On 27 May 2024, the Board of Directors announced that all the Conditions Precedent as stated in the agreements have been fulfilled on 21 May 2024 and that the Unconditional date was 21 May 2024.

### **Proposed Fund Raising: Announcement dated 23 April 2024**

On 23 April 2024, on behalf Board of Directors of the HHRG Berhad ("Company"), TA Securities Holdings Berhad ("TA Securities") announced that the Company proposes to undertake the Proposed Private Placement of up to 10% of the number of issued shares in the company (excluding any treasury shares) pursuant to the general mandate obtained from the company's shareholders.

On behalf of the Board of Directors, TA Securities announced that Bursa Securities has, vide its letter dated 8 May 2024, approved the listing and quotation of up to 98,031,400 Placement Shares to be issued pursuant to the Proposed Private Placement subject to the following conditions:

- i. HHRG and TA Securities must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Private Placement;
- ii. HHRG and TA Securities to inform Bursa Securities upon the completion of the Proposed Private Placement;
- iii. HHRG to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Private Placement is completed; and
- iv. HHRG to furnish Bursa Securities with a certified true copy of the resolution passed by shareholders of the Company pursuant to Sections 75 and 76 of the Companies Act 2016, in the event the current General Mandate expires prior to the completion of the Proposed Private Placement.

On 16 July 2024, on behalf Board of Directors, TA Securities announced that the 38,522,700 shares were allotted and issued pursuant to the 1st tranche of the Private Placement that was announced on 11 July 2024.

On 19 July 2024, on behalf Board of Directors, TA Securities announced that the 13,300,000 HHRG Shares were allotted and issued pursuant to the Private Placement that was announced on 11 July 2024.

On 24 July 2024, on behalf Board of Directors, TA Securities announced that 35,000,000 HHRG Shares were allotted and issued pursuant to the Private Placement that was announced on 18 July 2024.

### **Proposed Disposal: Announcement dated 16 May 2024**

On 16 May 2024, the Board of Directors announced that, Heng Huat Industries Holdings Sdn. Bhd. ("HHIH"), a wholly-owned subsidiary of HHRG, had entered into the following agreements:

- i. Share Sale Agreement ("SSA") with Nexus Applause Sdn Bhd ("NASB") to dispose off 2,508,690 ordinary shares, representing 51% equity interest in HK Kitaran Sdn. Bhd. ("HK Kitaran") for a total cash consideration of RM6,121,020 in the manner as set out in the SSA;
- ii. Profit Guarantee Agreement ("PGA") with NASB in relation to the Profit Before Tax ("PBT") of RM1,470,000 guaranteed by the HHIH to NASB that the PBT as recorded in audited financial statement of HK Kitaran with following details:
  - a. in respect of the financial year ended 31 March 2024, shall not be less than the sum of RM735,000; and
  - b. in respect of the financial year ending 31 March 2025, shall not be less than the sum of RM735,000.

## REVIEW OF OPERATING ACTIVITIES (CONT'D)

### **Proposed Disposal: Announcement dated 16 May 2024 (cont'd)**

- iii. being the 49% of the total aggregate of Profit Before Tax of RM3,000,000.00 of HK Kitaran for two (2) financial year ended 31 March 2024 and 31 March 2025;
- iv. Shareholders Agreement ("SHA") with NASB to govern the relationships of HHIH and NASB, being the shareholders of HK Kitaran; and
- v. Guarantee & Indemnity Agreement by Iqzan Holding Berhad in favour of HHIH to settle the balance purchase price for the sale shares in the event the purchaser fails to settle the balance purchase price for the sale shares.

### **Writ of summons and statement of claim received from Ooi Chieng Sim and Skylitech Resources Sdn. Bhd. Penang High Court Civil Suit no. PA-22ncvc-58-04/2024.**

On 29 April 2024, Pursuant to Rule 9.04(f) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors announced that the Company and its wholly-owned subsidiaries, HK Gua Musang Sdn. Bhd., Fibre Star (M) Sdn. Bhd. and a sub-subsidiary, HK Kitaran Sdn. Bhd. had received a letter dated 26 April 2024 from Messrs Shafee & Co., the solicitors acting for Ooi Chieng Sim and Skylitech Resources Sdn Bhd, accompanied by a Writ of Summons and Statement of Claim both dated 23 April 2024 issued by the Penang High Court.

Further to the announcements made on 29 April 2024, the Board of Directors of the Company announced that the Companies had respectively on 29 May 2024 received a letters dated 29 May 2024 from Messrs Shafee & Co., the solicitors acting on behalf of the Plaintiffs, accompanied by, amongst others, the sealed copy of the Court's Order (Ex-Parte) dated 27 May 2024 pertaining to the Mareva Injunction against the Companies.

On 19 June 2024, the Board of Directors announced that further to the announcements made on 29 April 2024 and 29 May 2024, the Board of Directors of the Company wishes to announce that the Court had on 18 June 2024 decided that the inter partes against the 3<sup>rd</sup> to 6<sup>th</sup> Defendants have been dismissed with no order as to cost. Therefore, the ex-parte injunction has been lapsed on 18 June 2024, there is no more injunction against the 3<sup>rd</sup> to 6<sup>th</sup> Defendants from 18 June 2024 onwards.

HHRG Berhad (3<sup>rd</sup> Defendant)  
HK Kitaran Sdn. Bhd. (4<sup>th</sup> Defendant)  
HK Gua Musang Sdn. Bhd. (5<sup>th</sup> Defendant)  
Fibre Star (M) Sdn. Bhd. (6<sup>th</sup> Defendant)

## REVIEW OF OPERATING ACTIVITIES (CONT'D)

### ANTICIPATED OR KNOWN RISKS

Principal Risk	Description/Consequences	Strategies to Mitigate Risk
Dependent on single market	<ul style="list-style-type: none"> <li>- The furniture products are mainly sold to customers in the European region.</li> <li>- The products are suitable and acceptable in the European market.</li> <li>- Any changes in Europe's ruling and economy may give significant impact to the company.</li> </ul>	<ul style="list-style-type: none"> <li>- Explore new market at other regions.</li> <li>- Diversify the product range.</li> <li>- Participate in roadshow and exhibition.</li> </ul>
Regulatory risk	<ul style="list-style-type: none"> <li>- Adverse changes in rules and regulations, for example, increase in power tariff, fuel prices and tax rates or additional compliance requirements that may increase cost of doing business.</li> <li>- Loss of pioneer status or other tax incentives may result in higher tax liabilities, hence affecting the profitability of our Group.</li> </ul>	<ul style="list-style-type: none"> <li>- To conduct regular meeting to discuss on the government's policy and matters.</li> <li>- To upgrade the machinery where necessary.</li> <li>- To take advantage of any available incentives or lower tariff.</li> <li>- To comply with the conditions imposed by the authorities body for the pioneer status.</li> </ul>
Natural disaster risk	<ul style="list-style-type: none"> <li>- The interruption may include but not limited to, fire, worker riot or natural disaster such as flood.</li> <li>- The interruption will cause the company to stop operations and may require some time to recover.</li> </ul>	<ul style="list-style-type: none"> <li>- Safety officer is appointed.</li> <li>- To periodically discuss safety and health matters.</li> <li>- Continuous monitoring on the maintenance needs by the production leaders.</li> <li>- Fire escape plan and fire preventive equipment are put in place.</li> <li>- Smoking is prohibited inside the factory.</li> <li>- Emergency Rescue Team (ERT) is formed.</li> </ul>

## FORWARD LOOKING STATEMENT

### Prospect

The Group's business operation environment remained challenging. Our biomass division operation has stabilised with the CPO price hovering around RM3,800 per tonne. However, our furniture and mattresses business faced uncertainties in view of the conflict in the Middle East. Logistics and transportation cost has increased and that has negative impact to the sales of our furniture exporting to the European market.

HHRG has embarked on diversifying its business into the field of property development by acquired approximately 202.60 acres for future opportunities in industrial, residential, and sports and recreation development. This strategic move allows us to expand our portfolio and leverage our expertise in the real estate sector. We are committed to deliver high-quality properties with innovative designs and recreational landscapes, while providing exceptional management services to meet the evolving needs of our customers.

### DIVIDEND POLICY

Our Company presently does not have any formal dividend policy. The declaration of interim dividends and the recommendation of any final dividends are subject to the discretion of our Board of Directors and any final dividend proposed is subject to our shareholders' approval.

Our Board of Directors seeks to adopt a stable and sustainable dividend policy to allow our shareholders to participate in the profits of our Group while maintaining an optimal capital structure and ensuring sufficient funds for our future growth. In determining the payment of dividends, our Board of Directors take into consideration, amongst other factors, the operational performance, financial condition, capital expenditure plans and business expansion plans of Group.