



HENG HUAT RESOURCES GROUP BERHAD

(Company No. 969678-D)

(Incorporated in Malaysia under the Companies Act, 1965)

HENG HUAT RESOURCES GROUP BERHAD



PROSPECTUS

THIS PROSPECTUS IS DATED 30 JUNE 2014

INITIAL PUBLIC OFFERING IN CONJUNCTION WITH OUR LISTING ON THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD COMPRISING:

- (I) PUBLIC ISSUE OF 46,500,000 NEW ORDINARY SHARES OF RM0.10 EACH IN THE FOLLOWING MANNER:
- 7,000,000 NEW ORDINARY SHARES OF RM0.10 EACH AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC;
 - 5,000,000 NEW ORDINARY SHARES OF RM0.10 EACH AVAILABLE FOR APPLICATION BY OUR ELIGIBLE EMPLOYEES AND PERSONS WHO HAVE CONTRIBUTED TO THE SUCCESS OF OUR GROUP;
 - 12,200,000 NEW ORDINARY SHARES OF RM0.10 EACH BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS; AND
 - 22,300,000 NEW ORDINARY SHARES OF RM0.10 EACH BY WAY OF PRIVATE PLACEMENT TO BUMIPUTERA INVESTORS APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY; AND
- (II) OFFER FOR SALE OF 14,660,000 EXISTING ORDINARY SHARES OF RM0.10 EACH BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS;

AT AN ISSUE/OFFER PRICE OF RM0.45 PER SHARE PAYABLE IN FULL UPON APPLICATION.

Adviser, Sponsor, Underwriter and Placement Agent

kenanga

KENANGA INVESTMENT BANK BERHAD

(Company No.: 15678-H)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Corporate Finance Adviser

WYNCORP

LICENCED INVESTMENT ADVISOR

WYNCORP Advisory Sdn Bhd

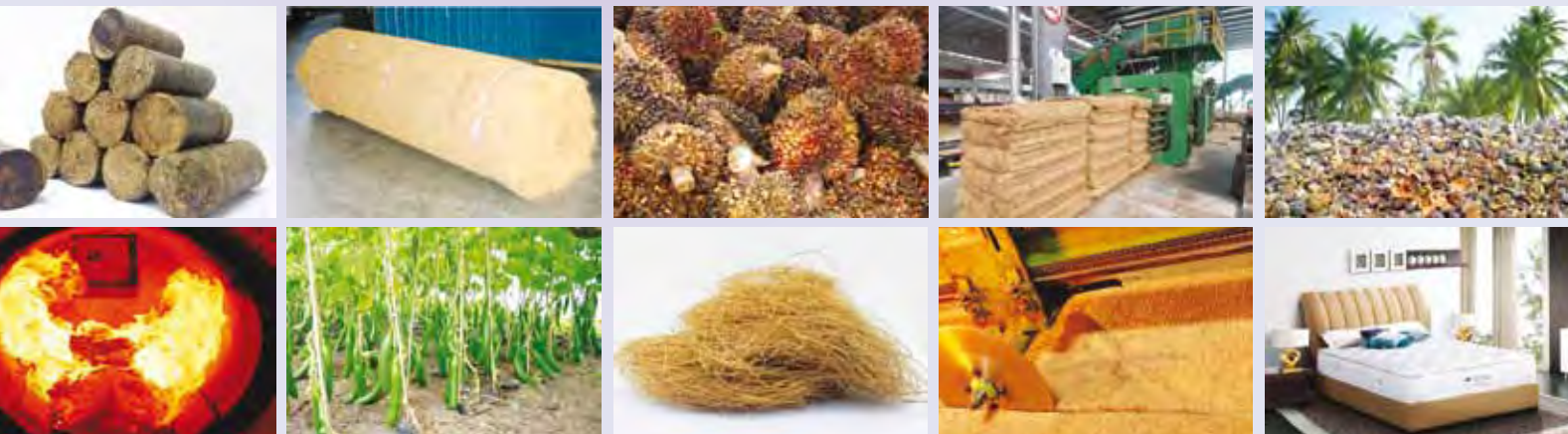
(Company Number : 632322-H)

INVESTORS ARE ADVISED TO NOTE THAT COMPANIES LISTED ON THE ACE MARKET MAY BE OF HIGH INVESTMENT RISK. INVESTORS ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.

THERE ARE CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER. PLEASE REFER TO SECTION 4 OF THIS PROSPECTUS FOR "RISK FACTORS".

THIS PROSPECTUS CONTAINS CERTAIN PHOTOGRAPHS AND ILLUSTRATION OF ASSETS WHICH DO NOT BELONG TO OUR GROUP AND ARE INCLUDED HEREIN FOR ILLUSTRATION PURPOSES ONLY.

PROSPECTUS



RESPONSIBILITY STATEMENTS

Our Board, Promoters and Offeror (as defined herein) have seen and approved this Prospectus and they collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm, after having made all reasonable enquiries, that to the best of their knowledge and belief, there is no false or misleading statement or other facts the omission of which would make any statement herein false or misleading.

Kenanga Investment Bank Berhad (“**Kenanga IB**”), being our Adviser, Sponsor, Underwriter and Placement Agent acknowledges that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO (as defined herein).

STATEMENTS OF DISCLAIMER

A copy of this Prospectus has been registered with the Securities Commission Malaysia (“**SC**”). The registration of this Prospectus should not be taken to indicate that the SC recommends our IPO or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Prospectus. The SC has not, in any way, considered the merits of the securities being issued/offered for investment.

The SC is not liable for any non-disclosure on our part and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Prospectus.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT IN OUR COMPANY. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

Approval has been obtained from Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the listing of and quotation for our Shares (as defined herein). Admission to the Official List of Bursa Securities is not to be taken as an indication of the merits of our IPO, our Company or our Shares.

Bursa Securities is not liable for any non-disclosure on our part and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, together with the application form, has also been lodged with the Registrar of Companies of Malaysia who takes no responsibility for its contents.

OTHER STATEMENTS

Companies listed on the ACE Market may have a limited operating history or may not have any profit track record prior to listing. Such companies may be of high investment risk. As with all investments, you should be aware of all potential risks in investing in such companies and should make the decision to invest after giving due and careful consideration by referring to, among others, this Prospectus, our latest financial statements and corporate announcements. You are strongly recommended to seek advice from a securities professional or adviser.

Our IPO is an exempt transaction under Section 212(8) of the Capital Markets and Services Act 2007 (“**CMSA**”) and is therefore not subject to the approval of the SC.

You are advised to note that recourse for false or misleading statements or acts made in connection with this Prospectus is directly available through Sections 248, 249 and 357 of the CMSA.

Securities listed on Bursa Securities are offered to the public premised on full and accurate disclosure of all material information concerning the issue for which any of the persons set out in Section 236 of the CMSA, e.g. Directors and Advisers, are responsible.

This Prospectus is prepared and published solely for our IPO in Malaysia under the laws of Malaysia. Our shares are issued/offered in Malaysia solely based on the contents of this Prospectus. Our Board, Promoters, Offeror, Adviser, Sponsor, Underwriter and Placement Agent have not authorised anyone to provide you with information which is not contained in this Prospectus.

This Prospectus has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia and has not been and will not be lodged, registered or approved pursuant to or under any applicable securities or equivalent legislation or with or by any regulatory authority or other relevant body of any jurisdiction other than Malaysia.

We will not, prior to acting on any acceptance in respect of our IPO, make or be bound to make any enquiry as to whether you have a registered address in Malaysia and will not accept or be deemed to accept any liability in relation thereto whether or not any enquiry or investigation is made in connection therewith.

It shall be your sole responsibility, if you are or may be subject to the laws of any country or jurisdiction other than Malaysia, to consult your legal and/or other professional advisers as to whether your application for our IPO would result in the contravention of any law of such country or jurisdiction.

Further, it shall also be your sole responsibility to ensure that your application for our IPO would be in compliance with the terms of this Prospectus and would not be in contravention of any law of countries or jurisdictions other than Malaysia to which you may be subjected to. We will further assume that you have accepted our IPO in Malaysia and will at all applicable times be subjected only to the laws of Malaysia in connection therewith. However, we reserve the right, in our absolute discretion, to treat any acceptance as invalid if we believe that such acceptance may violate any law or applicable legal or regulatory requirements.

The distribution of this Prospectus and the accompanying documents are subject to Malaysian laws. Our Board, Promoters, Offeror, Adviser, Sponsor, Underwriter and Placement Agent take no responsibility for the distribution of this Prospectus (in preliminary or final form) outside Malaysia. Our Board, Promoters, Offeror, Adviser, Sponsor, Underwriter and Placement Agent have not taken any action to permit an IPO of our Shares based on this Prospectus or the distribution of this Prospectus outside Malaysia.

This Prospectus may not be used for an offer to sell or an invitation to buy our Shares in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised or is unlawful. This Prospectus shall also not be used to make an offer of or invitation to buy our Shares to any person to whom it is unlawful to do so. Our Board, Promoters, Offeror, Adviser, Sponsor, Underwriter and Placement Agent require you to inform yourself and to observe such restrictions.

ELECTRONIC PROSPECTUS

This Prospectus can also be viewed or downloaded from Bursa Securities' website at www.bursamalaysia.com.

The contents of the Electronic Prospectus and the copy of this Prospectus registered with the SC are the same. You may obtain a copy of the Electronic Prospectus from the website of Affin Bank Berhad at www.affinOnline.com, CIMB Bank Berhad at www.cimbclicks.com.my, CIMB Investment Bank Berhad at www.eipocimh.com, Malayan Banking Berhad at www.maybank2u.com.my, Public Bank Berhad at www.pbebank.com, Affin Investment Bank Berhad at www.affinTrade.com and RHB Bank Berhad at www.rhb.com.my.

The internet is not a fully secured medium. Internet applications may be subject to risks in data transmission, computer security threats such as viruses, hackers and crackers, faults with computer software and other events beyond control of the Internet Participating Financial Institutions (as defined herein). These risks cannot be borne by the Internet Participating Financial Institutions.

If you are in doubt about the validity or integrity of an Electronic Prospectus, you should immediately request from us, our Adviser or Equiniti Services Sdn Bhd, a paper/printed copy of this Prospectus. If there is any discrepancy between the contents of the Electronic Prospectus and the paper/printed copy of this Prospectus, the contents of the paper/printed copy of this Prospectus, which is identical to the copy of the Prospectus registered with the SC, shall prevail.

In relation to any reference in this Prospectus to third party internet sites (referred to as "Third Party Internet Sites") whether by way of hyperlinks or by way of description of the third party internet sites, you acknowledge and agree that:

- (i) We do not endorse and are not affiliated in any way to the Third Party Internet Sites. Accordingly, we are not responsible for the availability of, or the content or any data, files or other material provided on the Third Party Internet Sites. You bear all risks associated with the access to or use of the Third Party Internet Sites;

- (ii) We are not responsible for the quality of products or services in the Third Party Internet Sites, particularly in fulfilling any of the terms of any of your agreements with the Third Party Internet Sites. We are also not responsible for any loss or damage or cost that you may suffer or incur in connection with or as a result of dealing with the Third Party Internet Sites or the use of or reliance on any data, files or other material provided by such parties; and
- (iii) Any data, files or other materials downloaded from the Third Party Internet Sites is done at your own discretion and risk. We are not responsible, liable or under obligation for any damage to your computer system or loss of data resulting from the downloading of any such data, information, files or other materials.

Where an Electronic Prospectus is hosted on the website of an Internet Participating Financial Institution, you are advised that:

- (i) The Internet Participating Financial Institution is only liable in respect of the integrity of the contents of the Electronic Prospectus, i.e. to the extent that the content of the Electronic Prospectus on the web server of the Internet Participating Financial Institution may be viewed via web browser or other relevant software. The Internet Participating Financial Institution is not responsible for the integrity of the contents of the Electronic Prospectus, which has been obtained from the web server of the Internet Participating Financial Institution and subsequently communicated or disseminated in any manner to you or other parties; and
- (ii) While all reasonable measures have been taken to ensure the accuracy and reliability of the information provided in the Electronic Prospectus, the accuracy and reliability of the Electronic Prospectus cannot be guaranteed because the internet is not a fully secured medium.

The Internet Participating Financial Institution is not liable (whether in tort or contract or otherwise) for any loss, damage or costs that you or any other person may suffer or incur due to, as a consequence of or in connection with any inaccuracies, changes, alterations, deletions or omissions in respect of the information provided in the Electronic Prospectus which may arise in connection with or as a result of any fault with web browsers or other relevant software, any fault on your or any third party's personal computer, operating system or other software, viruses or other security threats, unauthorised access to information or systems in relation to the website of the Internet Participating Financial Institution, and/or problems occurring during data transmission which may result in inaccurate or incomplete copies of information being downloaded or displayed on your personal computer.

PUBLIC SHAREHOLDING SPREAD

In compliance with the Listing Requirements (as defined herein), we need to have at least 25% of our enlarged issued and paid-up share capital in the hands of a minimum 200 public shareholders holding not less than 100 Shares each upon admission to the ACE Market. We expect to achieve this at the point of Listing (as defined herein). However, in the event that this requirement is not met pursuant to our IPO, we may not be allowed to proceed with our Listing. In this event, monies paid in respect of all applications will be returned in full without interest to the applicants within fourteen (14) days after we become liable to repay it.

INDICATIVE TIMETABLE

The following events are intended to take place on the following tentative dates:

EVENT	TENTATIVE DATE / TIME
Opening of application for our IPO	10.00 a.m., 30 June 2014
Closing of application for our IPO	5.00 p.m., 16 July 2014
Balloting of applications	18 July 2014
Allotment of Shares to successful applicants	23 July 2014
Listing on the ACE Market	25 July 2014

Our Board, Promoters and Offeror, together with Kenanga IB, may mutually decide at their absolute discretion to extend the date of closing of application to a later date or dates. If the date of closing of application is extended, the dates of balloting, allotment and Listing would be extended accordingly. We will publish any extension of the date of closing of application in a widely circulated English and Bahasa Malaysia newspaper in Malaysia prior to the original closing date of application. **Late applications will not be accepted.**

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to “our Company” in this Prospectus are to Heng Huat Resources Group Berhad while references to “our Group” are to our Company and our subsidiary companies. References to “we”, “us”, “our” and “ourselves” are to our Company or our Group or any member of our Group, as the context requires. Unless the context otherwise requires, references to “Management” are to our Executive Directors and our key management and key technical personnel as disclosed in this Prospectus and statements as to our beliefs, expectations, estimates and opinions are those of our Management.

Certain abbreviations, acronyms and technical terms used are defined in the “Definitions” section of this Prospectus. Words denoting the singular shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include companies and corporations.

Unless otherwise stated, any reference to dates and times in this Prospectus shall be a reference to dates and times in Malaysia.

Any reference to any enactment in this Prospectus shall be a reference to that enactment as for the time being amended or re-enacted.

This Prospectus includes statistical data provided by our Management and various third parties and cites third party projections regarding growth and performance of the industry in which our Group operates. This data is taken or derived from information published by industry sources and from our internal data. In each such case, the source is acknowledged in this Prospectus; provided that where no source is acknowledged, it can be assumed that the information originates from us.

In particular, certain information in this Prospectus is extracted or derived from the report prepared by Protégé Associates Sdn Bhd, an independent business and market research consulting firm. We believe that the statistical data and projections cited in this Prospectus are useful in helping you to understand the major trends in the industry in which we operate. However, neither we nor our advisers have independently verified these data. Neither we nor our advisers make any representation as to the correctness, accuracy or completeness of such data, hence accordingly, you should not place undue reliance on the statistical data cited in this Prospectus. Similarly, third party projections cited in this Prospectus are subject to significant uncertainties that could cause actual data to differ materially from the projected figures. We give no assurance that the projected figures will be achieved and you should not place undue reliance on the third party projections cited in this Prospectus.

The information on our website or any website directly or indirectly linked to our website does not form part of this Prospectus and you should not rely on it.

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FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements, which include all statements other than those of historical facts including, among others, those regarding our financial position, business strategies, prospects, plans and objectives of our Management for future operations. Some of these statements can be identified by the use of forward-looking terminology such as the words “may”, “will”, “would”, “could”, “believe”, “expect”, “anticipate”, “intend”, “estimate”, “aim”, “plan”, “forecast” or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. As such, we cannot assure you that the forward-looking statements in this Prospectus will be realised.

Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we operate. Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to those discussed in Section 4 - Risk Factors and Section 12 - Management Discussion and Analysis of Financial Condition, Results of Operations and Prospects of this Prospectus.

These forward-looking statements are based on information available to us as at the date of this Prospectus. Subject to the provisions of Section 238 of the CMSA, we expressly disclaim any obligation or undertaking to release publicly any update or revision to any forward-looking statement contained in this Prospectus to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

You will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forward looking statements that are contained herein.

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DEFINITIONS

Unless otherwise defined or the context otherwise requires, the following definitions shall apply throughout this Prospectus:

Act	: Companies Act, 1965, as amended from time to time, and any re-enactment thereof
ADAs	: Authorised Depository Agents
ACE Market	: ACE Market of Bursa Securities
Acquisitions	: Acquisition of HH Industries, Acquisition of Fibre Star and Acquisition of Fibre Star Marketing, collectively
Acquisition of Fibre Star	: Acquisition by Heng Huat of the entire equity interests in Fibre Star comprising 1,650,003 ordinary shares of RM1.00 each for a purchase consideration of RM1,650,000, which was fully satisfied by the issuance of 16,500,000 new Heng Huat Shares
Acquisition of Fibre Star Marketing	: Acquisition by Heng Huat of the entire equity interests in Fibre Star Marketing comprising 3 ordinary shares of RM1.00 each for a cash consideration of RM3
Acquisition of HH Industries	: Acquisition by Heng Huat of the entire equity interests in HH Industries comprising 9,095,000 ordinary shares of RM1.00 each for a purchase consideration of RM14,280,000, which was fully satisfied by the issuance of 142,800,000 new Heng Huat Shares
Acquisition of Assets from HH Manufacturer	: Acquisition by Fibre Star of assets of HH Manufacturer for a purchase consideration of RM1,650,000, which was fully satisfied by the issuance of 1,650,000 ordinary shares of RM1.00 each in Fibre Star
Acquisition of HK Kitaran	: Acquisition by HH Industries of 49% of the equity interests in HK Kitaran comprising 490,000 ordinary shares of RM1.00 each for a purchase consideration of RM3,871,000, which was fully satisfied by the issuance of 3,871,000 ordinary shares of RM1.00 each in HH Industries
Acquisition of HK Mega	: Acquisition by HH Industries of 10% of the equity interests in HK Mega comprising 10,000 ordinary shares of RM1.00 each for a nominal cash consideration of RM2
Acquisition of HK Palm Fibre	: Acquisition by HH Industries of 50% of the equity interests in HK Palm Fibre comprising 100,000 ordinary shares of RM1.00 each for a purchase consideration of RM2,262,000, which was fully satisfied by the issuance of 2,262,000 ordinary shares of RM1.00 each in HH Industries
Acquisition of Property from HH Furniture	: Acquisition of a piece of freehold land held under No. H.S.(D) 8763, Lot No. 2489, Mukim 05, Seberang Perai Selatan, Pulau Pinang, together with a single storey factory building erected on the land by Fibre Star from HH Furniture for a cash purchase consideration of RM2,800,000
AKSB	: Arah Kawasan Sdn Bhd (353399-M)
ATM(s)	: Automated teller machine(s)

DEFINITIONS (Cont'd)

Application Form(s)	: The printed application form(s) for the application of our IPO Shares accompanying this Prospectus
Board or Directors	: Board of Directors of Heng Huat
BDO or Reporting Accountants	: BDO (AF 0206)
BLR	: Base lending rate
Bursa Depository	: Bursa Malaysia Depository Sdn Bhd (165570-W)
Bursa Securities	: Bursa Malaysia Securities Berhad (635998-W)
CAGR	: Compound annual growth rate
CCC	: Certificate of Completion and Compliance
CCM	: Companies Commission of Malaysia
CDS	: Central Depository System
CDS Account	: An account established by Bursa Depository for a depositor for the recording of deposits or withdrawals of securities and for dealings in such securities by the depositor
Central Depositories Act	: Securities Industry (Central Depositories) Act, 1991, as amended from time to time and any re-enactment thereof
CMSA	: Capital Markets and Services Act 2007, as amended from time to time and any re-enactment thereof
EBITDA	: Earnings before interest, taxation, depreciation and amortisation
EPS	: Earnings per share
Electronic Prospectus	: Copy of this Prospectus that is issued, circulated or disseminated via the Internet, and/or an electronic storage medium, including but not limited to CD-ROMs or floppy disks
ESA or Electronic Share Application	: Application for our Public Issue Shares through a Participating Financial Institution's ATM
Fibre Star	: Fibre Star (M) Sdn Bhd (973296-M)
Fibre Star Reorganisation	: Acquisition of Property from HH Furniture, Acquisition of Assets from HH Manufacturer, Transfer of Trademark from HH Furniture and Transfer of Trademark from HH Manufacturer, collectively
Fibre Star Marketing	: Fibre Star Marketing Sdn Bhd (973299-X)
FYE	: Financial year ended/ending
GP	: Gross profit
40 HC	: 40 High cube refers to a container with a 40 feet length, 8 feet width and 9 feet six inches external dimension
HK Fibre	: HK Fibre Sdn Bhd (765548-H)

DEFINITIONS (Cont'd)

Heng Huat	: Heng Huat Resources Group Berhad (969678-D)
HH Furniture	: Heng Huat Furniture Sdn Bhd (224301-V)
HH Manufacturer	: Heng Huat Manufacturer Sdn Bhd (430950-A)
Heng Huat Group or Group	: Heng Huat and its subsidiary companies, collectively
Heng Huat Share(s) or Share(s)	: Ordinary share(s) of RM0.10 each in Heng Huat
HH Industries	: Heng Huat Industries Holdings Sdn Bhd (779222-P)
HH Industries Reorganisation	: Acquisition of HK Palm Fibre, Acquisition of HK Kitaran and Acquisition of HK Mega, collectively
HK Kitaran	: HK Kitaran Sdn Bhd (881898-X)
HK Mega	: HK Mega Industries Sdn Bhd (776763-X)
HK Palm Fibre	: HK Palm Fibre Manufacturer Sdn Bhd (859511-M)
IMR Report	: Independent Market Research Report titled 'Strategic Analysis of Malaysian Biomass Materials Market- Coconut and Oil Palm EFB Fibres'
IP	: Intellectual Property
IPO	: Initial public offering comprising the Public Issue and Offer for Sale, collectively
IPO Price	: RM0.45 per IPO Share
IPO Share(s)	: Public Issue Shares and Offer Shares, collectively
Internet Participating Financial Institution	: The participating financial institution for Internet Share Application
Internet Share Application or ISA	: Application for our Public Issue Shares through an Internet Participating Financial Institution
ISO	: International Organisation for Standardisation
Issuing House or Equiniti	: Equiniti Services Sdn Bhd (I1324-H)
Kenanga IB or Adviser or Sponsor or Underwriter or Placement Agent	: Kenanga Investment Bank Berhad (15678-H)
kg	: Kilogram
Listing	: Admission to the Official List of Bursa Securities and the listing of and quotation for Heng Huat's entire enlarged issued and paid-up share capital of RM20,580,003 comprising 205,800,030 Shares on the ACE Market of Bursa Securities
Listing Requirements	: ACE Market Listing Requirements of Bursa Securities, as amended from time to time

DEFINITIONS (Cont'd)

LPD	: 31 May 2014, being the latest practicable date prior to the issuance of this Prospectus
Market Day	: A day on which Bursa Securities is open for trading of securities
MDBB	: Majlis Daerah Bandar Baharu
MIDA	: Malaysian Investment Development Authority
MITI	: Ministry of International Trade and Industry
MPSP	: Majlis Perbandaran Seberang Perai
mt	: Metric tonne
MYIPO	: Intellectual Property Corporation of Malaysia
NA	: Net assets
NBV	: Net book value
NTA	: Net tangible assets
OC	: Certificate of Fitness for Occupation
OEM	: Original Equipment Manufacturer
Offer for Sale	: Offer for sale of 14,660,000 Shares by the Offeror at the IPO Price payable in full upon application subject to the terms and conditions of this Prospectus
Offer Shares	: 14,660,000 Shares, being the subject of the Offer for Sale
Offeror	: Kee Swee Lai
Participating Financial Institution(s)	: Participating financial institution(s) for the ESA as listed in Section 16 of this Prospectus
PAT	: Profit after taxation
PBT	: Profit before taxation
PE Multiple	: Price-earnings multiple
Plant 1	: A piece of freehold land held under No. H.S.(D) 6714, Lot 2940, Mukim 4, Daerah Seberang Perai Selatan, Pulau Pinang together with a double storey office building annexed with a single storey detached factory building, owned by HK Kitaran
Plant 2	: A piece of freehold land held under No. H.S.(D) 6719, Lot 2945, Mukim 4, Daerah Seberang Perai Selatan, Pulau Pinang together with a double storey office building annexed with a single storey detached factory building, owned by HK Kitaran
Plant 3	: A property bearing address No. 3843 (Lot 1223), Mk. 11, Luar Desa Jawi, 14200 Sungai Jawi, Seberang Perai Selatan, Pulau Pinang, rented by Fibre Star from HH Furniture

DEFINITIONS (Cont'd)

Plant 4	: A piece of freehold land held under No. H.S.(D) 8763, Lot No. 2489, Mukim 5, Daerah Seberang Perai Selatan, Pulau Pinang together with a single storey factory building, owned by Fibre Star
Plant 5	: A property bearing address Lot 713, Mukim Sungai Batu, 09810 Daerah Bandar Baharu, Selama, Kedah Darul Aman, rented by HK Palm Fibre from AKSB
Plant 6	: A piece of leasehold land held under HSM 2/97A, PT345, Kg Kemayang, Mukim Senak, Jajahan Bachok, Kelantan Darul Naim together with a portable cabin and a single storey detached factory, owned by HK Fibre
Promoter(s)	: H'ng Choon Seng, Kee Swee Lai, Khor Mooi Kim, Teh Cbai Luang, Khor Teik Boon and HH Manufacturer
Prospectus	: This prospectus dated 30 June 2014 in relation to our IPO
Protégé Associates	: Protégé Associates Sdn Bhd (675767-H)
Public	: All persons or members of the public but excluding directors of our Group, our substantial shareholders and persons connected or associated with them (as defined in the Listing Requirements)
Public Issue	: Public Issue of 46,500,000 new Heng Huat Shares, at the IPO Price payable in full upon application, subject to the terms and conditions of this Prospectus
Public Issue Share(s)	: New Heng Huat Shares, being the subject of the Public Issue
QC	: Quality control
Rcorganisations	: Fibre Star Reorganisation and HH Industries Reorganisation, collectively
RM and sen	: Ringgit Malaysia and sen, respectively
RMB	: China Renminbi
SC	: Securities Commission Malaysia
Share Split	: Sub-division of every one (1) ordinary share of RM1.00 each into ten (10) ordinary shares of RM0.10 each in Heng Huat
SME	: Small and medium enterprises
Sq ft	: Square feet
Transfer of Trademark from HH Furniture	: Transfer of trademark 'Xiong Mao®' from HH Furniture to Fibre Star for a nominal cash consideration of RM10
Transfer of Trademark from HH Manufacturer	: Transfer of trademark 'Fibre Star®' from HH Manufacturer to Fibre Star for a nominal cash consideration of RM10
USA or US	: United States of America
USD	: US Dollar
Underwriting Agreement	: Underwriting agreement dated 27 June 2014 entered into between the Company and the Underwriter for the underwriting of 7,000,000 Public Issue Shares

DEFINITIONS (Cont'd)**Technical References**

Biomass	: Biological material which is derived from living, or recently living organisms
Briquette	: Briquette/pellet refers to a block of compressed loose biomass materials used as fuel. Briquette is similar to pellet but is physically larger
EFB	: Empty fruit bunch
Fertigation	: Fertigation refers to the application of nutrients using an irrigation system
Geotextile	: A textile-structured material which is used in a variety of civil engineering and agricultural applications
Hammer mill	: A machine that de-fiberise biomass wastes for easier processing in the production process of coconut and oil palm EFB fibres
Horticulture	: Horticulture is a part of the agriculture practice concerned with growing plants that are used for food, medicine purposes or aesthetic gratification
Kiln	: A thermally insulated chamber, or a type of oven, used for the processing of a substance by burning, firing or drying
Needle punching	: A technique of repeatedly punching a threaded needle into a fabric to produce a design on the fabric
Peat moss	: Peat moss is used in agriculture, horticulture and forestry to regulate moisture and air around plant roots
Pongee	: A type of thin, soft fabric of Chinese origin
Press hot roller	: Press hot roller is used to compress the sheet into a more compact form in the production process of coconut fibre sheets
Puller machine	: Puller machine is used for pulling fibre sheets forward while cutting fibre sheets or trimming their edges in the production process of coconut fibre sheets
Rolling dryer	: Rolling dryer is used to remove the moisture content of fibres in the production process of coconut fibre sheets
Sifter	: Sifter is used to filter out short fibres in the production process of coconut and oil palm EFB fibres

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1. CORPORATE DIRECTORY**BOARD OF DIRECTORS**

Name	Address	Profession	Nationality
Dato' Juzilman Bin Basir <i>Independent Non-Executive Chairman</i>	No. 56, Jalan USJ 2/5H 47600 Subang Jaya Selangor	Company Director	Malaysian
H'ng Choon Seng <i>Managing Director</i>	No. 2457, Kampung Jawi 14200 Sungai Bakap Penang	Company Director	Malaysian
Kee Swee Lai <i>Deputy Managing Director</i>	No. 1051, Jalan Besar Permatang Tinggi 14000 Bukit Mertajam Penang	Company Director	Malaysian
Lim Ghim Chai <i>Executive Director</i>	1107 Mk 20, Kubang Ulu 14400 Bukit Mertajam Penang	Company Director	Malaysian
Khor Mooi Kim <i>Executive Director</i>	No. 2457, Kampung Jawi 14200 Sungai Bakap Penang	Company Director	Malaysian
Teh Chai Luang <i>Executive Director</i>	No. 2457, Kampung Jawi 14200 Sungai Bakap Penang	Company Director	Malaysian
Khor Teik Boon <i>Executive Director</i>	82, Lorong Bukit Panchor 3 Taman Bukit Panchor 14300 Nibong Tebal Penang	Company Director	Malaysian
Ng Boon Kang <i>Independent Non-Executive Director</i>	No. 3, Lorong Desa Palma 10 Taman Desa Palma 14000 Bukit Mertajam Penang	Tax Partner and Audit Principal	Malaysian
Lo Liang Kheng <i>Independent Non-Executive Director</i>	12-A, Jalan Bayan Mutiara 3 D' Residence 11700 Gelugor Penang	Consultant	Malaysian

1. CORPORATE DIRECTORY (Cont'd)

AUDIT COMMITTEE

Name	Designation	Directorship
Ng Boon Kang	Chairman	Independent Non-Executive Director
Lo Liang Kheng	Member	Independent Non-Executive Director
Dato' Juzilman Bin Basir	Member	Independent Non-Executive Chairman

NOMINATION COMMITTEE

Name	Designation	Directorship
Dato' Juzilman Bin Basir	Chairman	Independent Non-Executive Chairman
Ng Boon Kang	Member	Independent Non-Executive Director
Lo Liang Kheng	Member	Independent Non-Executive Director

REMUNERATION COMMITTEE

Name	Designation	Directorship
Lo Liang Kheng	Chairman	Independent Non-Executive Director
Dato' Juzilman Bin Basir	Member	Independent Non-Executive Chairman
Ng Boon Kang	Member	Independent Non-Executive Director

COMPANY SECRETARY : Ooi Yoong Yoong (MAICSA: 7020753)
 51-9-A, Menara BHL
 Jalan Sultan Ahmad Shah
 10050 Penang
 Tel: (604) 210 9828
 Fax: (604) 210 9827

REGISTERED OFFICE : 51-9-A, Menara BHL
 Jalan Sultan Ahmad Shah
 10050 Penang
 Tel: (604) 210 9828
 Fax: (604) 210 9827

HEAD OFFICE : Lot 2945 (Plot A2), Jalan Sungai Baong
 Kawasan Perindustrian Perabut
 Sungai Baong, Mukim 5
 14200 Seberang Perai Selatan, Penang
 Tel: (604) 582 5888
 Fax: (604) 582 1888
 Email: henghuatgroup@henghuat.com.my
 Websitc: www.henghuat.com.my

AUDITORS AND REPORTING ACCOUNTANTS : BDO (AF 0206)
 51-21-F, Menara BHL
 Jalan Sultan Ahmad Shah
 10050 Penang
 Tel: (604) 227 6888
 Fax: (604) 229 8118

1. CORPORATE DIRECTORY (Cont'd)

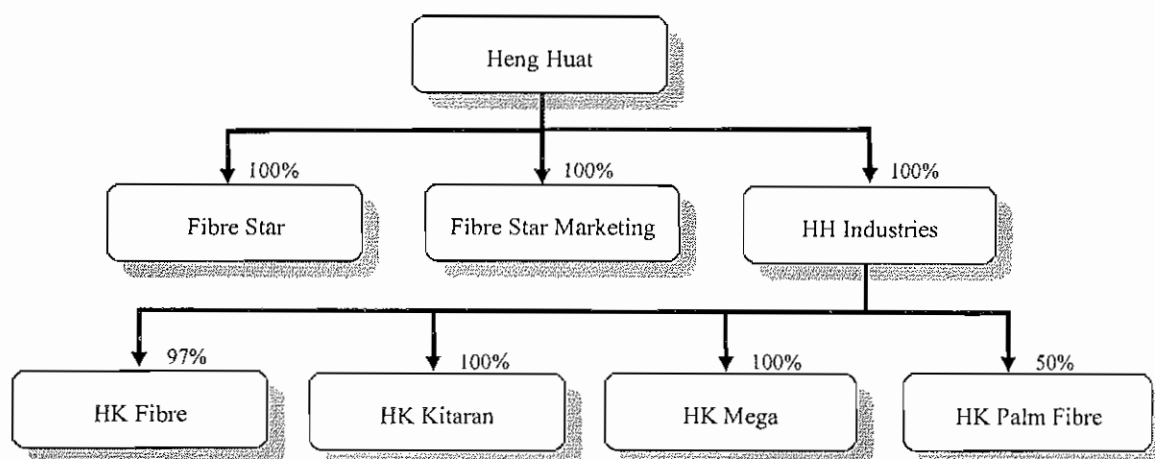
SOLICITORS	: Azman Davidson & Co. Suite 13.03, 13 th Floor Menara Tan & Tan 207 Jalan Tun Razak 50400 Kuala Lumpur Tel: (603) 2164 0200 Fax: (603) 2164 0280
INDEPENDENT MARKET RESEARCHER	: Protégé Associates Sdn Bhd (675767-H) Suite C-06-06 Plaza Mont' Kiara 2, Jalan Kiara, Mont' Kiara 50480 Kuala Lumpur Tel: (603) 6201 9301 Fax: (603) 6201 7302
PRINCIPAL BANKERS	: AmBank (M) Berhad (8515-D) Level 8 37, Jalan Sultan Ahmad Shah 10050 Penang Tel: (604) 226 1818 Fax: (604) 229 7488 Public Bank Berhad (6463-H) 3619 & 3620, Jalan Che Ahmad 14300 Nibong Tebal, Penang Tel: (604) 593 1433 Fax: (604) 593 1590
ISSUING HOUSE	: Equiniti Services Sdn Bhd (11324-H) Level 8, Menara MIDF 82, Jalan Raja Chulan 50200 Kuala Lumpur Tel: (603) 2166 0933 Fax: (603) 2166 0688
SHARE REGISTRAR	: AGRITEUM Share Registration Services Sdn Bhd (578473-T) 2 nd Floor, Wisma Penang Garden 42, Jalan Sultan Ahmad Shah 10050 Penang Tel: (604) 228 2321 Fax: (604) 227 2391
ADVISER, SPONSOR, UNDERWRITER AND PLACEMENT AGENT	: Kenanga Investment Bank Berhad (15678-H) 8 th Floor, Kenanga International Jalan Sultan Ismail 50250 Kuala Lumpur Tel: (603) 2027 5555 Fax: (603) 2164 6690
CORPORATE FINANCE ADVISER	: WYNCORP Advisory Sdn Bhd (632322-H) Suite 50-5-3A, Level 5 Wisma UOA Damansara 50, Jalan Dungun, Damansara Heights 50490 Kuala Lumpur Tel: (603) 2096 2286 / 2289 Fax: (603) 2011 2821
LISTING SOUGHT	: ACE Market of Bursa Securities

2. INFORMATION SUMMARY

THIS INFORMATION SUMMARY SETS OUT THE SALIENT INFORMATION CONTAINED IN THIS PROSPECTUS. YOU SHOULD READ AND UNDERSTAND THIS INFORMATION SUMMARY TOGETHER WITH THE FULL TEXT OF THIS PROSPECTUS BEFORE DECIDING WHETHER TO INVEST IN OUR SHARES. YOU ARE ADVISED TO READ THE RISK FACTORS DESCRIBED IN SECTION 4 OF THIS PROSPECTUS FOR AN UNDERSTANDING OF THE RISKS ASSOCIATED WITH AN INVESTMENT IN OUR COMPANY.

2.1 OUR HISTORY AND BUSINESS

Heng Huat was incorporated in Malaysia under the Act on 25 November 2011 as a private limited company under the name of Heng Huat Resources Group Sdn Bhd. We were subsequently converted into a public limited company and assumed our present name on 18 June 2012 to facilitate our Listing on the ACE Market. Prior to our IPO, we undertook the HH Industries Reorganisation, Fibre Star Reorganisation and Acquisitions as detailed in Sections 5.4.1, 5.4.2 and 5.4.4 of this Prospectus to reorganise our structure and streamline the operations of our subsidiary companies under our Company. Our Group structure after the HH Industries Reorganisation, Fibre Star Reorganisation and Acquisitions is as follows:



The details of our principal activities are as follows:

Company	Principal Activities
Heng Huat	Investment holding
Fibre Star	Manufacturing of mattresses and related products
Fibre Star Marketing	Marketing of mattresses and related products
HH Industries	Investment holding
<u>Subsidiary Companies of HH Industries</u>	
HK Fibre	Manufacturing and trading of coconut biomass materials and value-added products
HK Kitaran	Manufacturing and trading of oil palm biomass materials and value-added products
HK Mega	Dormant
HK Palm Fibre	Manufacturing and trading of oil palm biomass materials

2. INFORMATION SUMMARY (Cont'd)

The history of our Group can be traced back to the establishment of HK Fibre in 2007 by our co-founders, H'ng Choon Seng and Kee Swee Lai for the manufacturing of coconut fibre and coconut peat. In the same year, our co-founders also established HK Mega and HH Industries. HK Mega was principally involved in the trading of third party biomass materials while HH Industries is an investment holding company for HK Fibre and HK Mega.

In 2009, following our successful endeavour to design and custom-built a production line for the manufacture of oil palm EFB fibre, we established HK Palm Fibre in collaboration with the directors and shareholders of AKSB, a palm oil mill operator, to manufacture oil palm EFB fibre with oil palm EFB supply from AKSB. In the same year, we also established HK Kitaran to manufacture oil palm EFB fibre with oil palm EFB supply from its surrounding oil palm plantations and palm oil mills in Seberang Perai Selatan, Penang.

In 2011, we incorporated Fibre Star and Fibre Star Marketing, and ventured downstream to undertake the manufacturing and marketing of mattresses and related products respectively through the Fibre Star Reorganisation in May 2012.

To further strengthen our competitive edge, we ventured into the manufacture of value-added oil palm EFB fibre product, namely Briquette, in 2012 and successfully introduced Briquette as part of our product offerings in January 2013.

As at the LPD, we have a total of two (2) coconut fibre production lines, twenty (20) oil palm EFB fibre production lines, two (2) Briquette production lines and three (3) coconut fibre sheet production lines.

Our future plans and business strategies are as follows:

- (i) Expansion of our product offerings;
- (ii) Enhancement of our product offerings;
- (iii) Green power generation utilising short fibre;
- (iv) Expansion of our production facility;
- (v) Obtaining ISO certification for our subsidiary companies; and
- (vi) Market expansion.

Further details on our Group's history and business, and future plans and strategies are set out in Sections 5 and 6 respectively of this Prospectus.

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2. INFORMATION SUMMARY (Cont'd)**2.2 OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL**

Our Promoters, substantial shareholders, Directors, key management and key technical personnel are as follows:

Name	Designation
Promoters and substantial shareholders	
H'ng Choon Seng	Managing Director
Kee Swee Lai	Deputy Managing Director
Khor Mooi Kim	Executive Director
Teh Chai Luang	Executive Director
Khor Teik Boon	Executive Director
HH Manufacturer	-
Directors	
Dato' Juzilman Bin Basir	Independent Non-Executive Chairman
H'ng Choon Seng	Managing Director
Kee Swee Lai	Deputy Managing Director
Lim Ghim Chai	Executive Director
Khor Mooi Kim	Executive Director
Teh Chai Luang	Executive Director
Khor Teik Boon	Executive Director
Ng Boon Kang	Independent Non-Executive Director
Lo Liang Kheng	Independent Non-Executive Director
Key Management and Key Technical Personnel	
Cheng Pek Tong	Chief Finance Officer
Khor Mui Kee	Senior Administrative Manager
Lim Poh Aun	Human Resources Manager
H'ng Ai Choo	Sales Manager
Oon Bee Pheng	Procurement & Sourcing Manager
Sim Kok Siang	Factory Manager of HK Kitaran
Wong Chee Wei	Factory Manager of HK Palm Fibre
Tan Chee Seng	Senior Export Marketing Manager
Boo Chin Weng	Factory Manager of Fibre Star
Ch'ng Chee Yeong	Process Development Engineer

Details of our Promoters, substantial shareholders, Directors, key management and key technical personnel are set out in Section 8 of this Prospectus.

2. INFORMATION SUMMARY (Cont'd)**2.3 FINANCIAL HIGHLIGHTS****2.3.1 Consolidated Statements of Comprehensive Income**

The following table sets out our pro forma consolidated statement of comprehensive income for the FYE 31 December 2011 and our audited consolidated statements of comprehensive income for the FYE 31 December 2012 and 2013. There were no consolidated financial statements prepared for our Company for the FYE 31 December 2011 as our Group was not in existence as at the end of the financial year. Accordingly, we have presented our consolidated statement of comprehensive income for the FYE 31 December 2011 on a pro forma basis, which has been prepared for illustrative purposes only based on the audited financial statements of the companies in our Group and on the assumption that our current Group structure has been in existence throughout the financial year.

You should read this consolidated statements of comprehensive income in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter on Pro Forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus and the Accountants' Report as set out in Section 13 of this Prospectus.

	Pro Forma <----- Audited -----> <----- FYE 31 December ----->		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue	31,702	62,965	73,740
Cost of sales	(14,137)	(32,389)	(41,762)
GP	17,565	30,576	31,978
Other income	235	741	812
Selling and distribution expenses	(1,758)	(9,810)	(12,746)
Administrative and other expenses	(1,806)	(6,513)	(6,360)
Finance costs	(521)	(1,366)	(2,302)
PBT	13,715	13,628	11,382
Tax expense	(25)	(993)	(1,490)
PAT	13,690	12,635	9,892
Other comprehensive income	-	-	-
Total comprehensive income	13,690	12,635	9,892
Profit for the financial year/ Total comprehensive income attributable to:			
- Owners of Heng Huat	10,536	12,163	9,740
- Non-controlling interest	3,154	472	152
	13,690	12,635	9,892
EBITDA ⁽¹⁾	15,790	18,356	18,626
GP margin (%)	55.41	48.56	43.37
PBT margin (%)	43.26	21.64	15.44
PAT margin (%)	43.18	20.07	13.41
Effective tax rate (%)	0.18	7.29	13.09
Gross EPS (sen) ⁽²⁾	8.61	8.55	7.15
Net EPS (sen) ⁽³⁾	6.61	7.64	6.11
Diluted Net EPS (sen) ⁽⁴⁾	5.12	5.91	4.73
Number of Shares assumed to be in issue ('000)	159,300 ⁽⁵⁾	159,300	159,300
NA	7,429	27,606	37,346
NA per Share (RM) ⁽⁶⁾	0.05	0.17	0.23

2. INFORMATION SUMMARY (Cont'd)

Notes:

- (1) Calculated based on PAT with finance costs, tax expense, depreciation and amortisation added back, as set out below:

<----- FYE 31 December ----->			
	2011 RM'000	2012 RM'000	2013 RM'000
PAT	13,690	12,635	9,892
Add: Finance costs	521	1,366	2,302
Tax expense	25	993	1,490
Depreciation	1,554	3,305	4,886
Amortisation	-	57	56
EBITDA	15,790	18,356	18,626

- (2) Calculated based on PBT divided by our existing issued and paid-up share capital of 159,300,030 Shares.
- (3) Calculated based on PAT attributable to owners of Heng Huat divided by our existing issued and paid-up share capital of 159,300,030 Shares.
- (4) Calculated based on PAT attributable to owners of Heng Huat divided by our enlarged issued and paid-up share capital after our IPO of 205,800,030 Shares.
- (5) Based on our existing issued and paid-up share capital of 159,300,030 Shares.
- (6) Calculated based on NA divided by our existing issued and paid-up share capital of 159,300,030 Shares.

There was no share of profits of associated companies or joint ventures, and no exceptional or extraordinary items throughout the financial years under review.

The audited financial statements of our Group for the financial years under review were not subject to any qualification or modification.

2.3.2 Pro Forma Consolidated Statements of Financial Position

The following table sets out our pro forma consolidated statements of financial position as at 31 December 2013, which have been prepared for illustrative purposes only based on the assumption that our Public Issue and utilisation of proceeds had been effected as at that date, and should be read in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro Forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	Audited as at 31 December 2013 RM'000	<-----Pro Forma ----->	
		I After Public Issue RM'000	II After Pro Forma I and Utilisation of Proceeds RM'000
Non-Current Asset			
Property, plant and equipment	59,247	59,247	63,247
Intangible assets	325	325	325
	59,572	59,572	63,572
Current Assets			
Inventories	4,218	4,218	4,218
Trade and other receivables	19,387	19,387	19,387
Current tax assets	267	267	267
Cash and cash equivalents	5,537	26,462	10,084
	29,409	50,334	33,956
TOTAL ASSETS	88,981	109,906	97,528

2. INFORMATION SUMMARY (Cont'd)

	Audited As At 31 December 2013 RM'000	<-----Pro Forma----->	
		I After Public Issue RM'000	II After Pro Forma I and Utilisation of Proceeds RM'000
Equity			
Share capital	15,930	20,580	20,580
Share premium	-	16,275	16,275
Reorganisation reserve	(5,185)	(5,185)	(5,185)
Retained earnings	26,601	26,601	23,601
	37,346	58,271	55,271
Non-controlling interests	2,502	2,502	2,502
Total Equity	39,848	60,773	57,773
Non-Current Liabilities			
Borrowings	22,960	22,960	13,582
Deferred tax liabilities	1,103	1,103	1,103
	24,063	24,063	14,685
Current Liabilities			
Trade and other payables	11,225	11,225	11,225
Borrowings	13,841	13,841	13,841
Current tax liabilities	4	4	4
	25,070	25,070	25,070
TOTAL LIABILITIES	49,133	49,133	39,755
TOTAL EQUITY AND LIABILITIES	88,981	109,906	97,528
Number of Shares assumed to be in issue ('000)	159,300	205,800	205,800
NA	37,346	58,271	55,271
NTA	37,021	57,946	54,946
NA per Share (RM)	0.23	0.28	0.27
NTA per Share (RM)	0.23	0.28	0.27

2. INFORMATION SUMMARY (Cont'd)**2.3.3 Pro Forma Consolidated Statement of Cash Flows**

The following table sets out our pro forma consolidated statement of cash flows for the FYE 31 December 2013, which have been prepared for illustrative purposes only based on the assumption that our Public Issue and utilisation of proceeds had been effected on that date.

You should read this pro forma consolidated statement of cash flows in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro Forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
PBT	11,382
Adjustments for:	
Amortisation of intangible assets	
- Development costs	56
- Trademarks	60
Bad debts written off	4,886
Depreciation of property, plant and equipment	(6)
Gain on disposal of property, plant and equipment	4
Loss on disposal of property, plant and equipment	2,302
Interest expense	(54)
Interest income	
Operating profit before working capital changes	18,630
Increase in inventories	(1,539)
Increase in trade and other receivables	(2,936)
Increase in trade and other payables	769
	14,924
Tax paid	(1,365)
Interest paid	(2,302)
Net cash from operating activities	11,257
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	54
Changes in fixed deposits pledged with licensed banks	(887)
Development costs incurred	(112)
Purchase of property, plant and equipment	(10,814)
Proceeds from disposal of property, plant and equipment	33
Net cash used in investing activities	(11,726)

2. INFORMATION SUMMARY (Cont'd)

(cont'd)	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Public Issue	20,925
Payment of listing expenses	(3,000)
Drawdown of term loans	738
Drawdown of bankers' acceptance (net)	2,569
Repayment of term loans	(8,191)
Net repayment of hire purchase payables	(7,709)
Net cash from financing activities	5,332
Net changes in cash and cash equivalents	4,863
Cash and cash equivalents at beginning of the financial year	1,867
Cash and cash equivalents at end of the financial year	6,730
Cash and cash equivalents comprise the following:	
Cash and bank balances	7,960
Fixed deposits pledged to financial institutions	2,124
	10,084
Less: Bank overdraft	(1,230)
Less: Fixed deposits pledged to financial institutions	(2,124)
	6,730

Note:

* Represents amount less than RM1,000.

2.4 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 and any final dividend proposed is subject to our shareholders' approval.

Upon Listing, our Board intends 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 this regard, we envisage a dividend payout ratio of up to 20% of our future net profits to our shareholders in each financial year.

You should take note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our Company's future dividends, which are subject to our Board's absolute discretion.

Our ability to pay future dividends to our shareholders is subject to various factors including but not limited to our financial performance, cash flow requirements, availability of distributable reserves and capital expenditure plans.

2. INFORMATION SUMMARY (Cont'd)

As our Company is an investment holding company, our income and therefore, our ability to pay dividends is dependent upon the dividends and other distributions that we receive from our subsidiary companies. The payment of dividends or other distributions by our subsidiary companies will depend on their operational results, financial condition, capital expenditure plans and other factors that their respective board of directors deems relevant.

2.5 PRINCIPAL DETAILS OF OUR PUBLIC ISSUE AND LISTING

Size of our Public Issue : 46,500,000 new Heng Huat Shares, representing approximately 22.59% of our Company's enlarged issued and paid-up share capital, which will be allocated as follows:

- (i) 7,000,000 new Shares available for application by the Malaysian public;
- (ii) 5,000,000 new Shares available for application by our eligible employees and persons who have contributed to the success of our Group;
- (iii) 12,200,000 new Shares by way of private placement to selected investors; and
- (iv) 22,300,000 new Shares by way of private placement to Bumiputera investors approved by MITI

Size of our Offer for Sale : 14,660,000 Heng Huat Shares, representing approximately 7.12% of our Company's enlarged issued and paid-up share capital to be offered for sale by the Offeror to selected investors

IPO Price : RM0.45 per IPO Share

Utilisation of proceeds from the Public Issue : The gross proceeds from the Public Issue amounting to RM20.93 million is intended to be utilised in the following manner:

Purpose	RM'000	%	Estimated Timeframe for Use
Capital expenditure	4,000	19.11	Within 36 months
Repayment of borrowings	9,378	44.82	Within 12 months
Working capital	4,547	21.73	Within 12 months
Estimated listing expenses	3,000	14.34	Upon Listing
Total gross proceeds	20,925	100.00	

Total enlarged issued and paid-up share capital after Listing : RM20,580,003 comprising 205,800,030 Shares

Market capitalisation upon Listing : RM92,610,014

The detailed information on our IPO, utilisation of proceeds from our Public Issue are set out in Sections 3.1 and 3.6 respectively of this Prospectus.

2. INFORMATION SUMMARY (Cont'd)

2.6 RISK FACTORS

Before investing in our Shares, you should carefully consider, along with other matters in this Prospectus, the risks and investment considerations set out in Section 4 of this Prospectus (which may not be exhaustive), and are summarised below:

Risks relating to our business and the industry in which our Group operates:

- We face competition from other market players comprising coconut and oil palm EFB processors/ manufacturers and oil palm mills;
- We are dependent on our major customers;
- We do not have any long term contracts with our customers;
- We are dependent on our major suppliers for the supply of raw materials;
- We are dependent on the continued employment and performance of our Executive Directors and key management and key technical personnel;
- We are subject to the risk of disruptions to our production facilities and business operations and we may not have adequate insurance coverage;
- The loss of pioneer status may affect our profitability and financial performance;
- We are exposed to fluctuations in the foreign exchange rates arising from our exports to China;
- We are exposed to risk of shipping disruptions for our exports to China;
- We are subject to political, economic and regulatory risks;
- Potential liability and/or disruption to our production facilities for late or non-compliance with regulatory requirements;
- We are subject to the risk of losing control of HK Palm Fibre, our 50% owned subsidiary company;
- We are dependent on supply of foreign workers;
- We are exposed to financial risks; and
- We are exposed to the credit risks of our customers.

Risks relating to our IPO:

- There may be a delay in our Listing or our Listing may be aborted;
- There is no prior market for our Shares and our Share price may be volatile;
- Control by our Promoters may limit your ability to influence the outcome of decisions requiring the approval of our shareholders; and
- We are an investment holding company and rely on dividend payments from our subsidiary companies for funding and payment of dividends on our Shares.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF AN INVESTMENT IN OUR COMPANY. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

3.1 OUR IPO

Our IPO is subject to the terms and conditions of this Prospectus, and upon acceptance, will be allocated an aggregate of 61,160,000 Heng Huat Shares in the manner explained below which is subject to clawback and reallocation.

3.1.1 Public Issue

46,500,000 Public Issue Shares at the IPO Price, representing approximately 22.59% of our enlarged issued and paid-up share capital, will be allocated in the following manner:

(i) Public ("Public Tranche")

7,000,000 Public Issue Shares, representing approximately 3.40% of our enlarged issued and paid-up share capital, will be made available for application by the Malaysian Public, of which at least 50% shall be set aside for Bumiputera investors, including individuals, companies, societies, co-operatives and institutions.

Any Public Issue Shares reserved under the Public Tranche which are not fully subscribed for by the Public will be made available for subscription by our eligible employees and persons who have contributed to the success of our Group under the Pink Form Tranche as described in Section 3.1.1(ii) below. Any remaining Public Issue Shares will subsequently be made available for subscription by our selected investors under the Placement Tranche as described in Section 3.1.1(iii) below and if undersubscribed, such Public Issue Shares will be subscribed by our Underwriter based on the terms of the Underwriting Agreement.

(ii) Our Eligible Employees and Persons Who Have Contributed to the Success of Our Group ("Pink Form Tranche")

In recognition of their contributions to the success of our Group, we have reserved 5,000,000 Public Issue Shares, representing approximately 2.43% of our enlarged issued and paid-up share capital, for subscription by our eligible employees and persons who have contributed to the success of our Group.

We will allocate the Public Issue Shares to our eligible employees and persons who have contributed to the success of our Group in the following manner:

Eligibility	No. of Eligible Persons/Corporations	No. of Shares Allocated
Our eligible employees ⁽¹⁾	65	2,000,000
Eligible persons who have contributed to the success of our Group ⁽²⁾	87	3,000,000
Total	152	5,000,000

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

Notes:

- (1) *As approved by our Board, the criteria for allocation to our eligible employees are based on, amongst others, length of service and job grade in our Group.*
- (2) *The criteria for allocation to eligible persons who have contributed to the success of our Group are based on, amongst others, volume of transaction and length of relationship with our Group. The persons who have contributed to the success of our Group include our business contacts, suppliers and customers.*

The Public Issue Shares reserved under the Pink Form Tranche will not be underwritten as written irrevocable undertakings to subscribe for these Public Issue Shares have been procured from the respective eligible employees and persons who have contributed to the success of our Group.

(iii) Selected Investors via Placement ("Placement Tranche")

12,200,000 Public Issue Shares, representing approximately 5.93% of our Company's enlarged issued and paid-up share capital, have been reserved for placement to selected investors.

The Public Issue Shares reserved under the Placement Tranche are not underwritten as written irrevocable undertakings to subscribe for these Public Issue Shares have been procured from the respective selected investors.

(iv) Bumiputera Investors Approved by MITI ("MITI Tranche")

22,300,000 Public Issue Shares, representing approximately 10.84% of our enlarged issued and paid-up share capital, have been reserved for Bumiputera investors approved by MITI.

The Public Issue Shares available for placement to Bumiputera investors approved by MITI shall be subject to the following reallocation provisions:

- (a) Any of the Public Issue Shares not subscribed by Bumiputera investors under the MITI Tranche shall be made available for application by Bumiputera Public applicants under the Public Tranche;
- (b) Any of the unsubscribed Public Issue Shares pursuant to paragraph (a) above shall be made available for application by the Public applicants under the Public Tranche; and
- (c) Subsequently, any unsubscribed Public Issue Shares pursuant to paragraph (b) above will be made available for subscription by way of placement to selected investors and/or our eligible employees and persons who have contributed to the success of our Group.

The Public Issue Shares reserved under the MITI Tranche are not underwritten as written irrevocable undertakings to subscribe for these Public Issue Shares have been procured from the respective Bumiputera investors.

The basis of allocation for our Public Issue Shares takes into account the desirability of distributing our Public Issue Shares to a reasonable number of applicants with a view of broadening our shareholders base to meet the public spread requirements as per the Listing Requirements and to establish a liquid and adequate market for our Shares.

There is no over-allotment option or "greenshoe" option that will result in an increase in the amount of our Public Issue Shares.

The salient terms of the Underwriting Agreement are set out in Section 3.8 of this Prospectus.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

3.1.2 Offer for Sale

The Offer for Sale comprises 14,660,000 Heng Huat Shares representing approximately 7.12% of our enlarged issued and paid-up share capital which will be offered by our Offeror to selected investors.

Any Offer Shares which are not fully subscribed by the selected investors shall be made available for application by other selected investors. Thereafter, any Offer Shares that are reallocated to the other selected investors which are not subscribed shall be made available for application by the Public and then to our eligible employees and persons who have contributed to the success of our Group. Should the Offer Shares be thereafter undersubscribed, the Offeror will retain the unsubscribed Offer Shares.

The Offer Shares will not be underwritten by our Underwriter.

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3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

The details and shareholdings of our Offeror before and after the Offer for Sale and IPO are as follows:

Offeror/Address	Relationship with our Group for the past three (3) years	<----- Before IPO ----->		<----- Offer for Sale ----->		<----- After IPO ----->	
		No. of Shares	% held (1)	No. of Shares	% held (1)	No. of Shares	% held (2)
Kee Swee Lai/ No. 1051, Jalan Besar Permatang Tinggi 14000 Bukit Mertajam Penang	Promoter/Deputy Director/ Substantial Shareholder	69,044,870	43.34	14,660,000	9.20	54,384,870	26.43

Notes:

- (1) Based on our issued and paid-up share capital of 159,300,030 Heng Huat Shares as at the LPD.
- (2) Based on our enlarged issued and paid-up share capital of 205,800,030 Heng Huat Shares after our IPO.

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3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)**3.1.3 Listing on Bursa Securities**

Bursa Securities had, on 10 December 2013 and 10 June 2014, approved-in-principle the admission of our Company to its Official List and the listing of and quotation for our entire enlarged issued and paid-up share capital of RM20,580,003 comprising 205,800,030 Shares on the ACE Market of Bursa Securities.

3.2 SHARE CAPITAL

	RM
<i>Authorised share capital</i>	
500,000,000 ordinary shares of RM0.10 each	50,000,000
<i>Issued and fully paid-up share capital as at the date of this Prospectus</i>	
159,300,030 ordinary shares of RM0.10 each	15,930,003
<i>To be issued and credited as fully paid-up pursuant to our Public Issue</i>	
46,500,000 new ordinary shares of RM0.10 each	4,650,000
<i>Enlarged issued and paid-up share capital upon Listing</i>	
205,800,030 ordinary shares of RM0.10 each	20,580,003
IPO Price	0.45
<i>Market capitalisation upon Listing</i>	92,610,014

We have only one (1) class of shares in our Company, namely ordinary shares of RM0.10 each. The Public Issue Shares will upon allotment rank *pari passu* in all respects with one another and all other existing issued and paid-up share capital in our Company, including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of allotment of the Public Issue Shares.

Subject to any special rights attached to any Shares which we may issue in the future, our shareholders shall, in proportion to the capital paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by us as dividends and other distributions, and in the event of our liquidation, our shareholders shall be entitled to any surplus in proportion to the capital paid-up at the commencement of the liquidation, in accordance with our Articles of Association and the provisions of the Act.

Each shareholder is entitled to vote at our general meetings in person or by proxy or by attorney and on a show of hands, every person present who is a shareholder or authorised representative or proxy or attorney of a shareholder shall have one (1) vote, and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each Share held. There shall be no restriction as to the qualification of the proxy and Section 149(1)(b) and (c) of the Act shall not apply to our Company. A proxy or attorney shall be entitled to vote both on a show of hands and on a poll. On a show of hands, any member who is a proxy for another member and any person who is a proxy for more than one (1) member shall have only one (1) vote.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING *(Cont'd)*

3.3 PURPOSE OF OUR PUBLIC ISSUE AND LISTING

The purpose of our Public Issue and Listing is:

- (i) to enable us to gain access to the capital market to raise funds for our future expansion and growth when the need arises in the future, through other forms of capital raising avenues;
- (ii) to provide an opportunity for investors and institutions to participate in the continuing growth of our Group; and
- (iii) to enhance our stature and heighten our public profile as well as increase market awareness of our products so as to assist us in expanding our customer base.

3.4 PRICING OF OUR PUBLIC ISSUE SHARES

The IPO Price was determined and agreed upon by our Directors, Promoters and Kenanga IB after taking into account the prevailing market conditions and the following factors:

- (i) A net PE multiple of 7.36 times based on our Group's net EPS of 6.11 sen, computed based on our Group's audited PAT attributable to owners of Heng Huat of RM9.74 million for the FYE 31 December 2013 and our issued and paid-up share capital before our Public Issue of 159,300,030 Shares;
- (ii) Our consolidated NA per Share of RM0.23, computed based on our Group's audited NA of RM37.35 million as at 31 December 2013 and our issued and paid-up share capital before our Public Issue of 159,300,030 Shares; and
- (iii) Our competitive strengths in terms of:
 - Consistent and reliable supply;
 - Process and product development initiatives;
 - Strategic location of operations;
 - Experienced management team; and
 - Reusing waste to generate biomass energy.

Further details of our competitive strengths are described in Section 6.11 of this Prospectus.

You should note that the market price of our Shares upon and subsequent to our Listing is subject to the vagaries of market forces and other uncertainties, which may affect the price of our Shares being traded. You should bear in mind the risk factors as set out in Section 4 of this Prospectus and form your own views on the valuation of our Public Issue Shares before deciding on whether to invest in our Shares.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)**3.5 DILUTION**

Dilution is the amount by which the IPO Price to be paid by applicants for our IPO Shares exceeds our NA per Share after our Public Issue as follows:

	RM
IPO Price	0.45
Pro forma consolidated NA per Share as at 31 December 2013 before our IPO	0.23
Increase in pro forma consolidated NA per Share contributed by new investors	0.04
Pro forma consolidated NA per Share after our IPO (after adjusting the effect of utilisation of proceeds)	0.27
Dilution in the pro forma consolidated NA per Share to new investors	0.18
Dilution in the pro forma consolidated NA per Share as a percentage of the IPO Price	40.00%

The following table summarises the total number of Shares received by our Directors, substantial shareholders, key management and key technical personnel during the past three (3) years prior to the date of this Prospectus and the average cost per Share to them and to the new investors who subscribe for our IPO Shares pursuant to our IPO:

Directors, Substantial Shareholders, Key Management and Key Technical Personnel	No. of Shares Before IPO	No. of Shares From IPO ⁽¹⁾	Total Consideration RM	Average Cost Per Share RM
H'ng Choon Seng	72,970,110	-	7,297,011	0.10
Kee Swee Lai	69,044,870	-	6,904,487	0.10
HH Manufacturer	16,500,000	-	1,650,000	0.10
Khor Mooi Kim	392,520	-	39,252	0.10
Teh Chai Luang	392,520	-	39,252	0.10
Cheng Pek Tong	-	50,000	22,500	0.45
Khor Mui Kee	-	160,000	72,000	0.45
Lim Poh Aun	-	-	-	-
H'ng Ai Choo	-	100,000	45,000	0.45
Oon Bee Pheng	-	50,000	22,500	0.45
Sinn Kok Siang	-	100,000	45,000	0.45
Wong Chee Wei	-	50,000	22,500	0.45
Tan Chee Seng	-	70,000	31,500	0.45
Boo Chin Weng	-	100,000	45,000	0.45
Ch'ng Chee Yeong	-	50,000	22,500	0.45
Other investors				
New investors from Public Issue	-	45,770,000 ⁽²⁾	20,596,500	0.45
New investors from Offer for Sale	-	14,660,000	6,597,000	0.45

Notes:

(1) Assuming full subscription of his/her Pink Form Tranche allocation.

(2) After netting off the Pink Form Tranche allocation to our key management and key technical personnel totalling 730,000 Public Issue Shares.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)**3.6 USE OF PROCEEDS**

Based on the IPO Price, gross proceeds of RM20.93 million will be raised from our Public Issue. The proceeds shall accrue entirely to our Company who will bear all expenses relating to the Listing and are intended to be utilised in the following manner:

Purpose	RM'000	%	Estimated Time Frame for Use (from the listing date)
(i) Capital expenditure	4,000	19.11	Within 36 months
(ii) Repayment of borrowings	9,378	44.82	Within 12 months
(iii) Working capital	4,547	21.73	Within 12 months
(iv) Estimated listing expenses	3,000	14.34	Upon Listing
Total gross proceeds	20,925	100.00	

Notes:

(i) Capital expenditure

The details for the capital expenditure of RM4.00 million are as follows:

Details	Estimated Commitment RM'000
(a) Extension of our production facility	3,200
(b) Refurbishment of production facility	800
Total capital expenditure	4,000

- (a) Our Group has earmarked RM3.20 million of the proceeds from our Public Issue for the extension of our production facility through the construction of a new production facility adjacent to Plant 1. The new production facility will be a single storey factory building with a built-up area of approximately 80,000 sq ft and will be used as a warehouse and/or to house new production lines. For further details on the said production facility, please refer to Section 6.18.1(iv) of this Prospectus.
- (b) Our Group has earmarked RM0.80 million of the proceeds from our Public Issue for the refurbishment of Plant 1 to improve and enhance its existing structures and layout ("Refurbishment"). The Refurbishment is expected to cost approximately RM0.86 million, of which RM0.80 million is intended to be financed from our Public Issue proceeds and the remaining RM0.06 million from our internally generated funds.

As disclosed in Sections 4.1(xi) and 6.17.1 of the Prospectus, in the event that the application for a variation of the express condition of Plant 1 is not approved by the Pentadbir Tanah Daerah, we shall relocate our Plant 1's operations to a fully compliant rented property. In such unlikely event, the proceeds from our Public Issue which have been earmarked for the abovementioned capital expenditure will be utilised for working capital purposes.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)**(ii) Repayment of borrowings**

We plan to utilise RM9.38 million of the proceeds from our Public Issue to repay the following borrowings obtained to finance our capital expenditure incurred prior to the receipt of our Public Issue proceeds:

	Banking facility	Maturity date	Interest rates	Balance as at the LPD RM'000	Amount to be repaid from Public Issue proceeds RM'000
(a)	Term loan	September 2019	2.75% above effective cost of funds	4,164	3,777
(b)	Term loan	March 2023	2.0% above effective cost of funds	1,970	1,840
(c)	Hire purchase	July 2017	6.18% per annum	364	303
	Hire purchase	September 2017	6.18% per annum	976	820
	Hire purchase	November 2017	6.18% per annum	2,023	1,716
				3,363	2,839
(d)	Hire purchase	July 2017	6.18% per annum	1,112	922
Total				10,609	9,378

- (a) We intend to utilise RM3.78 million of our Public Issue proceeds to repay the bank borrowings used to finance the acquisition of Plant 1, which we had previously rented to house three (3) of our oil palm EFB fibre production lines. Plant 1 is adjacent to our head office cum production facility (Plant 2). The acquisition of Plant 1 was completed on 17 August 2012 and was financed via internally generated funds and bank borrowings prior to the receipt of our Public Issue proceeds. The acquisition of Plant 1 has enabled our Group to save on rental expenses as well as facilitate the expansion of Plant 1 as detailed in item (i)(a) above. For further details on Plant 1, please refer to Section 6.17.1 of this Prospectus.

We will incur a one-off early repayment penalty of approximately RM0.08 million for the repayment of the term loan. Nevertheless, the repayment of the term loan is expected to have a positive financial impact on our Group by resulting in total interest savings of approximately RM0.64 million based on the existing prevailing interest rate of 6.66%.

- (b) We intend to utilise RM1.84 million of our Public Issue proceeds to repay the bank borrowings used to finance the acquisition of Plant 4. The acquisition of Plant 4 was completed on 7 February 2013 and was financed via internally generated funds and bank borrowings prior to the receipt of our Public Issue proceeds. Plant 4 is used to house our mattress production lines, which was previously housed in a factory rented from HH Furniture. The acquisition of Plant 4 has enabled our Group to save on rental expenses as well as enabled our mattress production lines to be housed in our own premises. For further details on Plant 4, please refer to Section 6.17.1 of this Prospectus.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

We will incur a one-off early repayment penalty of approximately RM0.07 million for the repayment of the term loan. Nevertheless, the repayment of the term loan is expected to have a positive financial impact on our Group by resulting in total interest savings of approximately RM0.56 million based on the existing prevailing interest rate of 5.84%.

- (c) We intend to utilise RM2.84 million of our Public Issue proceeds to repay bank borrowings used to finance the installation of two new (2) Briquette production lines in 2012 for the expansion of our product offering. The repayment of such borrowings is expected to have a positive financial impact on our Group by resulting in total interest savings of approximately RM0.25 million based on the abovementioned banking facilities' prevailing interest rates.
- (d) We intend to utilise RM0.92 million of our Public Issue proceeds to repay bank borrowings used to finance the installation of two (2) additional oil palm EFB fibre production lines in 2012 for the expansion of our production capacity. The repayment of such borrowings is expected to have a positive financial impact on our Group by resulting in total interest savings of approximately RM0.07 million based on the abovementioned banking facility's prevailing interest rate.

The use of our Public Issue proceeds to repay the bank borrowings obtained to finance the capital expenditure highlighted in items (a) to (d) above, which were incurred prior to the receipt of our Public Issue proceeds, is expected to have a positive financial impact on our Group by reducing the finance costs to be incurred by our Group. For illustration purposes, a summary of the potential savings on finance costs (net of early repayment penalties) are as set out below:

Details	Estimated Total Interest Savings RM'000	Estimated Early Repayment Penalty RM'000	Estimated Total Net Savings RM'000
(a) Term loan	639	(76)	563
(b) Term loan	561	(67)	494
(c) Hire purchase	251	-	251
(d) Hire purchase	74	-	74
	1,525	(143)	1,382

(iii) Working capital

Our requirement for working capital will increase in tandem with the expansion in our production capacity. Therefore, we expect to utilise approximately RM4.55 million of the proceeds from our Public Issue as additional working capital to finance our day-to-day operations including inter-alia, purchase of raw materials, and defrayment of operational and administrative expenses as detailed below:

Purposes	RM'000
Purchase of raw materials and defrayment of operational expenses ⁽¹⁾	3,400
Defrayment of administrative expenses ⁽²⁾	1,117
	4,547

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

Notes:

- (1) *Purchase of raw materials and payment of labour costs as well as production overheads for our biomass materials value-added products, namely Briquette and Geotextile.*
- (2) *Defrayment of administrative expenses comprise mainly additional costs to be incurred upon our Listing for compliance with the Listing Requirements, as well as payment of staff salaries and related expenses for our finance, human resource and administration department due to additional headcount.*

(iv) Estimated listing expenses

Our Company will bear all the expenses and fees incidental to our Listing which is estimated to be RM3.00 million as follows:

	RM'000
Professional advisory fees	1,523
Fees to the authorities	44
Underwriting and placement commission and brokerage fees	675
Printing and advertising cost	300
Other incidental charges	458
Total	3,000

Pending the eventual utilisation of the proceeds from our Public Issue for the above purposes, the proceeds will be placed in short-term deposits with licensed financial institutions and/or short-term money market instruments.

Our Offer for Sale is expected to raise gross proceeds of approximately RM6.60 million, which will accrue entirely to our Offeror and we will not receive any of the proceeds. Our Offeror shall bear all the expenses such as placement fee, registration fee and share transfer fee relating to the Offer Shares estimated to be approximately RM0.17 million.

3.7 BROKERAGE, UNDERWRITING COMMISSION AND PLACEMENT FEE**Brokerage**

Brokerage relating to our Public Issue Shares made available for application by the Malaysian Public is payable by us at the rate of one percent (1%) of the IPO Price, in respect of successful applications bearing the stamp of Kenanga IB, a participating organisation of Bursa Securities, a member of the Association of Banks in Malaysia, a member of the Malaysian Investment Banking Association or the Issuing House.

Underwriting Commission

Kenanga IB, as our Underwriter, has agreed to underwrite up to 7,000,000 Public Issue Shares, which is reserved for application under the Public Tranche as set out in Section 3.1.1(i) of this Prospectus. Underwriting commission is payable by us to our Underwriter at the rate of 2.50% of the total value of the underwritten Shares at the IPO Price.

Placement Fee

Kenanga IB has arranged for the placement of 49,160,000 IPO Shares at a rate of between 1.0% and 2.50% of the value of the IPO Shares based on the IPO Price. The Offeror will bear the expenses incurred in relation to the Offer for Sale.

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING (Cont'd)

3.8 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

We have entered into an underwriting agreement with Kenanga IB on 27 June 2014 (“**Underwriting Agreement**”) to underwrite up to 7,000,000 Public Issue Shares as set out in Section 3.1.1(i) of this Prospectus. The following salient terms are summarised from the Underwriting Agreement:

3.8.1 CONDITIONS

- (i) The obligations of the Underwriter under the Underwriting Agreement are conditional on the performance by the Company of all its obligations under the Underwriting Agreement and upon, inter alia:
 - (a) no material adverse change in the condition (financial, business, operations or otherwise) of the Company or its subsidiary companies, which is material nor the occurrence of any event or the discovery of any fact which is inaccurate, untrue or incorrect to any extent which makes any of the representations and warranties contained in Clause 4 of the Underwriting Agreement untrue and incorrect nor the occurrence of any breach of the undertakings contained in Clause 4 of the Underwriting Agreement;
 - (b) the IPO not being prohibited or impeded by any statute, order, rule, regulation, directive or guideline promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia;
 - (c) the Underwriter having been satisfied that the Company has complied with and that the IPO is in compliance with the CMSA, policies, guidelines and requirements of the relevant authorities;
 - (d) the acceptance for registration by the SC of the Prospectus and the lodgement of the Prospectus with the CCM;
 - (e) the approval of Bursa Securities for the admission of the Company to the Official List and the listing of and quotation for its entire enlarged issued and paid-up share capital being obtained and that all conditions precedent to the approval have been complied with and such approval has not been withdrawn;
 - (f) all necessary approvals, consents or exemptions required in relation to the IPO having been obtained and that all conditions to the approvals have been complied with; and
- (ii) If any of the conditions is not satisfied by the closing date or such later date as consented to in writing by the Underwriter, the Underwriter shall thereupon be entitled to terminate the Underwriting Agreement.

3.8.2 TERMINATION

- (i) the Underwriter may at any time before the Closing Date, terminate, cancel or withdraw its commitment to underwrite the underwritten shares if:
 - (a) there is any breach by the Company of any of the representations, warranties or undertakings; or
 - (b) there is withholding of information which is required to be disclosed to the Underwriter pursuant to the Underwriting Agreement, which would have a material adverse effect on the business or operations of the Group, the success of the IPO, or the distribution or sale of the Public Issue Shares; or

3. PARTICULARS OF OUR PUBLIC ISSUE AND LISTING *(Cont'd)*

- (c) there shall have occurred, happened or come into effect any circumstances which would have a material adverse effect on the success of the IPO, or the distribution or sale of the Public Issue Shares, or which have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms; or
 - (d) there is failure on the part of the Company to perform any of its obligations herein contained; or
 - (e) if the closing date is more than two (2) calendar months from the date of the Underwriting Agreement or any later date as the Company and the Underwriter may mutually agree upon, the Underwriting Agreement will automatically lapse.
- (ii) Subject to prior consultation with the Company, the Underwriter may at any time before the closing date, terminate, cancel or withdraw its commitment to underwrite the underwritten shares if, inter alia, any of the following occurs:
 - (a) there is a material change in any law which seriously affects the business or financial condition of the Company and/or any company in the Group;
 - (b) the imposition of any moratorium, suspension or material restriction on trading in all securities generally on Bursa Securities for three (3) or more consecutive Market Days;
 - (c) any commencement of legal proceedings or action against the Company or any of its directors which would have a material adverse effect; or
 - (d) there is any breach by the Company of any of its obligations under the Underwriting Agreement.

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4. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS BEFORE INVESTING IN OUR SHARES.

If you are in any doubt as to the information contained in this section, you should consult your stockbroker, bank manager, solicitors, accountants or other professional adviser.

4.1 RISKS RELATING TO OUR BUSINESS AND THE INDUSTRY IN WHICH OUR GROUP OPERATES

(i) We face competition from other market players comprising coconut and oil palm EFB processors/ manufacturers and oil palm mills

The biomass materials market for coconut and oil palm EFB fibres is still at a relatively nascent stage and given the recent emergence and acceptance of oil palm EFB fibre as a viable biomass material, the level of competition remains moderate with over thirty (30) market participants comprising coconut and oil palm EFB processors/manufacturers and oil palm mills. Characterising a nascent and growing market, the market may see an increase in participations given the huge potentials on offer in addition to the favourable support from the government. However, new market participants are subjected to various barriers to entry.

(Source: IMR Report by Protégé Associates)

Our competitive edge lies in our ability to produce large quantities of quality coconut and oil palm EFB fibres at competitive prices. As at the LPD, we have two (2) coconut fibre production lines and twenty (20) oil palm EFB fibre production lines with a total monthly production capacity of 546 mt of coconut fibre and 8,372 mt of oil palm EFB fibre respectively. Due to our custom-built production lines and our quality assurance, we are able to produce quality coconut and oil palm EFB fibres which are not only long, clean and fine, but also with great uniformity. This has provided us with a competitive advantage which facilitated the growth and development of our Group.

Nevertheless, there can be no assurance that a significant change in the competitive environment would not have an adverse impact on our market positioning and/or share.

(ii) We are dependent on our major customers

For the FYE 31 December 2013, we have one (1) major customer (who contributed more than 10% of our Group's revenue) that is, Shenzhen Yuemao Imports & Exports Co., Ltd ("**Shenzhen Yuemao**") who accounted for approximately 30.14% of our Group's total revenue.

For the FYE 31 December 2011 to 2013, our export of oil palm EFB fibre and Briquette to China accounted for approximately 59.13%, 62.88% and 55.22% of our Group's total revenue respectively. For the FYE 31 December 2013, all of our nine (9) China customers, including Shenzhen Yuemao, are intermediaries who do not have any contractual arrangements with our Group and transactions are carried out under normal commercial terms.

Whilst Shenzhen Yuemao has been our customer for approximately two (2) years only, we have eight (8) other China intermediaries in our customer base for sales of our oil palm EFB fibre and Briquette to China. Of these eight (8) China intermediaries, one (1) of the intermediaries has been our customer for approximately five (5) years, while the remaining seven (7) intermediaries have been our customers for approximately one (1) to two (2) years. As such, we are not dependent on Shenzhen Yuemao for sales of our oil palm EFB fibre and Briquette to China.

4. RISK FACTORS (Cont'd)

Although we regularly engage the end users in China, these end users generally purchase our products through intermediaries who possess the relevant licenses for the import of goods into China in accordance with the import regulations in China. Nevertheless, we intend to set up a subsidiary company in China by the first quarter of 2015 to facilitate our direct sales to the China end users and hence, mitigate the risk of dependency on intermediaries.

In addition, we have been continuously increasing our efforts to expand our customer base. Our customers for biomass materials and value-added products have increased from 110 customers in 2011 to 139 customers in 2013. Further, pursuant to the Fibre Star Reorganisation, we have garnered 875 customers in 2012 for our mattresses and related products division, which has increased to 1,242 customers in 2013. As at the LPD, our Group has not experienced any loss of major customers and/or intermediaries that had a material adverse effect on our Group's financial performance or operations.

Although we seek to limit our dependency on our major customers and/or intermediaries through the efforts mentioned above, no assurance can be given that any loss of our major customers and/or intermediaries will not have a material adverse effect on our Group's future performance.

(iii) We do not have any long term contracts with our customers

We do not have any long term contracts with our customers as the majority of our sales are based on order-by-order basis, which is the norm in the industry. We also seek to establish good business relationships with our customers and have been improving our product quality and expanding our product range through our process and product development initiatives to ensure repeat orders from our customers.

As at the LPD, we have not experienced any material effect from the absence of long term contracts that had a material adverse effect on our Group's operations or financial performance. However, there can be no assurance that our customers will continue placing orders for our products.

(iv) We are dependent on our major suppliers for the supply of raw materials

The major raw materials used by our Group are oil palm EFB that is, biomass wastes, which are all sourced locally. For the FYE 31 December 2011, we purchased a substantial portion of oil palm EFB fibre from our major suppliers, AKSB and Yip Shun Trading, who accounted for approximately 19.52% and 16.80% of our Group's total purchases respectively. However, for the FYE 31 December 2012 and 2013, we do not have any major suppliers who individually contributed more than 10% of our Group's total purchases mainly due to the increase in supplier base from our mattresses and related products division pursuant to the Fibre Star Reorganisation in 2012.

Save for the collaboration entered into between HK Palm Fibre and AKSB, we do not have any long term contract with our suppliers. Under the terms of the agreement, AKSB, a palm oil miller, undertakes to supply all its oil palm EFB to HK Palm Fibre and shall not supply to any third party unless with a written consent from HK Palm Fibre. Notwithstanding that we do not have any long term supply contract with other suppliers, we have established good working relationships with our other suppliers. In addition, we do not foresee any major difficulty in sourcing our oil palm EFB from other suppliers as our production facilities are situated strategically within the vicinity of multiple oil palm plantations and palm oil mills. As at the LPD, our Group has not experienced any material disruption in the supply of oil palm EFB that had a material adverse effect on our Group's operations or financial performance.

Although we do not foresee any difficulty in the procurement of our raw materials and have not previously experienced any material disruption in the supply of these materials, no assurance can be given that we can continue to source sufficient quantities of oil palm EFB at competitive prices.

4. RISK FACTORS (Cont'd)**(v) We are dependent on the continued employment and performance of our Executive Directors and key management and key technical personnel**

Our continued success depends on the continued efforts of our Executive Directors and key management and key technical personnel who are responsible for our manufacturing operations, sales and marketing efforts and/or formulation of strategies. The loss of any of our Executive Directors or members of our key management and key technical personnel could adversely affect our performance.

We strive to minimise this risk by ensuring that we have the ability to retain our existing employees. This is achieved by having in place human resource plans that includes suitable compensation packages, career development and training and development for our employees. Good working relationships have also been fostered amongst our employees as we provide a healthy working environment, practice good workplace culture and uphold good work ethics to create a sense of belonging amongst our employees.

Further, in conjunction with our Listing, we have allocated a portion of our Public Issue Shares to our eligible employees, including our key management and key technical personnel. Should these employees subscribe for our Shares, they will become shareholders of our Company and may therefore be further motivated to contribute to our Group's success.

Nonetheless, there can be no assurance that the above measures will be successful in attracting and retaining our Executive Directors and key management and key personnel or ensuring a smooth transition should changes occur.

(vi) We are subject to the risk of disruptions to our production facilities and business operations and we may not have adequate insurance coverage

Our manufacturing activities are dependent on the continued operation of our production facilities. Any disruptions to our production facilities, such as breakdowns, failure, sub-standard performance of our machineries, fire or power failure, will have an adverse impact on our business operations. To mitigate this risk, we carry out regular maintenance of our machineries as well as timely replacement of components which are subject to daily wear and tear.

As at the LPD, we have not encountered any major disruptions to our production facilities that had a material adverse effect on our Group's operations or financial performance. However, there can be no assurance that any breakdowns in our machineries in the future would not severely disrupt our production and operations.

We are aware of the adverse consequences arising from inadequate insurance coverage for accidents and outbreaks which could disrupt our business operations. As part of our effort in limiting the above risks, we have taken up fire insurance policies for our office equipment, plant, machinery, premises and all-risks policies for our machinery. We ensure the continuity of our insurance by renewing all the insurance policies annually and reviewing the adequacy of our existing insurance coverage for all our assets.

Whilst we have taken the necessary steps to ensure that our assets are adequately covered by insurance, there can be no assurance that the insurance coverage would be adequate for the replacement cost of our assets as well as its related consequential costs. Furthermore, there are also risks such as natural disasters, riots, general strikes, acts of terrorism and any other risks that cannot reasonably be insured against, which may adversely affect our operations. Thus far, our operations have not been affected by any of such events.

4. RISK FACTORS (Cont'd)**(vii) The loss of pioneer status may affect our profitability and financial performance**

As at the LPD, HK Kitaran and HK Fibre have been granted pioneer status by MITI. Pursuant thereto, HK Kitaran's statutory income is exempted from tax for a period of ten (10) years ending 30 June 2020, while 70% of HK Fibre's statutory income is exempted from tax for a period of five (5) years ending 31 March 2017, as detailed in Section 12.1 of this Prospectus.

Whilst we have taken the necessary steps to ensure that our Group is in compliance with the condition imposed by MITI for the pioneer status, there can be no assurance that subsequent to the granting of the incentive, MITI/MIDA may not revoke such exemption, renew the incentive or modify the incentive in any way in the future. For illustration purposes, assuming that HK Kitaran and HK Fibre were to lose their pioneer status arising from the expiry or withdrawal of the incentive with effect from 1 January 2013, it is estimated that our effective tax rate would be 33.83% as compared to the actual effective tax rate of 13.09%.

(viii) We are exposed to fluctuations in the foreign exchange rates arising from our exports to China

For the FYE 31 December 2013, our sales to China accounted for approximately 55.22% of our Group's total revenue, whereby the majority of these sales are denominated in RMB. However, our results for the FYE 31 December 2013 were not adversely affected by foreign exchange fluctuations as the RM generally moved in line with the RMB during the financial year as illustrated below:

	Monthly Average * RMB/RM
2013	
January	0.4885
February	0.4969
March	0.5000
April	0.4930
May	0.4913
June	0.5132
July	0.5201
August	0.5361
September	0.5311
October	0.5208
November	0.5253
December	0.5349

(Source: Bank Negara Malaysia)

Note:

* Calculated based on the middle rate at 1200 session of the daily market price for the respective months.

During the financial years under review, we have not experienced any material adverse effect arising from foreign exchange fluctuations that had a material adverse effect on our financial performance. The net realised foreign exchange gains or losses registered by our Group for the past three (3) FYE 31 December 2011 to 2013 are disclosed in Section 12.2.4(iv) of this Prospectus.

As part of our strategy moving forward, we plan to increase our market presence in China as detailed in Section 6.18.1(vi) of this Prospectus. As such, we may face higher exposure to foreign exchange fluctuations. To mitigate this risk, we constantly monitor the fluctuations in exchange rates and will take steps through appropriate hedging instrument(s) to minimise the effect of foreign exchange on our Group, should the need arises. Nevertheless, there is no assurance that any significant exchange rate fluctuations or changes in foreign exchange control regulations will not have a material and adverse impact on our results in the future.

4. RISK FACTORS (Cont'd)**(ix) We are exposed to risk of shipping disruptions for our exports to China**

We are reliant on marine transportation for the export of our products to China, who collectively contributed approximately 55.22% of our Group's total revenue for the FYE 31 December 2013. Hence, we are exposed to shipping disruptions that may arise as a result of weather conditions, political turmoil, pirate attacks, social unrest, port strikes, oil spills, delayed or lost shipments, which may have an adverse impact to our business. As at the LPD, our Group has not experienced any shipping disruptions that had material adverse effect on our business or finance performance.

To mitigate this risk, we procure transportation insurance coverage for our shipping activities to indemnify us against any potential disruptions and to minimise the impact of any potential cost or liability arising therefrom.

Whilst we have taken the necessary steps to ensure that our products are adequately covered by insurance, there can be no assurance that our results would not be materially affected in the event of such incidences occurring.

(x) We are subject to political, economic and regulatory risks

Like all other business entities, adverse developments in the political, economic and regulatory conditions in Malaysia and China could materially and adversely affect our financial results and business prospects. These risks include, among others, changes in political leadership, risk of war, changes in economic conditions, changes in interest rates, methods of taxation and unfavourable changes in government policies such as introduction of new regulations, import duties and tariffs.

Whilst we strive to continue to take effective measures such as prudent financial management and efficient operating procedures, there is no assurance that adverse political, economic and regulatory factors will not materially affect our operations, financial performance and future prospects.

(xi) Potential liability and/or disruption to our production facilities for late or non-compliance with regulatory requirements

Our premises and operations are governed by the relevant laws and regulations in Malaysia (including land rules and building regulations) as well as the conditions set forth in our processing licences and manufacturing licences imposed by the relevant authorities as follows:

(a) Plant 1

HK Kitaran has been operating in Plant 1 since 30 June 2010, and has obtained a processing licence on 25 August 2011 and a manufacturing licence on 8 May 2012 in respect of its operations in Plant 1.

The express condition in the land title of Plant 1 states that the land shall be used for the purpose of furniture (wood) factory only. Notwithstanding the above, the use of Plant 1 for the manufacturing of our oil palm EFB fibre is in accordance with the permitted category of land use, that is, Industrial (*Perusahaan/Perindustrian*), the OC for Plant 1 has been obtained and a processing licence has also been issued by MPSP to HK Kitaran.

We have on 20 March 2014, through our land surveyor/consultant, written and are awaiting a formal reply from the Pentadbir Tanah Daerah ("PTD") to clarify whether HK Kitaran is allowed to use the land for the manufacturing of oil palm EFB Fibre. Based on the discussions between our land surveyor/consultant with PTD to date, HK Kitaran's operations is not expected to be affected as the permitted land use under the land title is 'Industrial'.

4. RISK FACTORS (Cont'd)

Under Section 127 of the National Land Code 1965, where there is a breach of express condition, the State Authority may forfeit the land, or impose a fine for the breach, or require the land owner to take action to remedy the breach. Based on the circumstances as disclosed above, it is unlikely that Plant 1 will be forfeited. Further, HK Kitaran has undertaken to apply for a variation of the express condition, if required by PTD, and pay the necessary costs, including the premium which is not expected to be material (that is, approximately RM0.22 million based on 5% of the market value of the said land).

However, in the event the application for a variation of the express condition is not approved by the PTD, we shall relocate our operations in Plant 1 to a fully compliant rented property (“Relocation”). The Relocation is estimated to take approximately three (3) months and the costs to be incurred for the Relocation (comprising mainly the costs for the set up of the rented property and installation of the machineries and equipment, as well as transportation costs) is estimated to be approximately RM0.50 million. The Relocation is not expected to have any material impact on our Group’s operations as Plant 1’s operations is not the main contributor to our Group’s revenue. Besides, during the Relocation period, we will be able to temporarily undertake our Plant 1’s manufacturing operations in Plant 5. HK Kitaran has further undertaken to promptly rectify any non-compliance in relation to Plant 1 and do all such things necessary to ensure that Plant 1 will be in compliance with all such conditions attached to the land title of Plant 1 as well as the National Land Code 1965 and other applicable laws, rules and regulation. HK Kitaran has also undertaken not to undertake any expansion on Plant 1 until all non-compliance in relation to Plant 1 has been rectified.

(b) Plant 2

In November 2011, HK Kitaran expanded its operations to Plant 2 and commenced operations since then. HK Kitaran obtained a CCC in respect of Plant 2 on 4 April 2012 and has also obtained the processing licence and a manufacturing licence for Plant 2 on 3 August 2012 and 8 May 2012 respectively. HK Kitaran has subsequently constructed an extended shed attached to Plant 2’s factory building (“Extension”). Approval for the Extension has been obtained vide MPSP’s letter dated 23 October 2013 as detailed in Section 6.17.1 of this Prospectus.

(c) Plant 3

Plant 3 which is currently rented by Fibre Star from HH Furniture to house our mattress manufacturing activities does not have an OC. Our landlord, HH Furniture, has on 15 October 2012 applied to MPSP for planning permission for Plant 3. HH Furniture has subsequently on 4 March 2013 received a conditional approval from MPSP for the planning permission. As at the LPD, HH Furniture is in the process of fulfilling the conditions imposed. This will be followed by application for OC upon obtaining the approval from MPSP for the planning permission. In this regard, the OC is estimated to be issued within six (6) to nine (9) months from the date of submission of application, i.e. by December 2014. In the event that an OC is issued, we will continue to rent and operate in Plant 3, failing which, we will relocate our operations from Plant 3 to Plant 4.

Further, in the event that we are required to vacate Plant 3 by MPSP pending the issuance of the OC while Plant 4 is not ready for occupation and operations, we will relocate our operations in Plant 3 to a fully compliant rented property, if necessary.

We have been operating in Plant 3 since 16 June 2012. In view of the estimated length of time that Fibre Star would be occupying Plant 3, we had consulted MPSP and applied for the transfer of the processing licence which was originally issued under HH Manufacturer’s name to Fibre Star’s name. The processing licence was transferred to Fibre Star on 14 August 2012. In addition, Fibre Star has obtained a manufacturing licence for Plant 3 on 6 September 2012.

4. RISK FACTORS (Cont'd)**(d) Plant 5**

HK Palm Fibre has been operating in Plant 5 since 25 July 2009. HK Palm Fibre has obtained a manufacturing licence on 25 July 2012, but has yet to obtain a processing licence for Plant 5. HK Palm Fibre had been advised by the local authority, MDBB that they are required to obtain a planning permission followed by a CCC for the section of the premise of AKSB used for HK Palm Fibre's operations, prior to applying for a processing licence.

HK Palm Fibre has, on 19 November 2012 applied to MDBB for planning permission for Plant 5 and has subsequently on 5 March 2013 received the conditional approval from MDBB for the planning permission. As at the LPD, HK Palm Fibre is in the process of fulfilling the conditions imposed. This will be followed by the application for a CCC. The CCC is estimated to be issued within six (6) to nine (9) months from the date of submission of application, i.e. by December 2014. Upon obtaining the CCC, HK Palm Fibre will apply for the processing licence which is expected to be issued within three (3) months from the date of submission of application. In the event that we are required to vacate Plant 5 by MDBB pending the issuance of the CCC or a CCC is not issued for Plant 5, we will relocate our operations in Plant 5 to a fully compliant rented property, if necessary.

The licence for processing is different from a manufacturing licence. The licence for processing is issued by a local authority (in this case, MPSP and MDBB), whereas a manufacturing licence is a licence issued by MITI under the Industrial Co-Ordination Act, 1975 ("ICA"). With the aim to maintain an orderly development and growth in the country's manufacturing sector, the ICA requires manufacturing companies with shareholders' funds of RM2.5 million and above or engaging 75 or more full-time paid employees to apply for a manufacturing licence from MITI.

In relation to the processing licence, it is stated under Section 107 (5) & (6) of the Local Government Act 1976 that any person who fails to exhibit his licence at all times in some prominent place on the licensed premise or to produce such licence of required to do so by any officer of the local authority authorised to demand the same shall on conviction be liable to a fine not exceeding five hundred ringgit (RM500.00) or to imprisonment for a term not exceeding six (6) months or to both.

In relation to HK Palm Fibre, HK Palm Fibre has been made to understand that based on the standard By-Laws issued by the State Government of Kedah, i.e. the Undang-Undang Kecil Perlesenan Perdagangan, Perniagaan dan Perusahaan Pihak-Pihak Berkuasa Tempatan Negeri Kedah 1985, for any non-compliance with the By-Laws which include operating without applying for and obtaining a (processing) licence, MDBB has the power to issue a compound to the company of not more than three hundred ringgit (RM300.00). Failure to pay the compound despite repeated notices from MDBB and failure to comply with notices and warning letters from MDBB repeatedly would then subject the defaulting company to court action. MDBB can also, subject to approval by the state prosecutor, bring court action against HK Palm Fibre in which event on conviction, HK Palm Fibre may be subjected to a penalty of the sum of not more than two thousand ringgit (RM2,000.00) or imprisonment of not more than one (1) year, or to both.

Section 3(1) of the ICA prohibits any person to engage in any manufacturing activity unless the person is issued a licence in respect of such manufacturing activity. As stated in Section 3(2) of the ICA, a maximum penalty for the non-compliance of the Section 3(1) of the ICA would carry a two thousand ringgit (RM2,000.00) fine or six (6) months imprisonment and to a further fine not exceeding one thousand ringgit (RM1,000.00) for every day during which such default continues.

We only applied for and obtained the manufacturing licences mentioned above after fulfilment of the requirement to apply for one under the ICA. There is no specific provision under the ICA providing for a timeframe within which the company has to apply for a manufacturing licence, nor is there a provision which deals with the delay in application for manufacturing licences and there is no precedent case law in relation to the application of Section 3(2) of the ICA for the imposition of penalties on companies which have delayed in their application for such manufacturing licences. The essence of the ICA is to promote an orderly development of manufacturing activities in Malaysia.

4. RISK FACTORS (Cont'd)

Although we commenced our operations in Plant 1, Plant 2, Plant 3 and Plant 5 prior to the issuance and/or transfer of the processing and manufacturing licences, and prior to obtaining CCC/OC for Plant 2, Plant 3 and Plant 5, we have subsequently been granted the processing and manufacturing licences for Plant 1, Plant 2 and Plant 3, manufacturing licence for Plant 5 and the CCC for Plant 2, without any fine nor penalties imposed by the relevant authorities. In addition, as mentioned above, our landlord and HK Palm Fibre have received conditional approvals from MPSP and MDBB for the planning permission on 4 March 2013 and 5 March 2013 for Plant 3 and Plant 5 respectively. As at the LPD, there were no actions being taken by any of the relevant authorities pursuant to the above. Nevertheless, there can be no assurance that the relevant authorities will not impose any penalties for any non-compliance in the future.

Save as disclosed above, we have complied with all the relevant laws and regulations in Malaysia (including land rules and building regulations) as well as the conditions set forth in our processing and manufacturing licences imposed by the relevant authorities. Whilst we continuously ensure compliance with relevant government regulations, there can be no assurance that any penalties, if imposed, will not adversely affect our Group's performance and profitability.

(xii) We are subject to the risk of losing control of HK Palm Fibre, our 50% owned subsidiary company

HK Palm Fibre, our 50% owned subsidiary company, adopts Table A in the Fourth Schedule of the Act ("Table A") as its Articles of Association. Regulation 49 of Table A provides for the Chairman of the Board of Directors of HK Palm Fibre to preside as Chairman at every general meeting of the company, while Regulations 53 and 80 of Table A provide for the Chairman of the meeting to have a second or casting vote in the case of an equality of votes at any of the general or board meeting. In addition, Regulations 49 and 85 of Table A provide that, if at any meeting, the Chairman is not present within fifteen (15) minutes after the time appointed for holding the general meeting or ten (10) minutes after the time appointed for holding the board meeting, the members or directors present may choose one of their number to be the Chairman of the meeting.

As explained in Section 5.3.7(iii) of this Prospectus, we are able to exercise control of HK Palm Fibre by virtue of the appointment of our Managing Director, H'ng Choon Seng, as the Chairman of the Board of Directors of the company with effect from 5 October 2009. In this regard, HK Palm Fibre is deemed as our subsidiary company.

Nevertheless, there is no assurance that the Chairmanship in HK Palm Fibre will remain with H'ng Choon Seng or any of our representatives, or H'ng Choon Seng is able to attend all the general or board meetings, or any of our representatives is appointed as the Chairman of any of the general or board meetings in the absence of H'ng Choon Seng. In the event that H'ng Choon Seng or any of our representatives is removed/ not appointed as the Chairman of HK Palm Fibre at the general or board meeting, we will lose control of HK Palm Fibre.

Should we lose control of HK Palm Fibre through the above, we would no longer be able to consolidate the financials of HK Palm Fibre into our financial statements as our investment in HK Palm Fibre would be accounted for using the equity method in accordance with Malaysian Financial Reporting Standard 128 Investments in Associates and Joint Ventures. The deconsolidation of HK Palm Fibre's financials would result in non-recognition of HK Palm Fibre's revenue and expenses as well as total assets and total liabilities, as our investment in HK Palm Fibre would then be represented by a single item shown separately in our consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, that is share of profits in an associate and investment in an associate respectively. However, our Board is of the opinion that such loss in control of HK Palm Fibre would not have any material impact on the PAT attributable to the owners of our Company and accordingly, shareholders' equity of our Company and our Group as it is not expected to give rise to any significant gain or loss to our Company and our Group in view that there is no change in our 50% equity interest in HK Palm Fibre. In addition, such loss in control of HK Palm Fibre should have no impact on our financial results in the future as we can continue to recognise 50% of HK Palm Fibre's PAT through share of profits in an associate in our consolidated statement of profit or loss and other comprehensive income.

4. RISK FACTORS (Cont'd)**(xiii) We are dependent on supply of foreign workers**

Our operations are dependent on the supply of foreign workers. As at the LPD, we have 549 employees, of which 331 or approximately 60.29% of our total employees are foreign workers, mainly from Nepal. As such, inadequate supply of foreign workers as well as any revision in policy in relation to hiring of foreign workers by the Malaysian Government may disrupt our operations.

As part of our efforts to manage our dependency on our foreign workers, we work closely with our recruitment agencies for the recruitment and renewal of work permits for the foreign workers. To date, we have not experienced any material adverse effect on our operations as a result of shortage in the supply of foreign workers for our operations nor were there any interruptions in our operations during the past twelve (12) months due to shortage of foreign workers.

Notwithstanding the above, in the event of any shortage in the supply of foreign workers, we are able to hire local workers. However, in such an event, our profitability may be affected as the costs of utilising local workers in our operations would be higher as compared to utilising foreign workers.

(xiv) We are exposed to financial risks

Our working capital and capital expenditure requirements are funded by internally generated funds and/or bank borrowings. As at 31 December 2013, our Group's total borrowings amounted to approximately RM36.80 million. All our bank borrowings are interest bearing with 62.39% of these borrowings based on variable rates. As such, any fluctuation in interest rates could have a material effect on our finance costs. Presently, we enjoy good credit standing with our bankers and have adequate credit facilities.

Notwithstanding the above, our Board is confident of our ability to meet our financial obligations when they become due and payable, after taking into consideration our cash and cash equivalents, the banking facilities currently available to us and the net proceeds to be raised from our Public Issue. In addition, our Listing will enable us to tap the capital market in the future to meet our long-term funding requirements when the need arises.

However, there is no assurance that future fluctuations in interest rates will not adversely impact our Group's performance and profitability.

(xv) We are exposed to the credit risks of our customers

We are exposed to the risk of default by our customers. We may experience delays in payment for our products, or in more severe cases, we may not be able to collect payments from our customers. In the event of payment defaults, we would have to impair or write-off the debts, which will have an adverse impact on our profitability.

In mitigating our exposure to credit risk, we will assess the financial and credit position of prospective customers prior to accepting their orders, while for existing customers, we will continually assess and review their credit positions and maintain close contact with these customers. In addition, we regularly review our trade receivables ageing and monitor subsequent collection of debts. In situations where our customer is unable to adhere to the agreed credit terms, we will examine the reasons for the delay. If there is sufficient commercial justification, we will negotiate for settlement, which could include granting our customer an extension of time for payment. Should the negotiations fail, we will initiate legal actions or proceedings to recover the amount owed to us by the customers. As at the LPD, we have not experienced any instances of significant bad debts.

We strive to reduce this risk through our various credit control measures. Nevertheless, there is no assurance that our customers' credit risk will not have an adverse impact on our Group's future financial performance.

4. RISK FACTORS (Cont'd)

4.2 RISKS RELATING TO OUR IPO

(i) There may be a delay in our Listing or our Listing may be aborted

Our Listing may be potentially delayed or aborted in the event of the following:

- (a) our Underwriter exercising its rights pursuant to the Underwriting Agreement to discharge itself from its obligations; or
- (b) we are unable to meet the public spread requirement of at least 25% of our enlarged issued and paid-up share capital to be held by a minimum of 200 public shareholders holding not less than 100 Shares each, at the time of Listing.

We expect to meet the public shareholding requirement at the point of Listing by allocating the Public Issue Shares to the required number of public shareholders during the balloting/private placement processes. However, should the events stipulated in (a) and/or (b) above occur, monies paid in respect of any application accepted will be returned to you without interest within fourteen (14) days after we become liable to repay it, failing which the provision of sub-section 234(2) of the CMSA will apply and we will be liable to repay the monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

In the event that our Listing is aborted but our Shares have been allotted to investors, a return of monies to such investors could only be achieved by way of cancellation of share capital as provided under the Act. Such cancellation requires the sanction of our shareholders by special resolution in a general meeting, consent of our creditors (unless dispensation with such consent has been granted by the High Court of Malaysia) and the confirmation of the High Court of Malaysia. Thus, there can be no assurance that such monies can be recovered within a short period of time or at all in such circumstances.

Nonetheless, our Board will endeavour to ensure compliance with the various requirements for our successful Listing.

(ii) There is no prior market for our Shares and our Share price may be volatile

There is no prior market for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or if developed, that such market will be sustained. In addition, our Shares could trade at prices that may be lower than the IPO Price as a result of many factors, some of which are not within our control and may be unrelated or disproportionate to our operating results. These include, amongst others, prevailing economic and financial conditions in Malaysia and/or China, the depth and liquidity of the market for our Shares and investors' individual perceptions of our Group.

(iii) Control by our Promoters may limit your ability to influence the outcome of decisions requiring the approval of our shareholders

Upon Listing, our Promoters will collectively hold approximately 70.29% of our enlarged issued and paid-up share capital. As a result, they will still be able to, in the foreseeable future, effectively control the business direction and management of our Group as well as influence the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting by law and/or as required by the relevant authorities.

Nevertheless, as a step towards good corporate governance, we have appointed three (3) Independent Non-Executive Directors and set up an Audit Committee to ensure that, *inter-alia*, any future transactions involving related parties are entered into on an arm's length basis, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to our minority shareholders.

4. RISK FACTORS (Cont'd)

- (iv) **We are an investment holding company and rely on dividend payments from our subsidiary companies for funding and payment of dividends on our Shares**

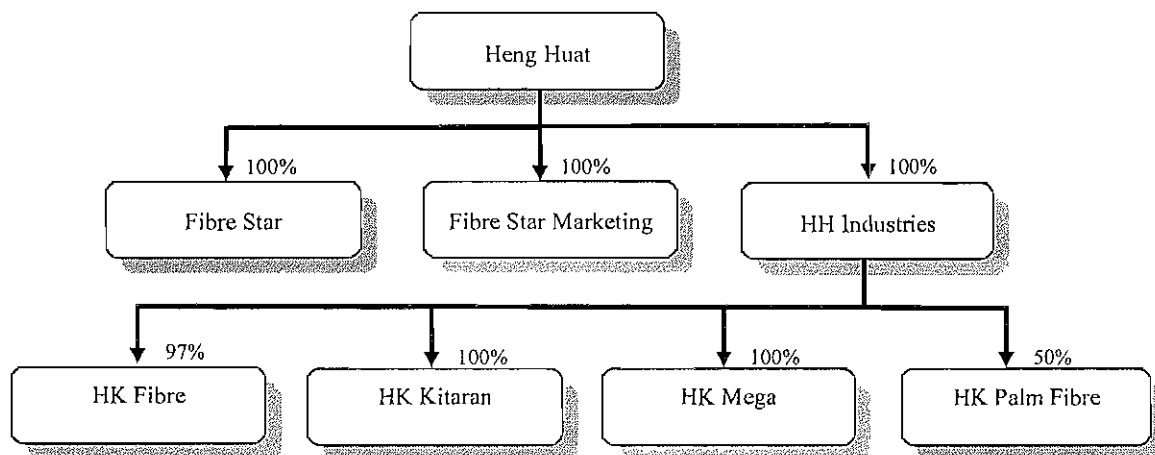
Our Company, being an investment holding company derives income mainly from dividends received from our subsidiary companies. Hence, our ability to pay future dividends and our ability to sustain our dividend policy in the future are largely dependent on the performance of our subsidiary companies. In determining the size of any dividend recommendation, we will also take into consideration a number of factors, including but not limited to our financial performance, cash flow requirements, debt servicing and financing commitments, future expansion plans, loan covenants and compliance with regulatory requirements.

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5. INFORMATION ON OUR GROUP

5.1 OUR HISTORY

Heng Huat was incorporated in Malaysia under the Act on 25 November 2011 as a private limited company under the name of Heng Huat Resources Group Sdn Bhd. We were subsequently converted into a public limited company and assumed our present name on 18 June 2012 to facilitate our listing on the ACE Market. Prior to our IPO, we undertook the HH Industries Reorganisation, Fibre Star Reorganisation and Acquisitions as detailed in Sections 5.4.1, 5.4.2 and 5.4.4 of this Prospectus to reorganise our structure and streamline the operations of our subsidiary companies under our Company. Our Group structure after the HH Industries Reorganisation, Fibre Star Reorganisation and Acquisitions is as follows:



The details of our principal activities are as follows:

Company	Principal Activities
Heng Huat	Investment holding
Fibre Star	Manufacturing of mattresses and related products
Fibre Star Marketing	Marketing of mattresses and related products
HH Industries	Investment holding
<u>Subsidiary Companies of HH Industries</u>	
HK Fibre	Manufacturing and trading of coconut biomass materials and value-added products
HK Kitaran	Manufacturing and trading of oil palm biomass materials and value-added products
HK Mega	Dormant
HK Palm Fibre	Manufacturing and trading of oil palm biomass materials

5. INFORMATION ON OUR GROUP (Cont'd)

In 1986, our co-founder, H'ng Choon Seng started Chiang Wei Enterprise and Heng Huat Industries Enterprise, both home-based businesses which were principally involved in the manufacturing and trading of rattan furniture, cushion products, bolsters and pillows. This eventually led to the establishment of HH Furniture and HH Manufacturer in 1991 and 1997 respectively. HH Furniture was principally involved in the sewing and marketing of cushions, pillows and mattresses, while HH Manufacturer was principally involved in the manufacturing of fibre coconut sheet mattress. Over the years, his businesses flourished and expanded from a home based premise to a factory building at Sungai Jawi in 2001. Recognising the growing demand for coconut fibre mattresses, he decided to venture into the manufacturing of fibre mattress using imported coconut fibre from Indonesia and Thailand in 2002.

Despite his early success, H'ng Choon Seng realised the need to chart a new business course in order to ensure sustainable growth moving forward. A combination of factors such as inconsistent supply and high cost of imported coconut fibre necessitated a rethink in business model.

Thus, in 2007, H'ng Choon Seng together with Kee Swee Lai established HK Fibre, which is primarily engaged in the manufacturing of coconut fibre and coconut peat. HK Fibre's operations are based in Kelantan due to its close proximity to coconut plantations. HK Fibre began its operations from a rented premise situated on Lots 344 & 345, Kg. Kemayang Tawang, Bachok, Kelantan with two (2) production lines and a total monthly production capacity of 546 mt of coconut fibre.

Our co-founders also established HK Mega and HH Industries in 2007. HK Mega was principally involved in the trading of third party biomass materials while HH Industries is an investment holding company for HK Fibre and HK Mega.

In 2008, as a result of limited supply of coconut husks for the expansion of our coconut fibre production, we explored the production of other biomass materials, such as oil palm EFB fibre. In 2009, following our successful endeavour to design and custom-built a production line for the manufacture of oil palm EFB fibre, we established HK Palm Fibre in collaboration with Kuah Choon Hoay and Liew Chai Hook, the directors and shareholders of AKSB, a palm oil mill operator, to manufacture oil palm EFB fibre with oil palm EFB supply from AKSB. HK Palm Fibre began with one (1) production line with a monthly production capacity of 234 mt of oil palm EFB fibre, which was increased to eight (8) production lines with a total monthly production capacity of 2,340 mt of oil palm EFB fibre by end 2010.

In 2009, we also established HK Kitaran to manufacture oil palm EFB fibre with oil palm EFB supply from its surrounding oil palm plantations and palm oil mills in Seberang Perai Selatan, Penang. HK Kitaran began its operation with three (3) production lines and a total monthly production capacity of 1,560 mt of oil palm EFB fibre, which was increased to ten (10) production lines and a total monthly production capacity of 4,914 mt of oil palm EFB fibre subsequent to our plant expansion in 2011.

In tandem with our overall strategic plan and direction to focus on sales of internally produced biomass materials, particularly oil palm EFB fibre, HK Mega ceased its trading activities (i.e. trading of third party biomass materials) in 2011.

In the fourth quarter of 2011, we incorporated two (2) subsidiary companies namely, Fibre Star and Fibre Star Marketing, and ventured downstream to undertake the manufacturing and marketing of mattresses and related products respectively through Fibre Star Reorganisation in May 2012. The Fibre Star Reorganisation involved the acquisition by Fibre Star of HH Manufacturer's mattresses manufacturing business and assets, including machineries and equipment used for the manufacturing of mattresses and related products, as well as the trademarks for the brands of these products, 'Fibre Star®' and 'Xiong Mao®' from HH Manufacturer and HH Furniture respectively. Fibre Star commenced its operations in June 2012, and thereafter to better manage and support its marketing efforts, Fibre Star Marketing commenced operations in September 2012 as the marketing arm of Fibre Star. Please refer to Section 5.4.2 of this Prospectus for further details of the Fibre Star Reorganisation.

5. INFORMATION ON OUR GROUP (Cont'd)

In the third quarter of 2012, as part of our expansion plans, HK Kitaran installed two (2) additional production lines with a total monthly production capacity of 1,118 mt of oil palm EFB fibre. To further strengthen our competitive edge, we ventured into the manufacture of value-added oil palm EFB fibre product, namely Briquette, by installing two (2) production lines with a total monthly production capacity of 3,016 mt of Briquette in the fourth quarter of 2012 and successfully introduced Briquette as part of our product offerings in January 2013. Our Briquette is mainly supplied to local end users as an alternative fuel to firewood and charcoal for boilers.

As at the LPD, we have a total of two (2) coconut fibre production lines, twenty (20) oil palm EFB fibre production lines, two (2) Briquette production lines and three (3) coconut fibre sheet production lines with a total monthly production capacity of 546 mt of coconut fibre, 8,372 mt of oil palm EFB fibre, 3,016 mt of Briquette and 491,400 meters of coconut fibre sheet respectively.

In recognition of our management and financial performance, HH Industries was awarded the Golden Bull Award for Emerging SMEs in 2010. We also received a Certificate of Achievement for the SME 100 Award – Fast Moving Companies in 2011, an annual recognition award programme organised by SME & Entrepreneurship Magazine that recognises the achievements of Malaysia's SMEs. As a testament to our commitment to quality, HK Kitaran was also awarded the ISO 9001:2008 certification on 18 May 2012 for its quality management system in the manufacturing of oil palm EFB fibre.

5.2 SHARE CAPITAL

The present authorised share capital of our Company is RM50,000,000 comprising 500,000,000 ordinary shares of RM0.10 each, of which RM15,930,003 comprising 159,300,030 Shares are issued and credited as fully paid-up. Upon completion of our Public Issue, our issued and paid-up share capital will be increased to RM20,580,003 comprising 205,800,030 Shares. The changes in our issued and paid-up share capital since our incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
25.11.2011	2	1	Cash	2
03.05.2012	1	1	Cash	3
16.05.2012	-	0.10	Share Split	3
18.05.2012	142,800,000	0.10	Shares issued as consideration for the Acquisition of HH Industries	14,280,003
18.05.2012	16,500,000	0.10	Shares issued as consideration for the Acquisition of Fibre Star	15,930,003

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in our Company.

5. INFORMATION ON OUR GROUP (Cont'd)**5.3 SUBSIDIARY COMPANIES****5.3.1 Fibre Star****(i) History and Business**

Fibre Star was incorporated in Malaysia under its name on 29 December 2011 as a private limited company under the Act and began its operations on 16 June 2012. It is principally involved in the manufacturing of mattresses and related products.

(ii) Share Capital

Fibre Star's present authorised share capital is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which RM1,650,003 comprising 1,650,003 ordinary shares of RM1.00 each have been issued and fully paid-up. The changes in the issued and paid-up share capital of Fibre Star since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
29.12.2011	2	1	Cash	2
13.02.2012	1	1	Cash	3
11.05.2012	1,650,000	1	Shares issued as consideration for the Acquisition of Assets from HH Manufacturer	1,650,003

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Fibre Star.

(iii) Shareholders and Directors

As at the LPD, Fibre Star is our wholly-owned subsidiary company and its directors are H'ng Choon Seng, Khor Teik Boon and Kee Swee Lai.

(iv) Subsidiary and Associated Companies

As at the LPD, Fibre Star does not have any subsidiary or associated company.

5.3.2 Fibre Star Marketing**(i) History and Business**

Fibre Star Marketing was incorporated in Malaysia under its name on 29 December 2011 as a private limited company under the Act and began its operations on 1 September 2012. It is principally involved in the marketing of mattresses and related products.

5. INFORMATION ON OUR GROUP (Cont'd)**(ii) Share Capital**

Fibre Star Marketing's present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up. The changes in the issued and paid-up share capital of Fibre Star Marketing since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
29.12.2011	3	1	Cash	3
25.01.2013	249,997	1	Cash	250,000
20.12.2013	250,000	1	Cash	500,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Fibre Star Marketing.

(iii) Shareholders and Directors

As at the LPD, Fibre Star Marketing is our wholly-owned subsidiary company and its directors are H'ng Choon Seng, Khor Mooi Kim and Teh Chai Luang.

(iv) Subsidiary and Associated Companies

As at the LPD, Fibre Star Marketing does not have any subsidiary or associated company.

5.3.3 HH Industries**(i) History and Business**

HH Industries was incorporated in Malaysia under the name of HK Vision Sdn Bhd on 2 July 2007 as a private limited company under the Act and began its operations on 29 September 2007. On 28 June 2011, it changed and assumed its present name. HH Industries is an investment holding company whose subsidiary companies are principally involved in the manufacturing and trading of biomass materials and value-added products.

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5. INFORMATION ON OUR GROUP (Cont'd)**(ii) Share Capital**

HH Industries' present authorised share capital is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which RM9,095,000 comprising 9,095,000 ordinary shares of RM1.00 each have been issued and fully paid-up. The changes in the issued and paid-up share capital of HH Industries since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
02.07.2007	2	1	Cash	2
19.09.2008	499,998	1	Cash	500,000
28.12.2011	2,462,000	1	Capitalisation of advances	2,962,000
11.05.2012	2,262,000	1	Shares issued as consideration for the Acquisition of HK Palm Fibre	5,224,000
11.05.2012	3,871,000	1	Shares issued as consideration for the Acquisition of HK Kitaran	9,095,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HH Industries.

(iii) Shareholders and Directors

As at the LPD, HH Industries is our wholly-owned subsidiary company and its directors are H'ng Choon Seng and Kee Swee Lai.

(iv) Subsidiary and Associated Companies

As at the LPD, HH Industries has four (4) subsidiary companies, namely HK Fibre, HK Kitaran, HK Mega and HK Palm Fibre.

5.3.4 HK Fibre**(i) History and Business**

HK Fibre was incorporated in Malaysia under its name on 13 March 2007 as a private limited company under the Act and began its operations on 1 June 2007. It is principally involved in the manufacturing and trading of coconut biomass materials and value-added products.

5. INFORMATION ON OUR GROUP (Cont'd)**(ii) Share Capital**

HK Fibre's present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up. The changes in the issued and paid-up share capital of HK Fibre since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
13.03.2007	2	1	Cash	2
30.04.2007	99,998	1	Cash	100,000
19.09.2008	400,000	1	Cash	500,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HK Fibre.

(iii) Shareholders and Directors

As at the LPD, HK Fibre is a 97% owned subsidiary company of HH Industries and its directors are H'ng Choon Seng, Kee Swee Lai and Ruhani Binti Ismail. The remaining 3% of the shares are owned by Ruhani Binti Ismail.

(iv) Subsidiary and Associated Companies

As at the LPD, HK Fibre does not have any subsidiary or associated company.

5.3.5 HK Kitaran**(i) History and Business**

HK Kitaran was incorporated in Malaysia under its name on 8 December 2009 as a private limited company under the Act and began its operations on 30 June 2010. It is principally involved in the manufacturing and trading of oil palm biomass materials and value-added products.

(ii) Share Capital

HK Kitaran's present authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up. The changes in the issued and paid-up share capital of HK Kitaran since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
08.12.2009	2	1	Cash	2
02.02.2010	99,998	1	Cash	100,000
30.12.2010	100,000	1	Cash	200,000
28.02.2011	800,000	1	Capitalisation of shareholders' advances	1,000,000

5. INFORMATION ON OUR GROUP (Cont'd)

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HK Kitaran.

(iii) Shareholders and Directors

As at the LPD, HK Kitaran is a wholly-owned subsidiary company of HH Industries and its directors are H'ng Choon Seng, Kee Swee Lai and Khor Teik Boon.

(iv) Subsidiary and Associated Companies

As at the LPD, HK Kitaran does not have any subsidiary or associated company.

5.3.6 HK Mega**(i) History and Business**

HK Mega was incorporated in Malaysia under the name of HK Mega Trading Sdn Bhd on 12 June 2007 as a private limited company under the Act and began its operations on 5 July 2007. On 27 February 2012, it changed and assumed its present name. It is currently dormant.

(ii) Share Capital

HK Mega's present authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up. The changes in the issued and paid-up share capital of HK Mega since its incorporation are as follows:

Date of Allotment	No. of Shares		Par Value RM	Consideration	Cumulative Total RM
	Allotted				
12.06.2007	2		1	Cash	2
19.09.2008	99,998		1	Cash	100,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HK Mega.

(iii) Shareholders and Directors

As at the LPD, HK Mega is a wholly-owned subsidiary company of HH Industries and its directors are H'ng Choon Seng and Kee Swee Lai.

(iv) Subsidiary and Associated Companies

As at the LPD, HK Mega does not have any subsidiary or associated company.

5. INFORMATION ON OUR GROUP (Cont'd)

5.3.7 HK Palm Fibre

(i) History and Business

HK Palm Fibre was incorporated in Malaysia under its name on 4 June 2009 as private limited company under the Act and began its operations on 25 July 2009. It is principally involved in the manufacturing and trading of oil palm biomass materials.

(ii) Share Capital

HK Palm Fibre's present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which RM200,000 comprising 200,000 ordinary shares of RM1.00 each have been issued and fully paid-up. The changes in the issued and paid-up share capital of HK Palm Fibre since its incorporation are as follows:

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Cumulative Total RM
04.06.2009	2	1	Cash	2
21.12.2009	99,998	1	Cash	100,000
30.12.2010	100,000	1	Capitalisation of shareholders' advances	200,000

None of the shares above were allotted and issued at a discount, special terms or instalment payment terms. As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HK Palm Fibre.

(iii) Shareholders and Directors

As at the LPD, HK Palm Fibre is a 50% owned subsidiary company of HH Industries and its directors are H'ng Choon Seng, Kee Swee Lai, Kuah Choon Hoay and Liew Chai Hook. The remaining 50% of the shares are owned equally by Kuah Choon Hoay and Liew Chai Hook, the directors and shareholders of AKSB.

We are able to exercise control of HK Palm Fibre, by virtue of the appointment of our Managing Director, H'ng Choon Seng, as the Chairman of the Board of Directors of HK Palm Fibre with effect from 5 October 2009 pursuant to a board resolution of HK Palm Fibre dated 5 October 2009. HK Palm Fibre adopts Table A in the Fourth Schedule of the Act ("Table A") as its Articles of Association. Regulation 49 of Table A provides for the Chairman of the board of directors of HK Palm Fibre to preside as Chairman at every general meeting of the company, while Regulations 53 and 80 of Table A provide for the Chairman of the meeting to have a second or casting vote in the case of an equality of votes at any of the general or board meeting. Therefore, HK Palm Fibre is deemed as our subsidiary company.

(iv) Subsidiary and Associated Companies

As at the LPD, HK Palm Fibre does not have any subsidiary or associated company.

5. INFORMATION ON OUR GROUP (Cont'd)**5.4 REORGANISATIONS, SHARE SPLIT AND ACQUISITIONS**

Prior to our IPO, we have undertaken the following exercises, which encompass:

5.4.1 HH Industries Reorganisation**Acquisition of HK Palm Fibre**

Pursuant to the Share Purchase Agreement dated 11 May 2012 entered into between HH Industries and the vendors of HK Palm Fibre, HH Industries has acquired 50% of the issued and paid-up share capital in HK Palm Fibre comprising 100,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2,262,000, which was wholly satisfied by the issuance of 2,262,000 new ordinary shares of RM1.00 each in HH Industries at par. The parties had agreed that the effective completion of the Acquisition of HK Palm Fibre is on 1 January 2012.

The vendors of HK Palm Fibre and their respective equity interests acquired by HH Industries and the number of new shares that were issued to them pursuant to the Acquisition of HK Palm Fibre are set out as follows:

Vendors	Numbers of Shares Acquired by HH Industries	% of Issued and Paid-Up Share Capital	Purchase Consideration RM	Number of Shares Issued
H'ng Choon Seng	50,000	25.00	1,131,000	1,131,000
Kee Swee Lai	50,000	25.00	1,131,000	1,131,000

The purchase consideration of RM2,262,000 for the Acquisition of HK Palm Fibre was agreed upon on a "willing-buyer willing-seller" basis after taking into consideration the audited NTA of HK Palm Fibre of RM4,522,914 as at 31 December 2011.

Acquisition of HK Kitaran

HH Industries previously owned 51% of HK Kitaran. However, pursuant to the Share Purchase Agreement dated 11 May 2012 entered into between HH Industries and the vendors of HK Kitaran, HH Industries has acquired the remaining 49% of the issued and paid-up share capital in HK Kitaran comprising 490,000 ordinary shares of RM1.00 each for a total purchase consideration of RM3,871,000, which was wholly satisfied by the issuance of 3,871,000 new ordinary shares of RM1.00 each in HH Industries at par. The parties had agreed that the effective completion of the Acquisition of HK Kitaran is on 1 January 2012.

The vendors of HK Kitaran and their respective equity interests acquired by HH Industries and the number of new shares that were issued to them pursuant to the Acquisition of HK Kitaran are set out as follows:

Vendors	Numbers of Shares Acquired by HH Industries	% of Issued and Paid-Up Share Capital	Purchase Consideration RM	Number of Shares Issued
H'ng Choon Seng	245,000	24.50	1,935,500	1,935,500
Kee Swee Lai	245,000	24.50	1,935,500	1,935,500

5. INFORMATION ON OUR GROUP (Cont'd)

The purchase consideration of RM3,871,000 for the Acquisition of HK Kitaran was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the audited NTA of HK Kitaran of RM7,884,072 as at 31 December 2011.

Acquisition of HK Mega

HK Mega was formerly a 90%-owned subsidiary company of HH Industries. Subsequently, HH Industries had on 18 May 2012 acquired the remaining 10% of the issued and paid-up share capital in HK Mega comprising 10,000 ordinary shares of RM1.00 each for a nominal cash consideration of RM2.

The vendors of HK Mega and their respective equity interests acquired by HH Industries and the cash consideration issued to them pursuant to the Acquisition of HK Mega are set out as follows:

Vendors	Numbers of Shares Acquired by HH Industries	% of Issued and Paid-Up Share Capital	Cash Consideration RM
H'ng Choon Seng	5,000	5.00	1
Kee Swee Lai	5,000	5.00	1

The nominal purchase consideration of RM2 for the Acquisition of HK Mega was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the dormant status of HK Mega.

5.4.2 Fibre Star Reorganisation**Acquisition of Property from HH Furniture**

Pursuant to the Sale and Purchase Agreement dated 11 May 2012 entered into between Fibre Star and HH Furniture, Fibre Star has acquired a piece of land held under No. H.S.(D) 8763, Lot No. 2489, Mukim 05, Seberang Perai Selatan, Pulau Pinang, together with a single storey factory building erected on the land, from HH Furniture for a total cash consideration of RM2,800,000. The Acquisition of Property from HH Furniture was completed on 7 February 2013.

The purchase consideration of RM2,800,000 for the Acquisition of Property from HH Furniture was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the book value of RM2,818,704 of the said property as at 30 April 2012.

Acquisition of Assets from HH Manufacturer

Pursuant to the Sale and Purchase Agreement dated 11 May 2012 entered into between Fibre Star and HH Manufacturer, Fibre Star has acquired the assets of HH Manufacturer comprising machinery and equipment for a total purchase consideration of RM1,650,000, which was wholly satisfied by the issuance of 1,650,000 ordinary shares of RM1.00 each in Fibre Star to HH Manufacturer at par. The Acquisition of Assets from HH Manufacturer was completed on 16 June 2012.

The purchase consideration of RM1,650,000 for the Acquisition of Assets from HH Manufacturer was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the realisable value of RM1,651,452 of the said assets as at 31 December 2011.

5. INFORMATION ON OUR GROUP (Cont'd)**Transfer of Trademark from HH Furniture**

Pursuant to the Assignment Agreement dated 27 May 2012 entered into between Fibre Star and HH Furniture, HH Furniture has agreed to assign and transfer all rights and interests in the trademark 'Xiong Mao®' to Fibre Star for a nominal cash consideration of RM10 on a "willing-buyer willing-seller" basis pursuant to and further to the Acquisition of Assets from HH Manufacturer. The application for the transfer has been approved by MYIPO and the trademark 'Xiong Mao®' is currently registered under the name of Fibre Star.

Transfer of Trademark from HH Manufacturer

Pursuant to the Assignment Agreement dated 27 May 2012 entered into between Fibre Star and HH Manufacturer, HH Manufacturer has agreed to assign and transfer all rights and interests in the trademark 'Fibre Star®' to Fibre Star for a nominal cash consideration of RM10 on a "willing-buyer willing-seller" basis pursuant to and further to the Acquisition of Assets from HH Manufacturer. The application for the transfer has been approved by MYIPO and the trademark 'Fibre Star®' is currently registered under the name of Fibre Star.

5.4.3 Share Split

On 16 May 2012, we effected a share split of every one (1) existing ordinary share of RM1.00 each in our authorised and issued and paid-up share capital into ten (10) Shares, resulting in an authorised share capital of RM100,000 comprising 1,000,000 Shares, and an issued and paid-up share capital of RM3 comprising 30 Shares.

Following the Share Split, we increased our authorised share capital from RM100,000 comprising 1,000,000 Shares to RM50,000,000 comprising 500,000,000 Shares.

5.4.4 Acquisitions**Acquisition of HH Industries**

Pursuant to the Share Purchase Agreement dated 18 May 2012 entered into between our Company and the vendors of HH Industries, our Company has acquired HH Industries' entire issued and paid-up share capital of RM9,095,000 comprising 9,095,000 ordinary shares of RM1.00 each for a total purchase consideration of RM14,280,000, which was wholly satisfied by the issuance of 142,800,000 new Heng Huat Shares at par. The parties had agreed that the effective completion of the Acquisition of HH Industries is on 1 February 2012.

The vendors of HH Industries and their respective equity interests acquired by our Company and the number of new Heng Huat Shares that were issued to them pursuant to the Acquisition of HH Industries are set out as follows:

Vendors	Numbers of Shares Acquired by Heng Huat	% of Issued and Paid-Up Share Capital	Purchase Consideration RM	Number of Shares Issued
H'ng Choon Seng	4,647,500	51.10	7,297,010	72,970,100
Kee Swee Lai	4,397,499	48.35	6,904,486	69,044,860
Khor Mooi Kim	25,000	0.275	39,252	392,520
Teh Chai Luang	25,000	0.275	39,252	392,520
Chee Gaik Sim	1	*	-	-

5. INFORMATION ON OUR GROUP (Cont'd)*Note:** *Negligible*

The purchase consideration of RM14,280,000 for the Acquisition of HH Industries was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the following:

- (a) pro forma consolidated NA of HH Industries and its group of companies as at 31 December 2011 of approximately RM13.69 million, after taking into account the effects of the Acquisition of HK Kitaran and Acquisition of HK Palm Fibre as at 11 May 2012 on the assumption that HK Kitaran and HK Palm Fibre have been in existence in HH Industries group as at 31 December 2011; and
- (b) estimated earnings of approximately of RM1.48 million generated by HH Industries and its group of companies for the month of January 2012, which would increase the pro forma consolidated NA of HH Industries and its group of companies, as disclosed in (a) above, to approximately RM15.17 million.

Acquisition of Fibre Star

Pursuant to the Share Purchase Agreement dated 18 May 2012 entered into between our Company and HH Manufacturer, our Company has acquired Fibre Star's entire issued and paid-up share capital of RM1,650,003 comprising 1,650,003 ordinary shares of RM1.00 each for a total purchase consideration of RM1,650,000 which was wholly satisfied by the issuance of 16,500,000 new Heng Huat Shares at par.

The purchase consideration of RM1,650,000 for the Acquisition of Fibre Star was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the unaudited NTA of Fibre Star of RM1,650,003 as at 18 May 2012.

The Acquisition of Fibre Star was completed on 16 June 2012.

Acquisition of Fibre Star Marketing

Heng Huat has on 18 May 2012 acquired 100% of the issued and paid-up share capital in Fibre Star Marketing comprising 3 ordinary shares of RM1.00 each for a total cash consideration of RM3.

The vendors of Fibre Star Marketing and their respective equity interests acquired by Heng Huat and the cash consideration that were issued to them pursuant to the Acquisition of Fibre Star Marketing are set out as follows:

Vendors	Numbers of Shares Acquired by Heng Huat	% of Issued and Paid-Up Share Capital	Cash Consideration RM
H'ng Choon Seng	1	33.33	1
Khor Mooi Kim	1	33.33	1
Teh Chai Luang	1	33.33	1

The purchase consideration of RM3 for the Acquisition of Fibre Star Marketing was agreed upon on a “willing-buyer willing-seller” basis after taking into consideration the unaudited NTA of Fibre Star Marketing of RM3 as at 18 May 2012.

5. INFORMATION ON OUR GROUP (Cont'd)**5.5 KEY ACHIEVEMENTS AND MILESTONES**

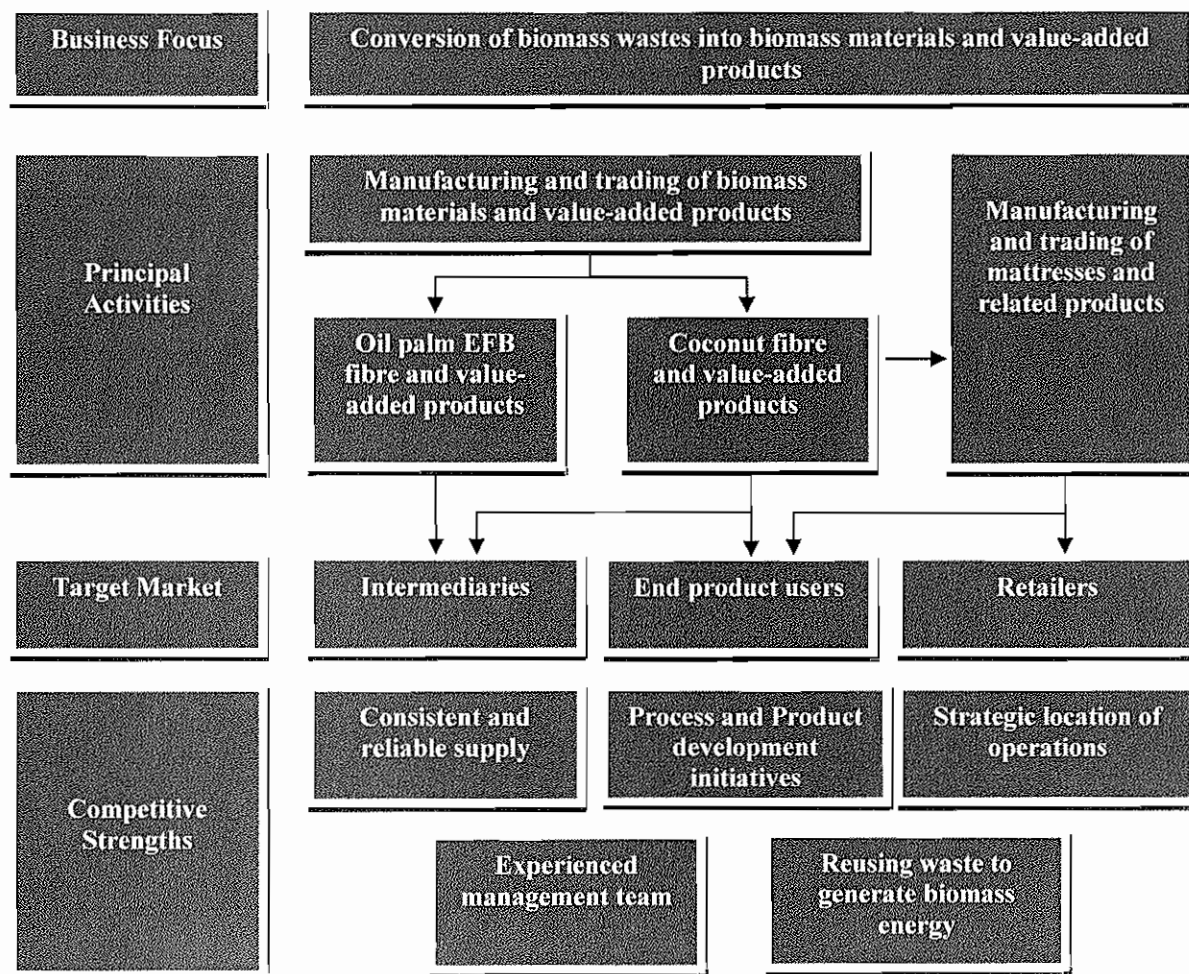
Our key achievements and milestones since inception are as follows:

Year	Key achievements and milestones
2007	<ul style="list-style-type: none"> Establishment of HK Fibre for the manufacturing of coconut fibre and coconut peat with two (2) production lines and a total monthly production capacity of 546 mt of coconut fibre. Establishment of HH Industries as an investment holding company for our biomass businesses.
2009	<ul style="list-style-type: none"> Ventured into the manufacturing of oil palm EFB fibre with the establishment of HK Palm Fibre – a collaboration with AKSB. It started with one (1) production line and a monthly production capacity of approximately 234 mt of oil palm EFB Fibre. Establishment of HK Kitaran for the manufacturing of oil palm EFB fibre with three (3) production lines and a total monthly production capacity of 1,560 mt of oil palm EFB fibre.
2010	<ul style="list-style-type: none"> HH Industries was awarded the Golden Bull Award for Emerging SMEs. HK Palm Fibre expanded its operations with additional seven (7) production lines and a total monthly production capacity of 2,106 mt of oil palm EFB fibre.
2011	<ul style="list-style-type: none"> HK Kitaran received a Certificate of Achievement for the SME 100 Award 2011 - Fast Moving Companies. HK Kitaran expanded its operations by acquiring a new factory with a built-up area of approximately 80,000 sq ft which is currently our head office cum production facility. We have then increased additional seven (7) production lines with a total monthly production capacity of 3,354 mt of oil palm EFB fibre. Establishment of Fibre Star for the manufacturing of mattresses and related products. Establishment of Fibre Star Marketing for the marketing of mattresses and related products.
2012	<ul style="list-style-type: none"> HK Kitaran was awarded ISO 9001:2008 certification for its quality management system in the manufacturing of oil palm EFB fibre. Fibre Star commenced production of mattresses and related products, while Fibre Star Marketing commenced operations as the marketing arm of Fibre Star. HK Kitaran installed two (2) additional production lines with a total monthly production capacity of 1,118 mt of oil palm EFB fibre. HK Kitaran ventured into the manufacture of Briquette by installing two (2) production lines with a total monthly production capacity of 3,016 mt of Briquette.

6. BUSINESS OVERVIEW

6.1 OUR BUSINESS MODEL

Our business model is depicted as follows:



6.2 PRINCIPAL ACTIVITIES

We are principally involved in the manufacturing, and trading of biomass materials and value-added products focusing on:

- (i) Oil palm EFB fibre and value-added products; and
- (ii) Coconut fibre and value-added products.

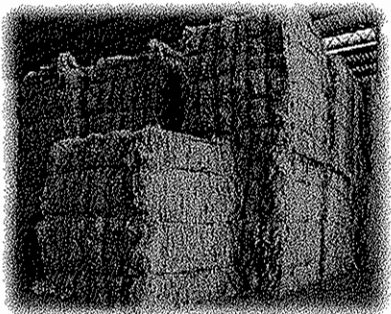
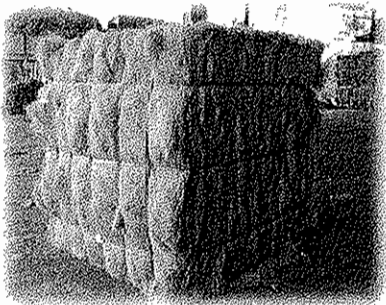
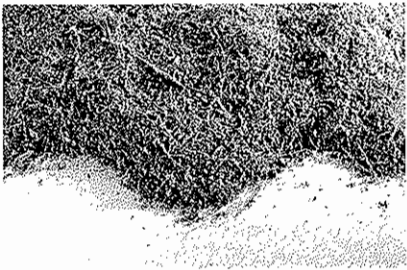
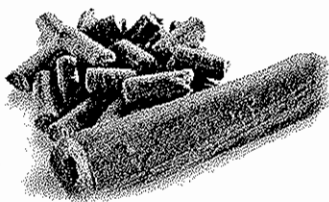
We are also a manufacturer and distributor of our own brands of mattresses and related products.

6.2.1 Biomass Materials and Value-Added Products

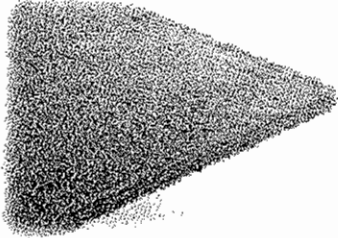
Our core competency is in the manufacturing and trading of biomass materials and value-added products through our subsidiary companies, HK Fibre, HK Kitaran and HK Palm Fibre. We are able to produce large quantities of oil palm EFB fibre of up to 8,372 mt per month, which are not only long, clean and fine, but also in uniformity through our self-designed and installed custom-built production lines.

6. BUSINESS OVERVIEW (Cont'd)

The biomass materials and value-added products that we currently produce comprise the following:

Biomass Materials and Value-Added Products	Specification	Applications
<p>Oil Palm EFB Fibre⁽¹⁾</p> 	<p>Length: >50mm Moisture content: ≤15% Impurity: <3% Oil content: <3% Quantity: 1x40 HC (17-20mt)</p>	<ul style="list-style-type: none"> • Mattress • Briquette • Geotextile • Paper pulp • Landscaping • Horticulture
<p>Coconut Fibre</p> 	<p>Length: >50mm Moisture content: <15% Impurity: <2% Quantity: 1x40 HC (17-18mt)</p>	<ul style="list-style-type: none"> • Coconut fibre sheet • Mattress • Geotextile • Paper pulp • Landscaping • Horticulture
<p>Coconut Peat⁽²⁾</p> 	<p>Weight: 8-10 kg per pack Moisture: < 30%</p>	<p>Alternative to peat moss</p> <ul style="list-style-type: none"> • Fertigation • Soil conditioning
<p>Briquette</p> 	<p>Size: 7 cm diameter Shape: Cylindrical Length: 50 mm to 300 mm Moisture: <12% Ash content: <3.79%</p>	<p>Alternative to firewood and charcoal</p> <ul style="list-style-type: none"> • Industrial boiler • Furnace • Kiln • Residential and commercial steam generation and heating purpose

6. BUSINESS OVERVIEW (Cont'd)

Biomass Materials and Value-Added Products	Specification	Applications
<p>Coconut Fibre Sheet</p> 	<p>Thickness:</p> <ul style="list-style-type: none"> Mattress fibre sheet: 8 mm - 10 mm Needle punched fibre sheet: 20 mm <p>Can be customised according to customers' requirements</p>	Mattress

Notes:

(1) The industry specification MS 1408:1997(P) for oil palm EFB fibre issued by the Department of Standards Malaysia, whereby compliance is on a voluntary basis, prescribes the following:

- (a) Moisture content: $\leq 15\%$
- (b) Impurity: $\leq 15\%$
- (c) Oil content: $\leq 3\%$

(2) Coconut peat is a by-product produced from the manufacture of coconut fibre.

Our biomass materials and value-added products contributed to approximately 73.43% of our Group's total revenue for the FYE 31 December 2013, of which 58.79% is contributed by our principal product, i.e. oil palm EFB fibre, while the remaining balance of 14.64% is contributed by other biomass materials and value-added products such as coconut fibre, coconut peat, coconut fibre sheet and Briquette.

6.2.2 Mattresses and Related Products

Pursuant to the Fibre Star Reorganisation as detailed in Section 5.4.2 of this Prospectus, Fibre Star commenced manufacturing mattresses and related products under the brands of 'Fibre Star®' and 'Xiong Mao®' on 16 June 2012. For the FYE 31 December 2013, revenue from the mattresses and related products division accounted for approximately 26.57% of our Group's total revenue.

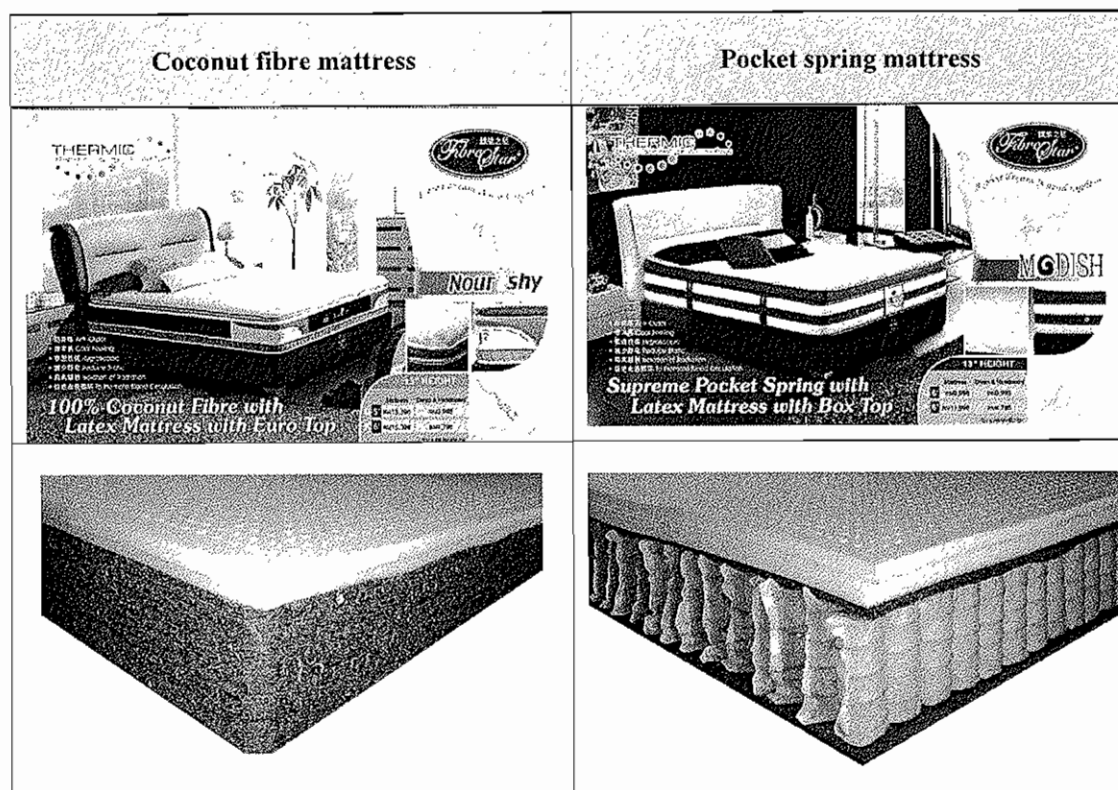
We offer a wide range of mattress in different sizes and dimensions suited towards our customers' preference under the brand of 'Fibre Star®'. We also produce related products such as pillow, bolster, cushion, cushion cover and mattress protector which are marketed under the brand of 'Fibre Star®' and 'Xiong Mao®', as well as divan and headboard to complement our 'Fibre Star®' mattresses series. Currently, we distribute all our fibre and other mattresses and related products to furniture retailers in Malaysia. We are also an OEM of fibre mattress for several local brands.

The principal types and series of mattresses which are produced by our Group and marketed under the brand of 'Fibre Star®' comprise the following:

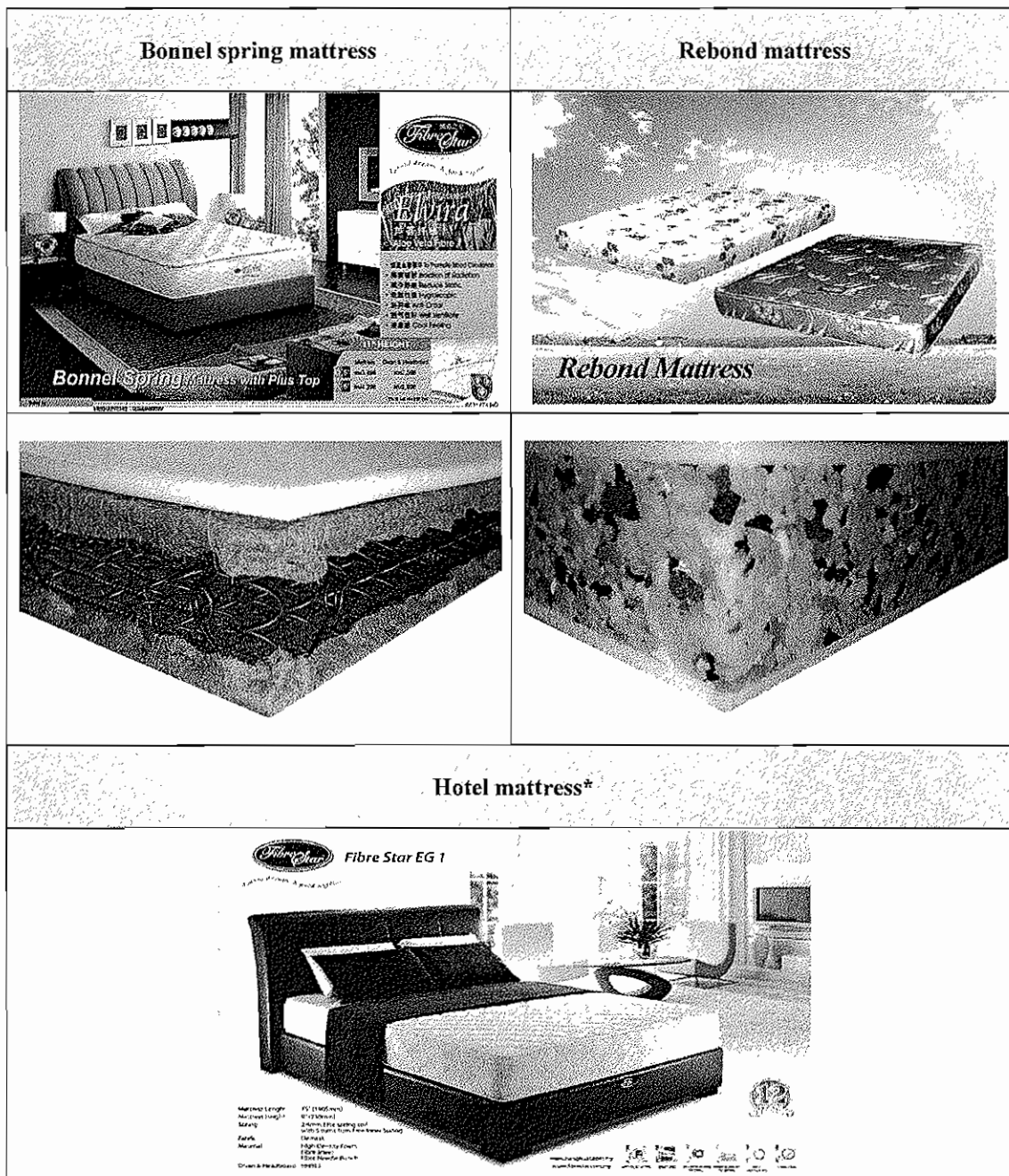
Type of Mattresses	Series
Coconut fibre mattress (Height)	<ul style="list-style-type: none"> (i) Romance fibre mattress (7") (ii) Palmira coconut fibre mattress with pillow top (9") (iii) Loiusa Fibre mattress with plus top (7") (iv) Dream coconut fibre mattress with pillow top (8") (v) Three foldable mattress (3")

6. BUSINESS OVERVIEW (Cont'd)

Type of Mattresses	Series
Pocket spring mattress (Height)	(i) Audra pocket spring with latex and box top mattress (13") (ii) Gene pocket spring with memory foam and latex mattress with euro top (13") (iii) Sapphire pocket spring mattress with pillow top (10") (iv) Delfina 2000 latex pocket spring mattress with pillow top (12")
Bonnell spring mattress (Height)	(i) Fullrest spring mattress (8") (ii) Hugo spring mattress with plus top (10") (iii) Caterina spring mattress (10") (iv) Scorpio spring mattress with pillow top (8") (v) Andria spring mattress with plus top (12")
Rebond mattress (Height)	(i) Rebond mattress (8") (ii) Rebond mattress QT-JG (8") (iii) Rebond mattress QT (8")
Hotel mattress (Length x height, spring type, fabric type)	(i) Fibre Star EG 1 (75"x9", 2.4 mm supreme spring coil with 5 turns inner spring, damask) (ii) Fibre Star EG 3 (75"x10", 2.4 mm elite spring coil with 5 turns free inner spring, knitted) (iii) Fibre Star TR (75"x10", 2.4 mm supreme spring coil with 5 turns inner spring, damask)



6. BUSINESS OVERVIEW (Cont'd)




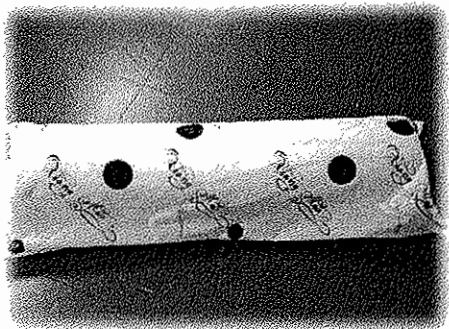


Note:

* Hotel mattresses are coconut fibre mattress, pocket spring mattress, bonnel spring mattress or rebond mattress supplied to hotels.

6. BUSINESS OVERVIEW (Cont'd)

The principal types and series of mattresses' related products which are offered by our Group and marketed under the brands of 'Fibre Star®' and 'Xiong Mao®' comprise the following:

Types of Products	Series	Brand
Pillow / Bolster	(i) Fibre Star pillow and bolster (ii) Savina pillow and bolster (iii) Xiong Mao pillow and bolster (iv) XM polyester pillow (v) Jungle Hole Pillow	Fibre Star® Fibre Star® Xiong Mao® Xiong Mao® Fibre Star®
Cushion/Cushion cover	(i) Contour cushion with cover (ii) Square cushion GK (iii) Square cushion JKR	Xiong Mao® Xiong Mao® Xiong Mao®

Pillow	Bolster
	
Cushion	Cushion Cover
	

6. BUSINESS OVERVIEW (Cont'd)**6.3 PRINCIPAL MARKETS**

Our principal markets comprise the local and China markets. Our revenue contribution by geographical location for the past three (3) FYE 31 December 2011 to 2013 is as follows:

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->					
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Local:						
▪ End product users ⁽¹⁾	4,166	13.14	7,511	11.93	9,936	13.47
▪ Intermediaries ⁽²⁾	8,790	27.73	15,768	25.04	22,967	31.15
	12,956	40.87	23,279	36.97	32,903	44.62
Exports:						
▪ China - Intermediaries ⁽³⁾	18,746	59.13	39,590	62.88	40,719	55.22
▪ Singapore - Intermediaries	-	-	96	0.15	118	0.16
	18,746	59.13	39,686	63.03	40,837	55.38
Total Revenue	31,702	100.00	62,965	100.00	73,740	100.00

Notes:

- (1) End product users refer to the following:
- (i) Users of coconut peat such as farmers; and
 - (ii) Companies that are involved in manufacturing of products with our fibres, such as mattress manufacturers, and customers that purchase mattresses and related products during our occasional, one-off sale event such as warehouse sales, etc.
- (2) Intermediaries refer to companies that are involved in trading of our coconut and oil palm EFB fibre, i.e. trading houses.
- (3) Our oil palm EFB fibres were shipped directly to China via China intermediaries.

Further details of our distribution network are set out in Section 6.6.2 of this Prospectus.

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6. BUSINESS OVERVIEW *(Cont'd)*

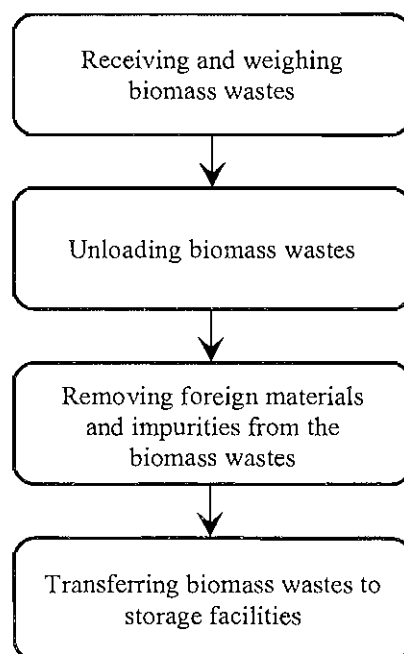
6.4 PRODUCTION PROCESS

Our production process, which are carried out in our Plant 1, Plant 2, Plant 3, Plant 5 and Plant 6, involves a series of thorough and controlled procedures. Stringent quality checks on all our products are conducted at every stage of the production process. The sub-sections below illustrate the production process for our principal products.

6.4.1 Biomass Materials Production Flow

Our biomass materials production can be divided into three (3) stages: material handling, production process and packing system.

(i) Material Handling

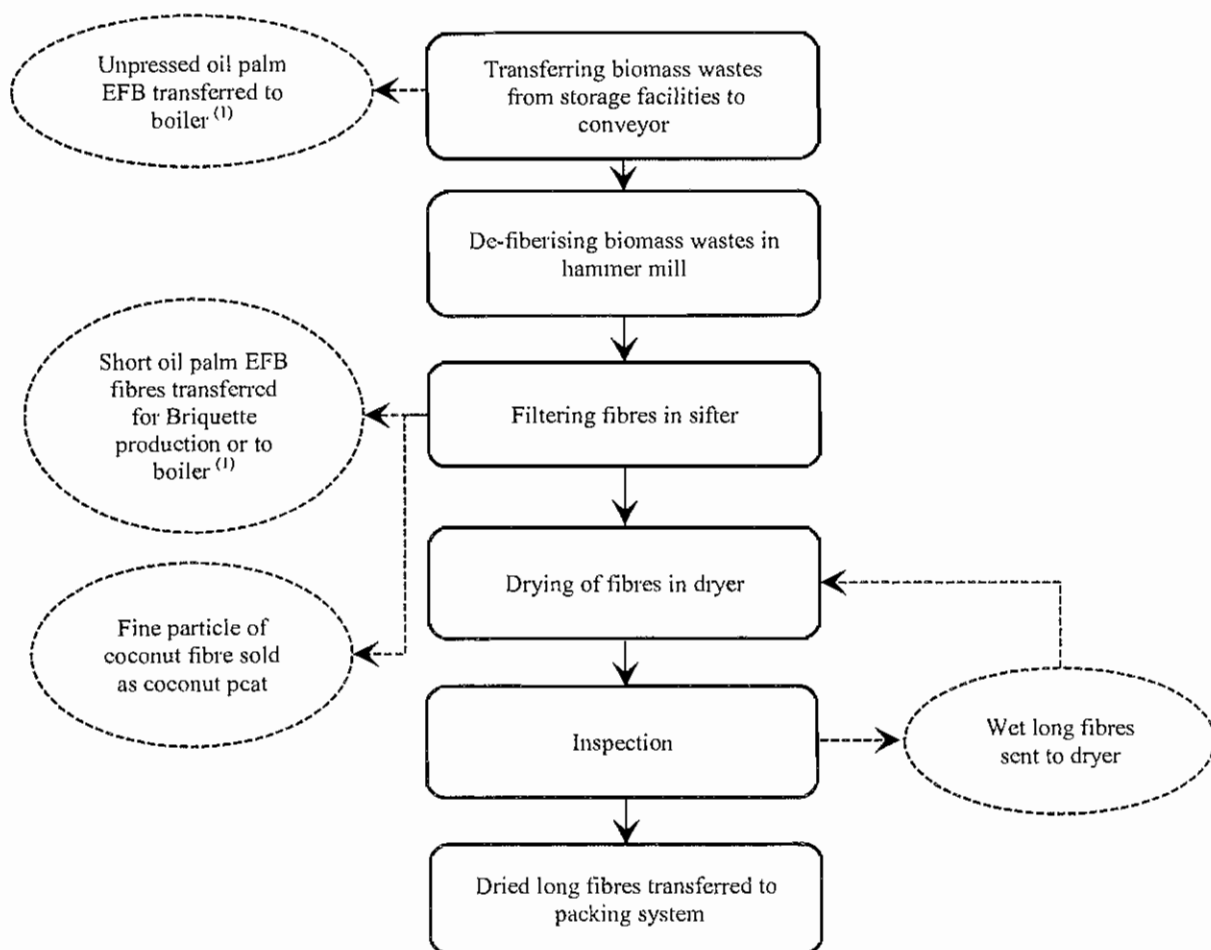


Material handling is the initial stage of our production process. Upon receiving biomass wastes, such as coconut husks and pressed oil palm EFBs from our suppliers, the biomass wastes are weighed to ensure that the incoming volume is accurate. The oil palm EFB biomass wastes that we receive from our suppliers have been pressed by our suppliers to facilitate our production process. The biomass wastes are then unloaded and visually inspected to remove the presence of any foreign materials or impurities.

Thereafter, the biomass wastes are transferred to our storage facilities before being transferred for subsequent processing as depicted in our production process as set out in Section 6.4.1(ii) of this Prospectus.

6. BUSINESS OVERVIEW (Cont'd)

(ii) Production Process



Notes:

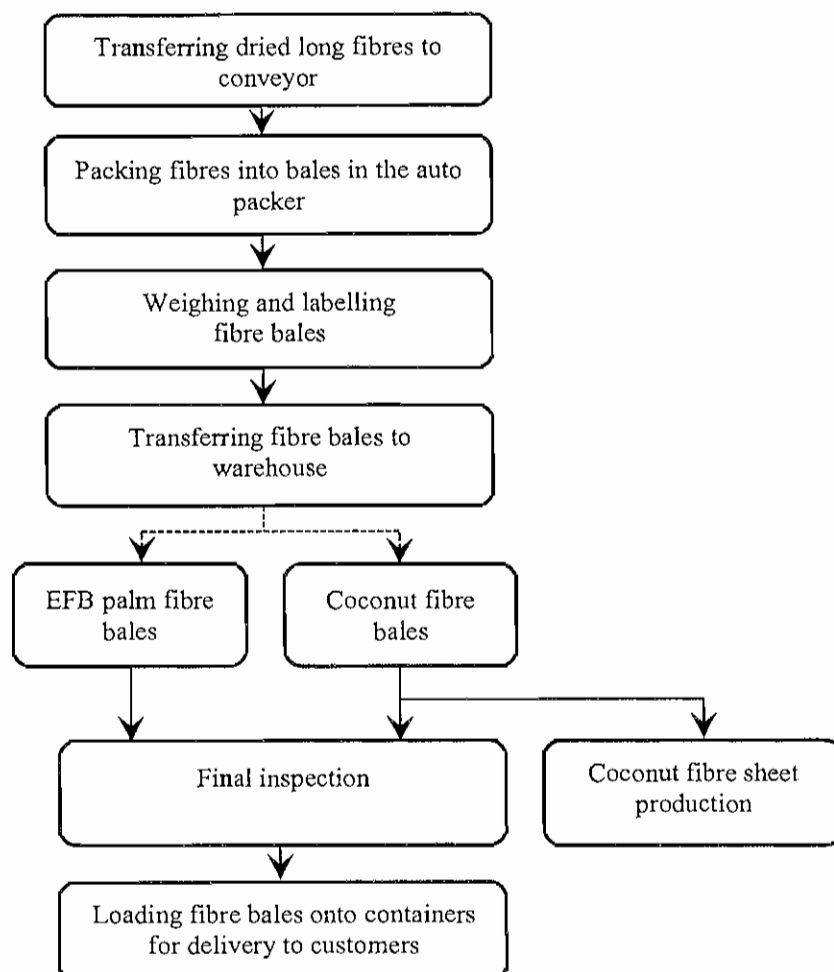
- (1) Boiler is used for power generation for our production process through incineration of unpressed oil palm EFB or rejected short oil palm EFB fibre.
- (2) Currently, approximately 60% of our short oil palm EFB fibres are used for production of Briquette and the remaining 40% for power generation through the boiler.

The operators transfer the biomass wastes from the storage facilities to the production area. While the biomass wastes are shovelled onto the conveyor, the operators will sort the biomass wastes for unpressed oil palm EFB, if any, which are sent to the boiler for power generation through incineration. The rest of the biomass wastes are led to the hammer mill by the conveyor to be de-fiberised. The de-fiberised biomass wastes are then transferred to the sifter, a machine that filters out short fibres. The short oil palm EFB fibres are transferred to storage facilities prior to being used primarily for the production of Briquette, and the remaining for power generation through the boiler⁽²⁾. Meanwhile, the fine particles of coconut fibres from the sifter are transferred to storage facilities prior to being packed and sold as coconut peat to our customers. The rest of the long fibres are sent to the subsequent drying process.

The long fibres are dried in the dryer, which allows us to control the temperature to ensure that the fibres are uniformly dried. Subsequently, the long fibres are inspected on its moisture content, whereby rejected wet fibres are sent to the dryer for re-drying. The dried long fibres are then transferred to the subsequent packing stage as depicted in Section 6.4.1(iii) of this Prospectus.

6. BUSINESS OVERVIEW (Cont'd)

(iii) Packing System

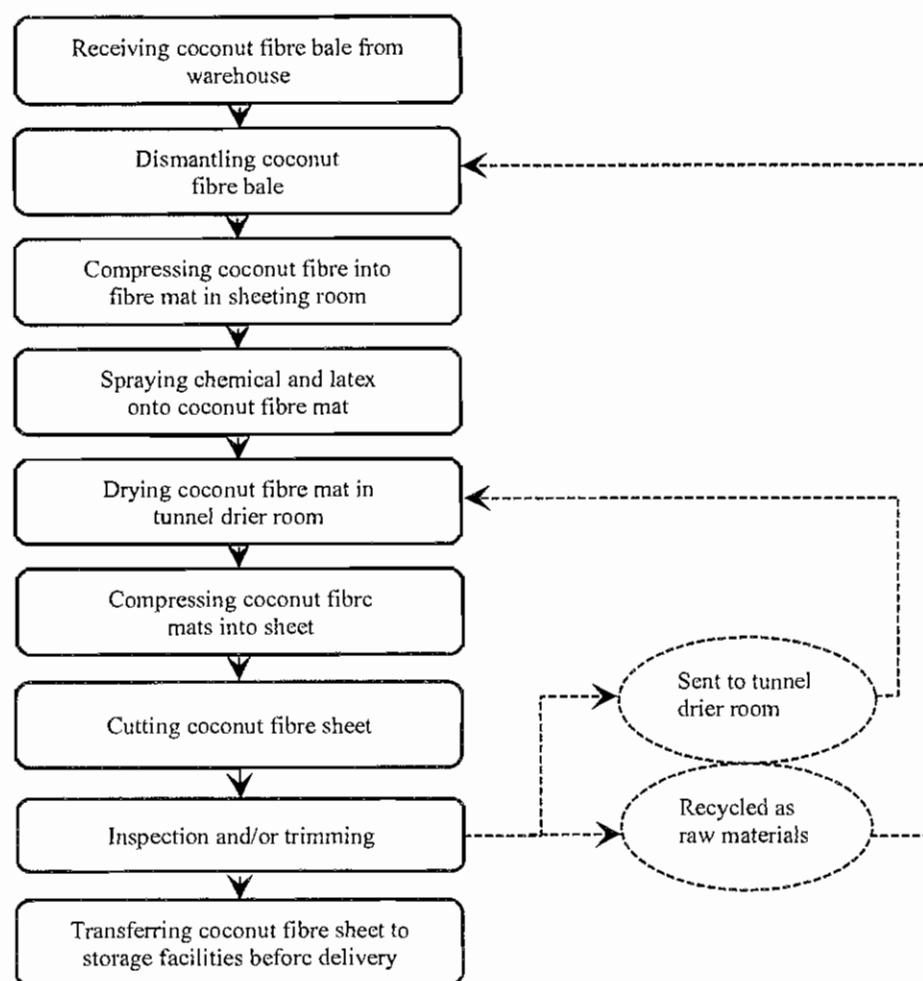


Packing system is the final stage of our coconut or EFB palm fibre production process. The dried long fibres are transferred to the conveyor before being packed into bales in the auto packer. Subsequent to the packing process, the fibre bales are weighed and labelled. Thereafter, the fibre bales, comprising both EFB palm fibre bales and coconut fibre bales, are transferred to our warehouse for storage before delivery to customers or for use in our coconut fibre sheet production as depicted in Section 6.4.2 of this Prospectus. The coconut fibre bales are primarily used for our coconut fibre sheet production, and the remaining sold to our customers. The EFB palm fibre bales and those remaining coconut fibre bales will go through a final inspection for correct weightage before loading onto containers for delivery to our customers.

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6. BUSINESS OVERVIEW (Cont'd)

6.4.2 Coconut Fibre Sheet Production Process



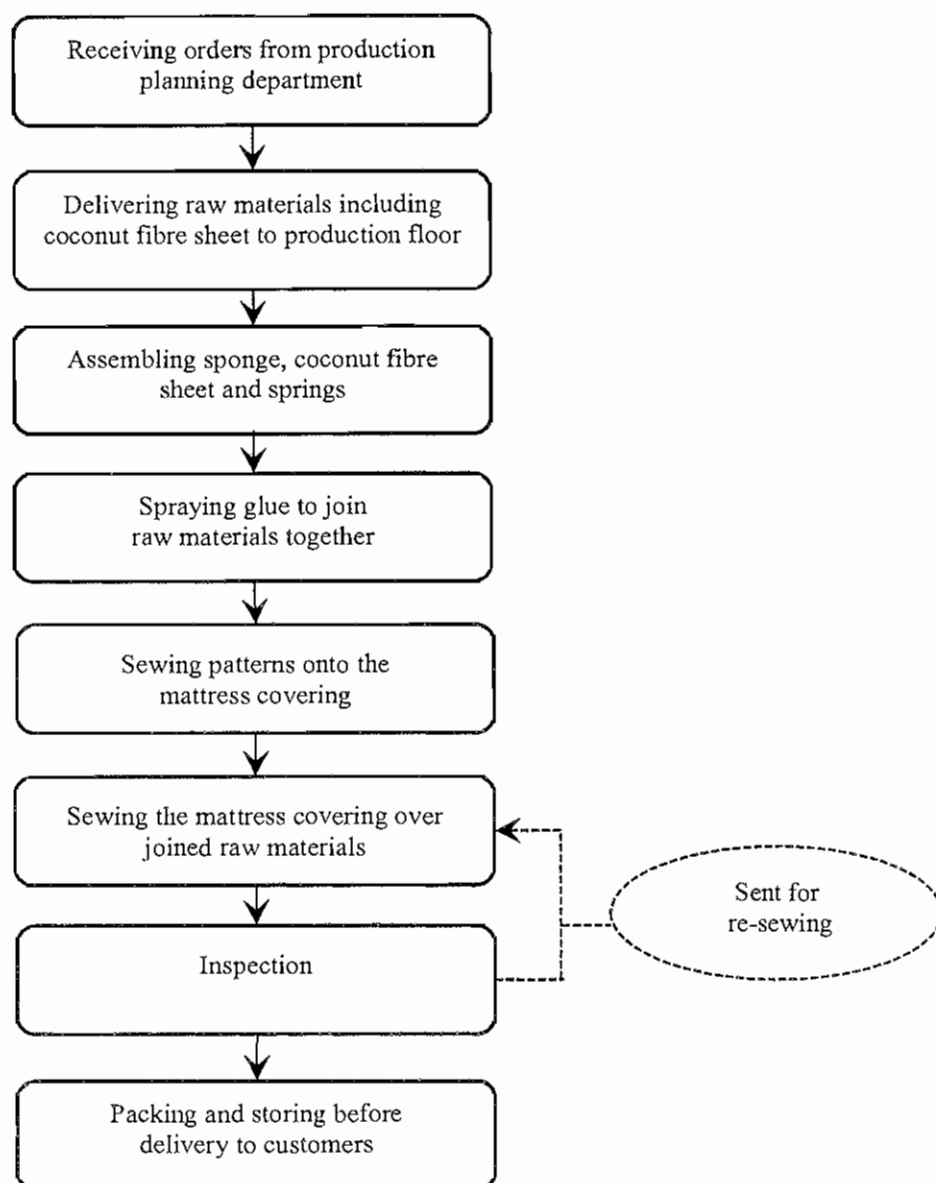
The process begins with receiving coconut fibre bale from our warehouse, which is then dismantled into loose fibre. The coconut fibre is then compressed into a thin layer of mat in the sheeting room. A certain mixture of chemical and latex are sprayed onto the coconut fibre mat as a form of adhesive to make the fibre mat more compact. The fibre mat is then sent to the tunnel drier room for drying. Subsequently, multiple pieces of coconut fibre mats are assembled together and compressed into a thicker sheet by a compressor machine. Thereafter, the coconut fibre sheet is cut into specific width, length and height according to our specifications or customers' preferences. The discarded edges of the cut coconut fibre sheet are recycled as raw materials for our coconut fibre sheet production. The coconut fibre sheet is then inspected for its moisture content, density, thickness and size. Any defects detected during the inspection process would either be:

- Sent to the tunnel drier room for re-drying if the coconut fibre sheet does not meet the required moisture content; or
- Recycled as raw materials if the coconut fibre sheet does not meet the density and/or thickness specifications, which is generally less than 1% of our coconut fibre sheet production. The defective coconut fibre sheet are sent for recycling as raw materials as and when it occurs, whereby the recycled fibres will be mixed together with new fibres from our warehouse. Thus, there is no limit to the number of times the coconut fibre sheet can be recycled as raw materials; or
- Trimmed all around if the coconut fibre sheet does not meet the size specifications, to ensure greater accuracy to the size of the coconut fibre sheet.

After inspection, the coconut fibre sheet is sent to our storage facility before delivery to our customers.

6. BUSINESS OVERVIEW (Cont'd)

6.4.3 Fibre Mattress Production Process

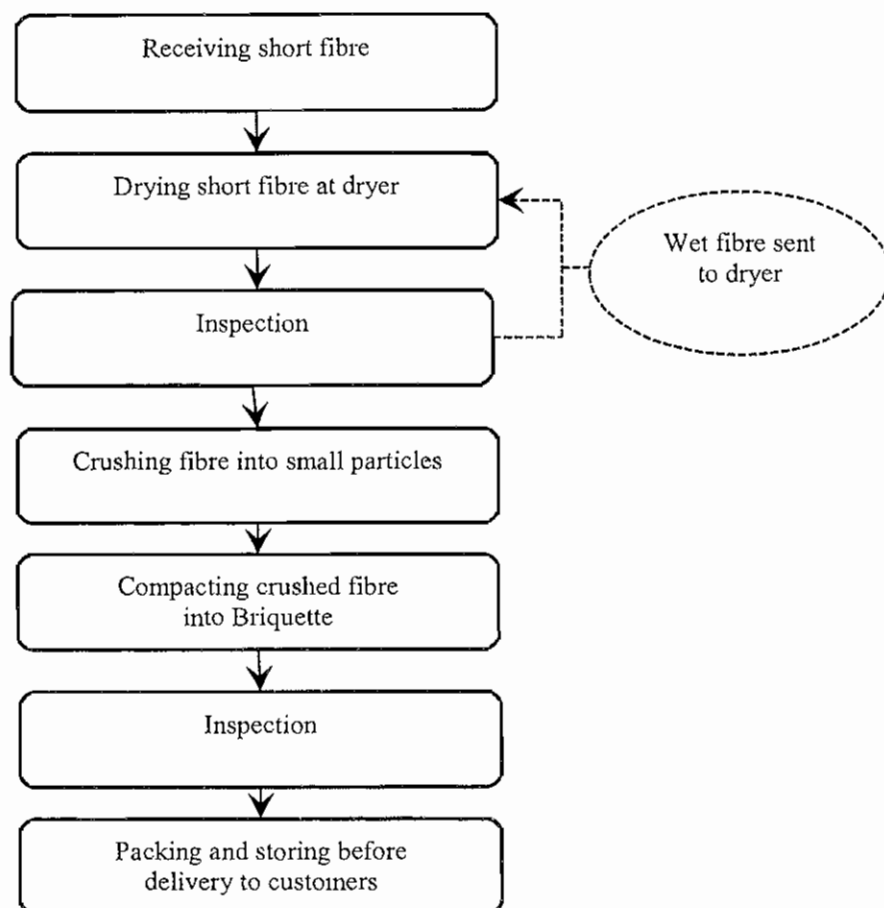


Our fibre mattress production begins with a planning schedule provided by the production planning department. The schedule is planned according to sales orders from our customers. The planning schedule is important because it helps to determine the amount of raw materials needed for our production and also the number of mattresses to produce so as to avoid over stocking. From the planning schedule, the store department will deliver the raw materials, including our manufactured coconut fibre sheet, to the production floor.

Firstly, the sponge, coconut fibre sheet and springs are assembled together. They are then joined together through the glue spraying process. Next, the covering for the mattress is produced with special patterns requested by our customers or our in-house designs sewn onto fabrics. Subsequently, the mattress covering are sewn over the joined materials to produce a mattress. Inspection is then carried out to ensure the overall cleanliness of the mattress and to detect any sewing defect, whereby any defects are sent for re-sewing. Once the inspection is completed, the mattress is packed and stored in our storage facility before delivery to our customers.

6. BUSINESS OVERVIEW (Cont'd)

6.4.4 Briquette Production Process



The production process begins after receiving short fibre from our biomass materials production process as set out in Section 6.4.1(ii) of this Prospectus. The short fibre is first shovelled onto a conveyor and sent to the dryer to remove the moisture in the short fibre. Thereafter, the short fibre is sent for inspection, whereby any wet fibre detected will be sent to the dryer for re-drying. Next, the short fibre is conveyed to the crushing machine where the fibre is crushed into small particles. Subsequently, the crushed fibre is conveyed to the Briquette machine to produce Briquette by compacting the crushed fibre into high density and uniform Briquette. Samples of Briquette are regularly collected and sent for inspection on its size, moisture content and density, whereby lower grade Briquette (i.e. Briquette of shorter length, higher moisture content or lower density) will be supplied to the local market. After inspection, the Briquette is then packed into jumbo bag and sent to our storage facility before delivery to our customers.

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6. BUSINESS OVERVIEW (Cont'd)

6.5 PRODUCTION FACILITIES

6.5.1 Production Capacity

The monthly production capacity, average production output and utilisation levels for our production of biomass materials and value-added products, and mattresses for the past three (3) FYE 31 December 2011 to 2013 are as follows:

	FYE 31 December		
	2011	2012	2013
<u>Palm fibre</u>			
No. of production lines	18	20	20
Installed production capacity per month (mt) ⁽¹⁾	7,254	8,372	8,372
Average production output per month (mt) ⁽⁶⁾	3,748	6,041	6,200
Capacity utilisation rate (%)	51.67	72.16	74.06
<u>Coconut fibre</u>			
No. of production lines	2	2	2
Installed production capacity per month (mt) ⁽²⁾	546	546	546
Average production output per month (mt) ⁽⁷⁾	312	303	290
Capacity utilisation rate (%)	57.14	55.49	53.11
<u>Coconut fibre sheet</u>			
No. of production lines	-	2	2
Installed production capacity per month (meters) ⁽³⁾	-	312,000	312,000
Average production output per month (meters) ⁽⁸⁾	-	87,717	102,587
Capacity utilisation rate (%)	-	28.11	32.88
<u>Briquette</u>			
No. of production lines	-	-	2
Installed production capacity per month (mt) ⁽⁴⁾	-	-	3,016 ⁽⁹⁾
Average production output per month (mt) ⁽⁸⁾	-	-	1,000
Capacity utilisation rate (%)	-	-	33.16
<u>Mattresses</u>			
Installed production capacity per month (pieces) ⁽⁵⁾	-	15,600	15,600
Average production output per month (pieces) ⁽⁸⁾	-	4,014	4,327
Capacity utilisation rate (%)	-	25.73	27.74

Notes:

- (1) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of approximately 11.63 mt per hour for the FYE 31 December 2011 and 13.42 mt per hour for the FYE 31 December 2012 and 2013.
- (2) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of approximately 0.88 mt per hour for the FYE 31 December 2011 to 2013.
- (3) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of 500 meters per hour for the FYE 31 December 2012 and 2013.
- (4) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of approximately 4.83 mt per hour for the FYE 31 December 2013.
- (5) Based on the maximum monthly capacity of the machineries for 24 hours per day for an average of 26 days a month, which translate to the installed production capacity of 25 pieces per hour for the FYE 31 December 2012 and 2013.
- (6) Currently runs on two (2) 12-hour shifts per day for 26 days a month.
- (7) Currently runs on one (1) 10-hour shift per day for 26 days a month.
- (8) Currently runs on one (1) 8-hour shift per day for 26 days a month.
- (9) The Briquette production lines were installed in the fourth quarter of 2012 and commenced commercial production in January 2013.

6. BUSINESS OVERVIEW (Cont'd)**6.5.2 Our Material Equipment**

The details of our material equipment are as follows:

Equipment	No. of Units/ Lines	Description	Audited NBV as at 31 December 2013 RM'000
<u>HK Fibre</u>			
Coconut fibre and coconut peat production line	2	To produce coconut fibre and coconut peat	382
Packing machine	6	To compress and pack the fibre into bale form	292
Rice husk burner	1	To generate heat for drying the fibre	41
Fibre sheet manufacturing machine	2	To produce coconut fibre sheet	3,196
			3,911
<u>HK Palm Fibre</u>			
Oil palm EFB fibre production line	8	To produce oil palm EFB fibre	2,080
Feeder	1	To transfer oil palm EFB to hammer mill	115
Packing machine	2	To compress and pack the fibre into bale form	441
Steam boiler	1	To generate heat for drying the fibre	1,077
			3,713
<u>HK Kitaran</u>			
Oil palm EFB fibre production line	12	To produce oil palm EFB fibre	5,358
Feeder	2	To transfer oil palm EFB to hammer mill	1,509
Packing machine	3	To compress and pack the fibre into bale form	265
Weighing apparatus	4	To weigh the bale	258
Steam boiler	3	To generate heat for drying the fibre	2,934
Briquette production line	2	To produce Briquette	8,150
			18,474
<u>Fibre Star *</u>			
Foaming machine	1	To produce foam mattresses, cushion and pillow	649
Spring mattress manufacturing machine	3	To produce spring mattress	139
Rebond mattress manufacturing machine	1	To produce rebond mattress	36
Quilting	2	To sew pattern and design on the cover of the mattress	222
Sewing machine	19	To sew the cover of the mattress	24
Other equipment	32	Including saws, spray guns, etc.	94
			1,164

Note:

* Pursuant to the Acquisition of Assets from HH Manufacturer, the equipment has been acquired by Fibre Star at the realisable value with effect from 16 June 2012.

6. BUSINESS OVERVIEW (Cont'd)**6.6 MARKETING AND DISTRIBUTION NETWORK**

As at the LPD, we have two (2) dedicated sales and marketing teams collectively comprising seventeen (17) sales and marketing personnel. They are responsible for the sales, marketing and business development of our biomass products, and mattresses and related products respectively. Both teams are led by our Executive Director, Teh Chai Luang.

6.6.1 Marketing Strategies

We have initiated the following marketing strategies to sustain and expand our business:

(i) Marketing activities

The main marketing activities undertaken by the companies within our Group, namely HK Fibre, HK Kitaran, HK Palm Fibre and Fibre Star Marketing to promote our biomass products as well as our 'Fibre Star®' and 'Xiong Mao®' in-house brands and products are as follows:

(a) Advertising

We market and advertise through various medium including:

- Billboards in commercial districts or along the highway;
- Leaflets, pamphlets, newspaper and magazines; and
- Information on our Group and our products on our website.

(b) Tradeshows and exhibition

As at the LPD, we have participated in various tradeshows and exhibition including:

Event	Products and Brands Marketed	Location	Year
Penfurnex Exhibition	Furniture and related products	Penang, Malaysia	2010
Export Furniture Exhibition	Furniture and related products	Kuala Lumpur, Malaysia	2010
Penang Furniture Exhibition	Furniture and related products	Penang, Malaysia	2011
Export Furniture Exhibition	Furniture and related products	Kuala Lumpur, Malaysia	2011
Penang Furniture Exhibition	Furniture and related products	Penang, Malaysia	2012
Export Furniture Exhibition	Furniture and related products	Kuala Lumpur, Malaysia	2012
Penang Furniture Exhibition	Furniture and related products	Penang, Malaysia	2013
Malaysia Services Exhibition 2013	Biomass materials and value-added products	Doha, Qatar	2013
10 th The Incorporated Society of Planters ("ISP") National Seminar 2013	Biomass materials and value-added products	Kuala Lumpur, Malaysia	2013

6. BUSINESS OVERVIEW (Cont'd)

Event	Products and Brands Marketed	Location	Year
BalticBuild 2013	Biomass materials and value-added products	Saint Petersburg, Russia	2013
The Big 5 International Building and Construction Show 2013	Biomass materials and value-added products	Dubai, United Arab Emirates	2013
Mosbuild 2014	Biomass materials and value-added products	Moscow, Russia	2014
Palmex Malaysia 2014	Geotextile	Sandakan, Malaysia	2014
2014 ISP North Sarawak Branch Seminar	Geotextile	Miri, Malaysia	2014

Some of our other marketing activities include:

- Organising visits to our factories for potential customers; and
 - Conducting regular sales visits to potential customers.
- (ii) Understanding our customers' demand trend and matching our biomass materials and value-added products supply allocation to these trends;
- (iii) Continuous provision of customer services, including after-sales services to foster customer loyalty and be the preferred biomass products supplier of our customers;
- (iv) Developing new business opportunities with existing and potential customers by way of referrals; and
- (v) Keeping abreast of new processes and technological development in the biomass industry to better meet our customer's requirements.

6.6.2 Distribution Network

Our distribution network for the past three (3) FYE 31 December 2011 to 2013 are as follows:

	No. of Customers FYE 31 December								
	<----- 2011 ----->			<----- 2012 ----->			<----- 2013 ----->		
	Interme -diaries	End Users	Total	Interme -diaries	End Users	Total	Interme -diaries	End Users	Total
Local									
▪ Northern region	13	13	26	416	28	444	519	34	553
▪ Central region	4	-	4	264	19	283	374	37	411
▪ Southern region	1	-	1	80	3	83	172	2	174
▪ East Coast region	-	66	66	128	50	178	170	34	204
▪ East Malaysia	-	-	-	14	3	17	24	5	29
	18	79	97	902	103	1,005	1,259	112	1,371
Overseas	13	-	13	17	-	17	10	-	10
Total	31	79	110	919	103	1,022	1,269	112	1,381

(i) Oil palm EFB fibre

Our oil palm EFB fibre is distributed through a network of local and China intermediaries.

6. BUSINESS OVERVIEW (Cont'd)**(ii) Coconut fibre, coconut fibre sheet and coconut peat**

For the FYE 31 December 2013, we consumed approximately 83.54% of our coconut fibre to produce coconut fibre sheet for our mattress manufacturing business, while the remaining balance of 16.46% was supplied to China intermediaries.

Our coconut peat is distributed through local intermediaries and directly to the local end users.

(iii) Briquette

For the FYE 31 December 2013, approximately 89.21% of our Briquette was supplied to the local market, while the remaining balance of 10.79% was supplied to China intermediaries.

(iv) Mattresses and related products

We distribute our mattresses and related products through local retailers to the end users, except for occasional one-off sales event such as warehouse sales, where it would be sold directly to end consumers.

6.7 SEASONALITY

Save for oil palm EFB fibre, our biomass materials and value-added products are not significantly affected by seasonal/cyclical effects. Demand for our oil palm EFB fibre experience a decline during the Chinese New Year season mainly due to a slowdown in logistics services in China during this period as some of these logistics services are closed during the festive season.

We 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.

6.8 TECHNOLOGY USED

The production lines used for our biomass materials and value-added products manufacturing operations are custom-built according to our design and specifications arising from our process development initiative as detailed in Section 6.10.1 of this Prospectus.

The machineries used for the production of our biomass materials and value-added products include:

- (i) Coconut and oil palm EFB fibres: feeding conveyor, hammer mill, sifter, dryer, packing machine, weighbridge and boiler;
- (ii) Coconut fibre sheet: fibre separator, conveyor, rolling dryer, press dryer, feeding blower, needle punching machine, press hot roller, puller machine and cutting machine; and
- (iii) Briquette: feeding conveyor, dryer, crusher, briquetting machine.

Our Group also commenced the production of mattresses and related products in June 2012. The production process of mattresses and related products is labour intensive, particularly more so for coconut fibre mattress. The machineries used for the production of mattresses and other products include:

- (i) Foam mattress: foaming machine;
- (ii) Spring mattress: spring mattress manufacturing machine;
- (iii) Rebond mattress: rebond mattress manufacturing machine;

6. BUSINESS OVERVIEW (Cont'd)

- (iv) Cushion, pillow and bolster: foaming machine; and
- (v) Mattress cover: quilting machine, sewing machine.

The application of these machineries in our production processes are detailed in Section 6.4 of this Prospectus.

6.9 QUALITY ASSURANCE

We place strong emphasis on the quality of all products produced and are committed towards ensuring a consistent and reliable supply to our customers according to their requirements. We continually seek to uphold the quality of our products, particularly our biomass products, whereby our subsidiary company, HK Kitaran was accredited with the ISO 9001:2008 in April 2012 for its commitment to quality.

Our entire production process including material handling, fibre production and packing system goes through proper quality checks at various critical points to ascertain that our product quality remain consistent throughout. Please refer to Section 6.4 of this Prospectus for details of our production processes.

In addition, we check all in-coming raw materials to ensure that the materials meet pre-determined standards and to reject materials that do not meet specification.

6.10 PROCESS AND PRODUCT DEVELOPMENT

Although we do not perform any research and development, we have been focusing on our process and product development initiatives in order to, among others:

- Improve the efficiency of our production process and product quality;
- Minimise wastage during the production process;
- Commercialise production of new products; and
- Keep abreast of technologies.

Our process and product development initiatives are spearheaded by our Deputy Managing Director, Kee Swee Lai, who is supported by our Process Development Engineer, Ch'ng Chee Yeong, and other key production personnel.

6.10.1 Process Development Milestones and Achievements

(i) Design and customisation of coconut fibre production machinery

Our co-founder, H'ng Choon Seng, initially relied on the sun to dry coconut fibres. Due to limitations on production capacity arising from, among others, weather fluctuations, H'ng Choon Seng together with Kee Swee Lai began researching on the techniques and testing to automate the drying process.

In 2007, they successfully designed and installed a custom-built dryer that enables coconut fibre to be air-dried in a controlled environment and ensures greater control over the quality of the coconut fibre. This facilitated large scale production of coconut fibre with consistent quality.

6. BUSINESS OVERVIEW (Cont'd)**(ii) Design and customisation of oil palm EFB fibre production machinery**

Due to limited expansion opportunities for our coconut fibre production as a result of limited supply of coconut husks, we began testing and redesigning our coconut fibre manufacturing machinery, particularly the hammer mill and boiler, to cater for the manufacturing of oil palm EFB fibre. The redesign of our production machinery was necessary due to the different properties of oil palm EFB, which is softer, contains oil and more moisture, and of a shorter length, as compared to coconut husk. This eventually led to our successful venture into large scale production of oil palm EFB fibre in 2010.

(iii) Process Improvement

Notwithstanding the successful development of our coconut and oil palm EFB fibres production machineries, we continue focusing on our process development initiatives to improve the efficiency of our production process. This led us to link and streamline our production into one continuous process in order to reduce waste and increase our production capacity. Arising from this, the monthly production capacity of an existing oil palm EFB fibre production line was increased from 234 mt in 2009 to 390 mt at the end of 2010.

(iv) Product Improvement

Prior to the introduction of Briquette as our product offering, we have conducted extensive product development and improvement initiatives to the said product. We successfully improved the density of our Briquette from 500kg/m³ to 704kg/m³ by March 2012. Subsequently to this, further improvements were made to the moisture content and the density of our Briquette. By June 2012, we managed to lower the moisture content from 25 percent to 15 percent, and further increased the density of our Briquette from 704kg/m³ to 1,080kg/m³. Further improvements were made to our Briquette in September 2012 whereby its density was increased from 1,080kg/m³ to 1,167kg/m³. We subsequently commenced commercial production of our Briquette in January 2013.

(v) Product Development

Through our continuous product development efforts to widen our product range, we are currently exploring the introduction of Geotextile, a value-added product, as part of our product offering. Accordingly, we have installed one (1) production line with a monthly capacity of 500 mt of Geotextile in Plant 2 as part of our development effort in the manufacturing of Geotextile. Further details on the product development are as disclosed in Section 6.18.1(i) of this Prospectus.

6.11 COMPETITIVE STRENGTHS

We possess a number of key competitive strengths which enable us to compete effectively in our principal markets and provide us with a strong platform to facilitate the continued sustenance of our business expansion and future growth as follows:

(i) Consistent and Reliable Supply

Over the years, we have developed and installed additional production lines which enabled us to provide our customers with consistent, reliable and large quantities of biomass materials. As at the LPD, we have two (2) coconut fibre production lines and twenty (20) oil palm EFB fibre production lines with a total monthly production capacity of 546 mt and 8,372 mt respectively. Our sizeable production capacity coupled with our ability to efficiently and effectively produce biomass materials with consistent quality throughout the year have enabled us to penetrate the overseas market.

6. BUSINESS OVERVIEW (Cont'd)**(ii) Process and Product Development Initiatives**

Since our establishment in 2007, we have been focusing on our process and product development initiatives which are spearheaded by our Deputy Managing Director, Kee Swee Lai. Our process development initiatives have led us to design and install our custom-built production lines, which enabled us to commence large-scale production of coconut fibre and oil palm EFB fibre in 2007 and 2010 respectively.

In addition, our process development initiatives have also enabled us to improve our biomass materials and value-added products quality which led to an increase in demand for our biomass materials and value-added products, as well as improve our production efficiency which led to lower cost of production.

Through our continuous process development initiatives, we expect to commence large-scale production of other value-added biomass products as well as further improve our biomass materials quality and production efficiency. Further, through our product development initiatives, we have ventured into the production of Briquette using short oil palm fibre since the fourth quarter of 2012, and is currently exploring the introduction of Geotextile as detailed in Section 6.18.1(i) of this Prospectus.

(iii) Strategic Location of Operations

Our biomass production facilities are situated strategically within the vicinity of multiple oil palm plantations and palm oil mills, which assure us of a sustained and scalable supply of raw materials at lower transportation cost for our production process. In addition, our subsidiary company, HK Kitaran operates within close proximity to Penang Port (approximately 45km) which enables us to have convenient access to shipping services for the export of our oil palm EFB fibre to our China customers.

By locating ourselves strategically, we are able to obtain our raw materials at a lower cost, which ultimately enable us to offer our manufactured biomass materials to our customers at a competitive price.

(iv) Experienced Management Team

Our co-founders, H'ng Choon Seng and Kee Swee Lai, who collectively have an average of 28 years of experience in the furniture as well as biomass materials and value-added products industries, have played pivotal roles in the growth and development of our Group since our inception in 2007.

In addition, our co-founders are supported by our ten (10) key management and key technical personnel, comprising of staff with diverse backgrounds and experience in various industries, including manufacturing and marketing. Their different expertise, experience and ability to collaborate as a team have contributed positively to our operations and growth, which is reflected in our financial performance over the past few years.

(v) Reusing Waste to Generate Biomass Energy

We reuse waste (by-products from our biomass materials production such as foreign waste materials and short fibres) to generate biomass energy. The biomass energy is then used to supplement the power needs of the manufacture of our biomass materials and value-added products. This has resulted in substantial cost savings and has reduced our reliance on firewood, which in turn has reduced our overall cost of production and improved our profit margin.

6. BUSINESS OVERVIEW (Cont'd)**6.12 MAJOR CUSTOMERS**

Our major customers (those who contributed 10% or more of our total sales) for the past three (3) FYE31 December 2011 to 2013 are as follows:

Customer	Type of Products Sold	Approximate Length of Relationship Years	FYE 31 December					
			2011		2012		2013	
			RM'000	%	RM'000	%	RM'000	%
Total revenue			31,702	100.00	62,965	100.00	73,740	100.00
Chongqing Justit Industries Co., Ltd	Oil palm EFB fibre	3	4,059	12.81	7,436	11.81	-	-
Jiahua Global (M) Sdn Bhd	Oil palm EFB fibre	5	3,761	11.86	1,337	2.13	106	0.14
L&PC International Ltd	Oil palm EFB fibre	3	3,412	10.76	2,443	3.88	-	-
Guangzhou Yuetai Trade Co Ltd	Oil palm EFB fibre	2	-	-	11,331	18.00	-	-
Shenzhen Yuemao Imports & Exports Co., Ltd ("Shenzhen Yuemao")	Oil palm EFB fibre	2	-	-	12,918	20.52	22,224	30.14
Total			13,579	42.83	35,465	56.34	22,330	30.28
Total no. of customers								
▪ Biomass materials and value-added products			110		147		139	
▪ Mattresses and related products			-		875		1,242	
			110		1,022		1,381	

For the FYE 31 December 2013, our major customer, Shenzhen Yuemao contributed to approximately 30.14% of our Group's total revenue. To mitigate the risk of dependency on our major customers, we have been continuously increasing our marketing efforts to expand our customer base. Our customers for biomass materials and value-added products have increased from 91 customers in 2009 to 139 customers in 2013, while pursuant to the Fibre Star Reorganisation, we have garnered a total of 875 customers for our mattresses and related products division which has increased to 1,242 customers in 2013. Further, we have eight (8) other China intermediaries in our customer base for the FYE 31 December 2013 and as such, we are not dependent on Shenzhen Yuemao or any particular intermediary to supply our oil palm EFB fibre and value-added products to China.

6. BUSINESS OVERVIEW (Cont'd)

6.13 SUPPLIERS

6.13.I Types, Sources and Availability of Materials

The breakdown of our major raw materials purchases, which are all sourced locally, for the past three (3) FYE 31 December 2011 to 2013 are as follows:

Type of Materials	FYE 31 December					
	2011	% of	2012	% of	2013	% of
	Purchases	Group	Purchases	Group	Purchases	Group
	RM'000	Purchases	RM'000	Purchases	RM'000	Purchases
<u>Biomass Materials and Value-Added Products</u>						
Coconut husks	1,071	23.30	1,666	11.96	1,640	10.58
Oil palm EFB	2,604	56.66	4,596	33.00	3,848	24.81
Chemicals ⁽¹⁾	-	-	1,707	12.26	1,291	8.32
	3,675	79.96	7,969	57.22	6,779	43.71
<u>Mattresses and Related Products</u>						
Foam and span	-	-	1,205	8.65	2,243	14.46
Chemicals	-	-	800	5.75	1,690	10.90
Fabric	-	-	974	7.00	1,276	8.23
Others ⁽²⁾	-	-	1,531	10.99	1,824	11.77
	-	-	4,510	32.39	7,033	45.36
Packing materials ⁽³⁾	921	20.04	1,447	10.39	1,695	10.93
Total	4,596	100.00	13,926	100.00	15,507	100.00

Notes:

- (1) Chemicals are used in the production of coconut fibre sheet as a form of adhesive to make the fibre sheet more compact.
- (2) Others include spring, divan and headboard, wire, wood, mattress tape, latex, polyester, pongee and other accessories.
- (3) Packing materials are used for the packing of both biomass materials and value-added products as well as mattresses and related products.

The purchase prices of these raw materials have remained fairly stable over the past three (3) years from FYE 31 December 2011 to 2013. In the event that our raw materials costs increase substantially, we are able to pass on the costs to our customers. We have not experienced any major difficulty in sourcing for our raw materials as our production facilities are situated strategically within the vicinity of multiple oil palm plantations and palm oil mills.

6. BUSINESS OVERVIEW (Cont'd)**6.13.2 Major Suppliers**

Our major suppliers (those who contributed 10% or more of our total purchases) over the past three (3) FYE 31 December 2011 to 2013 are as follows:

Supplier	Type of Materials Purchased	Approximate Length of Relationship Years	FYE 31 December					
			2011		2012		2013	
			RM'000	%	RM'000	%	RM'000	%
Total purchases			4,596	100.00	13,926	100.00	15,507	100.00
AKSB	Oil palm EFB	4	897	19.52	636	4.57	191	1.23
Yip Shun Trading Sdn Bhd	Oil palm EFB	3	772	16.80	701	5.03	664	4.28
Total			1,669	36.32	1,337	9.60	855	5.51
Total no. of suppliers			41		129		134	

AKSB and Yip Shun Trading Sdn Bhd are our major suppliers who accounted for 19.52% and 16.80% respectively of our total purchases for the FYE 31 December 2011. However, for the FYE 31 December 2012 and 2013, we do not have any major suppliers who contributed 10% or more of our Group's total purchases.

We are of the opinion that maintaining a diversified supplier base for our raw materials mitigates our dependence on any single suppliers and have increased our supplier base from 15 suppliers in 2009 to 134 suppliers in 2013. The significant increase in our supplier base for the FYE 31 December 2012 and 2013 was mainly due to the inclusion of supplier base from our mattresses and related products division pursuant to the Fibre Star Reorganisation.

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6. BUSINESS OVERVIEW (Cont'd)

6.14 MAJOR LICENCES, PERMITS AND REGISTRATIONS

Our major licences, permits and registrations as at the LPD together with the conditions attached and the status of compliance are as follows:

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
HK Fibre	MITI	14.10.2013	01.04.2012 to 31.05.2017	Pioneer Certificate No. 4344 (for 70% tax exemption on statutory income for 5 years for pioneer activity involving coconut fibre sheet)	<ul style="list-style-type: none"> The value-added production of the company must reach at least 67%; The total amount of staff at the management, technical and supervision level must reach at least 15% of the total employment of the company; and The account for the approved production with pioneer status for small industrial scale and the account for the approved production without pioneer status shall be kept separately. 	Complied
HK Fibre	Majlis Daerah Bachok Bandar Pelancongan Islam	02.04.2014	01.01.2014 to 31.12.2014	Factory Premises License (Ref. No. MDB.382/12)	Nil	Not applicable
HK Kitaran	MITI	12.05.2011	01.07.2010 to 30.06.2015	Pioneer Certificate No. 3729 – (for 100% tax exemption on statutory income for 10 years for pioneer activity involving fibre from palm biomass)	<ul style="list-style-type: none"> The value-added products must achieve at least 80% of the proposed target; and The company must carry out its project using palm biomass. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
HK Kitaran	MPSP	19.07.2013	02.08.2012 to 02.08.2014	License for processing palm fibre (Bill No: 06/13/02601)	Nil	Not applicable
HK Kitaran	MPSP	16.08.2013	24.08.2011 to 24.08.2014	License for processing palm fibre (Bill No: 06/13/02708)	Nil	Not applicable
HK Kitaran	MITI	08.05.2012	-	Manufacturing license -- No. A018656	<ul style="list-style-type: none"> The Plot No. 2945 (Plot A2), Jalan Sungai Baong, MK 5, 14200 Sungai Bakap, Seberang Perai Selatan, Pulau Pinang is subject to the approval from the relevant State Authority and Department of Environment. Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied
						Noted
						Complied
						Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
HK Kitaran	MITI	08.05.2012	-	Manufacturing license – No. A018657	<ul style="list-style-type: none"> The Plot No. A001, Jalan Sungai Baong 14200, Sungai Bakap, Seberang Perai Selatan, Pulau Pinang is subject to the approval from the relevant State Authority and Department of Environment. Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
HK Kitaran	Jabatan Alam Sekitar Pulau Pinang ("DOE Penang")	09.01.2013	-	Approval for installation of Biomass Fired Steam Boiler, multicyclone air pollution control equipment and chimney at No. 2945, Plot A2, Kawasan Perindustrian Perabot Sungai Baong, Mukim 5, 14200 Sungai Bakap, Pulau Pinang	<p>Conditions for installation of fuel burning equipment and chimney are, inter alia, as follows:</p> <ul style="list-style-type: none"> The constructed facilities shall be in accordance with the drawing/plan submitted and certified by the Professional Engineer Ir. Abdul Talib Din (Mechanical – 8908). The concentration of the black smoke shall not exceed the colour No. 1 in the Ringelmann Chart. Smoke density meter and alarm system must be installed. The concentration of dirt, dust and solid particles emitted from the chimney shall not exceed 0.05 gm/Nm³. For other parameters, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. The installation of multicyclone system must be in accordance with the arrangement and specifications submitted by HK Kitaran's consultant, Greentage Sdn Bhd and certified by the Professional Engineer, Ir. Abdul Talib Din (Mechanical – 8908). 	Complied
						Complied
						Complied
						Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year (4 months once) in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE Penang. The first report shall be submitted within 1 month of the operation of the steam boiler. Any changes made to the chimney in the future shall be subject to prior written consent from the Director General of DOE Penang. 	Complied
					<p>Conditions for installation of multicyclone air pollution control equipment and chimney are, inter alia, as follows:</p> <p><u>Cyclonic air pollution control system specifications</u></p> <ul style="list-style-type: none"> Any new additional factory equipment that causes emission of dust is subject to prior approval from DOE Penang. Any modification made to the centrifugal type fan and fan motor shall not modify the proposed design in the application made by HK Kitaran dated 26 June 2012 which has been accepted and approved by DOE Penang. DOE Penang must be informed within one month of any modification being carried out. 	Noted

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Performance monitoring equipment such as magnehelic gauge shall be installed as shown in the plan dated June 2012. 	Complied
					<u>Operation</u> <ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year (4 months once) in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE Penang. The first report shall be submitted within 1 month of the operation of the cyclone. 	Complied
					<ul style="list-style-type: none"> The emission of solid particles from the chimney shall not exceed 0.05 gm/Nm³. For other parameter, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. 	Complied
					<ul style="list-style-type: none"> Competent operator shall be appointed to handle and maintain the operation of the cyclone. The name and qualification of this operator shall be submitted to DOE Penang. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Components that are prone to wear or plugging including component structure, housing and hoods must be inspected every quarter or half a year. Written record of the inspection and any action taken shall be kept for the purpose of inspection. Any changes made to the air pollution control system is subject to prior approval of the Director General of the DOE Penang. 	Complied
HK Kitaran	DOE Penang	04.04.2013	-	Approval for installation of Biomass Fired Steam Boiler, multicyclone air pollution control equipment and chimney at No. 2940, Plot A001, Kawasan Perindustrian Perabot Sungai Baong, Mukim 5, 14200 Sungai Bakap, Pulau Pinang	<p>Conditions for installation of fuel burning equipment and chimney are, inter alia, as follows:</p> <ul style="list-style-type: none"> The constructed facilities shall be in accordance with the drawing/plan submitted and certified by the Professional Engineer Ir. Abdul Talib Din (Mechanical – 8908). The concentration of the black smoke shall not exceed the colour No. 1 in the Ringelmann Chart. Smoke density meter and alarm system must be installed. The concentration of dirt, dust and solid particles emitted from the chimney shall not exceed 0.05 gm/Nm³. For other parameters, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> The installation of multicyclone system must be in accordance with the arrangement and specifications submitted by HK Kitaran's consultant, Greentage Sdn Bhd and certified by the Professional Engineer, Ir. Abdul Talib Din (Mechanical – 8908). 	Complied
					<ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year (4 months once) in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE Penang. The first report shall be submitted within 1 month of the operation of the steam boiler. 	Complied
					<ul style="list-style-type: none"> Any changes made to the chimney in the future shall be subject to prior written consent from the Director General of DOE Penang. 	Noted
					<p>Conditions for installation of multicyclone air pollution control equipment and chimney are, inter alia, as follows:</p> <p><u>Cyclonic air pollution control system specifications</u></p> <ul style="list-style-type: none"> Any new additional factory equipment that causes emission of dust is subject to prior approval from DOE Penang. 	Noted

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Any modification made to the centrifugal type fan and fan motor shall not modify the proposed design in the application made by HK Kitaran dated 26 June 2012 which has been accepted and approved by DOE Penang. DOE Penang must be informed within one month of any modification being carried out. 	Noted
					<ul style="list-style-type: none"> Performance monitoring equipment such as magnehelic gauge shall be installed as shown in the plan dated June 2012. 	Complied
					<p><u>Operation</u></p> <ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year (4 months once) in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE. The first report shall be submitted within 1 month of the operation of the cyclone. 	Complied
					<ul style="list-style-type: none"> The emission of solid particles from the chimney shall not exceed 0.05 gm/Nm^3. For other parameter, emission shall comply with Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Competent operator shall be appointed to handle and maintain the operation of the cyclone. The name and qualification of this operator shall be submitted to DOE Penang. 	Complied
					<ul style="list-style-type: none"> Components that are prone to wear or plugging including component structure, housing and hoods must be inspected every quarter or half a year. Written record of the inspection and any action taken shall be kept for the purpose of inspection. 	Complied
					<ul style="list-style-type: none"> Any changes made to the air pollution control system shall be subject to prior approval of the Director General of the DOE Penang. 	Noted
HK Kitaran	Department of Occupational Safety and Health	09.09.2013	09.09.2013 to 12.11.2014	Certificate of Fitness for steam boiler (Registration No. : PMD 6476)	Nil	Not applicable
HK Kitaran	Department of Occupational Safety and Health	27.02.2014	27.02.2014 to 02.05.2015	Certificate of Fitness for steam boiler (Registration No. : PMD 8020)	Nil	Not applicable

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/ Permit/Certification	Conditions Imposed	Status of Compliance
HK Palm Fibre	MITI	02.06.2014 ⁽¹⁾	01.10.2009 to 10.05.2012	Pioneer Certificate No. 3508 (for 100% tax exemption on statutory income for 5 years for pioneer activity involving fibre from oil palm biomass) ⁽¹⁾	<ul style="list-style-type: none"> At least 60% of the company's shares must be acquired and held by Malaysian citizens; The value-added production of the company must reach at least 15%; and Not more than 20% of the shares of this company can be acquired and held by holding company/ related company (whether controlled directly or indirectly) having a shareholder's fund which exceeds RM500,000.00. 	Complied
HK Palm Fibre ⁽²⁾	MITI	25.07.2012	-	Manufacturing license -- No. A018775	<ul style="list-style-type: none"> The Plot Lot 713, Mukim Sungai Batu, 09810 Daerah Bandar Baru, Selama, Kedah is subject to the approval from the relevant State Authority and Department of Environment. Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
HK Fibre Palm	Jabatan Alam Sekitar Negeri Kedah ("DOE Kedah")	04.06.2013	-	Approval for installation of chimney from bag filter system at Lot 713, MK Sungai Batu, 09810 Daerah Bandar Baru, Selama, Kedah	<p>Conditions for installation of chimney from bag filter system are, inter alia, as follows:</p> <ul style="list-style-type: none"> Any new additional factory equipment that causes emission of dust is subject to prior approval from DOE Kedah. Any modification made to the bag filter, centrifugal type fan and fan motor shall not modify the design proposed in the HK Palm Fibre's application dated 3 April 2013. DOE Kedah must be informed within one month of any modification being carried out. Installation of the bag filter and chimney must be in accordance with the plans dated 17 April 2013 and 14 May 2013 and the specification certified by Tertib Alam Enterprise and confirmed by Ir. Tan Boon Khong (12835 – Mechanical). Performance monitoring equipment such as pressure gauge and others must be installed in accordance with the plan. <p><u>Building Stage</u></p> <ul style="list-style-type: none"> DOE Kedah shall be informed in writing as soon as the construction of the air pollution controller system is complete and ready for inspection for the purpose of commissioning. 	<p>In progress ⁽³⁾</p> <p>Noted</p> <p>Noted</p> <p>In progress ⁽³⁾</p> <p>In progress ⁽³⁾</p> <p>Noted</p>

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<u>Operation</u>	
					<ul style="list-style-type: none"> The emission of dust or solid particles from the chimney shall not exceed Standard C, Rules of Environmental Quality Regulations (Clean Air) 1978 at all times. 	In progress ⁽³⁾
					<ul style="list-style-type: none"> Sampling of the chimney must be conducted 3 times a year in accordance to MS1596:2003 Determination of Concentration and Mass Flow of Particulate Matter in Flue Gas for Stationary Sources and the report must be submitted to DOE Kedah. 	In progress ⁽³⁾
					<ul style="list-style-type: none"> Competent operator shall be appointed to handle and maintain the operation of the bag filter. The name and qualification of this operator shall be submitted to DOE Kedah. 	In progress ⁽³⁾
					<ul style="list-style-type: none"> Any changes made to the air pollution control system shall be subject to prior approval of the Director General of DOE Kedah. 	Noted
Fibre Star	MITI	06.09.2012	-	Manufacturing license -- No. A018830	<ul style="list-style-type: none"> The Plot No. 3843, MK 11, Luar Desa Jawi, 14200 Sungai Jawi, Pulau Pinang is subject to the approval from the relevant State Authority and Department of Environment. 	Complied

6. BUSINESS OVERVIEW (Cont'd)

Company	Issuing Authority	Issue Date	Validity Period	Type of License/ Registration/ Permit/ Certification	Conditions Imposed	Status of Compliance
					<ul style="list-style-type: none"> Notification must be given to MITI and MIDA for any disposal of shares in the company; Training must be given by the company to Malaysian citizens so that technology and expertise can be channeled to all levels of employment; and The company shall implement its projects as approved and in accordance with the rules and regulation in Malaysia. 	Noted Complied Complied
Fibre Star	MPSP	03.01.2014	08.06.2002 to 27.01.2015	License for processing cushion and mattress (Bill No: 06/14/00049)	Nil	Not applicable
Fibre Star	MPSP	20.02.2014	20.02.2014 to 19.02.2015	License for processing mattress and accessories from fibre products (coconut/ oil palm) (Bill No: 04/13/04459)	Nil	Not applicable





Notes:

- (1) Based on the previous Pioneer Certificate dated 7 May 2010, HK Palm Fibre is entitled to tax exemption for the period from 1 October 2009 to 30 September 2014. However, pursuant to the Acquisition of HK Palm Fibre, the company has not complied with the third condition. In view of that, MIDA has revised the tax exemption period of HK Palm Fibre from 1 October 2009 to 10 May 2012. Hence, HK Palm Fibre no longer enjoys its pioneer status effective 11 May 2012. The revised Pioneer Certificate dated 2 June 2014 was issued to HK Palm Fibre via MIDA's letter dated 4 June 2014.
- (2) HK Palm Fibre has yet to obtain a processing licence for Plant 5 and has been advised by the local authority, MDEB that a planning permission followed by a CCC would need to be obtained prior to applying for a processing licence. HK Palm Fibre has, on 19 November 2012 applied to MDEB for planning permission for Plant 5 and has subsequently obtained MDEB's conditional approval for the planning permission on 5 March 2013. As at the LPD, the company is in the process of fulfilling the conditions imposed under the planning permission. This will then be followed by the application for a CCC. The CCC is estimated to be issued within six (6) to nine (9) months from the date of submission of application. Upon obtaining the CCC, HK Palm Fibre will apply for the processing licence which is expected to be issued within three (3) months from the date of submission of application. Further details are as disclosed in Section 6.17.2 of this Prospectus. As at the LPD, there have been no actions being taken by MDEB pursuant to HK Palm Fibre operating without a processing licence.
- (3) HK Palm Fibre is in the process of installing the chimney and bag filter system. The aforesaid installations are required by DOE Kedah pursuant to its confirmation of no objection to HK Palm Fibre's application for a preliminary site assessment for Plant 5.

6. BUSINESS OVERVIEW (Cont'd)

6.15 INTELLECTUAL PROPERTY RIGHTS

As at the LPD, we own the following trademarks:

Trademark Logo	Applicant	Class No.	Description of Class Heading of Trademark	Trademark No.	Validity Period
	Heng Huat	Class 22	Padding and stuffing materials of coconut fibres and palm fibres; all included in Class 22.	2012051167	28.02.2012 to 28.02.2022
	Heng Huat	Class 20	Cushion; included in Class 20	2012050532	31.01.2012 to 31.01.2022
	Fibre Star	Class 20	Mattresses, Bolster, Pillow and Cushion; all included in Class 20.	07019842	09.10.2007 to 09.10.2017
	Fibre Star	Class 20	Cushion, Pillow, Bolster and Mattress; all included in Class 20	95000678	20.01.1995 to 20.01.2022

Note:

* Products which fall under Class 20 and Class 22 of the trademark classifications are as follows:

Class	Description
20	Furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.
22	Ropes, strings, nets, tents, awnings, tarpaulins, sails, sacks and bags (not included in other classes); padding and stuffing materials (except of rubber or plastics); raw fibrous textile materials.

6. BUSINESS OVERVIEW (Cont'd)

6.16 DEPENDENCY ON PATENTS, INTELLECTUAL PROPERTY RIGHTS, LICENCES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS**6.16.1 Dependency on Intellectual Property Rights**

Save as disclosed in Section 6.15 of this Prospectus, our Group is not dependent on any patents or intellectual property rights for our business operations.

6.16.2 Dependency on Major Licences

Save as disclosed in Section 6.14 of this Prospectus, our Group is not dependent on any major licences for our business operations.

6.16.3 Dependency on Industrial, Commercial and Financial Contracts

Our Group is not dependent on any material contracts or agreements including industrial, commercial and financial contracts, which are material to our business or profitability.

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6. BUSINESS OVERVIEW (Cont'd)**6.17 PROPERTY****6.17.1 Own Properties**

As at the LPD, we own the following properties:

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure	Encumbrances	Land Area/ Built-up Area (sq ft)	Audited NBV as at 31 December 2013 RM'000	Issuance Date of CCC/OC
HK Kitaran (1)(2)(3)	Title: No. H.S.(D) 6714 Lot 2940, Mukim 4 Daerah Seberang Perai Selatan Pulau Pinang Address: No A001, Jalan Sungai Baong Kawasan Perindustrian Perabut Sungai Baong, Mukim 5 14200 Sungai Bakap Seberang Perai Selatan Penang ("Plant 1")	Double storey office building annexed with a single storey detached factory building/ Used for oil palm EFB fibre manufacturing	Freehold	The land is currently charged to United Overseas Bank (Malaysia) Berhad	239,580/ 78,000	8,165	17.05.1999

6. BUSINESS OVERVIEW (Cont'd)

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure	Encumbrances	Land Area/ Built-up Area (sq ft)	Audited NBV as at 31 December 2013 RM'000	Issuance Date of CCC/ OC
HK Kitaran ⁽⁴⁾	<u>Title:</u> No. H.S.(D) 6719 Lot 2945, Mukim 4 Daerah Seberang Perai Selatan Pulau Pinang <u>Address:</u> Lot 2945 (Plot A2) Jalan Sungai Baong Kawasan Perindustrian Perabut Sungai Baong, Mukim 5 14200 Seberang Perai Selatan Penang ("Plant 2")	Double storey office building annexed with a single storey detached factory/ Used for oil palm EFB fibre manufacturing	Freehold	The land is currently charged to AmBank (M) Berhad	178,160/ 80,000	7,744	04.04.2012
Fibre Star ⁽⁵⁾	<u>Title:</u> No. H.S.(D) 8763 Lot No. 2489, Mukim 5 Daerah Seberang Perai Selatan Pulau Pinang <u>Address:</u> Lot 2489, Lorong Bakau Kawasan Perindustrian Perabut Sungai Baong, Mukim 5 14200 Sungai Bakap Seberang Perai Selatan Penang ("Plant 4")	Single storey factory building/ Temporarily used as warehouse	Freehold	The land is currently charged to Hong Leong Bank Berhad	69,696/ 30,000	2,857	12.08.2013

6. BUSINESS OVERVIEW (Cont'd)

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure	Encumbrances	Land Area/ Built-up Area (sq ft)	Audited NBV as at 31 December 2013 RM'000	Issuance Date of CCC/ OC
HK Fibre ⁽⁶⁾	Title: HSM 2/97A, PT 345 Kg Kemayang, Mukim Senak Jajahan Bachok Kelantan Darul Naim ("Plant 6")	A portable cabin office and a single storey detached factory/ Used for coconut fibre, coconut peat and coconut fibre sheets manufacturing	99 years, Expiring on 18.08.2096	The land is currently charged to Maybank Islamic Berhad	89,690/ 40,483	1,461	14.03.1996
	Address: Lot 345, Kg. Kemayang Tawang 16020 Bachok Kelantan Darul Naim						

Notes:

- (1) Plant 1 was previously occupied by our Group as a rented factory. Following the signing of a Sale and Purchase Agreement on 9 May 2012 between HK Kitaran and Pracom Sdn Bhd, which was subsequently completed on 17 August 2012, the property is now owned by our Group. As described in Sections 3.6 and 6.18.1(iv) of this Prospectus, we will be constructing a single storey factory building adjacent to the existing Plant 1. The said factory building will have a built-up area of approximately 80,000 sq ft which will be used to accommodate the production and warehousing of our current and future products. We will also refurbish the existing buildings in Plant 1 in conjunction with the construction of the said factory building.
- (2) The express condition in the land title of Plant 1 states that the land shall be used for the purpose of furniture (wood) factory only. Notwithstanding this, the use of Plant 1 for the manufacturing of our oil palm EFB fibre is in accordance with the permitted category of land use, i.e. Industrial (Perusahaan/ Perindustrian), the OC for Plant 1 has been obtained and a processing licence has also been issued by MPSP to HK Kitaran. HK Kitaran has on 20 March 2014, through its land surveyor/consultant, written and are awaiting a formal reply from the Pentadbir Tanah Daerah to clarify whether the company is allowed to use the land for the manufacturing of oil palm EFB fibre. HK Kitaran has undertaken to apply for a variation of the express condition, if required, and in the event the said variation is not approved by the Pentadbir Tanah Daerah, we shall relocate our operations in Plant 1 to a fully compliant rented building. Further, HK Kitaran has undertaken to promptly rectify any non-compliance in relation to Plant 1 and do all such things necessary to ensure that Plant 1 will be in compliance with all such conditions attached to its land title as well as the National Land Code 1965 and other applicable laws, rules and regulation. Further details are as disclosed in Section 4.1(xi) of this Prospectus.
- (3) As at the LPD, there are two (2) movable container cabins which are used as staff accommodation located on the land of Plant 1. The company's appointed consultant had on 5 November 2012 being informed by MPSP that the movable container cabins located on the said land do not require any temporary permit or approval from MPSP as they are not permanent structures.

6. BUSINESS OVERVIEW (Cont'd)

(4) *There is an extended shed attached to Plant 2's factory building ("Extension"). Application for approval for the Extension was submitted to MPSP on 19 July 2013. We have subsequently received a letter from MPSP dated 23 October 2013 wherein MPSP informed that based on its record, the building structure of Plant 2 has been approved by MPSP and CCC has been issued. Based on MPSP's inspection, all the building structure of Plant 2 has obtained the approval and consent from MPSP and as such, MPSP has no objection as to the operation of Plant 2.*

(5) *Following the signing of a Sale and Purchase Agreement on 11 May 2012 between Fibre Star and HH Furniture which was subsequently completed on 7 February 2013, the property (i.e. Plant 4) is now owned by our Group. We intend to use metal sheet to enclose the building structure of Plant 4 which will be used to accommodate a production area and a warehouse. The enclosure of the building structure is subject to the local authorities' approval, and is estimated to be obtained within three (3) to six (6) months from the date of submission. Fibre Star will submit a building renovation plan to the building department of MPSP for approval prior to the set up of the production area. For production, Plant 4 will be used either for mattress production or for the production of oil palm EFB fibre/coconut fibre products. Further details on the production and the required licenses are as follows:*

Type of production	Licence required	Status of application of licence
<p>(a) Mattress production</p> <p><i>Note: In the event that an OC is not issued for Plant 3 (please refer to Section 6.17.2 of this Prospectus for further details on Plant 3), Fibre Star's production operations in Plant 3 will be relocated to Plant 4 within three (3) to six (6) months after obtaining the manufacturing and processing licences.</i></p>	<ul style="list-style-type: none"> • Manufacturing licence from MITI; and • License for processing cushion and mattress from MPSP 	<p><i>As disclosed in Section 6.14 of this Prospectus, the existing manufacturing operations of Fibre Star in Plant 3 are licensed by MITI and MPSP. In the event of relocation of Fibre Star's operations from Plant 3 to Plant 4, fresh applications need to be submitted to the MITI and MPSP as the licences granted by them are location specific.</i></p> <p><i>Fibre Star has on 20 February 2014 obtained the processing licence from MPSP for the processing of mattress and accessories from fibre products (coconut/oil palm).</i></p>
<p>(b) Production of other value-added products of oil palm EFB fibre/coconut fibre</p> <p><i>Note: In the event that Fibre Star's mattress production operations in Plant 3 need not be relocated to Plant 4, Plant 4 will be used for the production of our other value-added products of oil palm EFB/coconut fibre.</i></p>	<ul style="list-style-type: none"> • Manufacturing licence from MITI; and • Processing licence for production of oil palm EFB fibre/coconut fibre products from MPSP 	<p><i>In the event that Plant 4 is used for the production of oil palm EFB fibre/coconut fibre products, Fibre Star will apply and obtain a manufacturing licence and processing licence for production of oil palm EFB fibre/ coconut fibre products for Plant 4, if required, prior to commencement of the production.</i></p>

(6) *Plant 6 was previously occupied by our Group as a rented factory. Following the signing of a Sale and Purchase Agreement on 24 April 2012 between HK Fibre and Keloil Sdn Bhd which was subsequently completed on 25 February 2013, the property is now owned by our Group.*

6. BUSINESS OVERVIEW (Cont'd)

6.17.2 Rented Properties

In addition, as at the LPD, we also rent the following properties for our operations:

Tenant	Landlord	Title/Address	Description/ Existing Use	Rental Period	Annual Rental RM	Land Area/ Built-up Area (sq ft)	Issuance Date of CCC/ OC
Fibre Star	HH Furniture	Title: PM513, Lot 1223 Mukim 11 Jawi Village Daerah Seberang Perai Selatan Pulau Pinang	Two (2) storey office block with a single storey detached factory warehouse/ Used for mattress production and warehouse	16.06.2012 to 15.06.2014	288,000	74,548/ 60,000	(1)
		Address: No 3843 (Lot 1223) Mk. 11, Luar Desa Jawi 14200 Sungai Jawi Seberang Perai Selatan Pulau Pinang ("Plant 3")					
HK Palm Fibre	AKSB	Title: GM2092, Lot 2660, Mukim Sungai Batu, Daerah Bandar Baharu Kedah Darul Aman	A single storey office annexed with a single storey detached factory/ Used for oil palm EFB fibre manufacturing	(2)	72,000	149,274/ 70,041	(3)
		Address: Lot 713, Mukim Sungai Batu, 09810 Daerah Bandar Baharu Selama, Kedah Darul Aman ("Plant 5")					

6. BUSINESS OVERVIEW (Cont'd)

Tenant	Landlord	Title/Address	Description/ Existing Use	Rental Period	Annual Rental RM	Land Area/ Built-up Area (sq ft)	Issuance Date of CCC/ OC
HK Kitaran	HK Alliance Sdn Bhd	<u>Title:</u> No. Geran Mukim 956 Lot 2151, Mukim 4 Daerah Seberang Perai Selatan Pulau Pinang	A vacant land/ (4)	01.11.2013 to 01.11.2015	120,000	98,445/ Not Applicable	Not Applicable

Notes:

- (1) Currently, the rented property does not have an OC. Our landlord, HH Furniture, has on 15 October 2012 applied to MPSP for planning permission for Plant 3. HH Furniture has subsequently on 4 March 2013 received a conditional approval from MPSP for the planning permission and is currently in the process of fulfilling the conditions imposed. This will be followed by application for OC upon obtaining the approval from MPSP for the planning permission. In this regard, the OC is estimated to be issued within six (6) to nine (9) months from the date of submission of application, i.e. by December 2014. In the event that an OC is issued, we will continue to rent and operate in Plant 3, failure of which, we will relocate our operations in Plant 3 to Plant 4 (as described in Section 6.17.1 of this Prospectus) or to a fully compliant rented property, if necessary, in the event that Plant 4 is not ready for occupation and operations.
- (2) HK Palm Fibre is using and occupying Plant 5 pursuant to an agreement dated 22 June 2009 between HK Palm Fibre and AKSB in relation to supply of oil palm EFB by AKSB to HK Palm Fibre, and letters dated 29 June 2009, 28 August 2012, 23 October 2012 and 3 December 2012 as supplemental to the said agreement. Pursuant to the collaboration arrangement between HK Palm Fibre and AKSB under this agreement, AKSB has given to HK Palm Fibre the right to use and occupy the property for a period of ten (10) years commencing from the date of the agreement and AKSB shall grant to HK Palm Fibre the option to extend the duration and validity of the agreement for a further ten (10) years from the date of expiry. Pursuant to the supplemental letter dated 3 December 2012, HK Palm Fibre is required to pay a rental of RM6,000 per month with effect from 1 November 2013.
- (3) HK Palm Fibre, with the consent of AKSB, will be applying for a CCC for Plant 5 which is used for HK Palm Fibre's operations, for purposes of obtaining a processing licence for its operations in the premise. HK Palm Fibre has on 19 November 2012 applied to MDBB for planning permission for Plant 5. HK Palm Fibre has subsequently on 5 March 2013 received the conditional approval from MDBB for the planning permission and is currently in the process of fulfilling the conditions imposed. This will be followed by the application for CCC upon approval by MDBB for the planning permission. In this regard, the CCC is estimated to be issued within six (6) to nine (9) months from the date of submission of the application, i.e. by December 2014. Upon obtaining the CCC, HK Palm Fibre will apply for the processing licence which is expected to be issued within three (3) months from the date of submission. Further details are as disclosed in Note (2) of Section 6.14 of this Prospectus.
- In the event that we are required to vacate Plant 5 by MDBB pending the issuance of the CCC or a CCC is not issued for Plant 5, we will relocate our operations in Plant 5 to a fully compliant rented property, if necessary.
- (4) It is the company's intention to use the land for staff accommodation by placing movable container cabins on the said land in due course. The company's appointed consultant has on 13 February 2014 being informed by MPSP that movable container cabins located on the said land do not require any temporary permit or approval from MPSP as they are not permanent structures and there is no local authority guideline governing it at this juncture.

6. BUSINESS OVERVIEW (Cont'd)

6.17.3 Regulatory Requirements And Environmental Issue

Save as disclosed in Sections 4.1(xi), 6.14, 6.17.1 and 6.17.2 of this Prospectus, as at the LPD, we are in compliance in respect of all regulatory requirements (including land rules and building regulations) and environmental issues which may materially affect our Group's operations and/or utilisation of assets.

6.17.4 Interruptions To Business And Operations

We have not experienced any material interruption in business which had a significant effect on our operations during the past twelve (12) months preceding the LPD.

6.18 FUTURE PLANS, STRATEGIES AND PROSPECTS**6.18.1 Future Plans and Strategies**

Our future plans and business strategies to further strengthen our competitive advantages are as follows:

(i) Expansion of our Product Offerings

In addition to the introduction of Briquette, we intend to further broaden our product offering with the production of Geotextile.

Geotextile is mainly used in civil engineering works for separation or stabilisation of soil to strengthen slopes, erosion control and reinforcement of soft soil foundation in construction. Geotextile is also mainly used in plantations for soil improvement, soil protection and upon its biodegradation, serve as a natural fertiliser. As at the LPD, we have installed one (1) Geotextile production line with a monthly capacity of 500 mt of Geotextile in our Plant 2 as part of our development effort in the manufacture of Geotextile. We plan to commence pilot production for our Geotextile in the second quarter of 2014 and thereafter commercialise our Geotextile production by the fourth quarter of 2014.

(ii) Enhancement of our Product Offerings

Currently, our Briquette is mainly supplied to the local market, with minor supply to China intermediaries. As part of our strategy to enhance our competitive strength, we intend to better serve our customers with provision of Briquette customisation services to meet the requirements of customers from various industries. Through our process development efforts, we strive to continuously improve the quality of our Briquette, i.e. the density and moisture content, in order to better penetrate the China's Briquette market and increase our supply of Briquette to China.

Meanwhile, the recent banning of new coal-fired plants in Beijing, Shanghai and Guangzhou of China is likely to spur demand for cleaner, alternative source of energy including Briquette (*Source: IMR Report by Protégé Associates*). As such, we envisage a potential rising demand for Briquette in the China market moving forward. We believe the improved quality of our Briquette will enhance market acceptance of our Briquette in the China market and thereby our revenue.

6. BUSINESS OVERVIEW (Cont'd)**(iii) Green Power Generation Utilising Short Fibre**

Short fibre produced from our biomass materials is currently used for biomass energy generation using steam boiler to operate the production of our biomass materials and value-added products, and as raw material for Briquette production. In addition to the abovementioned, we intend to move towards zero waste production with the installation of a boiler turbine system which will enable the utilisation of wastes produced as by-product of our operation to power our production process.

As compared to existing boiler which produces steam, the proposed new boiler turbine system will generate electricity from the incineration of short fibre and is estimated to enable us to achieve further cost savings of up to approximately RM3.00 million per annum in woodchips, electricity and maintenance and operation costs. Based on the preliminary study conducted, the purchase and installation of the boiler turbine system is estimated to cost approximately RM6.50 million, which we intend to finance via bank borrowings and/or internally generated funds. We target to install the boiler turbine system by the fourth quarter of 2015 and the installation process is estimated to take approximately fourteen (14) months.

(iv) Expansion of Our Production Facility

In line with our product and market expansion plans, we intend to extend our production facility with the construction of a new production facility. The new production facility will be a single storey factory building constructed adjacent to Plant 1 with a built-up area of approximately 80,000 sq ft and will be used as a warehouse and/or to house new production lines. Besides that, we also intend to install the boiler turbine system in our new production facility.

The construction of the new production facility is expected to commence in the third quarter of 2015 upon obtaining the relevant authorities approval for the building plan and is expected to be completed within a period of fifteen (15) months from the date of commencement. The construction of the new production facility is estimated to cost approximately RM3.20 million, which we intend to finance entirely from the Public Issue proceeds.

(v) Obtaining ISO Certification for Our Subsidiary Companies

One of our wholly-owned subsidiary companies, HK Kitaran has been accredited with ISO 9001:2008 in April 2012. In view that ISO is an international standard recognised by 163 countries, we intend to apply for ISO accreditation for HK Palm Fibre and Fibre Star in the fourth quarter of 2014 and fourth quarter of 2015 respectively. The accreditation process is expected to take approximately six (6) to twelve (12) months. Our compliance to internationally recognised standards is expected to provide us with better opportunities to penetrate overseas market such as Europe and USA.

(vi) Market Expansion

As part of our market expansion plans and in line with our increasing exposure in the China market, we intend to incorporate a subsidiary company in the southern region of China in view of China's continuous use and growing demand for oil palm EFB fibre coupled with our ability to supply large quantities of oil palm EFB fibre to customers in China. With the setting up of a subsidiary company in China, we will be able to obtain primary knowledge on the market trends and further expand our market presence in China. As at the LPD, we are in the midst of locating an ideal place for the set up of the subsidiary company as well as sourcing for human resources. Subject to obtaining the relevant regulatory approvals from the China authorities, we intend to set up the subsidiary company in China by the first quarter of 2015.

6. BUSINESS OVERVIEW (Cont'd)

6.18.2 Prospects

The biomass materials market for coconut fibre and oil palm EFB fibre in Malaysia is forecasted to grow at a CAGR of 14.3% from 2013 to 2018 to reach RM180.4 million in 2018. This growth is expected to be driven by the following demand and supply conditions as set out in Section 7 of this Prospectus:

Demand conditions

- Rising demand from China;
- Population growth and greater affluence spurring demand for end-products; and
- Growing applications of natural fibre.

Supply conditions

- Strong government support;
- Increasing domestic and foreign investments and initiatives;
- Increase of oil palm production under the ETP; and
- Legislation enforcement on environment protection.

(Source: IMR Report by Protégé Associates)

Based on the expected growing demand for coconut fibre and oil palm EFB fibre as well as our future plans and strategies and our competitive strengths as set out in Sections 6.18.1 and 6.11 of this Prospectus respectively, our Board is of the view that we are well positioned to enjoy positive growth in foreseeable future. Whilst we recognise the existence of market challenges in the industry and the various risk factors as set out in Section 4 of this Prospectus, we are committed to our business and our growth strategies which have been put in place to propel us to be a stronger biomass materials and valued-added products manufacturer.

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7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT

PROTÉGÉ ASSOCIATES SDN BHD
SUITE C 06 06, PLAZA MONT KIARA
2 JALAN KINARA, MONT KIARA
50480 KUALA LUMPUR, MALAYSIA
GEN +603 6201 9301 FAX +603 6201 7302
www.protege.com.my

Protégé
ASSOCIATES

BRAND | FINANCE | MARKET

18 JUNE 2014

The Board of Directors
Heng Huat Resources Group Berhad
No. 2945 (Plot A2), Jalan Sungai Baong,
Kawasan Perindustrian Perabut Sungai Baong,
MK 5, 14200 Sungai Bakap,
Seberang Perai Selatan,
Pulau Pinang

Dear Sirs,

Executive Summary of the Strategic Analysis of the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres

This Executive Summary of the 'Strategic Analysis of the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres' is prepared by Protégé Associates Sdn. Bhd. ("Protégé Associates") for inclusion in the Prospectus of Heng Huat Resources Group Berhad ("Heng Huat" or "the Company") in relation to the proposed listing of and quotation for the entire issued and paid-up share capital of Heng Huat on the ACE Market of Bursa Malaysia Securities Berhad.

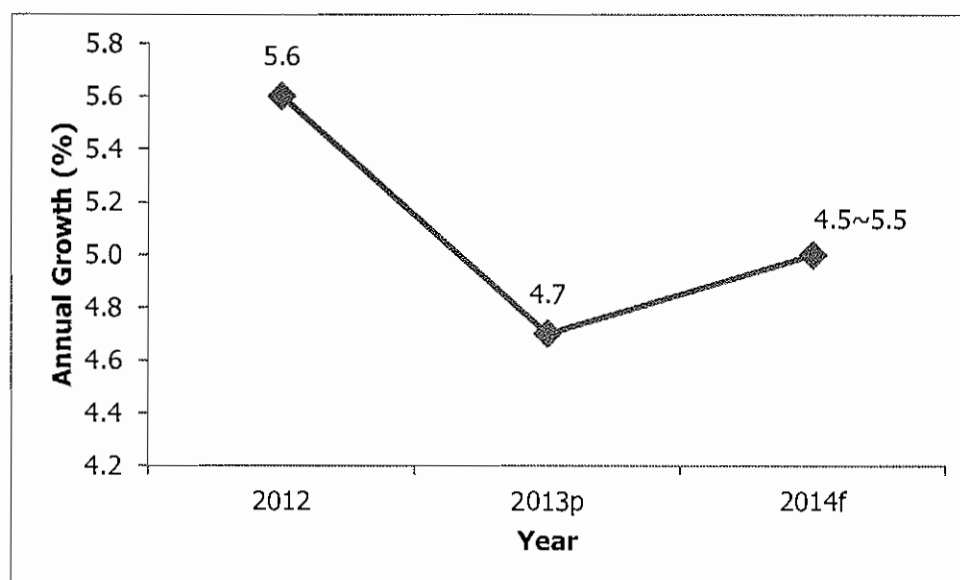
7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



MALAYSIAN ECONOMIC OVERVIEW

The Malaysian economy expanded by 4.7 percent in 2013 which was in line with the growth target of 4.5 percent to 5.0 percent set by the Malaysian Government. The Malaysian economy expanded by 4.1, 4.4, 5.0 and 5.1 percent in the first, second, third and fourth quarter of 2013 respectively on the back of robust domestic demand and accommodative monetary policy. Figure 1 depicts Malaysia's real Gross Domestic Product ("GDP") at 2005 prices from 2012 to 2014.

Figure 1: Malaysia's Real GDP, 2012-2014



Notes:

- 1) *p* denotes preliminary
- 2) *f* denotes forecast

Source: Bank Negara Malaysia

In terms of growth percentage, the construction sector stood out as a star performer by registering an increase of 10.9 percent in 2013. Growth in the sector was supported by the robust activities in the residential and civil engineering sub-sectors. The services sector was the next best performing sector in terms of growth, expanding by 5.9 percent in 2013. The sector was boosted by stronger performance in the sub-sectors that cater to domestic demand particularly the wholesale and retail trade sub-sector that registered higher growth on the back of continued strength in households' retail spending.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



The manufacturing sector grew moderately by 3.4 percent in 2013. Continued strength in the domestic-oriented industries and better performance of the export-oriented industries in the second half of the year helped to drive the expansion in the manufacturing sector. The mining and quarrying sector expanded by 0.5 percent in 2013 on the back of stronger growth in the output of natural gas that helped to cushion the impact from the reduction in crude oil production. As for the agriculture, forestry and fishery sector, it expanded by 2.1 percent in 2013, driven by higher crude palm oil output as well as production of food commodities such as fisheries, vegetables and livestock.

Outlook

Despite the positive results revealed in most of Malaysia's key economic indicators for 2013, the Malaysian Government is mindful of the downside risks to global growth that may affect the growth in the local economy. In the near future, the growth in the Malaysian economy is expected to be anchored again by domestic demand. Domestic demand is expected to be led by private expenditure which is projected to register an increase of 8.3 percent in 2014. Private sector consumption and investment in 2014 are projected to expand by 6.9 percent and 12.6 percent respectively. The Malaysian Government has reiterated its intention to continue focusing on accelerating the national transformation process and supporting growth while improving public finance and ensuring fiscal sustainability.

The Malaysian Government has also allocated RM1.6 billion under Budget 2014 for development in the five regional corridors. The Malaysian economy is expected to grow by 5.0 to 5.5 percent in 2014 on the back of expected improving external environment and favourable domestic demand. The private sector is expected to drive the growth momentum in domestic demand.

All the key economic sectors in Malaysia are projected to continue expanding in 2014. The services sector is expected to remain the largest contributor to the economy by accounting for more than half of Malaysia's real GDP in 2014. It is expected to grow by 6.2 percent for the year. In terms of pace of growth, the construction sector is expected to register the fastest pace among all the key economic sectors in the year with a projected 10.0 percent growth in 2014. The three other key economic sectors, namely agriculture, forestry and fishery, mining and quarrying as well as manufacturing are expected to expand by 3.8 percent, 1.6 percent and 3.5 percent respectively in 2014.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



BACKGROUND AND DEFINITION

Biomass Materials

Biomass refers to biological material which is derived from living, or recently living organisms. The term "biomass" is intended to refer to materials that do not directly go into foods or consumer products but may have alternative industrial uses. Biomass materials can be derived from a number of sources including all wasted plants materials, wood, garbage, wasted paper etc. Biomass materials include wastes produced in agricultural activities, such as coconut husk, oil palm fruit residues, rice husk and corn stalks.

The conversion of biomass waste into resources can be segregated into two (2) major applications namely, the conversion of renewable biomass waste into biomass materials and/or energy.

Figure 2: Examples of Biomass Waste and its Application

i) Conversion to energy

Biomass Waste	Applications
Rapeseed, soy beans, waste vegetable oil	Biodiesel
Agricultural waste, mixed waste	Heat steam electricity and methanol
Sugar or starch crops, wood waste, pulp sludge, rice and corn straw	Ethanol
Agricultural waste, municipal solid waste	Synthetic fuel oil (bio-crude), charcoal

ii) Conversion to biomass materials

Biomass Waste	Applications
Pineapple leaves, sugarcane residues	Animal feed, industrial absorbents and additives for beverages
Coconut husk	Coconut fibre, rope and twine, brooms and brushes, doormats, rugs, geotextile, mattresses and upholstery, often in rubberised coconut fibre pads
Oil palm fruit residues	Oil palm empty fruit bunch ("EFB") fibre, biodegradable packaging materials, geotextile, briquette, mattresses and car seats stuffing,

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



Biomass Waste	Applications
	insulation, composite panel product as well as particle board
Rice husk	Silica, metal finishing, water soluble oil and synthetic lubricant
Sugar mill boiler ash from bagasse	Filtration materials and absorbent products
Sugarcane bagasse, wheat straw	Lumber materials, panel boards
Sugarcane bagasse	Paper and paper wares

Source: Protégé Associates

Natural Fibre

Natural fibre refers to fibre derived from natural resources, including plants, crops, animals, agro waste and other renewable natural resources that are biodegradable. Natural fibre can be segregated into three (3) categories by resources i.e. cellulosic fibre from plant, protein fibre from animal as well as mineral fibre.

Cellulosic fibre can be extracted from different parts of plant i.e. stem bast, leaf, seed and fruit. Figure 3 shows the examples of cellulosic fibre by different parts of plant:-

Figure 3: Examples of Cellulosic Fibre by Part of Plant

Part of plant	Fibre
Stem bast	Jute, kenaf, ramie, flax, hemp
Leaf	Sisal, manila, Phormium tenax
Seed	Cotton, kapok
Fruit	Coconut fibre, oil palm EFB fibre

Source: Protégé Associates

For the purpose of this report, the Malaysian biomass materials market for natural fibres derived from coconut husks and oil palm EFB will be comprehensively reviewed and analysed.

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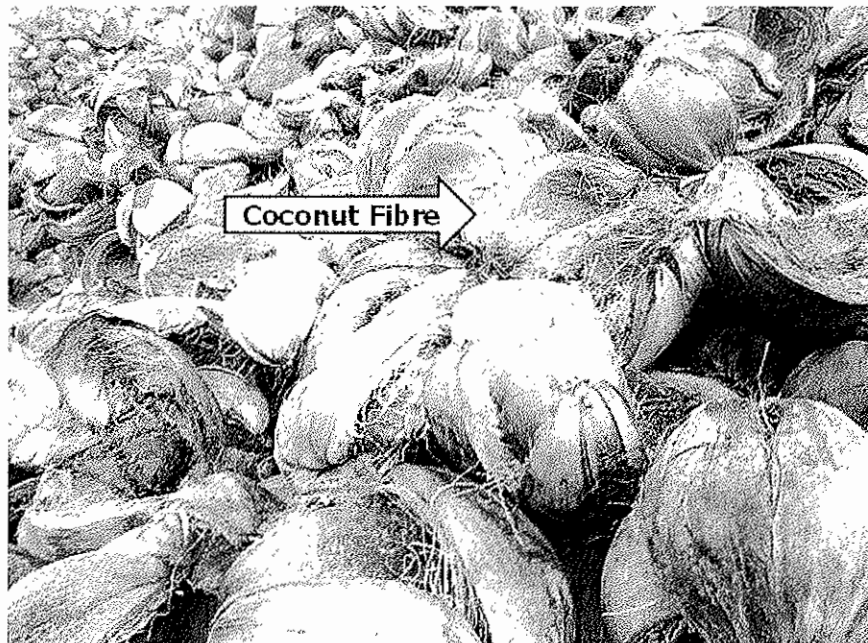
OVERVIEW OF MALAYSIAN BIOMASS MATERIALS MARKET – COCONUT & OIL PALM EFB FIBRES

OVERVIEW OF COCONUT FIBRE MARKET IN MALAYSIA

Coconut Fibre

Coconut fibre or coir is a coarse and short biodegradable natural fibre extracted from the husk of coconut. Coconut fibre can be classified into brown fibre, which is derived from mature coconuts after 12 months of growth, and white fibre, which is extracted from immature coconut after nine (9) months of growth. Compared to cotton, coconut fibre is stronger but less flexible. It is also not an ideal material for dyeing due to its highly concentrated lignin. Coconut fibre is light, able to withstand heat, resistant to microbial action and salt water damage.

Figure 4: Coconut Husk and Fibre



Source: Heng Huat Resources Group Berhad ("Heng Huat") and Protégé Associates

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Coconut Fibre Market in Malaysia

In Malaysia, coconut is one of the oldest agro-based industries and it is the fourth most important industrial crop after palm oil, rubber and paddy in terms of total planted area. The total coconut planted area has improved from 112,093 hectare ("ha") in 2012 to 115,455 ha in 2013 (Figure 5) as growth in total coconut planted area was observed in each state in Malaysia.

The total production of coconut went up by 5.0 percent to 636,867 metric tonnes ("mt") in 2013 from 606,530 mt registered a year earlier. The growth in total production of coconut is driven by the increase in total planted area and better yields. Figure 5 shows the coconut production and area planted in Malaysia from 2006 to 2013.

Figure 5: Coconut Production and Area Planted in Malaysia, 2006-2013

Year	Total Coconut Production (mt)	Total Coconut Planted Area (ha)
2006	512,700	119,465
2007	503,243	119,701
2008	455,408	111,925
2009	379,251	100,362
2010	550,140	105,659
2011	562,556	106,312
2012p	606,530	112,093
2013e	636,857	115,455

Note: p denotes preliminary, e denotes estimation

Source: Department of Agriculture ("DOA")

Meanwhile, Malaysia produced an average of 20,000 tonnes of coconut fibre, each year from 2009 to 2012. On a dry weight basis, a husk is composed of 70 percent pith, while the remaining 30 percent is coconut fibre. Of the coconut fibre produced, 60 percent are long, 30 percent have medium length, whilst the remaining fibre are short fibres.

In furniture and automotive industries, coconut fibre is a substitution of synthetic rubber. By combining coconut fibre with natural rubber, coconut fibre can be used in filling up the mattress, automobile seat and sofa. Additionally, coconut fibre can also be used to make geotextile for soil erosion control.

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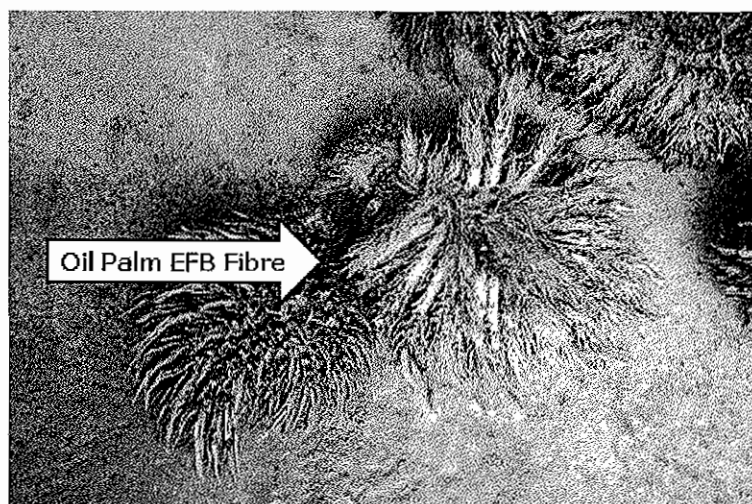


OVERVIEW OF OIL PALM EFB FIBRE MARKET IN MALAYSIA

Oil Palm EFB Fibre

Fibre can be derived from oil palm EFB, trunks and fronds. Currently, it is mainly derived from EFB due to its higher fibre content as compared to trunks and fronds. In Malaysia, EFB is the most common material used for extraction of oil palm EFB fibre due to its high fibre yield and the processing activity is carried out commercially.

Figure 6: Oil Palm EFB and Fibre



Source: Heng Huat and Protégé Associates

Oil Palm EFB Fibre Market in Malaysia

Oil palm is the most important agricultural crop in Malaysia and it is the 4th largest contributor to the country's Gross National Income ("GNI"). Malaysia is currently the second largest producer and largest exporter of crude palm oil ("CPO") in the world. In 2013, the total planted area for oil palm in the country continue to grow and it expanded by around 3.0 percent to nearly 5.23 million ha (2012: 5.08 ha). The expansion was led by Sarawak which saw an increase of 84,660 ha or 7.9 percent, followed by Peninsular Malaysia which increased 35,630 ha or 1.4 percent, and lastly Sabah with an increase of 32,520 ha or 2.3 percent. Over half of the plantation area is concentrated in East Malaysia with the rest in the Peninsular Malaysia.

In tandem with the increase in total planted area, CPO production improved by around 2.3 percent to 19.21 mt in 2013 from 18.79 mt recorded in 2012. A higher fresh fruit bunch

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



("FFB") yield coupled with additional new matured areas coming into production particularly in Sarawak has contributed to the improved CPO production. In the same year, production of palm kernel, crude palm kernel oil and palm kernel cake also improved with year-on-year growth standing at 3.3 percent for palm kernel, and 4.9 percent each for crude palm kernel oil and palm kernel cake. Figure 7 below details the oil palm production and area planted in Malaysia from 2007 to 2013.

Figure 7: Oil Palm Production and Area Planted in Malaysia, 2007-2013

Year	Total Planted Area (ha)	CPO (tonnes)	Palm Kernel (tonnes)	Crude Palm Kernel Oil (tonnes)	Palm Kernel Cake (tonnes)
2007	4,304,913	15,823,745	4,096,989	1,907,613	2,152,488
2008	4,487,957	17,734,441	4,577,500	2,131,399	2,358,732
2009	4,691,160	17,564,937	4,500,683	2,097,061	2,312,227
2010	4,853,766	16,993,717	4,292,076	2,014,943	2,242,277
2011	5,000,109	18,911,520	4,706,603	2,144,699	2,387,056
2012	5,076,929	18,785,030	4,705,900	2,164,024	2,399,204
2013	5,229,739	19,214,794	4,859,020	2,269,822	2,516,664

Source: Malaysian Palm Oil Board ("MPOB")

In 2013, Malaysia's production of oil palm fruit is estimated at around 99.5 million. The high yield of oil palm fruit also led to the abundance of oil palm biomass. Palm oil accounts for only 10 percent of the total output from oil palm tree, with the remaining 90 percent being oil palm biomass. According to the Malaysian Innovation Agency ("MIA"), an estimated 83 million dry tonnes of oil palm biomass waste was generated in 2012. By 2020, volume of oil palm biomass waste is projected to range between 85 to 110 million dry tonnes.

Oil palm EFB fibre can be used for various applications in a wide range of industries due to its clean and biodegradable characteristics. Depending on its length, oil palm EFB fibre can be processed into various end-products. Typically, long oil palm EFB fibre is suitable for mattress and cushion stuffing, geotextiles and, fibre reinforced plastic, gypsum and cement while short oil palm EFB fibre is ideal for briquettes and pellets, pulp and insulation sheet. In addition to its length, moisture content, oil content and impurities such as salt content and odour may also affect the quality of oil palm EFB fibre as well. Clean oil palm EFB fibre that is free from impurities is considered to have superior quality which is suitable for the manufacture of

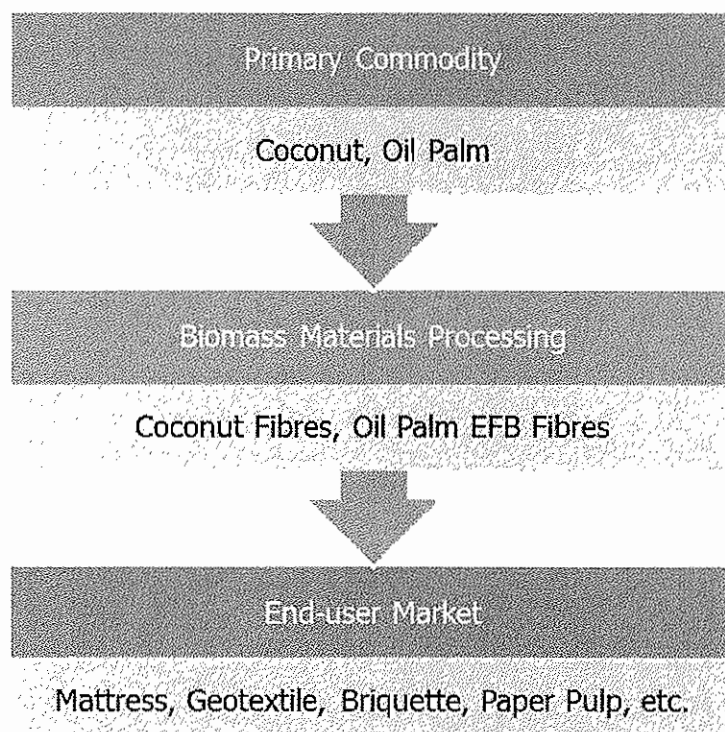
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composite panel, mattresses and cushion. Meanwhile, oil palm EFB fibre with impurities can be used to make mats.

VALUE CHAIN ANALYSIS

Figure 8: Value Chain of the Biomass Materials Market – Coconut & Oil Palm EFB Fibres in Malaysia



Source: Protégé Associates

The extraction of coconut and oil palm EFB fibres are carried out by biomass materials processors and/or end-products manufacturers. Fibre is derived from coconut husk and oil palm EFB, and then segregated by length, screened to remove impurities, cleaned, dried, before being sent for baling. The process will yield long dried fibres as well as short fibres. The clean and baled dry long fibres are supplied to be manufactured into other value added products while the short fibres can be either be manufactured into briquettes and pellets and/or, burnt in boilers for power generation purposes.

Biomass materials processors mostly set up their processing facilities within the vicinity adjacent to oil palm mills and coconut plantations. This is to ensure that they would have access to huge amount of raw materials such as coconut husks and EFBs at a cost effective

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)



price as transportation costs, which forms a significant part of total cost of raw materials can be reduced significantly. The raw material price varies and rises in tandem with the distance to transport them to the processing facilities. Some biomass materials processors would also work synergistically together with palm oil mills to jointly process the biomass materials at the oil palm itself. In addition, some may also venture into the value-adding activity of manufacturing certain end-products such as **mattress fibre sheets, geotextiles, briquettes and pellets**, etc.

The processed coconut and oil palm EFB fibres are packed in bales and bundles, and supplied to downstream end-user manufacturers in local as well as export markets. Quality of fibres supplied is generally measured in terms of fibre length, moisture content, oil content and impurities level.

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STRATEGIC ANALYSIS OF THE MALAYSIAN BIOMASS MATERIALS MARKET – COCONUT & OIL PALM EFB FIBRES

Market Dynamic Scorecard

Figure 9: Market Dynamic Scorecard for the Malaysian Biomass Materials Market – Coconut and Oil Palm EFB Fibres

Market Dynamics Indicators	Measurement	Trends
2012 Market Size (RM million)	110.0	-
2012 Market Growth Rate (%)	26.0	-
2018 Forecast Market Size (RM million)	180.4	Increasing
Forecast Period Market Compounded Annual Growth Rate ("CAGR") (2013 – 2018)	14.3	-
Pricing Trends	Coconut fibre = RM700 – 1,300 per tonne; and Oil palm EFB fibre = RM400 – 900 per tonne.	Stable
Competitive Landscape	Over 30 players divided into 2 tiers with moderate competition intensity as in Competitive Landscape Section	Increasing
2014 Demand Conditions	Favourable and underpinned by rising demand and applications of coconut and oil palm EFB fibres from domestic and international market.	Increasing
2014 Supply Conditions	Favourable with strengthening support from both government policies and incentives, and private investments.	Increasing
Threat of Substitution	Medium	Stable
Reliance on Imports	Low	Stable
Government Policy and Regulatory Stance	Pro-Industry (Expansive)	Stable

Source: Protégé Associates

Historical Market Performance and Growth Forecast

Protégé Associates estimates that the biomass materials market for coconut and oil palm EFB fibres in Malaysia is worth approximately RM110.0 million in 2012. The market is projected to grow at a CAGR of 14.3 percent for the period of 2013 to 2018. The market size and growth forecast for the biomass materials market for coconut and oil palm EFB fibres in Malaysia from 2010 to 2018 is shown in Figure 10.

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Figure 10: The Historical, Estimated and Growth Forecast for the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres, 2010 - 2018

Year	Revenue (RM million)	Annual Growth (%)
2010	56.6	-
2011	87.3	54.1
2012	110.0	26.0
2013	92.4	-16.0
2014	104.9	13.4
2015	118.3	12.8
2016	135.7	14.7
2017	156.3	15.2
2018	180.4	15.4

CAGR (2013 – 2018) = 14.3 percent

Note: All figures are rounded; the base year is 2012.

Source: Protégé Associates

Due to increasing environmental awareness and enforcements coupled with better processing technologies, natural fibres are gaining in popularity and are increasingly finding its way into various applications across industries. The Malaysian biomass materials market for coconut and oil palm EFB fibre caters to both local and foreign demand. As such, growth and expansion of the local biomass materials market for coconut and oil palm EFB fibres is highly diversified and robust as demands are not restricted to local market only but also to the international market, in particular China.

In 2011, the biomass materials market for coconut and oil palm EFB fibres surged by over 54.1 percent as demand for oil palm EFB fibres increased significantly in tandem with rising demand from China. The surge in demand from China can mainly be attributed to its emergence as a viable substitute for coconut fibre as a raw material for mattress and geotextile productions. The rise in demand continued in 2012 driven by higher selling prices seen for both the coconut and oil palm EFB fibres. Accordingly, the biomass materials market for coconut and oil palm EFB fibres in Malaysia recorded a robust growth of 26.0 percent in 2012 to reach RM110.0 million in market revenue.

Nonetheless, it is anticipated that the biomass materials market for coconut and oil palm EFB fibres will experience an estimated contraction by 16 percent in 2013. The bumping up of coconut fibre production seen worldwide in order to capitalise and cater for its higher demand

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has led to the inevitable softening of prices for coconut fibre, particularly more so during the first half of the year. The lower prices have also made coconut fibre much more attractive when compared to oil palm EFB fibre given its traditional usage and preference. This was true in China, one of the biggest markets for Malaysian oil palm EFB fibre. Accordingly, demand for oil palm fibre for the year is expected to be lower and this was further exacerbated by market participants dropping prices in support of demand. Having said that, the prices of coconut fibre is expected to strengthen in second half of 2013 as a tighter supply situation eventuates.

In 2014, the biomass materials market for coconut and oil palm EFB fibres market is projected to recover as prices of coconut fibre stabilise further. Moving forward, the biomass materials market for coconut and oil palm EFB fibres is expected to register healthy growth throughout the forecast period. Factors priming growth within the market is likely to come from a combination of market demand drivers including rising demand from China, the population growth and greater affluence which spurs demand for end-products, and growing applications of natural fibre. Meanwhile, in terms of supply, the various market drivers including strong governmental support, increasing domestic and foreign investments and initiatives, the increase of oil palm production under the Economic Transformation Programme ("ETP") and better legislation enforcement on environmental protection would help fuel healthy development of the supply environment going forward.

Competitive Landscape

The biomass materials market for coconut and oil palm EFB fibres is still at a relatively nascent stage and given the recent emergence and acceptance of oil palm EFB fibre as a viable biomass material, the levels of competition remains moderate with over 30 market participants comprising coconut and oil palm EFB processors/manufacturers and palm oil mills. Characterising a nascent and growing market, the market may see an increase in participations given the huge potentials on offer in addition to the favourable support from the government. However, new market participants are nevertheless subjected to various barriers to entry as detailed in the Barrier to Entry Section.

Market participants are mainly differentiated according to their production capabilities, scale and expertise to reliably deliver quality coconut and oil palm EFB fibres at a competitive price. And in order to do so, they must have the necessary production machineries and technologies coupled with industry expertise, hands-on skill and knowledge to ensure higher productivity

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



and lower costs while at the same time have access to sustainable, viable amount of raw materials.

Competition within the biomass materials market for coconut and oil palm EFB fibres in Malaysia can be further segmented into two (2) general groupings according to their business activities and, production capabilities and capacities.

- Tier 1

Market participants in this grouping are mainly coconut and oil palm EFB processors and manufacturers who produce over 400 tonnes of natural fibres per month. Their principal business activities are in the processing and manufacturing of coconut and/or oil palm EFB fibres and related end-products. Cumulatively, they command almost half of the biomass materials market for coconut and oil palm EFB fibres. Market participants here ranges from medium to large size, and have established track records. They are focused in the production of coconut and oil palm EFB fibres either for exports and/or for the manufacture of value-added, end-products. As such, they have bigger, better production capabilities and capacities as compared to Tier-2 market participants. In terms of supply of raw materials, they typically have independent sources of coconut husks and oil palm EFBs and are not reliant on a single source for raw materials. Among the identified market participants within Tier-1 include Heng Huat, Global Green Synergy Sdn Bhd ("GGS") and Jinsern Marketing Sdn Bhd ("Jinsern").

- Tier 2

Market participants here mainly comprise oil palm mills and smaller producers of coconut and oil palm EFB fibres who produce less than 400 tonnes of natural fibres per month. Unlike Tier-1 market participants, these oil palm mills perform the processing of oil palm EFB fibres mainly to manage their waste and for their own consumption with a small excess amount being exported. As such revenue contributions from oil palm EFB fibre production may not be significant. Productions are also generally constrained by the amount of raw materials collected from their own mills.

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Key Market Players Analysis

Figure 11: Identified Key Market Players within the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres

Name	GGG	Heng Huat	Jinsern
Date of Incorporation	29 May 2008	25 November 2011	20 September 2006
Product Offerings	Oil palm EFB Fibre, briquette and pellet, bio-organic fertiliser, palm kernel shell and palm kernel charcoal	Coconut and oil palm EFB fibre, coconut peat and other value added products as well as mattress and related products	Coconut fibre and coconut peat
Financial Year Ended	31 December 2012	31 December 2013	31 December 2011
Revenue (RM)	5,606,435	73,740,055	8,942,771
Profit/(loss) before Tax (RM)	(1,354,463)	11,381,821	2,042,904
Profit/(loss) before Tax Margin (%)	(24.2)	15.4	22.8
Profit/(loss) after Tax (RM)	(1,354,463)	9,891,843	1,991,008
Profit/(loss) after Tax Margin (%)	(24.2)	13.4	22.3
Current Assets (RM)	2,772,027	29,409,024	4,633,234
Current Liabilities (RM)	4,958,333	25,070,241	4,812,202
Current Ratio (Times)	0.56	1.17	0.96

Notes:

- 1) These market players are identified for comparison purpose only, and do not constitute and is not limited to the actual quantity of market players within the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres.
- 2) The selected market players are alphabetically arranged and this do not constitute as a ranking.
- 3) The financial figures may be at group level that includes other business segments' contributions.

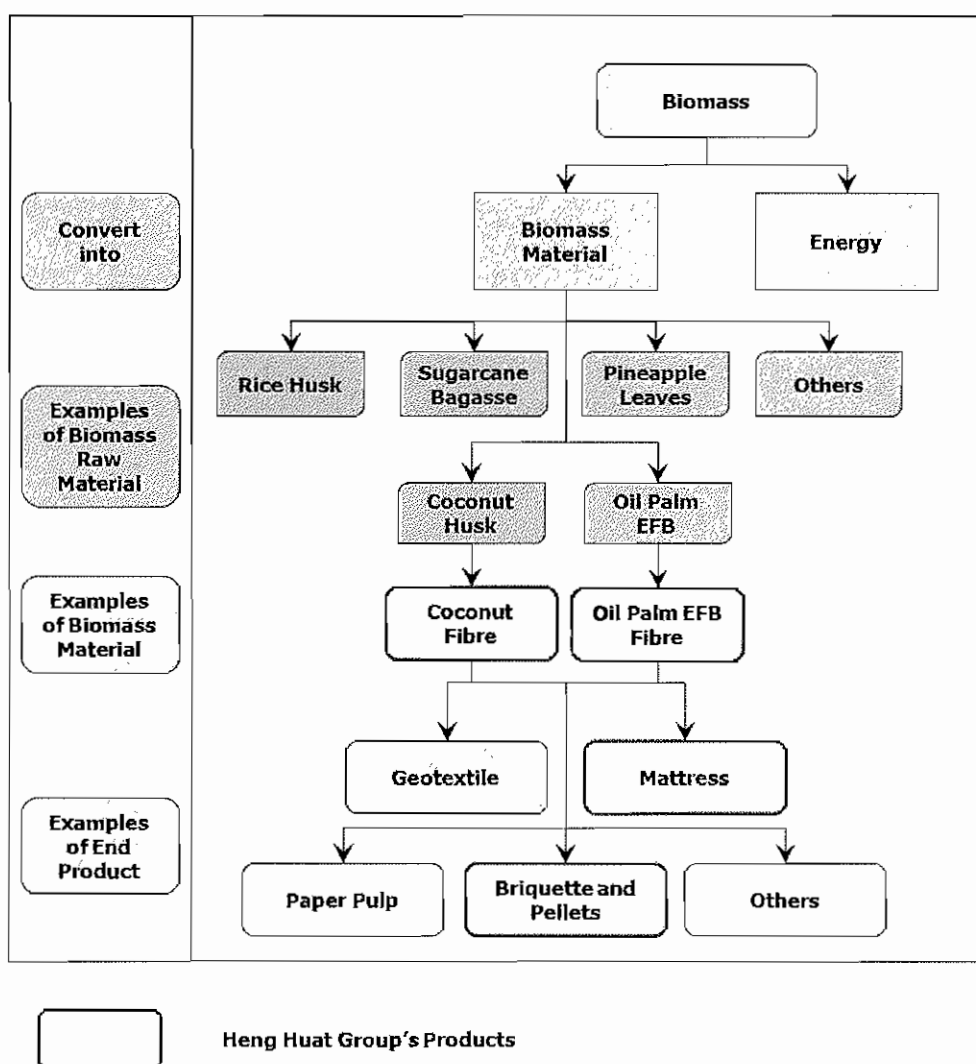
Source: Companies Commission of Malaysia, Heng Huat and Protégé Associates

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Heng Huat's Market Share Comparison with Selected Market Players

Heng Huat biomass materials manufacturing operations are carried out by their subsidiaries namely, HK Fibre, HK Kitaran and HK Palm Fibre. Heng Huat's position within the biomass materials market for coconut and oil palm EFB fibres is illustrated as follows:-

Figure 12: Heng Huat's Position in Biomass Materials Market for Coconut and Oil Palm EFB Fibres



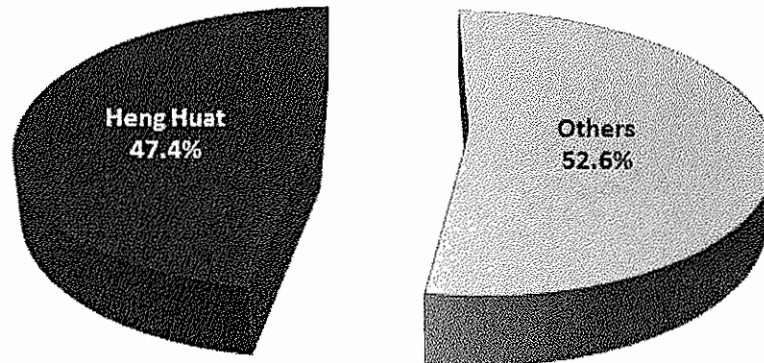
Source: Heng Huat and Protégé Associates

As illustrated in Figure 13, Heng Huat's reported revenue of RM43.8 million in 2013 from its coconut and oil palm EFB fibres business, translating to 47.4 percent share of the Malaysian biomass materials market for coconut and oil palm EFB fibres.

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Figure 13: Heng Huat's Share of the Malaysian Biomass Materials Market – Coconut & Oil Palm EFB Fibres in 2013



Source: Protégé Associates

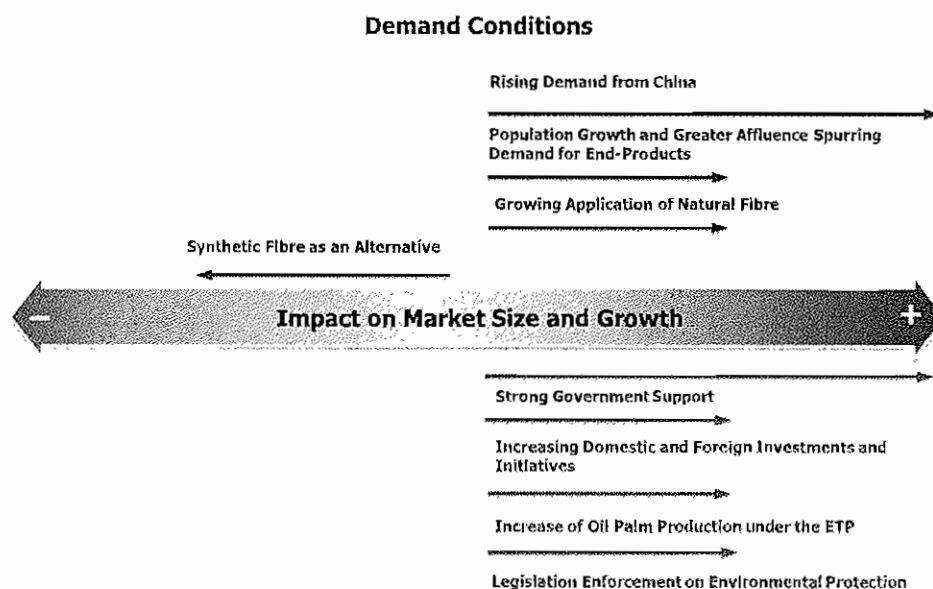
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Demand and Supply Conditions

Figure 14: Demand and Supply Conditions Affecting the Biomass Materials Market – Coconut and Oil Palm EFB Fibres in Malaysia, 2014



Source: Protégé Associates

Demand Conditions

- Rising Demand from China** - There has been a rising demand for coconut fibre from China since 2001. The surge in demand for coconut fibre was attributed to an expansion in applications utilising coconut fibre including mattresses, erosion control products such as geotextiles and as a peat moss substitute in landscaping and horticulture. As demands for coconut fibre continue to rise unabated in China, oil palm EFB fibre is fast emerging as a viable substitute for coconut fibre in particular as a raw material for mattress and geotextile production. This market driver will have a high impact throughout the forecast period.
- Population Growth and Greater Affluence Spurring Demand for End-products** - According to the Department of Statistics, Malaysian population grew 1.4 percent from 29.5 million in 2012 to nearly 30 million in 2013. Malaysian consumers are generally attaining greater affluence as a result of broad economic growth seen for the country over the past half-century. The per capita income in Malaysia rose by 3.4 percent from RM30,667 in 2012 to RM31,698 in 2013. Both the increasing population and growing

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affluence of Malaysians are expected to spur demand for end-products made of biomass materials such as mattresses and furniture. This market driver is expected to grow throughout the forecast period.

- **Growing Applications for Natural Fibre** - The development of new technologies has enabled the innovation and production of new applications made from natural fibres including coconut and oil palm EFB fibres. The intrinsic properties of natural fibres such as its mechanical strength, low weight and low cost have made them highly attractive to a variety of industries. Among some of the industries finding new applications for natural fibres include furniture, geotextiles, automotive and construction.
- **Synthetic Fibre as an Alternative** - The success of synthetics is mainly due to its cost. Unlike natural fibres such as coconut and oil palm EFB fibres, synthetic fibres are mass produced from petrochemicals to uniform strengths, lengths and colours while at the same time easily customised to specific applications. However, natural fibres are making a comeback driven by growing environmental awareness, better processing technologies and rising oil prices. And with rising oil prices, the expected increase in costs of synthetic fibres will make natural fibre an even more attractive option going forward.

Supply Conditions

- **Strong Government Support** - The Malaysian government, both at federal and state levels have generally increased their attention towards environment protection and sustainability efforts. To this end, the government has launched the National Biomass Strategy 2020 ("NBS 2020") focusing initially on oil palm biomass before extending it to cover other sources. The NBS 2020 lays the foundation for Malaysia to capitalise on its biomass by channelling it into higher value downstream uses. To do this the government intends to put in place the right structures, regulatory framework and incentive package. In addition to the NBS 2020, the government has also launched the ETP, the National Green Technology Policy ("NGTP") and National Biotechnology Policy ("NBP") which is intended to encourage and promote the development of biomass and biomass-related industries.

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- Increasing Domestic and Foreign Investments and Initiatives** - The EU-Malaysia Biomass Sustainability Production Initiative ("Biomass-SP") which is funded by the EU has been set up to develop the biomass industry based on the principles of sustainable consumption and production. In addition, the state government of Sabah has set up the Palm Oil Industrial Cluster ("POIC") in Lahad Datu, Sabah to spearhead investments and promotions of industries utilising the large volume of biomass generated from the oil palm plantations in Sabah.
- Increase of Oil Palm Production under the ETP** - Under the government's ETP, palm oil is one of the 12 National Key Economy Areas ("NKEAs") and projected to raise total GNI contribution by RM125 billion to reach RM178 billion by 2020. Among the eight (8) entry point projects ("EPPs") that have been identified to achieve this target, improving FFB yield and improving oil extraction rate will increase the supply of palm oil in the long term. According to MPOB, FFB yield stood at approximately 19.0 metric tonnes per hectare in 2013. Under the improving FFB yield EPPs, it is expected that FFB yield will improve to 26.2 metrics tonnes per hectare by 2020. With these initiatives from Malaysian government, the biomass materials market will enjoy steady supply of EFB which is the main raw material for oil palm EFB fibre. In addition, the price of oil palm EFB fibre will remain stable as it can be sourced affordably from the domestic market. This market driver is likely to remain medium throughout the forecast period.
- Legislation Enforcement on Environment Protection** - The implementation of the Environmental Quality Act ("EQA") in 1974 has helped defined the pollutant discharge standards and penalties, and thus ensure greater compliance among industries in Malaysia. With the enforcement of stringent legislation on environment protection such as EQA, the disposal of biomass waste has become an issue for both the coconut and oil palm industry. Disposal activity can only be carried out within the acceptable conditions as described by the authority to minimise its contamination to the environment. As such, the channelling of biomass waste such as coconut husk and oil palm EFB to biomass materials producers offers millers a cost effective and environmentally friendly solution.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



Market Reliance on and Vulnerability to Imports

Oil palm is cultivated domestically and its production takes place throughout the year in Malaysia. Oil palm EFBs can be sourced easily from oil palm mills in Malaysia due to the large amount of EFBs produced each year. According to MIA, production of EFBs in Malaysia is projected to grow to 8 million tonnes in dry weight by 2020. Hence, the local biomass materials market for oil palm EFB fibre is not dependent on imported raw material supplies from other countries.

Coconut husks are currently readily available and is produced both locally as well as imported. Coconut plantations are comparatively smaller than oil palm plantations and are widely spread out thus making collection of coconut husks economically unviable. As a result, only coconut husks from plantations with better access and closer proximity are collected. Therefore, coconut husks are imported to make up for any shortfall in local supply of coconut husks. Coconut husks can be readily imported from countries such as India, Sri Lanka and the Philippines.

Substitute Products/ Services

There is a considerable degree of substitutability among natural fibres across various applications and end-products. The determination on what natural fibres to be used in end-products is largely dependent on the respective qualities, availability, characteristics and costs of the natural fibre and how it best fit the needs and requirements of the intended applications and end-products.

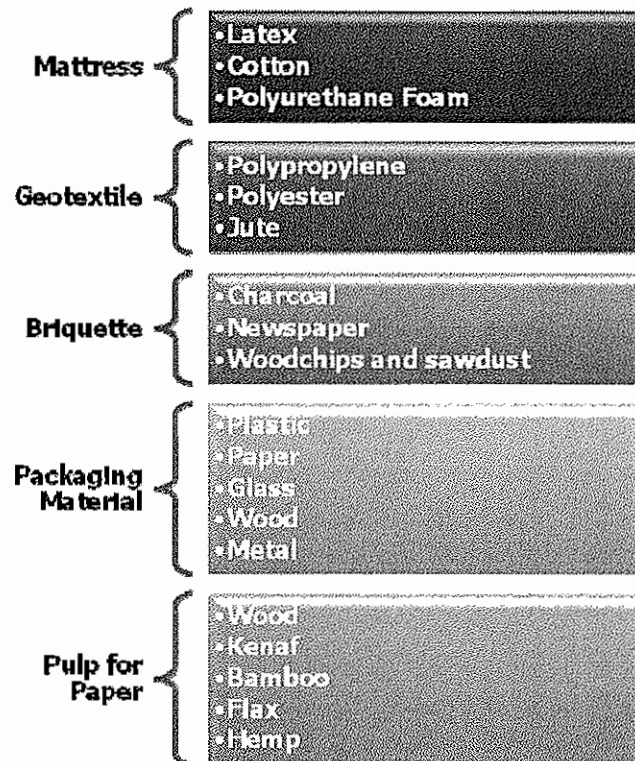
A list of identified substitutes for coconut and oil palm EFB fibres in selected end-products is shown in Figure 15.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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Figure 15: Identified Substitutes for Coconut and Oil Palm EFB Fibres in Selected End-Products



Source: Protégé Associates

Barrier to Entry

- Capital Intensive** - Potential market entrant is expected to incur huge capital outlay as they would need to invest in setting up costs, machineries purchases, operational costs, research and development ("R&D"), labour costs, etc. in order to compete in the biomass materials market for coconut and oil palm EFB fibres. And the market entrant would also need to make continuous investments in processing facilities, machineries and R&D to keep up with technological advancement and trends enveloping the market. In addition, the energy costs for processing/manufacturing of natural fibres are prohibitively high, and potential market entrant must be able to manage the cost to stay competitive.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



- **Production Technologies and Machineries** - Currently, there is a lack in local supply of specialised machinery with higher efficiency that caters specifically for the treatment and processing of coconut and oil palm EFB fibres. Hence, any potential market entrants wishing to enter the market would not only be required to make substantial investments in production machineries and technologies, but they also must have the necessary industry expertise, hands-on skill and knowledge to innovate and customise the production lines and machineries to attain higher productivity and lower cost in order to remain competitive. In addition, it takes time and resources before this can be achieved.
- **Securing Supply of Biomass Raw Materials** - The utilisation rate of coconut husks and oil palm EFBs remained small in Malaysia. The transportation and collection costs of such biomass materials, in particular due to the wide and segregated locations of plantations and mills are proving to be a hindrance for better utilisation of the biomass wastes. From the perspective of economy of scale, the treatment and processing plant needs to be located within the vicinity of plantations and oil palm mills. Any potential market entrants wishing to enter the market would need to have the necessary industry experience and knowledge to comprehend the dynamics surrounding the location in relation to their production requirements and plans. They must be able to establish an ecosystem that provide a sustained, consistent supply of competitively priced raw materials while at the same time allows for timely delivery of processed biomass materials to customers and/or end-product manufacturers.
- **Strong Business Relationship** - Building a viable and strong business relationship is not an easy task for any new entrants as relationship building would need significant amount of time to be established. Once the business relationship has arrived at a comfortable stage where trust and confidence is well-established, it would be difficult to break-up such partnership. New entrants in the market may find it very hard to break-up such established relationship and it is doubly as hard trying to gain their trust and confidence.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



Government Policies and Regulations

Pro-industry Policies

- **NBS 2020** - The NBS 2020 was launched to assess how Malaysia can gain more revenue from its oil palm industry through utilisation of the associated biomass. An explicit objective of the study was to determine how Malaysia can develop new biomass sectors with the aim of creating higher value-added economic activities. The NBS 2020 lays the foundation for Malaysia to capitalise on its biomass by channelling it into higher value downstream uses. The NBS 2020 envisaged that an additional 20 million tonnes of oil palm biomass will be utilised by 2020 based on a conservative scenario. This would help generate a significant incremental contribution to GNI of RM30 billion by 2020 and also offer the country a way to meet its renewable energy target, reduce emissions and create about 66,000 incremental jobs.
- **ETP** - Under the government's ETP, palm oil is one of the 12 NKEAs and projected to generate an additional RM125 billion to GNI to reach RM178 billion by 2020. Among the eight (8) EPPs that have been identified to achieve this target, improving FFB yield and improving oil extraction rate will increase the supply of palm oil in the long term. It is expected that FFB yield will improve to 26.2 metrics tonnes per hectare by 2020.
- **NGTP** - The NGTP is part of the government's push in charting the country's development where green technology will be the new driver of economic growth. The NGTP would create opportunities for new green business, including the manufacturing of "green products". The NGTP mainly focuses on four (4) pillars i.e. energy, economy, environment and social.
- **Malaysian Investment Development Authority ("MIDA")** - Various incentives are also given under the management of MIDA for the use of biomass or renewable energy resources, or companies undertaking waste recycling or energy conservation activities. The incentives include Pioneer Status ("PS") with a tax exemption of 100 percent for 10 years, as well as Investment Tax Allowance ("ITA") of 100 percent on qualifying capital expenditure within a period of 5 years.
- **NBP** - The development of biotechnology is vital in expanding both upstream and downstream of biomass materials market. The NBP is also targeted to improve Malaysia existing strengths in biotechnology sector, meanwhile preparing a conducive environment for R&D and industry development. The policy spells out nine (9) thrusts, which include transforming and enhancing the value creation of the agricultural sector

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



through biotechnology and ensuring growth opportunities in the application of advanced bio-processing and bio-manufacturing technologies.

Related Regulations

The biomass materials market is currently not subjected to any specific regulations. However, there are related regulations for the coconut and oil palm industry. Both the coconut and palm oil industry are subjected to the following regulations of the EQA, 1974:

- Environmental Quality (Prescribed Premises) (CPO) Regulations, 1997 (Amendment), which stipulate detailed conditions with the licence to use or operate a premise for palm oil processing including compliance to stringent standards for discharge of treated effluents to water courses or for land application.
- Environmental Quality (Clean Air) Regulations 1978 which stipulate the conditions pertaining to open burning and emission standards for smoke and particulate emissions into the atmosphere.
- Environmental Quality (Prescribed Activities) (Environmental Impact Assessment ("EIA")) Order 1987 which requires that an assessment and submission of an EIA report to the Director-General before undertaking any of the 19 prescribed activities. The sub-activities that are relevant to the development of coconut or oil palm plantations are:
 - a) Land development schemes covering an area of 500 ha or more to bring forest land into agricultural production.
 - b) Agricultural programmes necessitating the resettlement of 100 families or more.
 - c) Development of agricultural estates covering an area of 500 ha or more involving changes in types of agricultural use.
 - d) Conversion of hill forest land to other land use covering an area of 50 ha or more.
 - e) Conversion of mangrove swamps for industrial, housing or agricultural use covering an area of 50 ha or more.

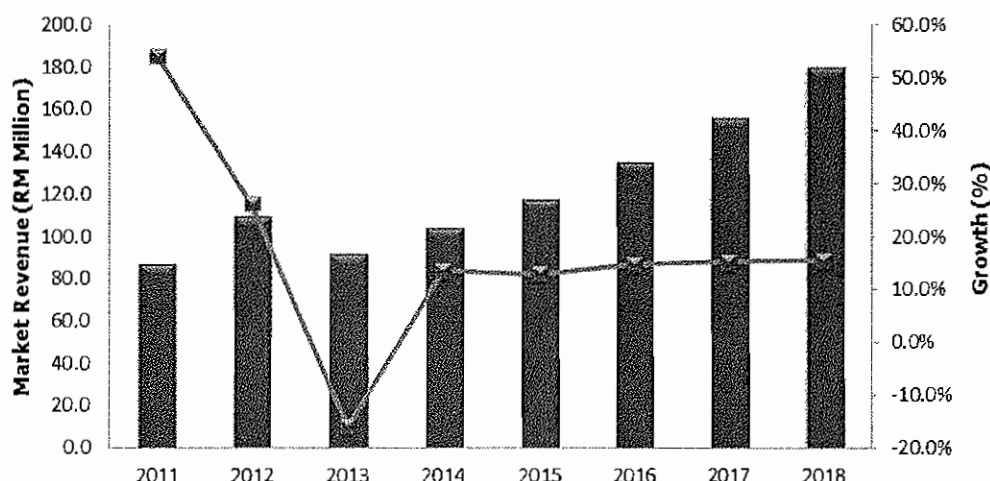
7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



OUTLOOK OF THE BIOMASS MATERIALS MARKET – COCONUT & OIL PALM EFB MARKET

The outlook for the biomass materials market for coconut and oil palm EFB fibres in Malaysia is positive. In 2012, the biomass materials market for coconut and oil palm EFB fibres in Malaysia was estimated to be worth approximately RM110.0 million. Although a contraction in growth is projected for 2013, the biomass materials market for coconut and oil palm EFB fibre is still expected to grow at a CAGR of 14.3 percent over the period of 2013 to 2018. Protégé Associates projects the size of the biomass materials market for coconut and oil palm EFB fibres to reach RM180.4 million in 2018.

Figure 16: Market Size and Growth Forecast for the Biomass Materials Market – Coconut and Oil Palm EFB Fibres in Malaysia, 2011 – 2018



Source: Protégé Associates

There are vast opportunities for greater consumption of biomass materials such as coconut and oil palm EFB fibres based on the outlook of key applications as detailed below:

Mattress

In 2012, a total of 588,000 mattresses were produced with sales amounting to RM141.6 million registered. In Malaysia, mattress growth prospects are mainly driven by population and household growth, and frequency of replacement. The frequency of replacement is

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



dependent on the amount of interest in new products that can be generated which compels consumers to replace their existing bedding.

The Malaysian mattress market is generally mature with little fluctuations expected. Sales of mattresses will typically improve in line with an expanding economy. As such, the mattress market in Malaysia is projected to experience stable growth in the near to medium term. The use of oil palm EFB fibre as an alternative or as a mix with coconut fibre as raw materials in the manufacture of mattresses may increase over time given its abundance, comparative characteristics and lower cost. However, this is subject to continuous innovations and product development initiatives, and better market education of consumers as to its viability as an alternative mattress material. This development is expected to spur an increased uptake of oil palm EFB fibre moving forward.

Geotextile

Market prospects for geotextiles and accordingly, demand for biomass materials such as coconut and oil palm EFB fibres are bright going forward underpin by the continuous growth in construction and agricultural activities expected as the country progresses. The agriculture and construction sector is forecasted to expand by 3.0 and 9.6 percent respectively in 2014 and this augurs well for geotextiles demand moving forward. With the increase in land clearing activities for construction and agricultural purposes, the demand for more soil protection and erosion controls intervention via geotextiles would accordingly intensify. Given the growing environmental consciousness and government's push for biomass industry, geotextiles made of natural fibres such as coconut and oil palm EFB fibres would be the ideal and preferable option.

Briquette and Pellets

Briquette and pellets produced in Malaysia can be shipped to Europe as well as Japan or Korea to be burned for energy. There is an existing market demand for briquette and pellets from these markets. Meanwhile, the recent banning of new coal-fired plants in Beijing, Shanghai and Guangzhou of China is also likely to spur demand for cleaner, alternative source of energy including briquette and pellets. According to the MIA, the global demand for biomass pellet is anticipated to reach 20 million tonnes by 2020. Accordingly, the demand for biomass materials such as coconut and oil palm EFB fibres are expected to rise.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)



MARKET OUTLOOK FOR BIOMASS MATERIALS – COCONUT & OIL PALM EFB FIBRES IN CHINA

China's Economic Overview

The Chinese economy has continued on an expansion trail by registering another year of growth at a stabilised pace in 2013. According to the National Bureau of Statistics of China, the country's economy grew at a steady rate of 7.7 percent year-on-year in 2013 – exceeding the government's 7.5 percent targeted rate due to government's effort in stimulating lending in the second half of 2013.

Overall, China managed to register positive results across in many key economic indicators. In the agriculture sector, the output of one of China's key agricultural products namely grain, increased by 2.1 percent from 589.58 million tonnes in 2012 to 601.94 million tonnes in 2013. Other major agricultural products such as oil-bearing crops, sugar crops, meat and eggs had also registered growth in their production for 2013. Meanwhile, the total value added of the industrial sector and construction industry grew by 7.6 and 9.5 percent year-on-year respectively in 2013.

In terms of international trade, the size of its imports and exports had expanded in 2013 as foreign trading activities with its major international trading partners gathered pace. The total value of China's foreign trade had increased by 7.6 percent to United States Dollar ("USD") 4,160.3 billion in 2013. Overall, China's trade surplus for 2013 was USD259.8 billion, a 12.4 percent increase from the preceding year.

Meanwhile, investors remained bullish on the prospect of the Chinese economy. The investments in fixed assets (excluding rural households) in China stood at RMB43,652.8 billion in 2013 or 19.6 percent year-on-year improvement from 2012.

Moving forward, the Chinese Government is expected to continue maintaining the economic stability, at the same time deepen the reform of social and economic development across sector, upgrading people's livelihood and establishing a sound and sustainable economic and social development

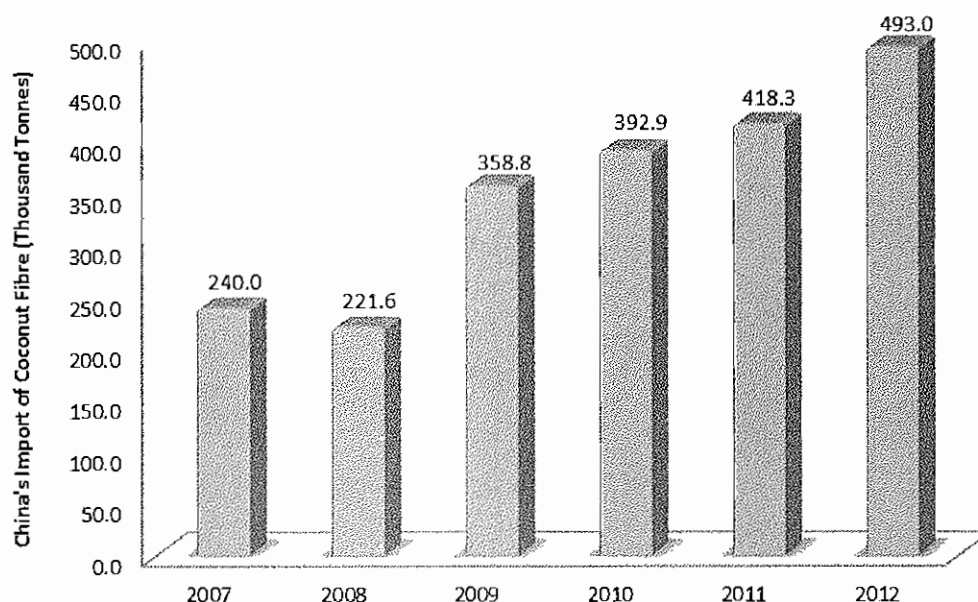
7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



Market Outlook for Biomass Materials – Coconut & Oil Palm EFB Fibres

As seen in Figure 17, China has seen significant increase in its import of coconut fibre over the period from 2009 to 2012. In 2012, a total of 493 thousand tonnes of coconut fibre was imported by China. This represents an impressive year-on-year growth in volume of 17.9 percent over the preceding year.

Figure 17: China's Import of Coconut Fibre, 2007-2012



Source: Food and Agriculture Organisation of the United Nations ("FAO")

The surge in demand for coconut fibre was attributed to an expansion in applications utilising coconut fibre including mattresses, erosion control products such as geotextiles and as a peat moss substitute in landscaping and horticulture. In addition to serving the needs of its domestic market, Chinese importers also use coconut fibre for the manufacture of mattresses for exports.

As demands for coconut fibre continue to rise unabated in China, oil palm EFB fibre is fast emerging as a viable substitute for coconut fibre in particular as a raw material for mattress and geotextile production. Oil palm EFB fibre can be used to replace coconut fibre in the manufacture of mattresses and cushions, geotextiles, and other fibre-based products due to its strong bond characteristics. The use of oil palm EFB fibre as a replacement for coconut fibre is still at its infancy due to its newness and apprehension from manufacturers. However,

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



the acceptance level will likely increase over time as it is a viable and cheaper alternative to coconut fibre.

The following sub-sections provide an overview of selected key end-user markets driving demand for coconut and oil palm EFB fibres in China.

Mattress

The Chinese's mattress market is a fast growing market with an annual demand for mattresses estimated at 100 million pieces. The strong demand is mainly driven by population and household growth, an expanding real estate market and frequency of replacement.

In 2013, China's population increased by approximately 0.5 percent to 1.36 billion people. The increasing population along with a growing economy which affords its citizen with an increasing household income and greater purchasing power translates to robust demand for more mattresses. In addition, as the Chinese consumers become more affluent, they are shifting from their traditional preference of mats to mattresses.

Figure 18: Number of Flats of Residential Buildings Completed and Sold by Enterprises for Real Estate Development in China, 2008-2012

Year	2008	2009	2010	2011	2012
Total number of flats of residential buildings completed (units)	4,939,189	5,548,897	6,019,767	7,219,163	7,642,379
Total number of flats of residential buildings sold (units)	5,565,827	8,040,470	8,817,526	9,139,672	9,446,424

Note: Number of flats of residential buildings sold includes the future housing

Source: National Bureau of Statistics of China

Meanwhile, the expanding real estate market also serves to underpin demand for mattresses. As seen in Figure 18, the number of flats of residential buildings completed in China has been on an upward trend since 2008. In 2012, the number of flats of residential buildings completed expanded by around 5.9 percent to 7,642,379 units. Similarly, the number of flats of residential buildings sold increased by around 3.4 percent to 9,446,424 units in the same year. Under China's 12th Five Year Plan ("FYP"), the government plans to construct 36 million new housing units to increase the availability of affordable urban housing. As the number of residential units increased, the demand for mattresses is expected to rise accordingly.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



In addition to robust domestic demand for mattresses, Chinese mattress manufacturers are also aggressively expanding their production to cater for export markets such as the US, Japan, Hong Kong, Australia and Saudi Arabia. As such, they would require more raw materials such as coconut and oil palm EFB fibres as they ramped up productions.

Given the various trends and prospects favouring demand for mattresses in China, market prospects and outlook for biomass materials such as coconut and oil palm EFB fibres are positive moving forward.

Geotextile

The production of geotextile in China is forecasted to expand to over 700,000 tonnes by 2015 driven by continuous spending in construction and infrastructure projects along with reverse desertification efforts. In the near to medium term, China is expected to make continuous investments in major infrastructure projects such as highways, airports, railways, water conservancy and environmental protection projects. For instance, the China government has targeted a total investment of RMB1.4 trillion in 2014 and 2015 for construction of railway in the country particularly in the central and western region. Furthermore, about RMB4 trillion will be invested up to 2020 for water conservation projects and further broaden the geotextile market in China.

Meanwhile, demand for geotextiles is also rising as China continues its battle to reverse the expanding desert area plaguing the country. With 26.3 million square km of land being threatened by desertification, the central government has allocated about RMB1.4 billion annually for desertification programme in recent years. Besides that, the Chinese government is also intensifying its effort to combat this and planning to spend up to RMB113 billion to reverse desertification in Ningxia by 2020.

Market prospects for geotextiles are favourable in the near to medium term as increasing construction and infrastructure activities coupled with reverse desertification efforts continue to take place in the country. Demand for biomass materials such as coconut and oil palm EFB fibres are forecasted to grow in tandem with rising demands for geotextiles.

7. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT
(Cont'd)

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Protégé Associates has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours Sincerely,



TAN CHIN HOW

Director

Protégé Associates Sdn Bhd

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

8.1 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

8.1.1 Shareholdings

The shareholdings of our Promoters and/or substantial shareholders in our Company before and after our IPO are as follows:

Name	Nationality/Country of incorporation	Before IPO			After IPO		
		Direct	Indirect	%	Direct	Indirect	%
		No. of Shares held	No. of Shares held	% held	No. of Shares held	No. of Shares held	% held
Promoters and substantial shareholders							
H'ng Choon Seng	Malaysian	72,970,110	16,500,000 *	45.81	72,970,110	16,500,000 *	35.46
Kee Swee Lai	Malaysian	69,044,870	-	43.34	54,384,870	-	26.43
Khor Mooi Kim	Malaysian	392,520	-	0.25	392,520	-	0.19
Teh Chai Luang	Malaysian	392,520	-	0.25	392,520	-	0.19
Khor Teik Boon	Malaysian	-	-	-	-	-	-
HH Manufacturer	Malaysia	16,500,000	-	10.36	16,500,000	-	8.02

Note:

* Deemed interest by virtue of his substantial interests in HH Manufacturer pursuant to Section 6A of the Act.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

8.1.2 Profile of Promoters and Substantial Shareholders

H'ng Choon Seng, Malaysian, aged 47

Promoter, Co-founder, Managing Director and Substantial Shareholder

H'ng Choon Seng was appointed to our Board as Director on 25 November 2011 and on 28 May 2012, he was designated as our Managing Director. He completed his high school education at Sekolah Menengah Kebangsaan Tunku Sheh Barabah, Jawi, Seberang Perai Selatan, Penang in 1983 and has since accumulated thirty-one (31) years of experience in the furniture and biomass material industries. As our Managing Director, he is responsible for overseeing our Group's operations and has been instrumental in the growth and development of our Group.

Mr H'ng started his career in 1983 when he joined a home-based furniture manufacturer in Jawi, Penang. In 1986, he started his own home-based furniture manufacturing and trading businesses under Chiang Wei Enterprise and Heng Huat Industries Enterprise respectively. In 1997, he established HH Manufacturer to manufacture mattresses.

In 2007, he co-founded HK Fibre, together with Kee Swee Lai to manufacture coconut fibre which paved the way for his involvement in the biomass industry. Subsequently, HK Palm Fibre and HK Kitaran were established in 2009 to manufacture oil palm EFB fibre.

Kee Swee Lai, Malaysian, aged 51

Promoter, Co-founder, Deputy Managing Director and Substantial Shareholder

Kee Swee Lai was appointed to our Board as Director on 25 November 2011 and on 28 May 2012, he was designated as our Deputy Managing Director. He graduated with a Bachelor of Science in Microbiology from Universiti Kebangsaan Malaysia in 1987 and has since accumulated twenty-seven (27) years of experience in plantation management and factory operations. As our Deputy Managing Director, he is responsible for overseeing our production operations and process development activities and has been instrumental in developing our automated production process.

Mr Kee started his career with Lion Plantation Sdn Bhd in 1987 as a Management Trainee and was subsequently promoted to Plantation Manager in 1989. In 1991, he left Lion Plantation Sdn Bhd and joined PT Riau Sakti Plantations (RSUP) under Sambu Group as an Assistant General Manager and was subsequently promoted to General Manager in 1993. He left PT Riau Sakti Plantations (RSUP) in 2006 and subsequently co-founded HK Fibre in 2007 followed by HK Palm Fibre and HK Kitaran in 2009.

Khor Mooi Kim, Malaysian, aged 45

Promoter, Executive Director and Substantial Shareholder

Khor Mooi Kim is our Executive Director and was appointed to our Board on 28 May 2012. She completed her high school education at Sekolah Menengah Kebangsaan Tunku Sheh Barabah, Jawi, Seberang Perai Selatan, Penang in 1985 and started her career in her family's poultry farm business in the same year. In 1991, she joined HH Furniture as an Administrator cum Human Resource Officer and was promoted to director in 1999. In 2012, she left HH Furniture and joined our Group as a director to manage our Group's human resource and administrative matters. She has accumulated twenty-three (23) years of experience in the furniture industry.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Teh Chai Luang, Malaysian, aged 48
Promoter, Executive Director and Substantial Shareholder

Teh Chai Luang is our Executive Director and was appointed to our Board on 28 May 2012. She completed her high school education in 1984 at Sekolah Menengah Kebangsaan Methodist (ACS) in Parit Buntar, Perak. In the same year, she started her career in her family's rattan container business and was attached to her family business until 1991. In 1991, she joined HH Furniture as an Administrator cum Sales Officer and was promoted to director in 1999. In 2012, she left HH Furniture and joined our Group as a director to head our sales and marketing activities. She has accumulated twenty-three (23) years of experience in the furniture industry.

Khor Teik Boon, Malaysian, aged 42
Promoter and Executive Director

Khor Teik Boon is our Executive Director and was appointed to our Board on 28 May 2012. He completed his high school education at Sekolah Menengah Kebangsaan Tunku Sheh Barabah, Jawi, Seberang Perai Selatan, Penang in 1988. In 1989, he started his career with Heng Huat Industries Enterprise as an Operations Officer. In 1997, he left Heng Huat Industries Enterprise and joined HH Manufacturer as a Production Supervisor. In 2007, he was promoted to Senior Production Manager. He left HH Manufacturer in 2012 and joined our Group as Executive Director in the same year. He has twenty-five (25) years of experience in manufacturing operations and is responsible for overseeing our Group's mattress production.

HH Manufacturer
Promoter and Substantial Shareholder

HH Manufacturer was incorporated in Malaysia under the name of Apollo Craft Sdn Bhd on 12 May 1997 as a private limited company under the Act. On 10 September 1997, it changed name to Heng Huat Manufacturers Sdn Bhd and subsequently changed and assumed its present name on 19 October 2005. As at the LPD, its authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up.

HH Manufacturer was principally involved in the manufacturing of fibre coconut sheet mattress. It has ceased its manufacturing activities upon the completion of the Acquisition of Assets of HH Manufacturer on 16 June 2012. Please refer to Section 5.4.2 for details of the Acquisition of Assets of HH Manufacturer.

The directors and shareholders of HH Manufacturer and their respective shareholdings in the company as at the LPD are as follows:

Name	<----- Direct ----->		<----- Indirect ----->	
	No. of shares held	% held	No. of shares held	% held
Directors and Shareholders				
H'ng Choon Seng	99,998	99.98	-	-
Khor Teik Boon	2	0.02	-	-

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.1.3 Changes in Promoters and/or Substantial Shareholders' Shareholdings since Incorporation

Save as disclosed below, there has been no change in the shareholdings of our Promoters and/or substantial shareholders in our Company since incorporation up to the date of this Prospectus:

Name	Date of Acquisition/ Disposal	<----- Direct ----->		<----- Indirect ----->	
		No. of Shares Acquired/ (Disposed)	Cumulative No. of Shares	No. of Shares Acquired/ (Disposed)	Cumulative No. of Shares
Promoters and substantial shareholders					
H'ng Choon Seng	25.11.2011	1	1 ⁽¹⁾	-	-
	16.05.2012	-	10 ⁽²⁾	-	-
	18.05.2012	72,970,100	72,970,110	16,500,000	16,500,000 ⁽³⁾
Kee Swee Lai	25.11.2011	1	1 ⁽¹⁾	-	-
	16.05.2012	-	10 ⁽²⁾	-	-
	18.05.2012	69,044,860	69,044,870	-	-
Khor Mooi Kim	18.05.2012	392,520	392,520	-	-
Teh Chai Luang	18.05.2012	392,520	392,520	-	-
HH Manufacturer	18.05.2012	16,500,000	16,500,000	-	-

Notes:

(1) Subscriber share of RM1.00 each.

(2) Share Split.

(3) Deemed interest by virtue of his substantial interests in HH Manufacturer pursuant to Section 6A of the Act.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

8.2 BOARD OF DIRECTORS

8.2.1 Profile

The profile of H'ng Choon Seng, Kee Swee Lai, Khor Mooi Kim, Teh Chai Luang and Khor Teik Boon are set out in Section 8.1.2 of this Prospectus.

Dato' Juzilman Bin Basir, Malaysian, aged 57
Independent Non-Executive Chairman

Dato' Juzilman bin Basir is our Independent Non-Executive Chairman and was appointed to our Board on 25 March 2014. He graduated with a Bachelor of Education in Agriculture Science from University Putra Malaysia in 1982.

Dato' Juzilman has over thirty (30) years of experience in the agricultural sector through his attachment with Felcra Berhad since 1982. He started his career as an Agriculture Officer until 1986. He was subsequently promoted to various positions in Felcra Berhad, including Felcra State Director of Malacca, Kedah and Perlis, Deputy Director of Plantation division and Development division, General Manager of Estate Management, Vice President and Senior Vice President of Monitoring and Evaluation, and Group General Manager of Estate Management. He was the Chief Executive Officer of Felcra Berhad from 2010 until his retirement in 2013.

Lim Ghim Chai, Malaysian, aged 39
Executive Director

Lim Ghim Chai is our Executive Director and was appointed to our Board on 28 May 2012. He graduated with a Bachelor of Commerce (Accounting) from La Trobe University, Australia in 1998. He is a member of the Malaysian Institute of Accountants and a Certified Practicing Accountant of Australia. He has been awarded a certificate from Malayan Insurance Institute.

Mr Lim started his career with Acer Technologies (M) Sdn Bhd as a Financial Accountant in 2000. In 2001, he left Acer Technologies (M) Sdn Bhd and joined Agilent Technologies (M) Sdn Bhd as a Financial Analyst. In 2002, he left Agilent Technologies (M) Sdn Bhd and joined Lorry Commercial Logistic Sdn Bhd as an Accountant until 2003. Between 2003 and 2006, he was a Partner in Maxwell Business Management and Consultancy, which specialises in tax consultancy, business planning consultancy and auditing services. He left Maxwell Business Management and Consultancy in 2006 to venture into his own business of property development and recycling of waste material. In 2012, he joined our Company as an Executive Director and is responsible for overseeing our Group's accounting, finance and corporate exercise activities.

Currently, he is an Independent Non-Executive Director of Asia EP Resources Berhad as well as a director of several private limited companies.

Ng Boon Kang, Malaysian, aged 43
Independent Non-Executive Director

Ng Boon Kang is our Independent Non-Executive Director and was appointed to our Board on 6 December 2012. He graduated with a Bachelor of Accountancy from Universiti Utara Malaysia in 1996. He is a member of the Malaysian Institute of Accountants, a Certified Financial Planner of the Financial Planning Association of Malaysia and a Registered Financial Planner of the Malaysian Financial Planning Council. He has also obtained a tax agent licence from the Ministry of Finance Malaysia in 2010.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

Mr Ng started his career with Chuah & Associates as an Audit Assistant in 1996 and was promoted to Audit Senior in 1997. In 1998, he left Chuah & Associates and joined KH Chew & Co as an Audit Manager. In 2004, he left KH Chew & Co and set up Crest Consulting, which provided business consulting, business planning and restructuring services. Crest Consulting has ceased its operations since 21 January 2006. Since 2006, he has joined BK Ng & Associates and TTP & Associates as a Tax Managing Partner and Audit Principal respectively.

Lo Liang Kheng, Malaysian, aged 50
Independent Non-Executive Director

Lo Liang Kheng is our Independent Non-Executive Director and was appointed to our Board on 28 May 2012. He graduated with a Bachelor of Business Administration from American City University, Cheyenne, Wyoming, USA in 2004 and obtained his Master in Business Administration from Universiti Sains Malaysia in 2008. He also obtained a Certified Credit Professional from Institut Bank-Bank Malaysia in 2005.

Mr Lo started his career with Public Bank Berhad as a Clerk in 1984 and was promoted to Operations Officer in 1992. He then left Public Bank Berhad in the same year and joined Pacific Bank Berhad as a Senior Operations Officer, and was subsequently promoted to Assistant Manager in 1996. In 1997, he left Pacific Bank Berhad and joined Dynamix Sound and Light Sdn Bhd as Financial Controller. In 2000, he left Dynamix Sound and Light Sdn Bhd and joined Kawyn Ornaments Sdn Bhd as Financial Controller. He then left Kawyn Ornaments Sdn Bhd in 2004 to set up his own business. Since 2005, he set up Kheng Consultancy Sdn Bhd, which specialises in the provision of management and financial consultancy services.

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8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.2.2 Shareholdings

The shareholdings of our Directors in our Company before and after our IPO are as follows:

Name	Designation	Nationality	Before IPO			After IPO		
			<----- Direct ----->	<----- Indirect ----->	% held	<----- Direct ----->	<----- Indirect ----->	% held
			No. of Shares held	No. of Shares held	% held	No. of Shares held	No. of Shares held	% held
Dato' Juzilman Bin Basir	Independent Non-Executive Chairman	Malaysian	-	-	-	-	-	-
H'ng Choon Seng	Managing Director	Malaysian	72,970,110	16,500,000 *	45.81	72,970,110	16,500,000 *	35.46
Kee Swee Lai	Deputy Managing Director	Malaysian	69,044,870	-	43.34	54,384,870	-	26.43
Lim Ghim Chai	Executive Director	Malaysian	-	-	-	-	-	-
Khor Mooi Kim	Executive Director	Malaysian	392,520	0.25	-	392,520	0.19	-
Teh Chai Luang	Executive Director	Malaysian	392,520	0.25	-	392,520	0.19	-
Khor Teik Boon	Executive Director	Malaysian	-	-	-	-	-	-
Ng Boon Kang	Independent Non-Executive Director	Malaysian	-	-	-	-	-	-
Lo Liang Kheng	Independent Non-Executive Director	Malaysian	-	-	-	-	-	-

Note:

* Deemed interest by virtue of his substantial interests in HH Manufacturer pursuant to Section 64 of the Act.

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.2.3 Principal Activities Performed Outside Our Group

Save as disclosed below, none of our Directors has any directorships and/or principal activities performed outside of our Group for the past five (5) years prior to the LPD:

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	<----- As at the LPD ----->			
					Direct	Indirect	No. of shares held	% held
H'ng Choon Seng	HK Alliance Sdn Bhd	Property holdings	Director/ Shareholder	27.09.2011	135,000	45.00	-	-
	Agro Vista Sdn Bhd ⁽¹⁾	Dormant	Director/ Shareholder	22.03.2011	15,000	15.00	-	-
	Tanjung Sepi Sdn Bhd ⁽²⁾	Investment holding	Director/ Shareholder	20.03.1995	50,000	50.00	-	-
	HH Manufacturer ⁽³⁾	Dormant	Director/ Shareholder	22.05.1997	99,998	99.98	-	-
	HH Furniture ⁽⁴⁾	Sewing and marketing of cushions, pillows, mattresses	Director/ Shareholder	02.09.1991	1,150,000	50.00	-	-
	Jinsem Marketing Sdn Bhd	Manufacturing of coconut fibre and coconut peat	Director	24.11.2006/ (04.02.2010)	-	-	-	-
	M2 Marketing Sdn Bhd	Dissolved	Director/ Shareholder	25.01.2005	25,000	50.00	-	-
	Shuang Lian Marketing Sdn Bhd	Dissolved	Director	09.12.2004	-	-	-	-
	HK Arah Kawasan Sdn Bhd	Dissolved	Director/ Shareholder	19.08.2009	1	50.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct		Indirect	
					No. of shares held	% held	No. of shares held	% held
Kee Swee Lai	Aman Jitra Sdn Bhd	Dissolved	Shareholder	-	1	50.00	-	-
	HK Alliance Sdn Bhd	Property holdings	Director/ Shareholder	27.09.2011	135,000	45.00	-	-
	Agro Vista Sdn Bhd ⁽¹⁾	Dormant	Director/ Shareholder	22.03.2011	15,000	15.00	-	-
	Mass Empire Travel & Tours Sdn Bhd	Dissolved	Director	24.06.2005/ (16.04.2009)	-	-	-	-
	HK Arah Kawasan Sdn Bhd	Dissolved	Director/ Shareholder	19.08.2009	1	50.00	-	-
	BP Renal care Sdn Bhd	Operate as haemodialysis and medical care centre and related services	Director/ Shareholder	17.01.2006	300,000	61.46	-	-
	BP Renal care (Segamat) Sdn Bhd	Haemodialysis centre	Director	04.05.2007	-	-	51	51.00
	BP Renal care (Kluang) Sdn Bhd	Provision of haemodialysis and medical services	Shareholder	-	100,300	66.73	-	-
	BP Renal care (Yong Peng) Sdn Bhd	Haemodialysis and medical care centre and provides related services	Director/ Shareholder	17.01.2006	20	20.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct No. of shares held	% held	Indirect No. of shares held	% held
	BP Renal care (Rengit) Sdn Bhd	Dialysis centres	Director/ Shareholder	23.02.2006	25,000	25.00	-	-
	Langkawi Dialysis Retreat Sdn Bhd	Haemodialysis center and medical hospitality	Director/ Shareholder	12.06.2006	1	50.00	-	-
	Tioman Dialysis Retreat Sdn Bhd	Retreat and resort	Director/ Shareholder	18.07.2008	1	50.00	-	-
	Jinsem Marketing Sdn Bhd	Manufacturing of coconut fibre and coconut peat	Director	24.11.2006/ (04.02.2010)	-	-	-	-
Khor Mooi Kim	HK Alliance Sdn Bhd	Property holdings	Director/ Shareholder	27.09.2011	15,000	5.00	-	-
	Unggul Fantastik Sdn Bhd	Striking off	Director/ Shareholder	23.02.2012	1	50.00	-	-
	HH Furniture ⁽⁴⁾	Sewing and marketing of cushions, pillows, mattresses	Director/ Shareholder	31.03.1999	575,000	25.00	-	-
Teh Chai Luang	HK Alliance Sdn Bhd	Property holdings	Director/ Shareholder	27.09.2011	15,000	5.00	-	-
	HH Furniture ⁽⁴⁾	Sewing and marketing of cushions, pillows, mattresses	Director/ Shareholder	31.03.1999	575,000	25.00	-	-
	M2 Marketing Sdn Bhd	Dissolved	Director/ Shareholder	05.03.2006	25,000	50.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD ----->			
					Direct		Indirect	
					No. of shares held	% held	No. of shares held	% held
Khor Teik Boon	Garapan Semangat Sdn Bhd	Striking off	Director	23.02.2012	-	-	-	-
	Garapan Semangat Sdn Bhd	Striking off	Director	23.02.2012	-	-	-	-
	HH Manufacturer ⁽³⁾	Dormant	Director/ Shareholder	20.08.2004	2	0.02	-	-
Lim Ghim Chai	Absolute Success Holdings Sdn Bhd ⁽⁵⁾	Investment holding	Director/ Shareholder	08.04.2008	3,000	30.00	-	-
	Bioworld Vision Sdn Bhd	Property investment	Director	15.12.2008	-	-	9,000	30.00
	CSH Water Solution (M) Sdn Bhd	Raw water and waste water treatment consultant and construction contractor	Director	11.02.2007/ (29.12.2009)	-	-	-	-
Dutamas Formation Sdn Bhd	Duta Palms Development Sdn Bhd	Property development and share investment	Director/ Shareholder	07.01.2005	90,000	30.00	-	-
	Dutamas Formation Sdn Bhd	Dormant	Director	24.09.2007/ (07.08.2010)	-	-	-	-
	An Ju Properties Sdn Bhd	Dissolved	Director/ Shareholder	16.10.2003	1	50.00	-	-
Hikmat Bumimas Sdn Bhd	Hikmat Bumimas Sdn Bhd	Property developer, hardware dealer and investment holdings	Director/ Shareholder	02.02.2006	25,000	10.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct	Indirect		
					No. of shares held	No. of shares held	% held	% held
Zone Art Interior Design Sdn Bhd	Interior design	Director/ Shareholder	02.08.2006/ (19.04.2013)	1	50.00	-	-	-
Hecta Consolidated Sdn Bhd	Property developer	Director	13.12.2006	-	-	50,000	10.00	10.00
CSH Recycle Sdn Bhd	Recycling of plastics, papers, metal and all kinds of waste material	Director/ Shareholder	13.09.2006/ (01.08.2012)	100,000	33.33	-	-	-
Starhill Heritage Sdn Bhd	General trading and investment holding	Director/ Shareholder	04.10.2011	1	50.00	-	-	-
Mega Residency Sdn Bhd	Property investment	Director	18.05.2011	-	-	1	50.00	50.00
AsiaEP Resources Berhad	Provider of E-commerce solution and E-marketplace developer	Independent Non-Executive Director	11.04.2008	-	-	-	-	-
CSH Global Resources Sdn Bhd	Recyclers of plastics, paper, scrap metals and all kinds of waste material	Director/ Shareholder	20.05.2010/ (07.08.2010)	2,500	25.00	-	-	-
Dutamas Summit Sdn Bhd	Property developer	Director	28.04.2010	-	-	250,000	100.00	100.00
Dutamas Permai Sdn Bhd	Property development	Director	15.04.2010	-	-	50,000	20.00	20.00
Euro Equity Sdn Bhd	General trading, land and property investment and investment holding	Director/ Shareholder	23.03.2010	3,000	30.00	-	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

As at the LPD									
Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	Direct		Indirect		%
					No. of shares held	% held	No. of shares held	% held	
	City Brand Sdn Bhd	Property investment	Director	02.03.2010/ (01.09.2010)	-	-	4,000	40.00	
	Temasek Mission Sdn Bhd	Property investment	Director	02.03.2010/ (01.09.2010)	-	-	4,000	40.00	
	KTN Holdings Sdn Bhd	Trading in all kinds of motorcycles and related motorcycle accessories	Director/ Shareholder	17.11.2009	10,000	25.00	-	-	
	Enrich Heritage Sdn Bhd	Property developer	Director	04.04.2008	-	-	125,000	50.00	
	K-Star Sport Limited	Shoe and garment manufacturing	Director	05.03.2010/ (24.03.2014)	-	-	-	-	
	Greenpower City Sdn Bhd	General trading, investment holding	Director/ Shareholder	03.08.2012	22,499	9.00	-	-	
	Active Pavilion Sdn Bhd	General trading, investments, properties	Director/ Shareholder	04.06.2013	25,000	10.00	-	-	
	SMPC Corporation Berhad	Investment holdings company, letting of industrial and commercial assets, management consultancy	Director	27.06.2013/ (25.09.2013)	-	-	-	-	
	YNS Furniture Manufacturing Sdn Bhd	General trading and investment holding	Director	22.03.2013/ (21.03.2014)	-	-	-	-	

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct	Indirect		
					No. of shares held	No. of shares held	% held	% held
Ng Boon Kang	Golden Circle Avenue Sdn Bhd ⁽⁶⁾	Dormant	Director	28.04.2014	-	-	-	-
	Courage Alliance Sdn Bhd	Property holding and provide accounting and management shareholder services	Director/ shareholder	20.04.2009	100,002	-	50.00	-
	Crest Consulting ⁽⁷⁾	Provide business consulting, business planning and restructuring services	Sole proprietor	04.09.2004	- ⁽⁸⁾	-	100.00	-
	BK Ng & Associates	Provide taxation services	Partner	21.02.2006	- ⁽⁸⁾	-	50.00	-
Lo Liang Kheng	TTP & Associates	Provide audit services	Principal	21.03.2006	- ⁽⁸⁾	-	50.00	-
	Kheng Consultancy Sdn Bhd	Dissolved	Director/ Shareholder	04.08.2008	25,000	-	50.00	-
	Pusat Latihan Komputer Anaktek Sdn Bhd	Dissolved	Director/ Shareholder	05.12.2000	21,000	-	30.00	-
	Baywatch Beach Club Sdn Bhd	Dissolved	Shareholder	-	2,000	-	2.00	-
Dato' Juzilman Bin Basir	Felcra Education Services Sdn Bhd	To set up a college for providing educational courses	Director	14.11.2011/ (25.04.2013)	-	-	-	-
	Permodalan Felcra Sdn Bhd	Investment and fund manager	Director	09.08.2012/ (25.04.2013)	-	-	-	-
	Felcra Pelita Jemoreng Sdn Bhd	Oil palm plantation	Director	08.04.2005/ (25.04.2013)	-	-	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct	Indirect		
					No. of shares held	No. of shares held	% held	% held
Felcra Plantation Services Sdn Bhd		Agronomic advisory, plantation advisory, agriculture consulting and seed centre	Director	02.07.1998/ (25.04.2013)	-	-	-	-
Sinergi Perdana Sdn Bhd		Engaged in agriculture related business	Director	03.06.2010/ (26.06.2013)	-	-	-	-
Felcra Jaya Samarahan Sdn Bhd		Processing of palm oil and palm kernel	Director	09.05.2012/ (25.04.2013)	-	-	-	-
Konsortium Baja Nasional Sdn Bhd		Business of providing agriculture inputs	Director	28.02.2011/ (19.07.2013)	-	-	-	-
Felcra Properties Sdn Bhd		Business of properties development	Director	17.08.2011/ (25.04.2013)	-	-	-	-
Felcra Berhad		Rehabilitation and development of land, cultivation of commodities crop, processing and marketing commodities product	Director	16.10.2012/ (25.04.2013)	-	-	-	-
Felcra Livestock & Agri Product (formerly known as Felcra Makmur Sdn Bhd)		To development land and agriculture	Director	14.01.2013/ (25.04.2013)	-	-	-	-
Felcra Jaya Mukah Sdn Bhd		Dormant	Director	15.10.2012/ (25.04.2013)	-	-	-	-

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

Notes:

- (1) *Agro Vista Sdn Bhd has been dormant since its incorporation on 15 February 2007 as it has not commenced operations since then. The company was originally set up to undertake property investment, but the company's intended investment did not materialise. Based on its latest available audited financial statements for the FYE 31 December 2012, the company has NA amounting to RM0.09 million. As at the LPD, the directors of the company do not have any specific plan for the company.*
- (2) *Tanjung Septi Sdn Bhd is principally a property investment holding company.*
- (3) *HH Manufacturer was previously involved in the manufacturing of fibre coconut sheet mattress and has ceased its operations upon the completion of the Fibre Star Reorganisation on 16 June 2012. Based on its latest available audited financial statements for the FYE 31 May 2013, the company has net liabilities amounting to RM0.21 million. As at the LPD, the directors of the company do not have any specific plan for the company.*
- (4) *HH Furniture was previously involved in the sewing and marketing of cushions, pillows, mattresses and its related products and has ceased its operations upon the completion of the Fibre Star Reorganisation on 16 June 2012. Based on its latest available audited financial statements for the FYE 31 December 2012, the company has NA amounting to RM1.57 million. As at the LPD, the directors of the company do not have any specific plan for the company.*
- (5) *Absolute Success Holdings Sdn Bhd is principally a property investment holding company. Based on its latest available audited financial statements for the FYE 31 December 2012, the company has net liability amounting to RM10.*
- (6) *Golden Circle Avenue Sdn Bhd has been dormant since its incorporation on 31 October 2013. The intended principal activity of the company is property development.*
- (7) *Crest Consulting has ceased its operations since 21 January 2006.*
- (8) *Not applicable, as it is a sole proprietorship/ partnership.*

Our Board is of the view that the involvement of our Executive Director, Lim Ghim Chai in other businesses as disclosed above is not expected to affect his contribution to our Group nor negatively impact his abilities to act as our Executive Director due to the following reasons:

- (i) His involvement in the other companies which he holds executive positions, namely Duta Palms Development Sdn Bhd, Hikmat Bumimas Sdn Bhd, Hecta Consolidated Sdn Bhd, Dutamas Summit Sdn Bhd, Dutamas Permai Sdn Bhd and Enrich Heritage Sdn Bhd (“Property Companies”), does not require much of his time as he is not involved in the day-to-day operations of the Property Companies, which are managed by their respective experienced management teams;
- (ii) His involvement in the Property Companies is only to the extent of decision making on new property development projects (if any) and being one of the authorised signatories for cheque issuance should the need arises. Thus, he is able to spend a substantial portion of his time on the affairs of our Group; and
- (iii) His involvement in the other companies which he does not hold any executive positions is only to the extent of attending board meetings.

In addition, the involvement of our other Directors in other businesses as disclosed above is not expected to affect their contribution to our Group as our Directors personnel are not actively involved in the management and day-to-day operations of these businesses and/or corporations, whereby their involvement are only to the extent of attending board meetings.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.2.4 Directors' Remuneration and Material Benefits-in-Kind

The current remunerations and proposed remunerations for services rendered/to be rendered by our Directors in all capacities to our Group for the FYE 31 December 2013 and the FYE 31 December 2014 are as follows:

Director	Compensation Band (RM)	
	FYE 31 December 2013	FYE 31 December 2014
H'ng Choon Seng	600,000 to 650,000	650,000 to 700,000
Kee Swee Lai	350,000 to 400,000	400,000 to 450,000
Lim Ghim Chai	0 to 50,000	100,000 to 150,000
Khor Mooi Kim	150,000 to 200,000	150,000 to 200,000
Teh Chai Luang	150,000 to 200,000	150,000 to 200,000
Khor Teik Boon	100,000 to 150,000	100,000 to 150,000
Ng Boon Kang	-	0 to 50,000
Lo Liang Kheng	-	0 to 50,000
Dato' Juzilman Bin Basir	-	50,000 to 100,000

The above remunerations, which comprise salaries, incentives, bonuses, fees, allowances and other benefits-in-kind must be considered and recommended by the Remuneration Committee and subsequently approved by our Board. Our Directors' fees and incentives must be further approved or endorsed by our shareholders at a general meeting.

8.2.5 Directors' Term of Office

Our Directors were appointed to the Board and has served in their respective capacities since the dates set out in Sections 8.1.2 and 8.2.1 of this Prospectus. Our Board comprises six (6) Executive Directors, three (3) Independent Non-Executive Directors and their respective terms of office are as follows:

Name/ Designation	Date of Appointment	Length of Service as Director of Heng Huat	* Expiration of term of office
Dato' Juzilman Bin Basir/ Independent Non-Executive Chairman	25 March 2014	< 1 year	Shall retire at our 2014 annual general meeting
H'ng Choon Seng/ Managing Director	25 November 2011	> 1 year	Shall retire at our 2015 annual general meeting
Kee Swee Lai/ Deputy Managing Director	25 November 2011	> 1 year	Shall retire at our 2015 annual general meeting
Lim Ghim Chai/ Executive Director	28 May 2012	> 1 year	Shall retire at our 2015 annual general meeting
Khor Mooi Kim/ Executive Director	28 May 2012	> 1 year	Shall retire at our 2014 annual general meeting

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name/ Designation	Date of Appointment	Length of Service as Director of Heng Huat	* Expiration of term of office
Teh Chai Luang/ Executive Director	28 May 2012	> 1 year	Shall retire at our 2014 annual general meeting
Khor Teik Boon/ Executive Director	28 May 2012	> 1 year	Shall retire at our 2014 annual general meeting
Ng Boon Kang/ Independent Non-Executive Director	6 December 2012	> 1 year	Shall retire at our 2016 annual general meeting
Lo Liang Kheng/ Independent Non-Executive Director	28 May 2012	> 1 year	Shall retire at our 2016 annual general meeting

Note:

* In accordance with our Articles of Association on Retirement of Directors:

An election of Directors shall take place each year at the annual general meeting of the Company where one third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest to one third (1/3) shall retire from office and be eligible for re-election. PROVIDED ALWAYS THAT all Directors shall retire from office once at least in each three (3) years but shall be eligible for re-election. A retiring Director shall retain office until the close of the meeting at which he retires. Additionally, any Director appointed within the year shall hold office only until the next following annual general meeting and shall then be eligible for re-election. Such Director's retirement shall be additional to and not be taken into account in the determination of the usual one-third retirement of Directors by rotation.

8.3 AUDIT, NOMINATION AND REMUNERATION COMMITTEES

8.3.1 Audit Committee

Our Audit Committee was established on 28 May 2012. Members of our Audit Committee are as follows:

Name	Designation	Directorship
Ng Boon Kang	Chairman	Independent Non-Executive Director
Lo Liang Kheng	Member	Independent Non-Executive Director
Dato' Juzilman Bin Basir	Member	Independent Non-Executive Chairman

The principal objective of the Audit Committee is to implement and support the oversight function of the Board. It provides a means for review of our Group's processes for producing financial data, its internal controls, corporate code of conduct, the independence of our Group's external auditors, and maintain an open line of communication and consultation between our Board, the internal auditors, the external auditors and our key management. Our Audit Committee performs, amongst others, the following functions:

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

- (i) Review with our internal and/or external auditors the nature and scope of their audit plans, audit reports, major findings and evaluations of our internal controls system;
- (ii) Review our quarterly and annual financial statements before submission to our Board, focusing in particular on any change in implementation of major accounting policies and practices, significant and unusual events, significant adjustments arising from the audit, the going concern assumption and compliance with accounting standards and other regulatory or legal requirements;
- (iii) Review matter concerning the suitability for appointment or reappointment of external auditors and matters relating to their resignation;
- (iv) Review any related party transactions entered into by our Group and any conflict of interest situations that may arise within our Group;
- (v) Review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work and to report the same to the Board; and
- (vi) Review the assistance given by our employees to the external auditors.

8.3.2 Nomination Committee

Our Nomination Committee was established on 28 May 2012. Members of our Nomination Committee are as follows:

Name	Designation	Directorship
Dato' Juzilman Bin Basir	Chairman	Independent Non-Executive Chairman
Ng Boon Kang	Member	Independent Non-Executive Director
Lo Liang Kheng	Member	Independent Non-Executive Director

Our Nomination Committee's terms of reference include, amongst others, the following:

- (i) Identify and recommend to our Board, candidates for directorships of our Company and Directors as members of the relevant Board committees;
- (ii) Review annually the required mix of skills and experience and other qualities, including core competencies, which non-executive directors should bring to the Board;
- (iii) Assess annually the effectiveness of the Board as a whole, the committees of the Board and contribution of each individual director including independent non-executive directors, as well as the chief executive officer; and
- (iv) Review the Board's succession plans and training programmes for our Board.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

8.3.3 Remuneration Committee

Our Remuneration Committee was established on 28 May 2012. Members of our Remuneration Committee are as follows:

Name	Designation	Directorship
Lo Liang Kheng	Chairman	Independent Non-Executive Director
Dato' Juzilman Bin Basir	Member	Independent Non-Executive Chairman
Ng Boon Kang	Member	Independent Non-Executive Director

Our Remuneration Committee's terms of reference include, amongst others, the following:

- (i) Review and recommend the entire individual remuneration packages for each of the Executive Directors and key management personnel to ensure the levels of remuneration be sufficiently attractive and be able to retain the Executive Directors and key management personnel needed to run our Group successfully; and
- (ii) Assist our Board in discharging responsibilities relating to, amongst others, compensation strategy, succession planning, management development and other compensation arrangements.

8.4 KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

8.4.1 Profile

Cheng Pek Tong, Malaysian, aged 35
Chief Finance Officer

Cheng Pek Tong is our Chief Finance Officer. He graduated with a Bachelor of Accountancy from Universiti Utara Malaysia in 2004. He is also a Chartered Accountant and a member of the Malaysian Institute of Accountants. He started his career in Aljeffridean Chartered Accountants (M) as an Audit Assistant in 2004 and was subsequently promoted to Assistant Manager in 2005. In 2008, he left Aljeffridean Chartered Accountants (M) and joined Eonmetall Group Berhad as an Accountant. In 2011, he left Eonmetall Group Berhad and joined our Group as an Accountant, and was subsequently promoted to Chief Finance Officer in 2012. He is currently responsible for overseeing and monitoring our financial accounting and taxation matters and planning and coordinating our financial reporting activities.

Khor Mui Kee, Malaysian, aged 50
Senior Administrative Manager

Khor Mui Kee is our Senior Administrative Manager. She completed her high school education at Sekolah Tunku Abdul Rahman (Nibong Tebal), Seberang Perai, Penang in 1981 and started her career with a local convenience store as a General Administrator in the same year. In 1982, she left the convenience store and joined Tanako Sdn Bhd as a Quality Control Officer. In 1983, she left Tanako Sdn Bhd and joined HH Furniture as an Account and Finance Officer until 1992. In 1992, she joined HH Industries Enterprise as an Administrative Officer. In 2007, she left HH Industries Enterprise and joined our Group as Account and Finance Officer and was promoted to Senior Administrative Manager in 2011. She is currently responsible for overseeing our Group's administrative activities.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

Lim Poh Aun, Malaysian, aged 38
Human Resource Manager

Lim Poh Aun is our Human Resource Manager. He graduated with a Diploma in Business Administration from Malaysia Institution of Training Development in 2002 and further obtained a Diploma in Computer Graphic Design from Two Studio Multimedia Academy in 2005. Subsequently, he obtained an Executive Master of Business in General Management from Asia e University in 2013. After completing his high school in 1994, he started his career in 1995 with Boon Siew Honda Sdn Bhd as Administrative Clerk and served the company until 2012, with his last position as an Administrator. During his attachment with Boon Siew Honda Sdn Bhd, he has worked in various departments including personnel and administration department, human resource department and safety department. In 2012, he joined Carbon Management as an ISO Consultant until 2013. He then joined HIL Industries Sdn Bhd in 2013 as a Human Resource and Administrative Executive, and shortly after, joined MAX Elite Smart Solutions as a Mortgage Consultant within the same year. In 2014, he left MAX Elite Smart Solutions and joined Heng Huat as our Human Resource Manager. He is responsible for overseeing human resource activities for our Group.

H'ng Ai Choo, Malaysian, aged 45
Sales Manager

H'ng Ai Choo is our Sales Manager. After completing her high school education in 1987 at Sekolah Menengah Kebangsaan Tunku Sheh Barabah, Jawi, Seberang Perai Selatan, Penang, she joined Hup Seng Agency, a newspaper and magazine agency, as Account Clerk. In 1990, she left Hup Seng Agency and joined Lip Hong Chan Sdn Bhd as Account Clerk until 1994. She then joined United Sweethearts Garment Sdn Bhd as Account Clerk in 1994 and was promoted to Account Assistant in 1997. In 2003, she left United Sweethearts Garment Sdn Bhd and joined HH Furniture as Account Executive and assumed various positions before her last promotion to Sales Manager in 2010. In 2012, she left HH Furniture and joined our Group as Sales Manager and is responsible for the business development and sales and marketing for our mattress business.

Oon Bee Pheng, Malaysian, aged 33
Procurement and Sourcing Manager

Oon Bee Pheng is our Procurement and Sourcing Manager. She graduated with a Bachelor of Science in Bio Industry from Universiti Putra Malaysia in 2005 and started her career as Purchaser for ITC Corporation Sdn Bhd in the same year. In 2008, she left ITC Corporation Sdn Bhd and joined Hired-Hand Technology Asia Sdn Bhd as Purchasing Executive until 2012. She then joined our Group in 2012 as Procurement and Sourcing Manager and is responsible for establishing and maintaining relationships with suppliers, negotiating with suppliers, material planning and stock management to support our biomass business.

Sim Kok Siang, Malaysian, aged 35
Factory Manager, HK Kitaran

Sim Kok Siang is HK Kitaran's Factory Manager. He graduated with a Bachelor of Art in Urban Studies and Planning (Major) and International Studies and Strategy (Minor) (Honours) from University of Malaya in 2004. He started his career with UPA Press Sdn Bhd as Production Planner cum Purchaser in 2003 and was promoted to Senior Production Planner cum Purchaser in 2004. In 2007, he left UPA Press Sdn Bhd and joined Kilang Sprocket S.A. Sdn Bhd as an Assistant Production Control Manager and was promoted to Production Control Manager in 2008. In 2009, he left Kilang Sprocket S.A. Sdn Bhd and joined Mardec Berhad as Assistant Factory Manager until 2010. He subsequently joined our Group as Factory Manager in 2010. He is currently responsible for HK Kitaran's factory operations.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

Wong Chee Wei, Malaysian, aged 35
Factory Manager, HK Palm Fibre

Wong Chee Wei is HK Palm Fibre's Factory Manager. After completing his high school education in 1998, he obtained a certificate in Mechatronic from Penang Skills Development Centre, Penang in 2001. He then joined Kah Hong Plastic Industrial Sdn Bhd as an Electrical Technician in the same year and was promoted to Assistant Manager in 2003. In 2008, he left Kah Hong Plastic Industrial Sdn Bhd and joined Seng Chong Precision Sdn Bhd as a Production Executive until 2010. Subsequently, he joined HK Palm Fibre as a Production Executive in 2010. He was promoted to Factory Manager in the same year and is responsible for HK Palm Fibre's factory operations.

Tan Chee Seng, Malaysian, aged 48
Senior Export Marketing Manager

Tan Chee Seng is our Senior Export Marketing Manager. He graduated with a Bachelor of Science in Computer Information System from Jacksonville State University, Alabama, USA in 1992. He started his career with Amcor Fibre Packaging (M) Sdn Bhd as a Sales Representative in the same year and was promoted to Assistant Sales Manager in 1993 and subsequently to Sales Manager in 1997. In 2007, he left Amcor Fibre Packaging (M) Sdn Bhd and joined Oriental Box Sdn Bhd as General Manager for a short stint. Between 2007 and 2009, he started his own businesses, namely Pusat Tuisyen Maju Diri and CMC Aquaculture Sdn Bhd. In 2009, he joined Ernsts Foods (Shenzhen) Co Ltd as Business Consultant and was promoted to Sales and Marketing Director in 2010. In 2012, he left Ernsts Foods (Shenzhen) Co Ltd and joined our Group as Senior Export Marketing Manager. He is responsible for our Group's penetration into the overseas market.

Boo Chin Weng, Malaysian, aged 50
Factory Manager, Fibre Star

Boo Chin Weng is Fibre Star's Factory Manager. He graduated with a Diploma in Mechanical Technician from Institute Technology of Butterworth in 1986. Upon his graduation, he started his career with Hicom-Suzuki Malaysia Sdn Bhd as Quality Controller in 1985, and shortly after, joined Teoh Huat Feedmill Sdn Bhd as Technician in the same year. He was promoted to Assistant Supervisor in 1986. He subsequently left Teoh Huat Feedmill Sdn Bhd and joined NTPM Sdn Bhd as Supervisor in 1988 and was promoted to Store and Scheduling Manager in 2005. In 2012, he left NTPM Sdn Bhd and joined Fibre Star as Factory Manager and is responsible for overseeing Fibre Star's factory operations.

Ch'ng Chee Yeong, Malaysian, aged 31
Process Development Engineer

Ch'ng Chee Yeong is our Process Development Engineer. He graduated with an Advance Diploma in Robotic & Mechatronic from Institute First Robotic Industrial Science in 2003. He started his career with Kilang Sprocket S.A. Sdn Bhd as a Process Engineer in the same year and assumed various positions before his last promotion to the position of Personal Assistant to the Assistant Operation Manager in 2011. He subsequently left Kilang Sprocket S.A. Sdn Bhd in 2011 and joined our Group as Process Development Engineer in the same year. He is responsible for, amongst others, assisting our Deputy Managing Director, Kee Swec Lai to oversee our process development initiatives.

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.4.2 Shareholdings

Save as disclosed below, the shareholdings of our key management and key technical personnel in our Company before and after our IPO are as follows:

Name	Designation	Nationality	Before IPO			After IPO*		
			<-- Direct -->	<-- Indirect -->	No. of Shares held	<-- Direct -->	<-- Indirect -->	No. of Shares held
Cheng Pek Tong	Chief Finance Officer	Malaysian	-	-	-	50,000	0.02	-
Khor Mui Kee	Senior Administrative Manager	Malaysian	-	-	-	160,000	0.08	-
Lim Poh Aun	Human Resources Manager	Malaysian	-	-	-	-	-	-
H'ng Ai Choo	Sales Manager	Malaysian	-	-	-	100,000	0.05	-
Oon Bee Pheng	Procurement & Sourcing Manager	Malaysian	-	-	-	50,000	0.02	-
Sim Kok Siang	Factory Manager of HK Kitaran	Malaysian	-	-	-	100,000	0.05	-
Wong Chee Wei	Factory Manager of HK Palm Fibre	Malaysian	-	-	-	50,000	0.02	-
Tan Chee Seng	Senior Export Marketing Manager	Malaysian	-	-	-	70,000	0.03	-
Boo Chin Weng	Factory Manager of Fibre Star	Malaysian	-	-	-	100,000	0.05	-
Ch'ng Chee Yeong	Process Development Engineer	Malaysian	-	-	-	50,000	0.02	-

Note:

* Assuming full subscription of his/her Pink Form Tranche allocation.

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.4.3 Involvement of Key Management and Key Technical Personnel in Other Businesses or Corporations

Save as disclosed below, none of our key management and key technical personnel are involved in other businesses/corporations as at the LPD:

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at LPD			
					Direct		Indirect	
					No. of shares held	% held	No. of shares held	% held
Tan Chee Seng	CMC Aquaculture Sdn Bhd	(1) to carry on the business of spawning, breeding and culturing of fresh water and sea water fish, prawns and other aquatic organisms in tanks, pool, ponds and rivers and in connection therewith to erect and maintain tanks, pool, ponds and rivers; (2) to purchase or otherwise acquire, and to carry on the businesses of ship owners, trawlers, deep-sea fishers, fish sale agencies and wholesale and retail merchants of marine product; and (3) to carry on the business as pet shop traders, aquatic traders and tropical fish suppliers and to breed, rear, import, export and/or deal in all kinds of tropical fish and plants, either as wholesalers or retailers	Director/ Shareholder	01.12.2008	1	20.00	-	-
	Pusat Tuisyen Majudiri	Tuition center	Sole proprietor/ Shareholder	16.01.2003	1	100.00	-	-
	BS Agriculture Enterprises	Agriculture	Partner/ Shareholder	10.07.2009	1	50.00	-	-

8. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

Name	Company	Principal Activities	Designation	Date Appointed/ (Resigned)	As at the LPD			
					Direct	Indirect	No. of shares held	% held
	Oriental Box Sdn Bhd	Manufacturing and trading of Corrugated Carton Boxes	Director	13.01.1997/ (16.03.2012)	-	-	-	-
	Grouper Aquaculture Sdn Bhd	(1) to carry on the business of spawning, breeding and culturing of fresh water and sea water fish, prawns and other aquatic organisms in tanks, pool, ponds and rivers and in connection therewith to erect and maintain tanks, pool, ponds and rivers; (2) to purchase or otherwise acquire, and to carry on the businesses of ship owners, trawlers, deep-sea fishers, fish sale agencies and wholesale and retail merchants of marine product; and (3) to carry on the business as pet shop traders, aquatic traders and tropical fish suppliers and to breed, rear, import, export and/or deal in all kinds of tropical fish and plants, either as wholesalers or retailers	Director	03.12.2008/ (02.04.2009)	-	-	-	-
Khor Mui Kee	Unggul Fantastik Sdn Bhd	Striking off	Director	13.07.2012	-	-	-	-

All our key management and key technical personnel are full-time employees of our Group and are not involved in the operations of other businesses or corporations outside our Group.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

8.5 DECLARATIONS BY PROMOTERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

Based on the declarations by our Promoters, Directors, key management and key technical personnel, none of our Promoters, Directors, key management and key technical personnel is or has been involved in any of the following events (whether in or outside Malaysia):

- (i) A petition under any bankruptcy or insolvency laws was filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel;
- (ii) Disqualification from acting as a director of any corporation, or from taking part directly or indirectly in the management of a corporation;
- (iii) Charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (iv) Any judgement entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or
- (v) The subject of any order, judgment or ruling of any court, government or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity.

8.6 FAMILY RELATIONSHIPS AND ASSOCIATIONS

Save as disclosed below, there are no family relationships (as defined under Section 122A of the Act) or associations amongst our Promoters, Directors, substantial shareholders, key management and key technical personnel:

- (i) Khor Mooi Kim is the spouse of H'ng Choon Seng;
- (ii) Teh Chai Luang is the sister-in-law of H'ng Choou Seng;
- (iii) Khor Teik Boon, Khor Mui Kee and Khor Mooi Kim are siblings; and
- (iv) Boo Chin Weng is the spouse of Khor Mui Kee.

8.7 BENEFITS PAID OR INTENDED TO BE PAID

Save as disclosed in Section 8.2.4 of this Prospectus, there is no amount or benefit paid or intended to be paid or given to any of our Promoters, Directors or substantial shareholders within the two (2) years preceding the date of this Prospectus.

8.8 SERVICE AGREEMENTS WITH DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

As at the LPD, there are no existing or proposed service agreements between the companies within our Group and our Directors, key management and key technical personnel, which are not terminable by notice without payment or compensation (other than statutory notice).

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

8.9 INFORMATION ON EMPLOYEES

8.9.1 Employment Structure

As at the LPD, we have a total workforce of 548 personnel, including our Executive Directors. The breakdown of our employees by category as at 31 December 2011 to 2013 as well as at the LPD is as follows:

Category	<----- Number of Employees ----->			
	<----- As at 31 December ----->			As at
	2011	2012	2013	the LPD
Directors	5	9	9	9
Managerial	12	15	11	14
Sales and marketing	6	18	17	17
Finance, human resource and administration	11	31	29	31
Procurement	1	4	5	5
Driver and maintenance	27	38	18	25
General worker (local)	47	130	113	117
General worker (foreign)	216	308	315	331
Total	325	553	517	549

The substantial increase in our total workforce from 325 personnel as at 31 December 2011 to 553 personnel as at 31 December 2012 is mainly contributed by the workforce from our mattresses and related products division pursuant to the Fibre Star Reorganisation.

As at the LPD, we have employed 331 foreign workers mainly from Nepal. All of our foreign workers have the necessary and valid working permits and are not in breach of any immigration laws.

As at the LPD, in addition to our total employees of 549 personnel, we have 9 foreign contract/temporary workers working in the production department.

There has been no industrial dispute actions taken against our Group and none of our employees are members of any union. In addition, our Group has not encountered any major turnover in our workforce.

8.9.2 Training and Development

We place strong emphasis on human resource development. Our employees are given regular on-the-job training in areas of management skills and technical knowledge to provide them with opportunities to acquire new skills and knowledge. We also provide opportunities for internal promotion as one of the key components of employees' development and retention.

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (Cont'd)

All new employees recruited by us are required to undergo in-house orientation conducted by the respective department heads to familiarise themselves with our corporate vision, culture and policies. On-the-job training is also provided to the production operators and technicians to equip them with the necessary working knowledge and skills in order for them to carry out their job responsibilities efficiently.

Our Human Resource Department is responsible for the preparation of training programmes on a regular basis. In addition, department heads can also recommend any additional training requests on an ad hoc basis. The training programmes include in-house training programmes and are conducted regularly such as:

- Management skill training; and
- Fire safety and emergency response.

These are mainly technical training, motivational and leadership/management development programmes aimed to increase the staff's knowledge and to enhance proficiency in their daily tasks. Our training regime aims to equip our staff with knowledge pertaining to quality assurance, the mechanics of the manufacturing processes and safety awareness.

Our employees have had the opportunity to participate in training programmes to develop industry knowledge to enhance proficiency in their daily tasks. Some of the training programmes attended by our employees in 2012 and 2013 are as follows:

Date	Programme	Venue	Facilitator/ Organiser
11.02.2012	ISO14001:2008 QMS Awareness and Introduction Training	HK Kitaran	Hewton Management Centre Sdn Bhd
30.03.2012 to 31.03.2012	ISO14001:2008, QMS Internal Audit Training	HK Kitaran	Hewton Management Centre Sdn Bhd
03.04.2012	Essential Leadership Skills For Supervisor & Leader	HK Kitaran, HK Fibre and HK Palm Fibre	BM Trade (Penang) Sdn Bhd
26.04.2012 to 27.04.2012	Negotiation skills and cost reduction in Purchasing	HK Kitaran, HK Fibre and HK Palm Fibre	BM Trade (Penang) Sdn Bhd
23.02.2013	ISO9001:2008 QMS International Audit Training for Executive and New Staff	HK Kitaran	Standard & Systems Management Centre Sdn Bhd
20.05.2013 to 21.05.2013	Lean Manufacturing	Sunway Hotel	XcelLearn Resources
29.06.2013	5S Housekeeping Towards GMP Training	HK Kitaran	CQE Training & Consultancy
15.08.2013 to 16.08.2013	The Art of Supervisory and Leadership Skills	HK Kitaran	BMT Training & Development (PG) Sdn Bhd
29.11.2013	First Aid Training	HK Kitaran	BMT Training & Development (PG) Sdn Bhd

8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL (*Cont'd*)

8.9.3 Management Succession Plan

Our Board believes that the success of our Group depends on the ability and retention of our key management. Therefore, we have made efforts to train our staff and remunerate them accordingly. Our future success will also depend on our ability to attract and retain skilled personnel.

We have a management succession plan consisting of:

- (i) Sound recruitment and selection;
- (ii) Competitive remuneration and employee benefits;
- (iii) Structured career planning and development; and
- (iv) Continuous training and education.

As part of our management succession plan, we have identified middle management personnel across departments to assist the heads of the respective departments in order to facilitate skill transfer so as to ensure the smooth running and continuity of our operations. If the need arises, we will recruit qualified personnel with knowledge and expertise of our business.

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9. APPROVALS AND CONDITIONS

9.1 APPROVALS FROM RELEVANT AUTHORITIES

Our Listing is an exempt transaction under Section 212(8) of the CMSA and is therefore not subject to the approval of the SC.

The SC had on 4 June 2012 approved an exemption sought by us from having to comply with certain Paragraphs in Chapter 8, 11, 12, and 13 under the SC's Prospectus Guidelines – Equity and Debt (now known as Prospectus Guidelines – Equity) (“**Prospectus Guidelines**”), in relation to the use of Heng Huat's audited financial statements for the FYE 31 December 2011 for the purpose of submission of the registrable Prospectus after 30 June 2012.

Notwithstanding that approval has been obtained from the SC on 4 June 2012, in view that Heng Huat is submitting the registrable Prospectus for public exposure on 29 June 2012, which is, within six (6) months from Heng Huat's latest audited financial statements for the FYE 31 December 2011, there was no departure from the Prospectus Guidelines.

The SC, had also vide its letter dated 21 April 2014, approved the resultant equity structure of our Company pursuant to the Listing under the equity requirements for public companies. The approval from the SC is subject to the following conditions:

No.	Condition Imposed	Status of Compliance
1.	Heng Huat allocating 12.5% of its enlarged issued and paid-up share capital to Bumiputera investors at the point of listing. This includes the shares offered under the balloted public offer portion, of which 50% are to be offered to Bumiputera investors.	To be complied.

Bursa Securities had, vide its letters dated 10 December 2013 and 10 June 2014, approved our admission to the Official List of the ACE Market and the listing of and quotation for our entire enlarged issued and paid-up share capital on the ACE Market of Bursa Securities.

The approval from Bursa Securities is subject to the following conditions:

No.	Conditions Imposed	Status of Compliance												
1.	In relation to properties:													
	<table border="1"> <thead> <tr> <th>No.</th><th>Property</th><th>Conditions</th></tr> </thead> <tbody> <tr> <td>1.</td><td>HS(D) 6719, Lot 2945, Mukim 04, Daerah Seberang Perai Selatan, Pulau Pinang</td><td>To rectify all unapproved structures prior to the listing</td></tr> <tr> <td>2.</td><td>PM 513, Lot 1223, Mukim 11, Jawi Village, Daerah Seberang Perai Selatan, Pulau Pinang</td><td>(i) To obtain the Certificate of Completion and Compliance/ Certificate of Fitness for Occupation within twelve (12) months from the date of this letter.</td></tr> <tr> <td>3.</td><td>Lot 713, Mukim Sungai Batu. 09810 Daerah Bandar Baru Selama, Kedah</td><td>(ii) Adviser/ Heng Huat to make half yearly announcements to Bursa Securities on the remedial actions taken to comply with the above condition.</td></tr> </tbody> </table>	No.	Property	Conditions	1.	HS(D) 6719, Lot 2945, Mukim 04, Daerah Seberang Perai Selatan, Pulau Pinang	To rectify all unapproved structures prior to the listing	2.	PM 513, Lot 1223, Mukim 11, Jawi Village, Daerah Seberang Perai Selatan, Pulau Pinang	(i) To obtain the Certificate of Completion and Compliance/ Certificate of Fitness for Occupation within twelve (12) months from the date of this letter.	3.	Lot 713, Mukim Sungai Batu. 09810 Daerah Bandar Baru Selama, Kedah	(ii) Adviser/ Heng Huat to make half yearly announcements to Bursa Securities on the remedial actions taken to comply with the above condition.	<p>Complied. The extended shed has been approved by MPSP vide its letter dated 23 October 2013, as detailed in Section 6.17.1 of this Prospectus.</p> <p>To be complied.</p> <p>To be complied.</p>
No.	Property	Conditions												
1.	HS(D) 6719, Lot 2945, Mukim 04, Daerah Seberang Perai Selatan, Pulau Pinang	To rectify all unapproved structures prior to the listing												
2.	PM 513, Lot 1223, Mukim 11, Jawi Village, Daerah Seberang Perai Selatan, Pulau Pinang	(i) To obtain the Certificate of Completion and Compliance/ Certificate of Fitness for Occupation within twelve (12) months from the date of this letter.												
3.	Lot 713, Mukim Sungai Batu. 09810 Daerah Bandar Baru Selama, Kedah	(ii) Adviser/ Heng Huat to make half yearly announcements to Bursa Securities on the remedial actions taken to comply with the above condition.												

9. APPROVALS AND CONDITIONS (Cont'd)

No.	Conditions Imposed	Status of Compliance
2.	Adviser to provide a confirmation to Bursa Securities prior to the listing of Heng Huat, that the Company has sufficient systems, procedures, policies and controls for its finance function.	Complied via Kenanga IB's letter to Bursa Securities dated 14 April 2014.
3.	Submission of the following information in respect of the moratorium on the shareholdings of promoters to the Bursa Depository: (i) Name of shareholders; (ii) Number of shares; and (iii) Date of expiry of the moratorium for each block of shares	Complied.
4.	Approvals from other relevant authorities have been obtained for implementation of the listing proposal.	Complied.
5.	Make the relevant announcements pursuant to paragraphs 8.1 and 8.2 of Guidance Notes 15 of the Listing Requirements.	To be complied prior to Listing.
6.	Furnish Bursa Securities a copy of the schedule of distribution showing compliance to the share spread requirements based on the entire issued and paid up share capital of Heng Huat on the first day of listing.	To be complied.
7.	Any director of the Company that has not attended the Mandatory Accreditation Programme must do so prior to listing of the Company.	Complied.
8.	In relation to the public offering to be undertaken by Heng Huat, please announce at least 2 market days prior to the listing date, the result of the offering including the following: (i) Level of subscription of public balloting and placement; (ii) Basis of allotment/allocation; (iii) A table showing the distribution for placement tranche; and (iv) Disclosure of placees who become substantial shareholder of the Company arising from the public offering, if any.	To be complied prior to Listing.
9.	Heng Huat/Adviser to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the admission to the Official List on the ACE Market is completed.	To be complied.

MITI had also vide its letter dated 25 July 2012 and 25 April 2014 approved our Listing on the ACE Market of Bursa Securities.

9. APPROVALS AND CONDITIONS (Cont'd)**9.2 MORATORIUM ON SALE OF SHARES**

In compliance with the Listing Requirements, a moratorium will be imposed on the sale, transfer or assignment of Shares held by our Promoters as follows:

- (a) The moratorium applies to our Promoters' entire shareholdings for a period of six (6) months from the date of admission to the ACE Market;
- (b) Upon expiry of the six (6) months period stated above, we must ensure that our Promoters' aggregate shareholdings amounting to at least 45% of our Company's nominal issued and paid-up share capital remain under moratorium for another period of six (6) months; and
- (c) Thereafter, our Promoters may sell, transfer or assign up to a maximum of 1/3 per annum (on a straight line basis) of our Shares held under moratorium.

The moratorium shall be imposed according to the following:

Promoters	Shares held under moratorium for the first six (6) months upon Listing		Shares held under moratorium for the subsequent six (6) months	
	No. of Shares held	% held ⁽¹⁾	No. of Shares held	% held ⁽¹⁾
H'ng Choon Seng	72,970,110	35.46	54,727,583	26.59
Kee Swee Lai	54,384,870	26.43	40,788,653	19.82
HH Manufacturer ⁽²⁾	16,500,000	8.02	12,375,000	6.02
Khor Mooi Kim	392,520	0.19	294,390	0.14
Teh Chai Luang	392,520	0.19	294,390	0.14
Total	144,640,020	70.29	108,480,016	52.71

Notes:

(1) Based on our enlarged issued and paid-up share capital after our Public Issue.

(2) A company in which H'ng Choon Seng has substantial shareholdings and is also a director.

Our Promoters have provided an undertaking letter to Bursa Securities that they will comply with the moratorium conditions as set out in Rule 3.19(1) of the Listing Requirements.

The shareholders of HH Manufacturer, namely H'ng Choon Seng and Khor Teik Boon have also provided undertaking letters to Bursa Securities that they will not sell, transfer or assign their respective shareholdings in HH Manufacturer during the moratorium period.

The restriction, which is fully acknowledged by our Promoters, is specifically endorsed on our share certificates representing their shareholdings which are under moratorium to ensure that our Share Registrar will not register any sale, transfer or assignment that are not in compliance with the aforesaid restriction imposed by Bursa Securities.

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST**10.1 EXISTING AND PROPOSED RELATED PARTY TRANSACTIONS**

In conjunction with our Listing, we have undertaken the Fibre Star Reorganisation comprising the following related party transactions:

Related Party	Interested Promoter/Director/ Substantial Shareholders	Nature of Relationship	Nature of Transaction	Transaction Value RM
HH Furniture	<ul style="list-style-type: none"> H'ng Choon Seng Khor Mooi Kim Teh Chai Luang 	H'ng Choon Seng, Khor Mooi Kim and Teh Chai Luang are directors and shareholders of HH Furniture.	Purchase of land and building from HH Furniture.	2,800,000
			Transfer of all statutory rights of the trademark 'Xiong Mao®' owned by HH Furniture to Fibre Star.	10
HH Manufacturer	<ul style="list-style-type: none"> H'ng Choon Seng Khor Teik Boon 	H'ng Choon Seng and Khor Teik Boon are directors and shareholders of HH Manufacturer.	Purchase of machineries and equipment from HH Manufacturer	1,650,000
			Transfer of all statutory rights of the trademark 'Fibre Star®' owned by HH Manufacturer to Fibre Star.	10

The details of the Fibre Star Reorganisation are set out in Section 5.4.2 of this Prospectus.

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST(Cont'd)

Save for the Fibre Star Reorganisation and as disclosed below, our Board confirms that there are no existing or presently proposed related party transactions entered into between our Group and our Directors, substantial shareholders, key management and key technical personnel and/or persons connected with them during the past three (3) FYE 31 December 2011 to 2013 and forecast for the FYE 31 December 2014:

Related Party	Interested Promoter/ Director/ Substantial Shareholders	Nature of Relationship	Nature of Transaction	FYE 31 December			
				2011 RM	Actual 2012 RM	2013 RM	Forecast ⁽¹⁾ 2014 RM
AKSB	<ul style="list-style-type: none"> Liew Chai Hock Kuah Choon Hoay 	Liew Chai Hock and Kuah Choon Hoay are directors and shareholders of HK Palm Fibre who are also directors and shareholders of AKSB.	Purchase of oil palm EFB by HK Palm Fibre from AKSB ⁽²⁾ .	896,702	635,796	188,437	420,000
			Advances from AKSB to HK Palm Fibre for overhead and administrative expenses ⁽³⁾ .	66,353	312,587 ⁽⁴⁾	300,561 ⁽⁴⁾	-
HH Furniture	<ul style="list-style-type: none"> H'ng Choon Seng Khor Mooi Kim Teh Chai Luang 	H'ng Choon Seng, Khor Mooi Kim and Teh Chai Luang are directors and shareholders of HH Furniture.	Advances from HH Furniture to HK Palm Fibre for overhead and administrative expenses ⁽³⁾ .	1,578	-	-	-
			Advances from HH Furniture to HH Industries for overhead and administrative expenses ⁽³⁾ .	4,686	-	-	-
			Advances from HH Furniture to HK Kitaran for administrative expenses ⁽³⁾ .	1,584	-	-	-
			Advances from HH Furniture to HK Fibre for administrative expenses ⁽³⁾ .	1,437	-	-	-
			Sales of coconut fibre by HK Fibre to HH Furniture.	2,347,420	461,391	-	-

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST(Cont'd)

Related Party	Interested Promoter/ Director/ Substantial Shareholders	Nature of Relationship	Nature of Transaction	FYE 31 December					(1)
				2011	Actual	2013	2014	Forecast	
				RM	2012	RM	RM	RM	
HH Manufacturer	<ul style="list-style-type: none"> H'ng Choon Seng Khor Teik Boon 	H'ng Choon Seng and Khor Teik Boon are directors and shareholders of HH Manufacturer.	Advances from HH Furniture to Fibre Star for administrative expenses ⁽³⁾ .	2,846	-	-	-	-	-
			Advances from HH Furniture to Fibre Star Marketing for administrative expenses ⁽³⁾ .	2,846	-	-	-	-	-
			Purchase of lorry and forklift by Fibre Star Marketing from HH Furniture.	-	-	378,000	-	-	-
			Renting of Plant 3 by Fibre Star from HH Furniture.	-	156,000	288,000	288,000	-	-
			Sales of coconut fibre by HK Fibre to HH Manufacturer.	252,828	1,039,904	-	-	-	-
			Purchase of raw materials by HK Fibre from HH Manufacturer.	-	613,760	-	-	-	-
			Advances to HH Manufacturer by HK Kitaran for administrative expenses ⁽³⁾ .	11,823	-	-	-	-	-
			Advances to HH Manufacturer by HH Industries for administrative expenses ⁽³⁾ .	445	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (Cont'd)

Related Party	Interested Promoter/ Director/ Substantial Shareholders	Nature of Relationship	Nature of Transaction	FYE 31 December				Forecast ⁽¹⁾ 2014 RM
				Actual		2013 RM	2012 RM	
				2011 RM	2010 RM			
HK Alliance Sdn Bhd ("HK Alliance")	• H'ng Choon Seng	H'ng Choon Seng, Kee Swee Lai, Khor Mooi Kim and Teh Chai Luang are directors and shareholders of HK Alliance Sdn Bhd.	Advances to HK Alliance by HK Kitaran for administrative expenses ⁽³⁾ .	2,324	2,324	-	-	-
	• Kee Swee Lai							
	• Khor Mooi Kim							
	• Teh Chai Luang							
HK Idaman Enterprise ("HK Idaman")	• Ruhani Binti Ismail	Ruhani Binti Ismail is a director and shareholder of HK Fibre who is also a director and shareholder of HK Idaman Enterprise.	Renting of vacant land by HK Kitaran (No. Geran Mukim 956, Lot 2151, Mukim 4, Daerah Seberang Perai Selatan, Penang) from HK Alliance.	-	-	20,000	120,000	
			Advances to HK Idaman by HK Fibre for administrative expenses ⁽³⁾ .	131	-	-	-	

Notes:

- (1) The transaction value for the FYE 31 December 2014 is estimated value, hence the actual transaction value may differ from the estimated value disclosed.
- (2) On 22 June 2009, HK Palm Fibre has entered into an agreement with AKSB, a palm oil mill operator, to govern their collaboration arrangement with each other in relation to supply of oil palm EFB by AKSB to HK Palm Fibre ("Agreement"). Under the Agreement, AKSB shall supply all the oil palm EFB in its factory to HK Palm Fibre and AKSB shall not supply the oil palm EFB to any third party unless with written consent from HK Palm Fibre. The duration of the Agreement shall be for a period of ten (10) years commencing from the date of the Agreement and upon the expiry of the Agreement, AKSB shall grant to HK Palm Fibre the option to extend the duration and validity of the Agreement for a further period of ten (10) years from the date of expiry.
- (3) Advances represents amount outstanding as at the respective financial year end.
- (4) Inclusive of rental charge of RM12,000 and RM72,000 paid by HK Palm Fibre to AKSB for FYE 31 December 2012 and 2013 respectively for renting of Plant 5.

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST(Cont'd)

Our Board confirms that all the above related party transactions, save for the advances to or from related parties were entered into in the ordinary course of business and are on normal commercial terms which are not prejudicial to our Group nor on terms more favourable to the related parties than those generally available to other parties and which are not detrimental to the interests of our Group. As at the LPD, all advances to the related parties have been fully settled.

Upon Listing, our Board, through our Audit Committee, will ensure that any related party transactions (inclusive of recurrent related party transactions) are carried out on an arm's length basis and are not prejudicial to our Group nor on terms more favourable to the related parties than those generally available to other parties and are not to our detriment or the detriment of our minority shareholders.

10.2 TRANSACTIONS THAT ARE UNUSUAL IN NATURE OR CONDITIONS

There are no transactions that are unusual in nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party to during the past three (3) FYE 31 December 2011 to 2013 and up to the LPD.

10.3 LOANS MADE BY OUR GROUP TO OR FOR THE BENEFIT OF RELATED PARTIES

Save as disclosed in Section 10.1 of this Prospectus, there are no outstanding loans, including guarantees of any kind, made by our Group to or for the benefit of related parties during the past three (3) FYE 31 December 2011 to 2013 and up to the LPD.

10.4 INTERESTS IN SIMILAR BUSINESSES, INTERESTS IN BUSINESSES OF OUR CUSTOMERS OR SUPPLIERS AND OTHER CONFLICTS OF INTEREST

As at LPD, none of our Directors and/or substantial shareholders has any interest, direct or indirect, in any other businesses or corporations carrying on a trade similar to that of our Group or any businesses or corporations which are also our customers or suppliers of our Group.

Our Board wishes to highlight that Kuah Choon Hoay and Liew Chai Hook, who are the directors and shareholders of our 50% owned subsidiary company, HK Palm Fibre, are also the directors and shareholders of AKSB, i.e. one of our major suppliers. Nevertheless, both Kuah Choon Hoay and Liew Chai Hook are not involved in the daily operations and business affairs of HK Palm Fibre or our Group. Neither is our Group involved in the daily operations and business affairs of AKSB. Furthermore, AKSB is operating in a different segment from our Group whereby the company is involved in the palm oil mill business. As such, the Board is of the opinion that there is no existing or potential conflict of interest situation arising from the shareholding and directorship of both Kuah Choon Hoay and Liew Chai Hook in both HK Palm Fibre and AKSB.

In addition, our Audit Committee will ensure that all future business transactions between our Group and AKSB are carried out on an arm's length basis and are not prejudicial to our Group nor on terms more favourable to AKSB than those generally available to other third parties and are not to our detriment or the detriment of our minority shareholders.

10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST *(Cont'd)*

10.5 DECLARATION BY EXPERTS

Kenanga IB confirms that there is no existing or potential conflict of interests in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent for our Listing.

WYNCORP Advisory Sdn Bhd confirms that there is no existing or potential conflict of interests in its capacity as the Corporate Finance Advisor for our Listing.

BDO confirms that there is no existing or potential conflict of interests in its capacity as the Auditors and Reporting Accountants for our Listing.

Azman Davidson & Co. confirms that there is no existing or potential conflict of interests in its capacity as the Solicitors for our Listing.

Protégé Associates confirms that there is no existing or potential conflict of interests in its capacity as the independent market research consultant for our Listing.

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11. PRO FORMA HISTORICAL FINANCIAL INFORMATION

Our pro forma and audited consolidated financial statements have been compiled on the basis and accounting policies consistent with those adopted by our Group which are set out in the notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus and the Accountants' Report as set out in Section 13 of this Prospectus. The financial statements used in the preparation of our pro forma consolidated financial statements have been prepared in accordance with applicable approved Malaysian Financial Reporting Standards ("MFRSs"). Any adjustments that were dealt with when preparing our pro forma consolidated financial statements have been highlighted and disclosed in Section 11.5 of this Prospectus.

11.1 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets out our pro forma consolidated statement of comprehensive income for the FYE 31 December 2011 and our audited consolidated statements of comprehensive income for the FYE 31 December 2012 and 2013. There were no consolidated financial statements prepared for our Company for the FYE 31 December 2011 as our Group was not in existence as at the end of the financial year. Accordingly, we have presented our consolidated statement of comprehensive income for the FYE 31 December 2011 on a pro forma basis which has been prepared for illustrative purposes only based on the audited financial statements of the companies in our Group and on the assumption that our current Group structure has been in existence throughout the financial years under review.

You should read this consolidated statements of comprehensive income in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus and the Accountants' Report as set out in Section 13 of this Prospectus.

	Pro Forma 2011 RM'000	<----- Audited -----> FYE 31 December 2012 RM'000	2013 RM'000
Revenue	31,702	62,965	73,740
Cost of sales	(14,137)	(32,389)	(41,762)
GP	17,565	30,576	31,978
Other income	235	741	812
Selling and distribution expenses	(1,758)	(9,810)	(12,746)
Administrative and other expenses	(1,806)	(6,513)	(6,360)
Finance costs	(521)	(1,366)	(2,302)
PBT	13,715	13,628	11,382
Tax expense	(25)	(993)	(1,490)
PAT	13,690	12,635	9,892
Other comprehensive income	-	-	-
Total comprehensive income	13,690	12,635	9,892
Profit for the financial year/ Total comprehensive income attributable to:			
- Owners of Heng Huat	10,536	12,163	9,740
- Non-controlling interest	3,154	472	152
	13,690	12,635	9,892

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

	Pro Forma	<----- Audited ----->	
	<----- FYE 31 December ----->		
	2011	2012	2013
	RM'000	RM'000	RM'000
EBITDA ⁽¹⁾	15,790	18,356	18,626
GP margin (%)	55.41	48.56	43.37
PBT margin (%)	43.26	21.64	15.44
PAT margin (%)	43.18	20.07	13.41
Effective tax rate (%)	0.18	7.29	13.09
Gross EPS (sen) ⁽²⁾	8.61	8.55	7.15
Net EPS (sen) ⁽³⁾	6.61	7.64	6.11
Diluted Net EPS (sen) ⁽⁴⁾	5.12	5.91	4.73

Notes:

- (1) Calculated based on PAT with finance costs, tax expense, depreciation and amortisation added back as set out below:

	<----- FYE 31 December ----->		
	2011	2012	2013
	RM'000	RM'000	RM'000
PAT	13,690	12,635	9,892
Add: Finance costs	521	1,366	2,302
Tax expense	25	993	1,490
Depreciation	1,554	3,305	4,886
Amortisation	-	57	56
EBITDA	15,790	18,356	18,626

- (2) Calculated based on PBT divided by our existing issued and paid-up share capital of 159,300,030 Shares.
- (3) Calculated based on PAT attributable to owners of Heng Huat divided by our existing issued and paid-up share capital of 159,300,030 Shares.
- (4) Calculated based on PAT attributable to owners of Heng Huat divided by our enlarged issued and paid-up share capital after our IPO of 205,800,030 Shares.

There was no share of profits of associated companies or joint ventures, and no exceptional or extraordinary items throughout the financial years under review.

The audited financial statements of our Group for the financial years under review were not subject to any qualification or modification.

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11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**11.2 PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

The following table sets out our pro forma consolidated statements of financial position as at 31 December 2013, which have been prepared for illustrative purposes based on the assumption that our Public Issue and utilisation of proceeds had been effected on that date.

You should read this pro forma consolidated statements of financial position in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	<----- Pro Forma ----->		
	Audited as at 31 December 2013 RM'000	I After Public Issue RM'000	II After Pro Forma I and Utilisation of Proceeds RM'000
Non-Current Asset			
Property, plant and equipment	59,247	59,247	63,247
Intangible assets	325	325	325
	<u>59,572</u>	<u>59,572</u>	<u>63,572</u>
Current Assets			
Inventories	4,218	4,218	4,218
Trade and other receivables	19,387	19,387	19,387
Current tax assets	267	267	267
Cash and cash equivalents	5,537	26,462	10,084
	<u>29,409</u>	<u>50,334</u>	<u>33,956</u>
TOTAL ASSETS	<u>88,981</u>	<u>109,906</u>	<u>97,528</u>
Equity			
Share capital	15,930	20,580	20,580
Share premium	-	16,275	16,275
Reorganisation reserve	(5,185)	(5,185)	(5,185)
Retained earnings	26,601	26,601	23,601
	<u>37,346</u>	<u>58,271</u>	<u>55,271</u>
Non-controlling interests	2,502	2,502	2,502
Total Equity	<u>39,848</u>	<u>60,773</u>	<u>57,773</u>

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

(cont'd)	Audited as at 31 December 2013 RM'000	<----- Pro Forma ----->	
		I After Public Issue RM'000	II After Pro Forma I and Utilisation of Proceeds RM'000
Non-Current Liabilities			
Borrowings	22,960	22,960	13,582
Deferred tax liabilities	1,103	1,103	1,103
	<u>24,063</u>	<u>24,063</u>	<u>14,685</u>
Current Liabilities			
Trade and other payables	11,225	11,225	11,225
Borrowings	13,841	13,841	13,841
Current tax liabilities	4	4	4
	<u>25,070</u>	<u>25,070</u>	<u>25,070</u>
TOTAL LIABILITIES	<u>49,133</u>	<u>49,133</u>	<u>39,755</u>
TOTAL EQUITY AND LIABILITIES	<u>88,981</u>	<u>109,906</u>	<u>97,528</u>
Number of Shares assumed to be in issue ('000)	159,300	205,800	205,800
NA (RM'000)	37,346	58,271	55,271
NTA (RM'000)	37,021	57,946	54,946
NA per Share (RM)	0.23	0.28	0.27
NTA per Share (RM)	0.23	0.28	0.27

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11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**11.3 PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS**

The following table sets out our pro forma consolidated statement of cash flows for the FYE 31 December 2013, which have been prepared for illustrative purposes only based on the assumption that our Public Issue and utilisation of proceeds had been effected on that date.

You should read this pro forma consolidated statement of cash flows in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
PBT	11,382
Adjustments for:	
Amortisation of intangible assets	
- Development costs	56
- Trademarks	*
Bad debts written off	60
Depreciation of property, plant and equipment	4,886
Gain on disposal of property, plant and equipment	(6)
Loss on disposal of property, plant and equipment	4
Interest expense	2,302
Interest income	(54)
Operating profit before working capital changes	18,630
Increase in inventories	(1,539)
Increase in trade and other receivables	(2,936)
Increase in trade and other payables	769
	14,924
Tax paid	(1,365)
Interest paid	(2,302)
Net cash from operating activities	11,257
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	54
Changes in fixed deposits pledged with licensed banks	(887)
Development costs incurred	(112)
Purchase of property, plant and equipment	(10,814)
Proceeds from disposal of property, plant and equipment	33
Net cash used in investing activities	(11,726)

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

(cont'd)	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Public Issue	20,925
Payment of listing expenses	(3,000)
Drawdown of term loans	738
Drawdown of bankers' acceptance (net)	2,569
Repayment of term loans	(8,191)
Net repayment of hire purchase payables	(7,709)
Net cash from financing activities	5,332
Net changes in cash and cash equivalents	4,863
Cash and cash equivalents at beginning of the financial year	1,867
Cash and cash equivalents at end of the financial year	6,730
Cash and cash equivalents comprise the following:	
Cash and bank balances	7,960
Fixed deposits pledged to financial institutions	2,124
	10,084
Less: Bank overdraft	(1,230)
Less: Fixed deposits pledged to financial institutions	(2,124)
	6,730

Note:

* Represents amount less than RM1,000.

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11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**11.4 CAPITALISATION AND INDEBTEDNESS**

The following table sets out our pro forma consolidated cash and cash equivalents, capitalisation and indebtedness as at 31 December 2013 adjusted for our Public Issue and utilisation of proceeds as set out in Section 3.6 of this Prospectus.

	As at 31 December 2013 RM'000	After Public Issue and Utilisation of Proceeds RM'000
Cash and cash equivalents *		
Cash and bank balances	3,413	7,960
Bank overdrafts	(1,230)	(1,230)
	<u>2,183</u>	<u>6,730</u>
Indebtedness		
<u>Non-current</u>		
<i>Secured and guaranteed</i>		
Hire purchase payables	9,900	6,138
Term loans	13,060	7,444
	<u>22,960</u>	<u>13,582</u>
<u>Current</u>		
<i>Secured and guaranteed</i>		
Hire purchase payables	3,942	3,942
Bankers' acceptance	6,036	6,036
Bank overdrafts	1,230	1,230
Term loan	2,633	2,633
	<u>13,841</u>	<u>13,841</u>
Total indebtedness	36,801	27,423
Capitalisation	37,346	55,271
Total capitalisation and indebtedness	<u>74,147</u>	<u>82,694</u>

Note:

* Excluding fixed deposits amounting to RM2.12 million which are pledged to financial institutions.

All our cash and cash equivalents and indebtedness are denominated in RM. The indirect and/or contingent liabilities of our Group are as set out in Section 12.3.6 of this Prospectus.

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

11.5 REPORTING ACCOUNTANTS' LETTER ON PRO FORMA CONSOLIDATED FINANCIAL INFORMATION



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

The Board of Directors
HENG HUAT RESOURCES GROUP BERHAD
51-9-A, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang

18 JUN 2014

Our ref: BDO/KTH/KTJ/lps

Dear Sirs,

**HENG HUAT RESOURCES GROUP BERHAD ("HENG HUAT" OR "THE COMPANY")
REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION
INCLUDED IN A PROSPECTUS**

We have completed our assurance engagement to report on the compilation of pro forma consolidated financial information of Heng Huat and its subsidiaries ("Heng Huat Group" or "the Group") prepared by the Board of Directors of the Company. The pro forma consolidated financial information consists of the pro forma consolidated statement of financial position as at 31 December 2013, the pro forma consolidated statement of profit or loss and other comprehensive income for financial year ended 31 December 2011, the audited consolidated statements of profit or loss and other comprehensive income for financial years ended 31 December 2012 and 31 December 2013, and the pro forma consolidated statement of the cash flows for the financial year ended 31 December 2013 together with the accompanying notes thereon, for which we have stamped for the purpose of identification. The pro forma consolidated financial information has been prepared for inclusion in the prospectus of Heng Huat in connection with the listing of and quotation for the entire issued and paid-up share capital of Heng Huat on the ACE Market of Bursa Malaysia Securities Berhad. The applicable criteria on the basis of which the Board of Directors has compiled the pro forma consolidated financial information are specified in the Prospectus Guidelines ("SC Guidelines") issued by Securities Commission Malaysia.

The pro forma consolidated financial information has been compiled by the Board of Directors to illustrate:

- (a) the Group's financial performance for the financial year ended 31 December 2011 as if the Group has been in existence throughout the financial year, and the audited financial performance of the Group for the financial years ended 31 December 2012 and 2013;
- (b) the financial position of the Group as at 31 December 2013, adjusted for the impact of the transactions as set out in Notes 1.3(f) to (h) of the pro forma consolidated financial information and utilisation of proceeds from the Public Issue; and
- (c) the cash flows of the Group for the financial year ended 31 December 2013, adjusted for the impact of the transactions as set out in Notes 1.3(f) to (h) of the pro forma consolidated financial information and utilisation of proceeds from the Public Issue.

As part of the abovementioned process, information about the financial performance, financial position and cash flows has been extracted by the Board of Directors from the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2011, and the audited consolidated financial statements of the Company for the financial years ended 31 December 2012 and 31 December 2013.

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)



Directors' Responsibility for the Pro Forma Consolidated Financial Information

The Board of Directors is responsible for compiling the pro forma consolidated financial information on the basis as described in Note 1 of the pro forma consolidated financial information.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by the SC Guidelines, about whether the pro forma consolidated financial information has been compiled, in all material respects, by the Board of Directors of the Company on the basis as described in Note 1 of the pro forma consolidated financial information.

We conducted our engagement in accordance with International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedure to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the pro forma consolidated financial information on the basis set out in Note 1 of the pro forma consolidated financial information and in accordance with the requirements of the Prospectus Guidelines.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinion on any historical financial information used in compiling the pro forma consolidated financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated financial information.

The purpose of pro forma consolidated financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma consolidated financial information has been compiled, in all material respects, on the basis set out in Note 1 of the pro forma consolidated financial information and in accordance with the requirements of the Prospectus Guidelines involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the pro forma consolidated financial information provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effects to those criteria; and
- The pro forma consolidated financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma consolidated financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)



Opinion

In our opinion:

- (a) The pro forma consolidated financial information of Heng Huat Group together with the accompanying notes, which are prepared for illustrative purposes only, have been properly compiled on the basis and assumptions as set out in the notes thereon, and such basis are consistent with the accounting policies to be adopted by Heng Huat Group, unless otherwise stated;
- (b) The audited financial statements used in the preparation of the pro forma consolidated financial information, have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and the pro forma consolidated financial information have been properly prepared in a manner consistent with the format of the financial statements to be adopted by Heng Huat Group; and
- (c) Each material adjustment made to the information used in the preparation of the pro forma consolidated financial information is appropriate, in all material respects, for the purposes of preparing the pro forma consolidated financial information.

Other matters

This letter has been prepared solely for the purpose stated above, in connection with the listing of and quotation for the entire issued and paid-up share capital of Heng Huat on the ACE Market of Bursa Malaysia Securities Berhad. As such, this letter should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a bold, cursive font.

BDO
AF: 0206
Chartered Accountants

A handwritten signature of Ooi Thiam Poh, written in black ink. The signature is fluid and cursive, with a long horizontal stroke at the top.

Ooi Thiam Poh
2495/01/16 (J)
Chartered Accountant

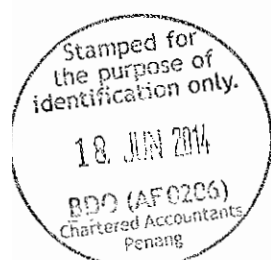
11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information***1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME****1.1 Pro forma Group**

The pro forma consolidated financial information of Heng Huat Resources Group Berhad ("Heng Huat" or "the Company") and its subsidiaries (collectively known as "Heng Huat Group" or "the Group") for the financial year ended ("FYE") 31 December 2011 comprises the financial information of the following companies, which are presented for the purpose of illustration only:

Companies	Relevant Financial Periods	Auditors
Heng Huat	Financial period ("FPE") from 25 November 2011 (Date of incorporation) to 31 December 2011	BDO
Fibre Star (M) Sdn Bhd	FPE from 29 December 2011 (Date of incorporation) to 31 December 2011	BDO
Fibre Star Marketing Sdn Bhd	FPE from 29 December 2011 (Date of incorporation) to 31 December 2011	BDO
Heng Huat Industries Holdings Sdn Bhd ("HH Industries")	FYE 31 December 2011	BDO
<u>Subsidiaries of HH Industries</u>		
HK Fibre Sdn Bhd	FYE 31 December 2011	BDO
HK Kitaran Sdn Bhd	FYE 31 December 2011	BDO
HK Mega Industries Sdn Bhd	FYE 31 December 2011	BDO
HK Palm Fibre Manufacturer Sdn Bhd	FYE 31 December 2011	BDO

As the Group was not in existence as at the end of the FYE 31 December 2011, the pro forma consolidated financial information of Heng Huat for the FYE 31 December 2011 is prepared for illustrative purposes only on the assumption that the Group structure has been in existence throughout the financial year and has been prepared using the bases and the accounting policies consistent with those adopted by Heng Huat, after giving effect to the adjustments considered appropriate.

The Group was subsequently constituted in the FYE 31 December 2012 after undertaking the transactions as set out in Notes 1.3 (a) to (e) of the pro forma consolidated financial information. Accordingly, the financial information of the Group for the FYE 31 December 2012 and 31 December 2013 have been presented based on the extraction from the audited consolidated financial statements of the Company for the FYE 31 December 2012 and 31 December 2013.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information***1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONTINUED)****1.2 Basis of Preparation**

The audited financial statements used in the preparation of this report for the financial years under review were not subject to any qualification or modification.

The pro forma consolidated financial information has been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and after incorporating adjustments that are appropriate for the preparation of the pro forma consolidated financial information.

Elimination of the intra-group transactions has also been made on the assumption that Heng Huat Group had been in existence throughout the financial years under review.

The pro forma consolidated financial information, because of its nature, may not reflect Heng Huat Group's actual results, financial position and cash flows. Further, such information does not predict the Group's future financial results, financial position and cash flows.

The pro forma consolidated financial information comprises the following:-

Section 2 - Pro forma Consolidated Statement of Profit or Loss and Other Comprehensive Income for the FYE 31 December 2011 on the assumption that the Group structure has been in existence throughout the financial year and the audited Consolidated Statements of Profit or Loss and Other Comprehensive Income for the FYE 31 December 2012 and 31 December 2013;

Section 3 - Pro forma Consolidated Statements of Financial Position as at 31 December 2013, adjusted for the impact of the transactions as set out in Notes 1.3(f) to (h) of the pro forma consolidated financial information and utilisation of proceeds from the Public Issue; and

Section 4 - Pro forma Consolidated Statement of Cash Flows for the FYE 31 December 2013, adjusted for the impact of the transactions as set out in Notes 1.3(f) to (h) of the pro forma consolidated financial information and utilisation of proceeds from the Public Issue.

1.3 Listing Scheme

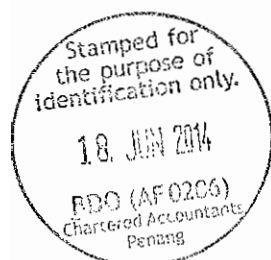
In conjunction with and as an integral part of the listing of Heng Huat on the ACE Market of Bursa Securities, the Group was constituted in FYE 31 December 2012 after the Company undertook the following transactions:

(a) Issuance of new share

Issuance of 1 new ordinary share of RM1.00 on 3 May 2012.

(b) HH Industries reorganisation**(i) Acquisition of HK Palm Fibre by HH Industries**

Acquisition of 50.00% of the issued and paid-up share capital of HK Palm Fibre comprising 100,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2,262,000 which was wholly satisfied by the issuance of 2,262,000 new ordinary shares in HH Industries at an issue price of RM1.00 per share. The acquisition was completed on 1 January 2012.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONTINUED)**1.3 Listing Scheme (Continued)****(b) HH Industries reorganisation****(ii) Acquisition of HK Kitaran by HH Industries**

Acquisition of 49.00% of the issued and paid-up share capital of HK Kitaran comprising 490,000 ordinary shares of RM1.00 each for a total purchase consideration of RM3,871,000 which was wholly satisfied by the issuance of 3,871,000 new ordinary shares in HH Industries at an issue price of RM1.00 per share. The acquisition was completed on 1 January 2012.

(iii) Acquisition of HK Mega by HH Industries

Acquisition of 10.00% of the issued and paid-up share capital of HK Mega comprising 10,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2 which was wholly satisfied by cash on 18 May 2012.

(c) Fibre Star reorganisation**(i) Acquisition of property from Heng Huat Furniture Sdn. Bhd.**

Acquisition of land and building from Heng Huat Furniture Sdn. Bhd. for a total purchase consideration of RM2,800,000 which was wholly satisfied by cash. The acquisition was completed on 7 February 2013.

(ii) Acquisition of asset from Heng Huat Manufacturer Sdn. Bhd.

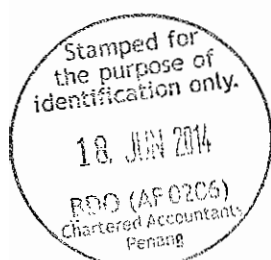
Acquisition of machinery and equipment from Heng Huat Manufacturer Sdn. Bhd. for a total purchase consideration of RM1,650,000 which was wholly satisfied by the issuance of 1,650,000 new ordinary shares in Fibre Star at an issue price of RM1.00 per share. The acquisition was completed on 16 June 2012.

(d) Share split

Share split involving the subdivision of every 1 existing ordinary share of RM1.00 each into 10 new ordinary shares of RM0.10 each in Heng Huat. The share split was effected on 16 May 2012.

(e) Acquisitions**(i) Acquisition of HH Industries by Heng Huat**

Acquisition of the entire issued and paid-up share capital of HH Industries comprising 9,095,000 ordinary shares of RM1.00 each for a total purchase consideration of RM14,280,000 which was satisfied by the issuance of 142,800,000 new ordinary shares in Heng Huat at an issue price of RM0.10 per share. The acquisition was completed on 1 February 2012.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONTINUED)**1.3 Listing Scheme (Continued)****(e) Acquisitions****(ii) Acquisition of Fibre Star by Heng Huat**

Acquisition of the entire issued and paid-up share capital of Fibre Star comprising 1,650,003 ordinary shares of RM1.00 each for a total purchase consideration of RM1,650,000 which was satisfied by the issuance of 16,500,000 new ordinary shares in Heng Huat at an issue price of RM0.10 per share. The acquisition was completed on 16 June 2012.

(iii) Acquisition of Fibre Star Marketing by Heng Huat

Acquisition of the entire issued and paid-up share capital of Fibre Star Marketing comprising 3 ordinary shares of RM1.00 each for a total purchase consideration of RM3 which was satisfied by cash on 18 May 2012.

The new ordinary shares issued pursuant to the above acquisitions rank pari passu in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

(f) Public issue

The 46,500,000 Public Issue Shares representing 22.59% of the enlarged issued and paid-up share capital upon Listing, is offered at the issue/offer price of RM0.45 per Share ("IPO Price"), payable in full on application upon the terms and conditions as set out in the Prospectus and will be allocated and allotted in the following manner:

(i) Malaysian Public

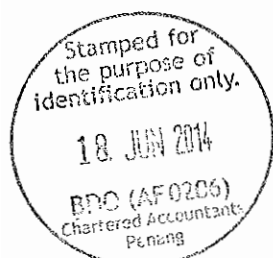
7,000,000 Public Issue Shares representing 3.40% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be made available for application by the Public, of which at least 50% shall be set aside for Bumiputera investors including individuals, companies, societies, co-operatives and institutions.

(ii) Eligible employees and persons who have contributed to the success of the Group

5,000,000 Public Issue Shares representing 2.43% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for application by the eligible employees and persons who have contributed to the success of the Group.

(iii) Private Placement

12,200,000 Public Issue Shares representing 5.93% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for placement to selected investors.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONTINUED)

1.3 Listing Scheme (Continued)

- (iv) Bumiputera Investors Approved by the Ministry of International Trade and Industry ("MITI")

22,300,000 Public Issue Shares representing 10.84% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for Bumiputera investors approved by MITI.

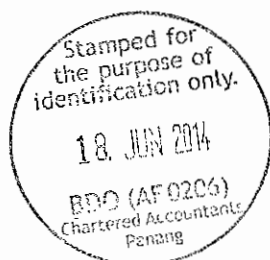
The Public Issue Shares will rank pari passu in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

(g) Offer for Sale

Simultaneous with the Public Issue, the offer for sale of 14,660,000 Shares representing 7.12% of the enlarged issued and paid-up share capital of Heng Huat upon Listing is offered at the IPO Price, payable in full on application upon the terms and conditions as set out in the Prospectus and will be allocated and allotted by way of private placement to selected investors.

(h) Listing and Quotation

Upon completion of the initial public issue ("IPO"), Heng Huat shall seek admission to the Official List of Bursa Securities for the listing of and quotation for the entire enlarged issued and paid-up share capital of Heng Huat of RM20,580,003 comprising 205,800,030 ordinary shares of RM0.10 each on the ACE Market of Bursa Securities.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

2. PRO FORMA/AUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FYE 31 DECEMBER 2011, FYE 31 DECEMBER 2012 AND FYE 31 DECEMBER 2013

The pro forma consolidated statement of profit or loss and other comprehensive income of Heng Huat for the FYE 31 December 2011 has been prepared for illustrative purposes only and after incorporating such adjustments as considered necessary and assuming that the Heng Huat Group had been in existence throughout the financial year under review. The audited consolidated statements of profit or loss and other comprehensive income of Heng Huat for the FYE 31 December 2012 and 31 December 2013 are extracted from its audited financial statements for the FYE 31 December 2012 and 31 December 2013.

	Pro forma <----- Audited ----->		
	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue	31,702	62,965	73,740
Cost of sales	(14,137)	(32,389)	(41,762)
Gross profit	17,565	30,576	31,978
Other income	235	741	812
Selling and distribution expenses	(1,758)	(9,810)	(12,746)
Administrative and other expenses	(1,806)	(6,513)	(6,360)
Finance costs	(521)	(1,366)	(2,302)
Profit before tax	13,715	13,628	11,382
Tax expense	(25)	(993)	(1,490)
Profit for the financial year	13,690	12,635	9,892
Other comprehensive income	-	-	-
Total comprehensive income	13,690	12,635	9,892
Profit for the financial year / Total comprehensive income attributable to:			
- Owners of Heng Huat	10,536	12,163	9,740
- Non-controlling interest	3,154	472	152
	13,690	12,635	9,892

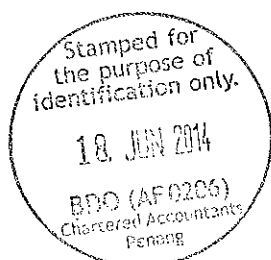


11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

2. PRO FORMA/AUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FYE 31 DECEMBER 2011, FYE 31 DECEMBER 2012 AND FYE 31 DECEMBER 2013 (CONTINUED)

	Pro forma <----- Audited ----->		
	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Gross profit margin (%) (Note a)	55.41	48.56	43.37
Pre-tax profit margin (%) (Note b)	43.26	21.64	15.44
Post-tax profit margin (%) (Note c)	43.18	20.07	13.41
Effective tax rate (%)	0.18	7.29	13.09
Earnings before interest, tax, depreciation and amortisation	15,790	18,356	18,626
Gross earnings per share (sen) (Note d)	8.61	8.55	7.15
Net earnings per share (sen) (Note e)	6.61	7.64	6.11
Diluted net earnings per share (sen) (Note f)	5.12	5.91	4.73



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

2. PRO FORMA/AUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FYE 31 DECEMBER 2011, FYE 31 DECEMBER 2012 AND FYE 31 DECEMBER 2013 (CONTINUED)

NOTES TO THE PRO FORMA/AUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

- (a) The gross profit margin is computed by dividing the gross profit by revenue earned in the respective financial years.
- (b) The pre-tax profit margin is computed by dividing the profit before tax by revenue earned in the respective financial years.
- (c) The post-tax profit margin is computed by dividing the profit for the financial years by revenue earned in the respective financial years.
- (d) The gross earnings per share is computed by dividing the profit before tax by the existing issued and paid-up share capital of 159,300,030 shares.
- (e) The net earnings per share is computed by dividing the profit for the financial years attributable to owners of Heng Huat by the existing issued and paid-up share capital of 159,300,030 shares.
- (f) The diluted net earnings per share is computed by dividing the profit for the financial years attributable to owners of Heng Huat by enlarged issued and paid-up share capital of 205,800,030 shares.



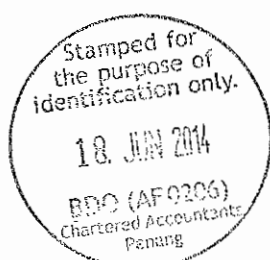
11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

The pro forma consolidated statements of financial position of Heng Huat as at 31 December 2013 have been prepared for illustrative purpose only and after making such adjustments as considered necessary assuming that the Listing Scheme completed on that date.

	Section	Heng Huat as at 31 December 2013 RM'000	< ----- Pro forma ----- >	
			I	II
			After Public Issue RM'000	After Pro forma I and utilisation of proceeds RM'000
ASSETS				
Non- current assets				
Property, plant and equipment	3.2.1	59,247	59,247	63,247
Intangible assets	3.2.2	325	325	325
		59,572	59,572	63,572
Current assets				
Inventories	3.2.3	4,218	4,218	4,218
Trade and other receivables	3.2.4	19,387	19,387	19,387
Current tax assets		267	267	267
Cash and cash equivalents	3.1 (C)	5,537	26,462	10,084
		29,409	50,334	33,956
TOTAL ASSETS		88,981	109,906	97,528
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	3.2.5	15,930	20,580	20,580
Share premium	3.2.6	-	16,275	16,275
Reorganisation reverse	3.2.7	(5,185)	(5,185)	(5,185)
Retained earnings		26,601	26,601	23,601
		37,346	58,271	55,271
Non-controlling interests		2,502	2,502	2,502
TOTAL EQUITY		39,848	60,773	57,773



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

	Section	Heng Huat as at 31 December 2013 RM'000	< ----- Pro forma ----- >	
			II	III
			After Public Issue RM'000	After Pro forma I and utilisation of proceeds RM'000
LIABILITIES				
Non-current liabilities				
Borrowings	3.2.9	22,960	22,960	13,582
Deferred tax liabilities		1,103	1,103	1,103
		24,063	24,063	14,685
Current liabilities				
Trade and other payables	3.2.8	11,225	11,225	11,225
Borrowings	3.2.9	13,841	13,841	13,841
Current tax liabilities		4	4	4
		25,070	25,070	25,070
TOTAL LIABILITIES		49,133	49,133	39,755
TOTAL EQUITY AND LIABILITIES		88,981	109,906	97,528
Number of ordinary shares assumed to be in issue ('000)	3.2.5	159,300	205,800	205,800
Net assets (RM'000)		37,346	58,271	55,271
Net tangible assets (RM'000)		37,021	57,946	54,946
NA per share (RM)		0.23	0.28	0.27
NTA per share (RM)		0.23	0.28	0.27



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information***3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)****3.1 PRO FORMA ADJUSTMENTS TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****(A) PRO FORMA I**

Pro forma I is stated after incorporating the public issue. Pursuant to the public issue, 46,500,000 Public Issue Shares at the IPO Price of RM0.45 per share will be made available for application by the Malaysian public to be allocated via ballot. The shares issued represent 22.59% of the enlarged issued and fully paid-up share capital.

Upon completion of the Public issue, the issued and paid-up share capital will increase from RM15,930,003 comprising 159,300,030 shares of RM0.10 each to RM20,580,003 comprising 205,800,030 shares of RM0.10 each.

(B) PRO FORMA II

The gross proceeds from the Public Issue amounting to RM20,925,000 are expected to be utilised by Heng Huat Group in the following manner:

	RM'000
Capital expenditure	4,000
Repayment of borrowings	9,378
Working capital (i)	4,547
Estimated listing expenses (ii)	3,000
	<u>20,925</u>

Notes:-

- (i) Subsumed within cash and bank balances.
- (ii) Estimated listing expenses will be expensed off to the statement of profit or loss and other comprehensive income.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information***3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)****3.1 PRO FORMA ADJUSTMENTS TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)****(C) CASH AND CASH EQUIVALENTS**

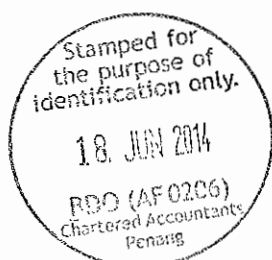
The movements of cash and equivalents are as follows:

	RM'000
Balance as at 31 December 2013	5,537
Public issue	20,925
Pro forma I	26,462
Utilisation of proceeds from the Public Issue	(16,378)
Pro forma II	10,084

(D) SHARE CAPITAL AND RESERVES

The movements in the share capital and reserves of Heng Huat Group are as follows:

	← Non-distributable →			Distributable		
	Share capital RM'000	Share premium RM'000	Reorganisation reserve RM'000	Retained earnings RM'000	Non- controlling interests RM'000	Total equity RM'000
Balance as at 31 December 2013	15,930	-	(5,185)	26,601	2,502	39,848
Public issue	4,650	16,275	-	-	-	20,925
Pro forma I	20,580	16,275	(5,185)	26,601	2,502	60,773
Less: Listing expenses	-	-	-	(3,000)	-	(3,000)
Pro forma II	20,580	16,275	(5,185)	23,601	2,502	57,773



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

3.2.1 PROPERTY, PLANT AND EQUIPMENT

	RM'000
Balance as at 31 December 2013	59,247
Public issue	-
Pro forma I	59,247
Utilisation of proceeds from the Public Issue for capital expenditure	4,000
Pro forma II	63,247

	As at 31 December 2013 RM'000
Net carrying amount	
Freehold land	9,246
Long term leasehold land	807
Factory building	11,952
Signboard	17
Renovation	653
Office equipment and furniture and fittings	437
Computer and accessories	103
Container	154
Electrical installation	2,753
Machinery and equipment	29,234
Motor vehicles	3,891
Pro forma I	59,247
Utilisation of proceeds from the Public Issue for capital expenditure	4,000
Pro forma II	63,247



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information***3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)****3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)****3.2.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Heng Huat Group made the following cash payments to purchase property, plant and equipment:

	As at 31 December 2013 RM'000
Purchase of property, plant and equipment	13,753
Financed by hire purchase arrangements	(4,147)
Financed by term loan arrangements	(2,792)
As at 31 December 2013	<u>6,814</u>
Utilisation of proceeds from the Public Issue for capital expenditure (Note 3.1(B))	<u>4,000</u>
Cash payments on purchase of property, plant and equipment	<u>10,814</u>

3.2.2 INTANGIBLE ASSETS

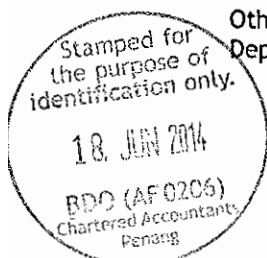
	As at 31 December 2013 RM'000
Goodwill	43
Development cost	281
Trademarks	1
	<u>325</u>

3.2.3 INVENTORIES

	As at 31 December 2013 RM'000
Raw materials	2,278
Work-in-progress	131
Packaging material	242
Finished goods	1,567
	<u>4,218</u>

3.2.4 TRADE AND OTHER RECEIVABLES

	As at 31 December 2013 RM'000
Trade receivables	17,288
Other receivables	721
Deposits and prepayments	1,378
	<u>19,387</u>



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information***3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)****3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)****3.2.5 SHARE CAPITAL**

	No of shares allotted '000	Cumulative no of shares allotted '000	Par value RM	Consideration	Cumulative total issued and paid-up share capital RM'000
As at 31 December 2013	159,300	159,300	0.10	Issue and fully paid	15,930
Pro forma I	46,500	205,800	0.10	Public issue	20,580
Pro forma II	0	205,800	0.10	Utilisation of proceeds	20,580

3.2.6 SHARE PREMIUM

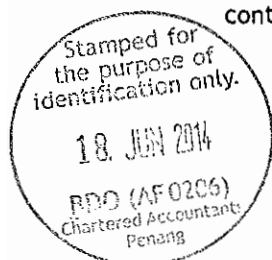
	As at 31 December 2013 RM'000
Proceeds from Public issue	20,925
Nominal value of shares issued	(4,650)
Share premium	<u>16,275</u>

The share premium is arrived at after accounting for the premium received over the nominal value of shares issued to the public.

3.2.7 REORGANISATION RESERVE

	As at 31 December 2013 RM'000
Issued equity of the Company for the acquisitions	(14,280)
Issued equity (share capital of the accounting acquirer, HH Industries)	2,962
HH Industries after incorporating the other subsidiaries	6,133
Difference between issued equity of accounting acquirer and legal acquirer	<u>(5,185)</u>

The difference between the issued equity of the Company and issued equity of HH Industries, the accounting acquirer, together with the deemed purchase consideration of remaining non-controlling interests and a subsidiary is recorded as reorganisation reserve of RM5,185,000.



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)

3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

3.2.8 TRADE AND OTHER PAYABLES

	As at 31 December 2013 RM'000
Trade payables	2,980
Other payables	5,028
Amount owing to a related party	
- trade	486
- non trade	300
Accruals	2,431
	<u>11,225</u>

3.2.9 BORROWINGS

	As at 31 December 2013 RM'000
Current liabilities	
Term loans (Note 3.2.10)	2,633
Hire purchase payables	3,942
Banker acceptance	6,036
Bank overdrafts	1,230
Pro forma I/II	<u>13,841</u>
Non-current liabilities	
Term loans (Note 3.2.10)	13,060
Hire purchase payables	9,900
Pro forma I	22,960
Utilisation of proceeds from the Public Issue (Note 3.1(B))	(9,378)
Pro forma II	<u>13,582</u>

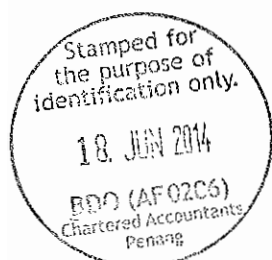


11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information*

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (CONTINUED)
- 3.2 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
- 3.2.9 BORROWINGS (CONTINUED)

	As at 31 December 2013 RM'000
Total borrowings	
Term loans	15,693
Hire purchase payables	13,842
Banker acceptance	6,036
Bank overdrafts	1,230
Pro forma I	36,801
Utilisation of proceeds from the Public Issue	(9,378)
Pro forma II	<u>27,423</u>



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

4. PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

The pro forma consolidated statement of cash flows for the FYE 31 December 2013 has been prepared for illustrative purpose only and after making such adjustments as considered necessary assuming that the Listing Scheme completed on that date.

	FYE 31 December 2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before tax	11,382
Adjustments for:	
Amortisation of intangible assets	
- Development costs	56
- Trademarks	#
Bad debts written off	60
Depreciation of property, plant and equipment	4,886
Interest expense	2,302
Interest income	(54)
Gain on disposal of property, plant and equipment	(6)
Loss on disposal of property, plant and equipment	4
Operating profit before working capital changes	18,630
Increase in inventories	(1,539)
Increase in trade and other receivables	(2,936)
Increase in trade and other payables	769
Net cash generated from operations	14,924
Interest paid	(2,302)
Taxation paid	(1,365)
Net cash from operating activities	11,257
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	54
Changes in fixed deposits pledged with licensed banks	(887)
Development cost incurred	(112)
Purchase of property, plant and equipment	(10,814)
Proceeds from disposal of property, plant and equipment	33
Net cash used in investing activities	(11,726)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from public issue	20,925
Payment of estimated listing expenses	(3,000)
Drawdown of bankers' acceptance (net)	2,569
Drawdown of term loan	738
Repayment of term loans	(8,191)
Repayment of hire purchase payables	(7,709)
Net cash from financing activities	5,332
NET CHANGES IN CASH AND CASH EQUIVALENTS	4,863
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	1,867
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	6,730

Stamped for
the purpose of
identification only.

18 JUN 2014

BDO (AF0206)
Chartered Accountants
Penang

- represents amount less than RM1,000

11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

4. PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

For the purpose of the pro forma consolidated statement of cash flows, cash and cash equivalents comprise the following:

	As at 31 December 2013 RM'000
Cash and bank balances	7,960
Fixed deposits pledged to financial institutions	2,124
As reported in pro forma consolidated statement of financial position (Pro forma II)	10,084
Less: Fixed deposits pledged to financial institutions	(2,124)
Bank overdraft included in borrowings (net of utilisation of proceeds)	(1,230)
	<u>6,730</u>



11. PRO FORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

Heng Huat Resources Group Berhad (Company No. 969678-D)
Pro Forma Consolidated Financial Information

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors in accordance with a resolution dated 18 JUN 2014

H'NG CHOON SENG
DIRECTOR

KEE SWEE LAI
DIRECTOR



12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS

The following discussion and analysis of our past financial condition and results of operations should be read in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus and the Accountants' Report as set out in Section 13 of this Prospectus.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but not limited to, those discussed below or elsewhere in this Prospectus, particularly the risk factors as set out in Section 4 of this Prospectus.

12.1 OVERVIEW

Our Company and subsidiary company, HH Industries, are principally investment holding companies, whereby our Group's revenue are principally derived from the subsidiary companies of HH Industries, namely HK Fibre, HK Kitaran and HK Palm Fibre, which are principally involved in the manufacturing and trading of biomass materials. Pursuant to the Fibre Star Reorganisation, commencing from FYE 31 December 2012, our Group also derives revenue contribution from Fibre Star and Fibre Star Marketing, which are principally involved in the manufacturing and marketing of mattresses and related products respectively.

Our business operations are contained within Malaysia, while our principal markets comprise both the local and export market. For the FYE 31 December 2013, approximately 55.38% of our Group's revenue was contributed by export sales via intermediaries mainly to the China market, while the balance of approximately 44.62% was contributed by local sales via local intermediaries (31.15%) as well as direct sales to the end product users (13.47%).

Revenue

Our Group's revenue is primarily derived through our subsidiary companies namely HK Kitaran, HK Palm Fibre and HK Fibre, which are principally involved in the manufacturing and trading of biomass materials and value-added products, as well as Fibre Star and Fibre Star Marketing, which are involved in the manufacturing and marketing of mattresses and related products as set out below:

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->					
	2011		2012		2011	
	RM'000	%	RM'000	%	RM'000	%
<u>HK Kitaran and HK Palm Fibre</u>						
- Oil palm EFB fibre	27,106	85.50	44,807	71.16	43,354	58.79
- Briquette	-	-	76	0.12	1,832	2.48
<u>HK Fibre</u>						
- Coconut fibre	3,029	9.56	2,361	3.75	470	0.64
- Coconut peat	1,567	4.94	2,000	3.18	2,329	3.16
- Coconut fibre sheet	-	-	4,062	6.45	6,162	8.36
<u>Fibre Star and Fibre Star Marketing</u>						
- Mattresses and related products	-	-	9,659	15.34	19,593	26.57
Total	31,702	100.00	62,965	100.00	73,740	100.00

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

We started as a manufacturer of biomass materials. Pursuant to the Fibre Star Reorganisation in 2012, we commenced manufacturing and marketing of mattresses and related products through Fibre Star and Fibre Star Marketing, which contributed to approximately 15.34% and 26.57% of our Group's total revenue for the FYE 31 December 2012 and FYE 31 December 2013 respectively. We also commenced manufacturing of biomass value-added products, comprising coconut fibre sheet and Briquette in the FYE 31 December 2012 and FYE 31 December 2013 respectively.

Our revenue is mainly affected by the availability of supply of raw materials, market demand, sales volume and selling price for biomass materials. Further details of the factors affecting our revenue and profits are set out in Section 12.1.1 of this Prospectus.

Cost of sales

Our Group's cost of sales comprises three (3) key cost components – materials costs, labour costs, and production overheads as follows:

	Pro Forma		Audited			
	2011		FYE 31 December 2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Materials costs	4,744	33.56	12,564	38.79	14,970	35.85
Labour costs	3,704	26.20	7,122	21.99	10,154	24.31
Production overheads	5,689	40.24	12,703	39.22	16,638	39.84
Total Cost of Sales	14,137	100.00	32,389	100.00	41,762	100.00

(i) *Materials costs*

Materials costs accounted for approximately 33.56%, 38.79% and 35.85% of our total cost of sales for the past three (3) FYE 31 December 2011 to 2013.

Materials costs mainly consist of raw materials costs such as coconut husk and oil palm EFB for our biomass materials products; and coconut fibre sheet, spring coil, foam and fabrics for our mattresses and related products as well as packing materials costs. These raw materials are primarily sourced locally. The prices of these raw materials are mainly influenced by the overall market supply and demand. Packing materials primarily consist of plastic bag and rope, Vinyon thread and Raffia string for packing/bundling of our finished products.

Our materials costs were on an increasing trend throughout the financial years under review in line with the expansion of our Group's operations. The substantial increase in our material costs in the FYE 31 December 2012 was mainly contributed by purchases of materials for our mattresses and related products division which commenced operations in June 2012 subsequent to the Fibre Star Reorganisation.

(ii) *Labour costs*

Labour costs accounted for approximately 26.20%, 21.99% and 24.31% of our total cost of sales for the past three (3) FYE 31 December 2011 to 2013.

Labour costs consist of direct and indirect labour costs. Direct labour costs comprise of wages, bonuses, foreign workers' levy fees and other staff-related costs incurred in relation to production operators. Indirect labour costs comprise of salaries, wages, bonuses and other staff-related costs incurred in relation to production-related workers and employees (excluding production operators).

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

The increase in our labour costs throughout the financial years under review is in line with the increase in our production workforce from 291 personnel as at 31 December 2011 to 451 personnel as at 31 December 2013 to cater for the expansion of our production facilities as explained below, as well as the increase in workforce from our mattresses and related products division pursuant to the commencement of its operations in June 2012.

(iii) Production overheads

Production overheads accounted for approximately 40.24%, 39.22% and 39.84% of our total cost of sales for the past three (3) FYE 31 December 2011 to 2013.

Production overheads mainly consist of depreciation of property, plant and equipment deployed in production, utilities and energy costs for our production (which include boiler burning material and chemical, diesel, gas and petrol), upkeep and maintenance costs (which include the upkeep of property, plant and equipment used in production, tools and equipment repair and replacement costs), rental for our production facilities and insurance for our factory buildings, production-related machineries and equipment, and motor vehicles.

The increasing trend in our production overheads throughout the financial years under review was mainly contributed by the increase in costs incurred for depreciation charges, utilities and energy costs, and upkeep and maintenance costs for our property, plant and equipment arising from the following expansion plans undertaken by our Group during the said period:

- (a) The installation of seven additional (7) production lines in HK Palm Fibre and three (3) production lines in HK Kitaran for the production of oil palm EFB fibre in the FYE 31 December 2010;
- (b) The installation of seven (7) additional production lines in HK Kitaran for the production of oil palm EFB fibre in the FYE 31 December 2011; and
- (c) Commencement of the mattresses and related products division operations by Fibre Star and Fibre Star Marketing and the installation of two (2) additional production lines in HK Kitaran for the production of oil palm EFB Fibre in the FYE 31 December 2012.

The details of our production overheads for the past three (3) FYE 31 December 2011 to 2013 are as follows:

	Pro Forma		Audited			
			FYE 31 December			
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Depreciation of property, plant and equipment	1,346	23.66	2,890	22.75	4,350	26.14
Utilities and energy	2,981	52.40	6,958	54.77	8,239	49.52
Upkeep and maintenance	880	15.47	1,692	13.32	2,319	13.94
Rental	144	2.53	302	2.38	403	2.42
Insurance	95	1.67	228	1.80	455	2.74
Others	243	4.27	2,890	22.75	4,350	26.14
	5,689	100.00	12,703	100.00	16,638	100.00

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

Other income

For the FYE 31 December 2011 to 2013, our other income amounted to RM0.24 million, RM0.74 million and RM0.81 million respectively, representing approximately 0.74%, 1.16% and 1.09% of our total income for the past three (3) FYE 31 December 2011 to 2013.

Other income mainly consists of forwarding charges imposed on customers, income from sales of biomass waste and gain on foreign exchange. Our other income for the FYE 31 December 2011 was mainly due to forwarding charges imposed for exports to China.

Our other income increased significantly for the FYE 31 December 2012 mainly due to income from sales of biomass waste (short fibre) during the financial year, while the higher other income for the FYE 31 December 2013 was primarily due to the recognition of net gain on foreign exchange of approximately RM0.62 million in line with the higher export sales and weakening of RM against foreign currencies, particularly Renminbi and USD during the financial year.

Selling and distribution expenses

Selling and distribution expenses mainly consist of sales commission payable to intermediaries on sales of our biomass materials, sales commission to our sales and marketing personnel as well as appointed agents on sales of our mattresses products, travelling expenses incurred by our sales and marketing personnel, and forwarding and transportation expenses incurred for delivery of biomass materials to our customers. For the FYE 31 December 2011 to 2013, our selling and distribution expenses amounted to RM1.76 million, RM9.81 million and RM12.75 million respectively, representing approximately 5.55%, 15.58% and 17.29% of our revenue for the past three (3) FYE 31 December 2011 to 2013.

Selling and distribution expenses showed an increasing trend during the financial years under review mainly due to higher forwarding expenses incurred for our increasing exports to China, as well as the increase in headcount of our sales and marketing personnel from six (6) personnel as at 31 December 2011 to seventeen (17) personnel as at 31 December 2013 in line with the expansion of our biomass materials operations and commencement of our mattresses and related products operations in the FYE 31 December 2012.

Administrative and other expenses

Administrative and other expenses mainly consist of directors' remuneration, payroll costs for general and administrative personnel and depreciation of property, plant and equipment (excluding those deploy in production).

Administrative and other expenses showed an increasing trend during the financial years under review in line with the expansion of our biomass materials operations as well as commencement of our mattresses and related products operations in the FYE 31 December 2012. For the FYE 31 December 2011 to 2013, our administrative and other expenses amounted to RM1.81 million, RM6.51 million and RM6.36 million respectively, which accounted for approximately 5.70%, 10.34% and 8.62% of our revenue for the past three (3) FYE 31 December 2011 to 2013. The higher administrative and other expenses for the FYE 31 December 2012 and 2013 was mainly due to the increase in payroll costs for finance, human resource and administration department as a result of the increase in headcount from eleven (11) personnel as at 31 December 2011 to twenty nine (29) personnel as at 31 December 2013, as well as higher professional fees incurred for the listing exercise of our Group.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

Finance costs

Finance costs consist of interest expenses incurred on bank overdrafts, hire purchase, bankers' acceptance and term loans, as well as banking facilities charges.

For the FYE 31 December 2011 to 2013, our finance costs amounted to RM0.52 million, RM1.37 million and RM2.30 million respectively, representing approximately 1.64%, 2.17% and 3.12% of our total revenue for the past three (3) FYE 31 December 2011 to 2013. The increase in finance costs during the financial years under review were mainly due to the expansion of our operations, whereby new hire purchases and term loans were obtained to finance the acquisitions of property, plant and equipment, and bankers' acceptance were utilised to finance our Group's working capital.

Tax expense

	Pro Forma		Audited			
			FYE 31 December			
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
<i>Income tax</i>						
- Provision for the year	(25)	(100.00)	(453)	(45.62)	(623)	(41.81)
- Over/(Under) provision in prior year	-	-	2	0.20	(307)	(20.60)
<i>Deferred tax</i>						
- Provision for the year	-	-	(163)	(16.41)	(354)	(23.76)
- Over/(Under) provision in prior year	-	-	(379)	(38.17)	(206)	(13.83)
	(25)	(100.00)	(993)	(100.00)	(1,490)	(100.00)

During the financial years under review, three (3) of our subsidiary companies, HK Fibre, HK Kitaran and HK Palm Fibre, have been granted pioneer status by MITI for their products under the Promotion of Investments (Amendment) Act, 1986 in which their statutory income are exempted from tax for a stipulated period. Our other subsidiary companies are subject to tax at the prevailing statutory tax rate of 25%.

The details of the tax exemption granted during the past three (3) FYE 31 December 2011 to 2013 are as follows:

Company	Tax Exemption Period	Exempted Products
HK Fibre	Five (5) years, from 1 June 2007 to 31 May 2012	Coconut fibre and coconut peat
	Five (5) years, from 1 April 2012 to 31 March 2017	Coconut fibre sheet
HK Kitaran	Ten (10) years, from 1 July 2010 to 30 June 2020	Fibre from palm biomass
HK Palm Fibre	Five (5) years, from 1 October 2009 to 10 May 2012	Fibre from oil palm biomass

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS *(Cont'd)*

The increase in tax expense for the FYE 31 December 2012 was mainly attributable to the following factors:

- (a) Additional tax liabilities arising from the cessation of HK Palm Fibre's pioneer status on 10 May 2012, and the expiry of HK Fibre's pioneer status in relation to coconut fibre and coconut peat on 31 May 2012; and
- (b) Commencement of the manufacturing and marketing of mattresses and related products by Fibre Star and Fibre Star Marketing respectively, whereby our Group's profits arising therefrom are subject to income tax at the statutory tax rate of 25%.

For the FYE 31 December 2013, the higher tax expense was mainly attributable to the following factors:

- (a) Higher tax liabilities from the mattresses and related products division, in line with the higher profits generated during the financial year from full year operations; and
- (b) Under provision of prior year income tax which was adjusted during the financial year upon submission of final tax returns, primarily in relation to HK Fibre and HK Palm Fibre.

12.1.1 Significant factors affecting our profits

The main factors that have affected and are expected to continue to affect our profits include but are not limited to the following:

(i) Demand and supply conditions for our biomass materials and value-added products

The growth of our biomass materials and value-added products is largely driven by the following:

- Rising demand from China for coconut fibre and emergence of oil palm EFB fibre as a viable substitute for coconut fibre;
- Population growth and greater affluence spurring demand for end-products;
- Growing applications of natural fibre;
- Strong governmental support;
- Increasing domestic and foreign investments and initiatives;
- Increase of oil palm production under the ETP; and
- Legislation enforcement on environmental protection.

(Source: IMR Report by Protégé Associates)

Further details of the demand and supply conditions for our biomass materials and value-added products are set out in Section 7 of this Prospectus.

(ii) Tax consideration

The following table sets out the comparison between our effective and statutory tax rate for the past three (3) FYE 31 December 2011 to 2013:

	Pro Forma	<----- Audited ----->	
		<----- FYE 31 December ----->	
	2011	2012	2013
	%	%	%
Effective tax rate	0.18	7.29	13.09
Statutory tax rate	25.00	25.00	25.00

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

We are subject to tax in Malaysia, and the relevant tax liabilities are computed based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the relevant reporting period. For the financial years under review, the applicable statutory tax rate remained constant at 25%.

For the FYE 31 December 2011, we recorded a minimal tax expense with an effective tax rate of 0.18%. For the FYE 31 December 2012 and 2013, we recorded a higher effective tax rate of 7.29% and 13.09% respectively mainly due to additional tax liabilities arising from the cessation of HK Palm Fibre and HK Fibre's pioneer status on 10 May 2012 and 31 May 2012 respectively, as well as the commencement of operations of our mattresses and related products division, which are subject to income tax at the 25% statutory tax rate.

A relatively low tax expense was recorded during the financial years under review, as compared to the applicable statutory tax rate of 25%, primarily due to our main subsidiary companies, HK Fibre, HK Palm Fibre and HK Kitaran, have been granted pioneer status by MITI for their products under the Promotion of Investments (Amendment) Act, 1986 in which their statutory tax income are exempted from tax for a stipulated period. As disclosed in Section 12.1 – "*Tax expense*" of this Prospectus, HK Palm Fibre's pioneer status has ceased on 10 May 2012 and HK Fibre's pioneer status in relation to coconut fibre and coconut peat has expired on 31 May 2012.

Upon expiry of the relevant incentive periods, we expect our tax expenses to increase substantially as compared to the level reported during the financial years under review. Appropriate accruals for tax liabilities would be made, when necessary, in the relevant future financial years.

For illustrative purposes, assuming that none of our subsidiary companies are exempted from tax in the FYE 31 December 2013, our tax expense is estimated to be RM3.85 million, representing an effective tax rate of 33.83%.

(iii) Dependency on major customers

For the FYE 31 December 2013, we have one (1) major customer (who contributed more than 10% of our Group's revenue) i.e. Shenzhen Yuemao, which accounted for approximately 30.14% of our Group's total revenue. In addition, our export of oil palm EFB fibre to China accounted for approximately 54.31% of our Group's total revenue for the FYE 31 December 2013, whereby all of these customers are intermediaries.

Our revenue to a certain extent is dependent on our major customer. There is no assurance that any loss of our major customer will not have a material adverse effect on our Group's future performance.

Further details of the risk in relation to our dependency on our major customer are set out in Section 4.1(ii) of this Prospectus.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.2 RESULTS OF OPERATIONS

The following sets out the segmental analysis of our results for the past three (3) FYE 31 December 2011 to 2013 based on the assumption that our current Group structure has been in existence throughout the financial years under review.

12.2.1 Revenue

(i) By company

	Pro Forma		Audited			
			FYE 31 December			
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
HH Industries	-	-	-	-	-	-
HK Fibre	4,596	14.50	8,423	13.38	8,961	12.15
HK Kitaran	15,441	48.71	35,612	56.56	36,433	49.41
HK Mega	-	-	-	-	-	-
HK Palm Fibre	11,665	36.79	9,271	14.72	8,753	11.87
Fibre Star	-	-	3,292	5.23	-*	-
Fibre Star Marketing	-	-	6,367	10.11	19,593	26.57
Total revenue	31,702	100.00	62,965	100.00	73,740	100.00

Note:

* No revenue was recorded for Fibre Star for the FYE 31 December 2013 due to inter-company elimination, as all the mattresses and related products manufactured by Fibre Star are supplied to Fibre Star Marketing, the marketing arm.

For the FYE 31 December 2011, our Group's revenue was mainly derived from HK Kitaran and HK Palm Fibre for the manufacturing and trading of oil palm biomass materials, which collectively contributed to 85.50%, 71.28% and 61.28% of our Group's total revenue for the FYE 31 December 2011, 2012 and 2013 respectively.

The increasing revenue contribution from HK Kitaran, together with the corresponding lower contribution from HK Palm Fibre since FYE 31 December 2011 was mainly due to our Group's focus in expanding HK Kitaran's operations as there is abundant supply of oil palm EFB fibre in the surroundings of HK Kitaran's factory, i.e. the Seberang Perai area. Pursuant thereto, HK Kitaran's production facilities was increased to a total of twelve (12) oil palm EFB fibre production lines with total monthly production capacity of 6,032 mt, as compared to HK Palm Fibre which has eight (8) production lines with total monthly production capacity of 2,340 mt.

Pursuant to the Fibre Star Reorganisation, commencing from the FYE 31 December 2012, our Group has additional revenue contribution from Fibre Star and Fibre Star Marketing, which commenced operations in June 2012 and September 2012 respectively, and collectively accounted for 15.34% and 26.57% of our Group's total revenue for the FYE 31 December 2012 and 2013 respectively.

Fibre Star serves as our in-house manufacturing arm for the production of mattresses and related products, which are solely supplied to Fibre Star Marketing, as the marketing arm, who will then on-sell the products to external mattress distributors and retailers. The higher revenue contribution from Fibre Star Marketing for the FYE 31 December 2013 was mainly due to a full year operations of our mattresses and related products division during the financial year.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

(ii) By geographical location

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->		2012		2013	
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Local:						
- End product users	4,166	13.14	7,511	11.93	9,936	13.47
- Intermediaries	8,790	27.73	15,768	25.04	22,967	31.15
Total local market	12,956	40.87	23,279	36.97	32,903	44.62
Exports:						
- China - Intermediaries	18,746	59.13	39,590	62.88	40,719	55.22
- Singapore - Intermediaries	-	-	96	0.15	118	0.16
Total exports	18,746	59.13	39,686	63.03	40,837	55.38
Total revenue	31,702	100.00	62,965	100.00	73,740	100.00

For the FYE 31 December 2011, our sales to local companies accounted for 40.87% of our Group's total revenue, while our exports to China contributed to 59.13% of our Group's total revenue. In line with our focus on the China market, our exports to China increased from 59.13% of our Group's total revenue in the FYE 31 December 2011 to 62.88% in the FYE 31 December 2012.

However, for the FYE 31 December 2013, the proportion of revenue contribution for our exports to China, which comprise sales of biomass materials, reduced to 55.22% of our Group's total revenue mainly due to increased contribution from our local sales mainly as a result of a full year contribution from our mattresses and related products division during the financial year, whereby approximately 99% of our mattresses and related products were sold through local intermediaries.

(iii) By products/activities

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->		2012		2013	
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
▪ Biomass materials:						
- Coconut fibre	3,029	9.56	2,361	3.75	470	0.64
- Coconut peat	1,567	4.94	2,000	3.18	2,329	3.16
- Coconut fibre sheet	-	-	4,062	6.45	6,162	8.36
- Oil palm EFB fibre	27,106	85.50	44,807	71.16	43,354	58.79
- Briquette	-	-	76	0.12	1,832	2.48
	31,702	100.00	53,306	84.66	54,147	73.43
▪ Mattresses and related products	-	-	9,659	15.34	19,593	26.57
Total revenue	31,702	100.00	62,965	100.00	73,740	100.00

Our Group's revenue was mainly derived from sales of oil palm EFB fibre, representing 85.50%, 71.16% and 58.79% of our Group's total revenue for the FYE 31 December 2011, 2012 and 2013 respectively.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

Commencing from the FYE 31 December 2012, we also derive additional revenue stream from the manufacturing and sales of mattresses and related products, which contributed to 15.34% and 26.57% of our Group's total revenue for the FYE 31 December 2012 and 2013 respectively. Following the commencement of our mattresses business, most of our coconut fibres are consumed internally in the production of coconut fibre sheet for our mattresses and related products division. Accordingly, our revenue contribution from coconut fibre has decreased from 9.56% of our Group's total revenue in the FYE 31 December 2011 to 0.64% in the FYE 31 December 2013.

12.2.2 GP and GP Margin

(i) By company

	Pro Forma		<----- Audited ----->		>	
	<----- FYE 31 December ----->		<----- FYE 31 December ----->		<----- FYE 31 December ----->	
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
HH Industries	-	-	-	-	-	-
HK Fibre	1,447	8.24	3,587	11.73	5,154	16.12
HK Kitaran	9,352	53.24	20,799	68.03	18,077	56.53
HK Mega	-	-	-	-	-	-
HK Palm Fibre	6,766	38.52	2,893	9.46	2,439	7.63
Fibre Star	-	-	1,505	4.92	-	-
Fibre Star Marketing	-	-	1,792	5.86	6,308	19.72
Total GP	17,565	100.00	30,576	100.00	31,978	100.00

	Pro Forma		<----- Audited ----->		>	
	<----- FYE 31 December ----->		<----- FYE 31 December ----->		<----- FYE 31 December ----->	
	2011		2012		2013	
	%		%		%	
HH Industries	-	-	-	-	-	-
HK Fibre	31.48		42.59		57.52	
HK Kitaran	60.57		58.40		49.62	
HK Mega	-	-	-	-	-	-
HK Palm Fibre	58.00		31.20		27.87	
Fibre Star	-	-	45.72		-	-
Fibre Star Marketing	-	-	28.15		32.19	
Group GP Margin	55.41		48.56		43.37	

The GP of HK Fibre increased from RM1.45 million in the FYE 31 December 2011 to RM5.15 million in the FYE 31 December 2013, while its GP margin improved from 31.48% in the FYE 31 December 2011 to 57.52% in the FYE 31 December 2013. The increase in GP margin for the FYE 31 December 2012 and 2013 was mainly due to commencement of the production and sales of coconut fibre sheet, a value-added product which commands higher selling price.

The GP of HK Kitaran increased from RM9.35 million in the FYE 31 December 2011 to RM18.08 million in the FYE 31 December 2013, while the GP of HK Palm Fibre decreased from RM6.77 million in the FYE 31 December 2011 to RM2.44 million in the FYE 31 December 2013 mainly due to our Group's focus in expanding HK Kitaran's operations as there is abundant supply of oil palm EFB fibre in the surroundings of HK Kitaran's factory.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

However, HK Kitaran and HK Palm Fibre registered decreases in their GP margins for the FYE 31 December 2012 and 2013 as a result of a decrease in the average selling prices of oil palm EFB fibre by approximately 5% and 6% in the FYE 31 December 2012 and 2013 respectively mainly due to a revision in selling prices for our China customers during the financial years as part of our Group's strategy to strengthen our sales volume in the China market as well as a decline in the prices of oil palm EFB fibre globally in the first half of 2013 as explained in Section 12.2.2(iii) of this Prospectus.

(ii) By geographical location

	Pro Forma		<----- Audited ----->			
			<----- FYE 31 December ----->			
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Local:						
- End product users	1,201	6.84	3,134	10.25	5,564	17.40
- Intermediaries	4,930	28.07	5,926	19.38	6,892	21.55
Total local market	6,131	34.91	9,060	29.63	12,456	38.95
Exports:						
- China - Intermediaries	11,434	65.09	21,467	70.21	19,458	60.85
- Singapore - Intermediaries	-	-	49	0.16	64	0.20
Total exports	11,434	65.09	21,516	70.37	19,522	61.05
Total GP	17,565	100.00	30,576	100.00	31,978	100.00

	Pro Forma		<----- Audited ----->		
			<----- FYE 31 December ----->		
	2011		2012		2013
	%		%		%
Local:					
- End product users	28.83		41.73		56.00
- Intermediaries	56.09		37.58		30.01
Total local market	47.32		38.92		37.86
Exports:					
- China - Intermediaries	60.99		54.22		47.79
- Singapore - Intermediaries	-		51.04		54.24
Total exports	60.99		54.22		47.80
Group GP Margin	55.41		48.56		43.37

The decreasing proportion of GP contribution from the local market from 34.91% in the FYE 31 December 2011 to 29.63% in the FYE 31 December 2012 was mainly due to the increasing GP contribution from the China export market. For the FYE 31 December 2013, the proportion of GP contribution from the local market increased to 38.95% of our Group's total GP from 29.63% in the FYE 31 December 2012 mainly due to the increase in revenue contribution from coconut fibre sheet and mattresses and related products which were sold in the local market.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

The increase in GP contribution from our exports to China for the FYE 31 December 2012 was in line with the increase in our sales of oil palm EFB fibre to the China market. However, for the FYE 31 December 2013, the proportion of GP contribution from our exports to China decreased to 60.85% of our Group's total GP from 70.21% in the FYE 31 December 2012 mainly due to:

- (i) lower average selling prices for our oil palm EFB fibre for the FYE 31 December 2013 pursuant to a revision in selling prices for our China customers as part of our Group's strategy to strengthen our sales volume in the China market as well as a global decline in the prices of oil palm EFB fibre in the first half of 2013; and
- (ii) full year contribution from our mattresses and related products division for the FYE 31 December 2013, whereby approximately 99% of the products were sold in the local market.

All of our oil palm EFB fibre were sold through local and overseas intermediaries during the financial years under review. As such, the lower GP margins recorded by the intermediaries for the FYE 31 December 2012 and 2013 were in line with the margins achieved for our oil palm EFB fibre as explained in Section 12.2.2(iii) of this Prospectus.

(iii) By products/activities

	Pro Forma		<----- Audited ----->			
	<----- FYE 31 December ----->					
	2011	2012	2011	2012	2013	
	RM'000	%	RM'000	%	RM'000	%
▪ Biomass materials:						
- Coconut fibre	766	4.36	785	2.57	164	0.51
- Coconut peat	681	3.88	57	0.19	474	1.48
- Coconut fibre sheet	-	-	2,745	8.98	4,516	14.12
- Oil palm EFB fibre	16,118	91.76	23,713	77.55	19,754	61.78
- Briquette	-	-	(20)	(0.07)	762	2.38
	17,565	100.00	27,280	89.22	25,670	80.27
▪ Mattresses and related products	-	-	3,296	10.78	6,308	19.73
Total GP	17,565	100.00	30,576	100.00	31,978	100.00

	Pro Forma		<----- Audited ----->		
	<----- FYE 31 December ----->				
	2011	2012	2012	2013	
	%	%	%	%	
▪ Biomass materials:					
- Coconut fibre	25.29	33.25		34.89	
- Coconut peat	43.46	2.85		20.35	
- Coconut fibre sheet	-	67.58		73.29	
- Oil palm EFB fibre	59.46	52.92		45.56	
- Briquette	-	(26.32)		41.59	
	55.41	51.18		47.41	
▪ Mattresses and related products	-	34.12		32.20	
Group GP Margin	55.41	48.56		43.37	

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

Oil palm EFB fibre is our main GP contributor, representing approximately 91.76%, 77.55% and 61.78% of our Group's total GP for the FYE 31 December 2011, 2012 and 2013 respectively. The increase in the GP of oil palm EFB fibre from RM16.12 million in the FYE 31 December 2011 to RM23.71 million in the FYE 31 December 2012 is in line with the increase in volume sold pursuant to the expansion of our oil palm EFB fibre production lines in the FYE 31 December 2012. However, for the FYE 31 December 2013, the GP of oil palm EFB fibre decreased to RM19.75 million mainly due to the lower average selling prices of oil palm EFB fibre as explained below.

The GP margin of oil palm EFB fibre has decreased from 55.41% in the FYE 31 December 2011 to 52.92% and 45.56% for the FYE 31 December 2012 and 2013 respectively. The decrease was mainly due to the reduction in the average selling prices of oil palm EFB fibre by approximately 5% and 6% in the FYE 31 December 2012 and 2013 respectively.

The lower average selling price for oil palm EFB fibre was mainly due to a revision in selling prices for our China customers as part of our Group's strategy to strengthen our sales volume to enhance market acceptance and awareness of oil palm EFB fibre as a substitute to coconut fibre within the China market. Further, the decrease in the average selling price of oil palm EFB fibre in the FYE 31 December 2013 was also due to the effect of lower coconut fibre prices globally in the first half of 2013 arising from higher supply of coconut fibre during that period. Further details are as disclosed in Section 12.2.4(ii) of this Prospectus.

We registered a gross loss for our Briquette in the FYE 31 December 2012 mainly due to the commencement of pilot production in the fourth quarter of 2012, where minimal revenue was recorded. We commenced commercial production of Briquette in January 2013 and achieved a GP of RM0.76 million, with a GP margin of 41.59% for the FYE 31 December 2013.

12.2.3 PBT

(i) By company

	Pro Forma		Audited			
	<----- Audited FYE 31 December ----->					
	2011		2012		2013	
	RM'000	%	RM'000	%	RM'000	%
Heng Huat	(36)	(0.26)	(1,470)	(10.79)	(630)	(5.53)
HH Industries	(103)	(0.75)	(135)	(0.99)	(233)	(2.04)
HK Fibre	667	4.86	2,472	18.14	4,093	35.96
HK Kitaran	6,923	50.48	10,685	78.40	7,113	62.49
HK Mega	(23)	(0.17)	(10)	(0.07)	(4)	(0.04)
HK Palm Fibre	6,293	45.88	1,458	10.70	342	3.00
Fibre Star	(3)	(0.02)	540	3.96	363	3.19
Fibre Star Marketing	(3)	(0.02)	88	0.65	338	2.97
	13,715	100.00	13,628	100.00	11,382	100.00

The losses incurred by Heng Huat, HH Industries, HK Mega, Fibre Star and Fibre Star Marketing were mainly due to minimal or no operations by these companies during the relevant financial years under review.

The increase in the PBT of HK Fibre from RM0.67 million in the FYE 31 December 2011 to RM4.09 million in the FYE 31 December 2013 was in line with the increase in revenue and increasing GP margin from 31.48% to 57.52% during the said financial years.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

The increase in the PBT of HK Kitaran from RM6.92 million in the FYE 31 December 2011 to RM10.69 million in the FYE 31 December 2012 was in line with its revenue growth, while a lower PBT of RM7.11 million was recorded for the FYE 31 December 2013 due to the decrease in its GP margin.

A lower PBT was recorded by HK Palm Fibre for the FYE 31 December 2012 and 2013 following a decrease in revenue recorded during the financial years.

(ii) By geographical location and products/activities

The segmental analysis of PBT by geographical location and products/activities is not readily available for our Group as we are unable to segregate operating expenses on the basis of geographical location and products/activities.

12.2.4 Commentary on our Group's Past Operating Results

(i) FYE 31 December 2012 compared to FYE 31 December 2011

Revenue

For the FYE 31 December 2012, our revenue increased by approximately 98.62% or RM31.26 million from RM31.70 million in the FYE 31 December 2011 to RM62.97 million in the FYE 31 December 2012. The increase in revenue was primarily attributable to the following:

- (a) Increase in the volume of oil palm EFB fibre sold from approximately 40,638 mt in the FYE 31 December 2011 to approximately 71,365 mt in the FYE 31 December 2012 pursuant to:
 - (aa) full year sale from HK Kitaran's seven (7) additional production lines with a total monthly production capacity of 3,354 mt of oil palm EFB fibre, which commenced production in November 2011; and
 - (bb) the expansion of HK Kitaran's operations with the installation of two (2) additional production lines with a total monthly production capacity of 1,118 mt in September 2012;
- (b) Revenue of RM9.66 million generated by our mattresses and related products division pursuant to the commencement of operations of Fibre Star and Fibre Star Marketing in June 2012 and September 2012 respectively; and
- (c) Additional revenue of RM4.06 million generated by HK Fibre pursuant to the commencement of production of coconut fibre sheet.

GP and GP margin

In line with the increase of our revenue, our GP increased by approximately 74.07% or RM13.01 million from RM17.57 million in the FYE 31 December 2011 to RM30.58 million in the FYE 31 December 2012.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS *(Cont'd)*

However, our GP margin decreased from 55.41% in the FYE 31 December 2011 to 48.56% in the FYE 31 December 2012. The lower GP margin was mainly due to:-

- (a) Decrease in the GP margin of oil palm EFB fibre, the primary revenue-generating product of our Group from 59.46% in the FYE 31 December 2011 to 52.92% in the FYE 31 December 2012. The decrease in GP margin was mainly attributable to reduction in the average selling prices of oil palm EFB fibre by approximately 5% in the FYE 31 December 2012 as compared to the FYE 31 December 2011 pursuant to a revision in our oil palm EFB fibre selling price for our China customers as part of our Group's strategy to strengthen our sales volume in order to enhance market acceptance and awareness of oil palm EFB fibre as a substitute to coconut fibre within the China market; and
- (b) Commencement of operations of our mattresses and related products division which generated a lower GP margin of 34.12% as compared to the GP margin achieved by our biomass materials division of 51.18% for the FYE 31 December 2012.

Selling and Distribution Expenses

For the FYE 31 December 2012, our selling and distribution expenses increased by approximately 458.02% or RM8.05 million from RM1.76 million in the FYE 31 December 2011 to RM9.81 million in the FYE 31 December 2012. The increase in selling and distribution expenses was mainly due to the following:

- (a) Increase in forwarding and transportation expenses by approximately RM7.12 million as a result of higher transportation expenses and related custom duty incurred in line with our higher export sales to China during the financial year; and
- (b) Additional selling and distribution expenses of RM1.06 million incurred by our mattresses and related products division in line with the commencement of Fibre Star and Fibre Star Marketing operations in June 2012 and September 2012 respectively.

Administrative and Other Expenses

For the FYE 31 December 2012, our administrative and other expenses increased by approximately 260.63% or RM4.71 million from RM1.81 million in the FYE 31 December 2011 to RM6.51 million in the FYE 31 December 2012. The increase in administrative and other expenses was mainly due to the following:

- (a) Increase in payroll costs by RM1.53 million mainly due to the increase in headcount of our finance, human resource and administration department from eleven (11) personnel as at 31 December 2011 to thirty one (31) personnel as at 31 December 2012 in conjunction with the expansion of our operations as well as commencement of operations of our mattresses and related products division during the financial year;
- (b) Increase in professional and legal fees by RM1.51 million primarily in relation to the listing of our Group;
- (c) Increase in directors' remuneration and emoluments by RM0.59 million pursuant to the revision of our Executive Directors' remuneration and appointment of Independent Directors during the financial year; and
- (d) Increase in security charges incurred by RM0.20 million in conjunction with the expansion of our production facilities.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS *(Cont'd)*

Finance Costs

For the FYE 31 December 2012, our finance costs increased by approximately 162.19% or RM0.85 million from RM0.52 million in the FYE 31 December 2011 to RM1.37 million in the FYE 31 December 2012. The increase in finance costs was in line with the increase in our bank borrowings from RM10.44 million in the FYE 31 December 2011 to RM32.34 million in the FYE 31 December 2012 primarily due to the following:-

- (a) Additional hire purchase facilities of RM6.34 million obtained to finance the acquisition of machineries for our two (2) additional oil palm EFB fibre production lines and two (2) new production lines for Briquette in the second half of 2012 to cater for the expansion of our operations;
- (b) Additional term loan of RM5.20 million obtained in October 2012 to finance the acquisition of Plant 1; and
- (c) Utilisation of bankers' acceptance of RM3.47 million to finance our Group's working capital.

PAT

For the FYE 31 December 2012, our PAT decreased by approximately 7.71% or RM1.06 million from RM13.69 million in the FYE 31 December 2011 to RM12.64 million in the FYE 31 December 2012. The decrease in the PAT was the consequence of the increase in selling and distribution expenses, administrative expenses and finance costs as explained above, as well as higher tax expense incurred arising from the cessation of HK Palm Fibre's pioneer status on 10 May 2012, and the expiry of HK Fibre's pioneer status in relation to coconut fibre and coconut peat on 31 May 2012.

(ii) FYE 31 December 2013 compared to FYE 31 December 2012

Revenue

For the FYE 31 December 2013, our revenue increased by approximately 17.11% or RM10.78 million from RM62.97 million in the FYE 31 December 2012 to RM73.74 million in the FYE 31 December 2013. The increase in revenue was primarily attributable to the following:

- (a) Increase in revenue generated by our mattresses and related products division by RM9.93 million due to Fibre Star and Fibre Star Marketing's full year operations in the FYE 31 December 2013 as Fibre Star and Fibre Marketing only commenced operations in June 2012 and September 2012 respectively; and
- (b) Additional revenue generated from sales of Briquette of RM1.83 million pursuant to the commencement of commercial production of Briquette in January 2013.

The increase in revenue was, however, offset by a decrease in revenue generated from sales of oil palm EFB fibre of RM1.45 million mainly due to a decrease in the average selling prices of oil palm fibre by approximately 6% in the FYE 31 December 2013 as compared to the FYE 31 December 2012. The decrease in the average selling prices of oil palm EFB fibre was mainly due to a revision in selling price for our China customers as part of our Group's strategy to strengthen our sales volume, as well as the effect of lower selling prices for coconut fibre in the first half of 2013 due to higher supply of coconut fibre globally. As the price of oil palm EFB fibre is correlated to the price of coconut fibre, the lower prices of coconut fibre has led to declining prices for oil palm EFB fibre in the first half of 2013. However, the prices of coconut and oil palm EFB fibre strengthened and stabilised in the second half of 2013 as a tighter supply situation eventuates (*Source: IMR report by Protégé Associates*).

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

GP and GP margin

Our GP increased by approximately 4.59% or RM1.40 million from RM30.58 million in the FYE 31 December 2012 to RM31.98 million in the FYE 31 December 2013 mainly as a result of the increase in our revenue. However, our overall GP margin decreased from 48.56% in the FYE 31 December 2012 to 43.37% in the FYE 31 December 2013. The lower GP margin was mainly due to:-

- (a) Decrease in the average selling prices of oil palm EFB fibre by approximately 6% in the FYE 31 December 2013 as compared to the FYE 31 December 2012 as explained above; and
- (b) Increase in the average cost of production overheads for oil palm EFB fibre and Briquette from approximately RM147.14 per mt in the FYE 31 December 2012 to approximately RM164.32 per mt in the FYE 31 December 2013 arising from higher depreciation charge, and utilities and energy costs following the installation of two (2) additional oil palm EFB fibre production lines and two (2) new Briquette production lines by HK Kitaran in the third quarter and fourth quarter of 2012 respectively, which have yet to achieve the optimal production efficiency level.

Selling and Distribution Expenses

For the FYE 31 December 2013, our selling and distribution expenses increased by approximately 29.93% or RM2.94 million from RM9.81 million in the FYE 31 December 2012 to RM12.75 million in the FYE 31 December 2013. The increase in selling and distribution expenses was mainly due to higher selling and distribution expenses of RM2.43 million comprising mainly sales commission costs, travelling expenses and payroll costs incurred by Fibre Star and Fibre Star Marketing pursuant to full year operations of our mattresses and related products division in the FYE 31 December 2013.

Administrative and Other Expenses

For the FYE 31 December 2013, our administrative and other expenses recorded a marginal decrease of 2.35% or RM0.15 million from RM6.51 million in the FYE 31 December 2012 to RM6.36 million in the FYE 31 December 2013.

Finance Costs

For the FYE 31 December 2013, our finance costs increased by approximately 68.52% or RM0.94 million from RM1.37 million in the FYE 31 December 2012 to RM2.30 million in the FYE 31 December 2013. The increase in finance costs was mainly due to:-

- (a) Full year interest charges for the hire purchase facilities obtained in the FYE 31 December 2012 to finance the acquisitions of the additional oil palm EFB fibre production lines and new production lines for Briquette in conjunction with the expansion of our operations;
- (b) Full year interest charge for the term loan obtained in the FYE 31 December 2012 to finance the acquisition of Plant 1 as well as additional term loans of RM2.23 million and RM1.30 million obtained to finance the acquisitions of Plant 4 and Plant 6 respectively; and
- (c) Higher utilisation of bankers' acceptance during the financial year to finance our Group's working capital. Our bankers' acceptance balance amounted to RM6.04 million as at 31 December 2013 as compared to RM3.47 million as at 31 December 2012.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

PAT

For the FYE 31 December 2013, our PAT decreased by approximately 21.71% or RM2.74 million from RM12.64 million in the FYE 31 December 2012 to RM9.89 million in the FYE 31 December 2013. The decrease in the PAT was mainly due to:

- (a) Drop in GP margin from 48.56% in the FYE 31 December 2012 to 43.37% in the FYE 31 December 2013;
- (b) Incurrence of higher selling and distribution expenses and finance costs as explained above; and
- (c) Higher tax expense arising from higher effective tax rate for our mattresses and related products division which does not enjoy any tax exemption as well as under provision of prior year tax.

General information for the FYE 31 December 2011 to 2013

Impact from foreign currency exchange rates

For the FYE 31 December 2011 to 2013, the majority of our sales are to China customers, which are mainly denominated in RMB. However, our results for the past three (3) FYE 31 December 2011 to 2013 were not adversely affected by foreign exchange fluctuations as the monthly fluctuation of RM against RMB was generally less than 3% variance during the financial years. Nevertheless, our Group expects continuous growth of our sales to China customers in future which could result in higher amount of RMB denominated sales.

Our net realised gains or losses on foreign exchange in the past three (3) FYE 31 December 2011 to 2013 are as follows:

	Pro Forma <----- FYE 31 December ----->	Audited <----- FYE 31 December ----->	
	2011 RM'000	2012 RM'000	2013 RM'000
Net gain/ (loss)	3	(109)	640

The higher net realised gain on foreign exchange in the FYE 31 December 2013 is mainly due to the weakening of RM against RMB during the financial year.

We constantly monitor the fluctuations in exchange rates and will take steps through appropriate hedging instrument(s) to minimise the effect of foreign exchange on our Group should the need arises.

Impact from interest rates

Based on our financial position as at 31 December 2013, our gearing stands at 0.99 times. All our borrowings are interest bearing obligations with 62.39% of these borrowings based on variable rates. Thus, any interest rate hike will increase our finance costs, which constituted approximately 10.75% of our total expenses for the FYE 31 December 2013.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

As part of our cash flow management, we will monitor and plan our capital expenditure and financing options accordingly and weigh our options for each funding requirement at any point in time. In addition, we will use part of our Public Issue proceeds to reduce our borrowings which were used to finance the capital expenditure incurred prior to the receipt of the Public Issue proceeds as explained in Section 3.6 of this Prospectus.

Impact from commodity prices

There is no material impact of commodity prices on our Group's financial performance for the past three (3) FYE 31 December 2011 to 2013. In addition, any price increase in biomass wastes can generally be passed on to our customers as our selling price is driven by market demand and sales volume.

Notwithstanding the above, the selling price of our oil palm EFB fibre is correlated to the market price of coconut fibre. Any decrease in the price of coconut fibre will lead to a corresponding decline in the price of oil palm EFB fibre, and in order to remain competitive in the market, our oil palm EFB fibre's selling price will have to be revised downwards accordingly. On the other hand, in the event of any increase in the price of coconut fibre, our Group has the option of revising upwards our oil palm EFB fibre's selling price or maintaining the selling price to boost our sales volume.

Whilst our Group has put in place plans and strategies to diversify our revenue stream to encompass other value-added biomass products as disclosed in Section 6.18.1 of this Prospectus, there is no assurance that our business will not be adversely affected by the impact of any decrease in the price of coconut fibre.

Impact of inflation

There is no material impact of inflation on our Group's financial performance for the past three (3) FYE 31 December 2011 to 2013. Notwithstanding that, we can generally pass on the effect of higher production costs due to inflation to our customers. However, there is no assurance that our business will not be adversely affected by the impact of inflation in the future.

Government, economic, fiscal or monetary policies

Risks relating to political, economic and regulatory policies which may materially affect our business and financial performance are set out in Section 4.1 of this Prospectus.

Save for a change in government regulations in relation to the products that we sell and/or the tax exemptions that we enjoy, we do not foresee any material impact arising from the government, economic, fiscal or monetary policies that could materially affect our operations and financial performance.

12.3 LIQUIDITY AND CAPITAL RESOURCES

12.3.1 Working Capital

Our business operations have been financed through a combination of shareholders' equity, internally generated funds and bank borrowings.

As at 31 December 2013, our Group has total current assets of approximately RM29.41 million and total current liabilities of RM25.07 million. As at 31 December 2013, our current ratio is 1.17 times and is expected to improve to 1.35 times after our Public Issue (including utilisation of proceeds). As at the LPD, we have unutilised banking facilities totalling RM3.33 million.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

As at 31 December 2013, after incorporating the effects of our Public Issue (including utilisation of proceeds), our Group has cash and cash equivalents of RM10.08 million and total indebtedness of RM27.42 million. As at 31 December 2013, our gearing stands at 0.99 times and is expected to improve to 0.50 times after our Public Issue (including utilisation of proceeds).

Our Board is of the opinion that, after taking into consideration our cash and cash equivalents, the banking facilities currently available to us and the net proceeds to be raised from our Public Issue, our Group will have adequate working capital for our present and foreseeable requirements for a period of twelve (12) months from the date of this Prospectus.

12.3.2 Cash Flow Summary

The following table sets out the summary of our pro forma consolidated statement of cash flows for the FYE 31 December 2013, which have been prepared for illustrative purposes only based on the assumption that our Public Issue and utilisation of proceeds had been effected as at that date, and should be read in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Pro forma Consolidated Financial Information as set out in Section 11.5 of this Prospectus.

	RM'000
Net cash from operating activities	11,257
Net cash used in investing activities	(11,726)
Net cash from financing activities	5,332
Net increase in cash and cash equivalents	4,863
Cash and cash equivalents at beginning of financial year	1,867
Cash and cash equivalents at end of financial year	6,730

Net cash from operating activities

During the FYE 31 December 2013, we generated a cash inflow of RM11.26 million from our operating activities on the back of a PBT of RM11.38 million after adjusting for, amongst others, the following:

- (i) non-cash and non-operating items totalling RM7.25 million which mainly include depreciation charges of RM4.89 million;
- (ii) decrease in working capital changes of RM3.71 million arising mainly from the following:
 - (a) Increase in inventories amounting to RM1.54 million mainly due to higher raw materials balance of RM1.20 million as at 31 December 2013 as compared to 31 December 2012 to cater for an anticipated increase in our sales in the forthcoming financial year;
 - (b) Increase in trade and other receivables amounting to RM2.94 million mainly due to higher sales of RM3.87 million registered in the last two (2) months of the FYE 31 December 2013 as compared to the last two (2) months of the FYE 31 December 2012; and

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

- (c) Increase in trade and other payables amounting to RM0.77 million mainly due to incurrence of higher forwarding and transportation expenses of RM0.45 million in the last two (2) months of the FYE 31 December 2013 for delivery of our products to our customers in line with our increase in sales during the same period. The increase in trade and other payables was also due to annual increments, for which payments were only made in the beginning of the subsequent month; and

- (iii) taxation and interest paid of RM1.37 million and RM2.30 million respectively.

Net cash used in investing activities

During the FYE 31 December 2013, we incurred net cash outflow of RM11.73 million from our investing activities, mainly for the purchase of property, plant and equipment amounting to RM10.81 million primarily for the following:-

- (i) Acquisitions of Plant 4 and Plant 6, and the machineries and equipment as detailed in Section 12.4 of this Prospectus; and
- (ii) Utilisation of the Public Issue proceeds amounting to RM4.00 million for the future capital expenditure as detailed in Section 3.6 of this Prospectus.

Net cash from financing activities

During the FYE 31 December 2013, we received a net cash inflow of RM5.33 million from our financing activities mainly as a result of the following:

- (i) net proceeds from our Public Issue of RM17.93 million after payment of listing expenses of RM3.00 million; and
- (ii) net drawdown of bankers' acceptance of RM2.57 million and drawdown of term loan of RM0.74 million for working capital purposes;

which were partially offset by the repayments of term loans and hire purchase of RM8.19 million and RM7.71 million respectively.

Save as disclosed in Section 12.7 of this Prospectus, there is no legal, financial or economic restriction on the ability of our subsidiary companies to transfer funds to our Company in the form of cash dividends, loans or advances. Thus, we are confident we can meet our cash obligations as and when the need arises.

12.3.3 Borrowings

As at 31 December 2013, our borrowings, which are all local borrowings and interest bearing, are as follows:

	<----- 31 December 2013----->		
	Payable within twelve (12) months RM'000	Payable after twelve (12) months RM'000	Total RM'000
<i>Secured</i>			
Hire purchase payables	3,942	9,900	13,842
Term loans	2,633	13,060	15,693
Bankers' acceptance	6,036	-	6,036
Bank overdraft	1,230	-	1,230
Total	13,841	22,960	36,801
Gearing *			0.99

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

Note:

- * Our gearing based on our pro forma equity attributable to equity holders of our Company after our Public Issue and utilisation of proceeds is 0.50 times.

The interest rate profile of our borrowings for the FYE 31 December 2013 is as follows:

	31 December 2013 RM'000
Fixed rate instruments	13,842
Floating rate instruments	22,959
Total	36,801

The details of the types of financial instruments that we use and their balances as at the LPD are as follows:

Types of Financial Instruments	Tenure	Effective Interest Rate	Balance as at the LPD RM'000
Bankers' acceptance	30 days - 120 days	4.76% - 4.92%	6,032
Bank overdrafts	On demand	1% - 1.50% above bank's BLR	1,836
Hire purchases	36 months - 60 months	4.58% - 8.29%	13,304
Term loans	60 months - 240 months	2.10% below bank's BLR to 1.75% above bank's BLR	14,634
			35,806

As at 31 December 2013, we have cash and bank balances of RM3.41 million.

As at the LPD, we do not have any non-interest bearing borrowings or foreign borrowings. We have not defaulted on any payment of either principal sum and/or interest in relation to our borrowings during the past three (3) FYE 31 December 2011 to 2013 and up to the LPD.

As at the LPD, neither our Company nor any of our subsidiary companies is in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or our shareholders' investments.

As at the LPD, we do not use any financial instruments for hedging purposes.

Currently, our Group does not have any interest rate hedging policy. We will monitor the interest rate movement and will take the necessary steps to minimise interest rate risk whenever deemed appropriate such as implementing a hedge policy. We will endeavour to manage our interest rate risk by maintaining a mix of fixed and floating rate borrowings where necessary. However, no assurance can be given that any future significant movement in interest rates will not have a material impact on our Group's business, operating results and financial position.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.3.4 Material Capital Commitments

As at the LPD, save for the future capital expenditure to be incurred as disclosed in Section 3.6 of this Prospectus, there is no material capital commitment incurred or known to be incurred by us or our subsidiary companies, which upon become enforceable, may have a material impact on our financial position.

12.3.5 Material Litigation

As at the LPD, neither we nor our subsidiary companies are engaged in any litigation or arbitration, either as plaintiff or defendant, which may have a material and/or adverse effect on our financial position or business.

12.3.6 Contingent Liabilities

As at the LPD, our Board is not aware of any indirect and/or material contingent liability which has become enforceable or is likely to become enforceable, which in the opinion of our Board, will or may substantially affect our ability to meet our obligations as and when they fall due.

12.4 CAPITAL EXPENDITURE AND DIVESTITURES

Save as disclosed below, our Company has not incurred any other material capital expenditures and divestitures in the past three (3) FYE 31 December 2011 to 2013 and up to the LPD:

Material Capital Expenditures

	Pro Forma	<----- Audited ----->		
	<----- FYE 31 December ----->			Up to the
	2011	2012	2013	LPD
	RM'000	RM'000	RM'000	RM'000
Land	-	6,878 ⁽²⁾	1,381 ⁽³⁾	-
Factory building	6,376 ⁽¹⁾	1,562	2,567 ⁽³⁾	293
Capital work-in-progress	-	-	-	-
Electrical installation	731	582	1,484	137
Machinery and equipment ⁽⁴⁾	8,646	14,084	6,529	1,527
Motor vehicles ⁽⁵⁾	2,318	1,583	1,567	1,113
Total expenditures	18,071	24,689	13,528	3,070

Notes:

- (1) The capital expenditure incurred for factory building for the FYE 31 December 2011 was mainly due to the construction of Plant 2's factory building, which is currently our head office cum production facility.
- (2) The capital expenditure incurred for land for the FYE 31 December 2012 was mainly due to acquisition of Plant 1 as disclosed under Sections 3.6 and 6.17 of this Prospectus.
- (3) The capital expenditure incurred for land and factory building for the FYE 31 December 2013 was mainly due to the acquisitions of Plant 4 and Plant 6.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

- (4) The material capital expenditure incurred for machinery and equipment for the FYE 31 December 2011 to 2013 and up to the LPD were for the following:

	Pro Forma <----- Audited -----> <----- FYE 31 December ----->			Up to the LPD
	2011	2012	2013	
	RM'000	RM'000	RM'000	RM'000
Coconut fibre/coconut fibre sheet production line	-	9	2,963	58
Oil palm EFB fibre production line	5,009	5,227	1,988	1,039
Briquette production line	-	5,415	865	208
Mattresses and related products	-	1,626	15	76
Packing machine	684	1,307	22	-
Weighing apparatus	175	15	-	5
Steam boiler	2,778	360	628	134
Other machinery/equipment	-	125	48	7
Total	8,646	14,084	6,529	1,527

- (5) The material capital expenditure incurred for motor vehicles for the FYE 31 December 2011 to 2013 and up to the LPD were for the following:

	Pro Forma <----- Audited -----> <----- FYE 31 December ----->			Up to the LPD
	2011	2012	2013	
	RM'000	RM'000	RM'000	RM'000
Backhoe, wheel loader and forklift	1,686	1,278	719	926
Cars	632	305	848	187
Total	2,318	1,583	1,567	1,113

There are no material divestitures currently in progress, within or outside Malaysia. For material capital commitments, please refer to Section 12.3.4 of this Prospectus.

12.5 KEY FINANCIAL RATIOS

12.5.1 Trade Receivables

A summary of our trade receivables turnover period for the past three (3) FYE 31 December 2011 to 2013 is as set out below:

	Pro Forma <----- Audited -----> <----- FYE 31 December ----->		
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade receivables	3,750	14,143	17,288
Revenue	31,702	62,965	73,740
% of trade receivables to revenue	11.83	22.46	23.44
Trade receivables turnover period (days)	43	82	86

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

The normal credit period granted to our customers for the FYE 31 December 2011 ranges from 30 days to 40 days. Our credit terms to customers are assessed and approved on a customer-by-customer basis. The higher trade receivables turnover period of 43 days for the FYE 31 December 2011 was mainly due to higher sales achieved towards the end of the year, following an increase in HK Kitaran's monthly production capacity by approximately 3,354 mt of oil palm EFB fibre in November 2011.

For the FYE 31 December 2012 and 2013, pursuant to the commencement of operations of our mattresses and related products division in 2012, the normal credit period granted to our customers ranges from 30 days to 120 days. The longer credit period granted to customers of our mattresses and related products division is in line with the mattress industry practice. Our trade receivables turnover period for the FYE 31 December 2012 and 2013 falls within the credit period granted to our customers.

As at the LPD, we have not experienced any instances of significant bad debts for the financial years under review. We will assess the collectability of trade receivables on individual customer basis which have exceeded the credit term granted by more than six (6) months prior to impairing the said balance.

As at 31 December 2013, the net trade receivables of our Group amounted to RM17.29 million which can be analysed as follows:

	Within credit period RM'000	Exceeding credit period 0 – 30 days RM'000	31 – 60 days RM'000	Total RM'000
Trade receivables	16,238	870	180	17,288
Less: Impairment of loss	-	-	-	-
Net trade receivables	16,238	870	180	17,288
% of total trade receivables	93.93	5.03	1.04	100.00
Subsequent collection as at the LPD	(15,773)	(854)	(54)	(16,681)
Outstanding balance as at the LPD	465	16	126	607
% of total trade receivables net of subsequent collections	76.61	2.63	20.76	100.00

As of the LPD, we have collected RM16.68 million or 96.49% of the total trade receivables outstanding as at 31 December 2013. For those amounts which have exceeded the normal credit period, we have collected RM0.91 million or 86.48% of the said amounts as at the LPD and we are currently negotiating with the relevant customers to recover the remaining balance. Our Directors are of the opinion that the remaining balance of RM0.14 million or 13.52% of the amount exceeding the credit period are recoverable after taking into consideration our relationship with most of these customers and the various credit control measures implemented by us to minimise the incidence of customers default.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.5.2 Trade Payables

A summary of our trade payables turnover period for the past three (3) FYE 31 December 2011 to 2013 is as set out below:

	Pro Forma	<----- Audited ----->	
		<----- FYE 31 December ----->	
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade payables	704	5,447	3,466
Cost of sales	14,137	32,389	41,762
% of trade payables to cost of sales	4.98	16.82	8.30
Trade payables turnover period (days)	18	61	30

The normal credit terms granted by our suppliers ranges from 30 days to 90 days. The trade payables turnover period ranged from approximately 18 days to 61 days during the financial years under review and is within the normal credit period granted by our suppliers.

Our trade payables turnover period increased from 18 days in the FYE 31 December 2011 to 61 days in the FYE 31 December 2012 mainly due to utilisation of credit terms granted by our suppliers arising from utilisation of our internally generated funds to finance the capital expenditure incurred for our expansion plans.

Our trade payables turnover period decreased from 61 days in the FYE 31 December 2012 to 30 days in the FYE 31 December 2013 mainly due to prompt payments made to our suppliers to enhance our relationship and reputation with our suppliers in order to secure favourable pricing from our suppliers.

As at 31 December 2013, our trade payables amounted to RM3.47 million which can be analysed as follows:

	Within credit period	Exceeding credit period		Total
	0 – 180 days	> 180 days		
	RM'000	RM'000	RM'000	RM'000
Trade payables				
▪ External parties	2,888	92	-	2,980
▪ Related party	47	86	353	486
	<u>2,935</u>	<u>178</u>	<u>353</u>	<u>3,466</u>
% of total trade payables	84.68	5.14	10.18	100.00

As of the LPD, all the above outstanding trade payables have been settled.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.5.3 Inventories

Our inventories turnover period for the past three (3) FYE 31 December 2011 to 2013 are as follows:

	Pro Forma	< ----- Audited ----- >	
	< ----- FYE 31 December ----- >		
	2011	2012	2013
	RM'000	RM'000	RM'000
Raw materials	50	1,075	2,278
Work-in-progress	-	12	131
Packing materials	126	226	242
Finished goods	107	1,366	1,567
Total inventories	283	2,679	4,218
Cost of sales	14,137	32,389	41,762
Percentage of inventories to cost of sales (%)	2.00	8.27	10.10
Inventories turnover period (days)	7	30	37

For the FYE 31 December 2011, our inventories turnover period stood at 7 days. We strive to reduce our inventory holding period during the financial years under review to ensure the quality of our raw materials and biomass materials as well as to minimise storage space.

For the FYE 31 December 2012 and 2013, our inventories turnover period stood at 30 days and 37 days respectively. The higher inventories turnover period was mainly due to the commencement of our mattresses and related products operations in the FYE 31 December 2012, which has resulted in additional inventories held by our Group. Our mattresses and related products division generally hold stocks that are sufficient to cater for two (2) to three (3) months' orders, in order to fulfil the replenishment needs of the customers promptly.

Our Board is of the opinion that there are no significant slow-moving or obsolete inventories as at 31 December 2013 as our inventories on-hand are primarily to cater for subsequent months' production and sales.

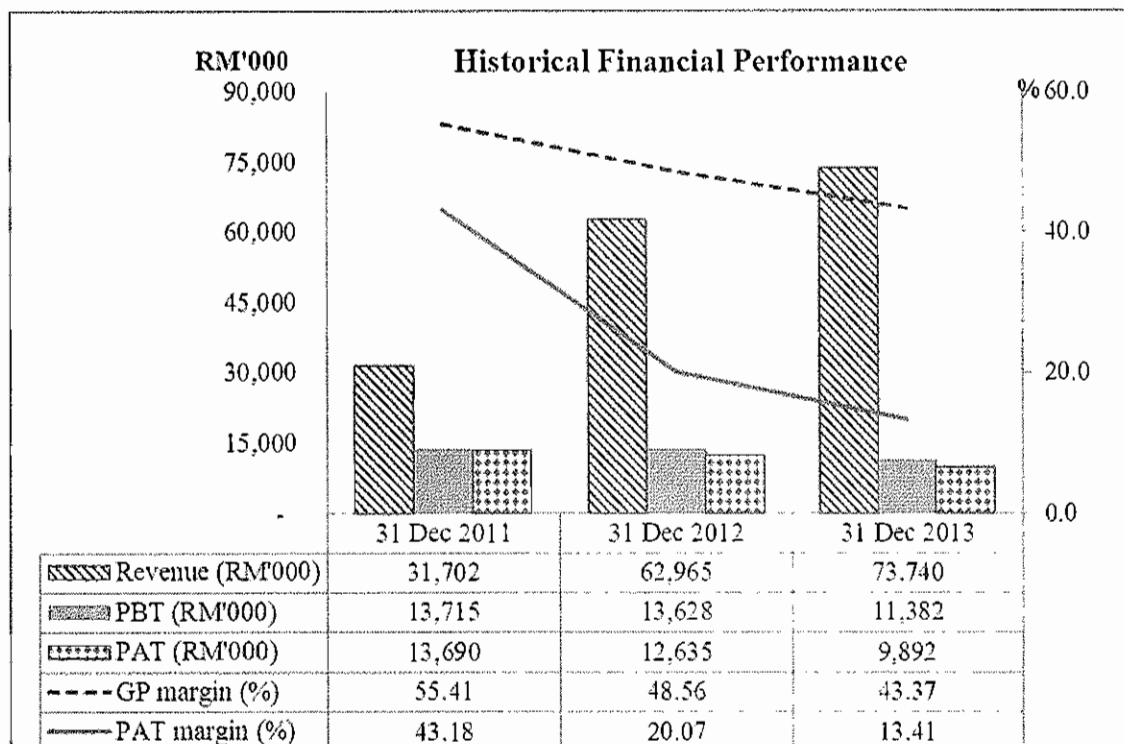
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12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.6 SIGNIFICANT TRENDS

12.6.1 Revenue and Business and Financial Prospects

Based on our financial information for the past three (3) FYE 31 December 2011 to 2013, the following trends were observed:



For the FYE 31 December 2012 and 2013, our revenue registered growth at an incremental rate of 98.62% and 17.11% respectively, primarily attributable to the following:

- (i) Increase in the production capacity of our oil palm EFB fibre by 1,118 mt upon installation of two (2) additional production lines in the third quarter of 2012;
- (ii) Expansion of our operations with the commencement of production of mattresses and related products and coconut fibre sheet in the FYE 31 December 2012; and
- (iii) Introduction of Briquette to our product offerings in January 2013.

The overall increase in our sales volume is consistent with the rising demand for coconut fibre from China and increasing acceptance of oil palm EFB fibre as a viable and cheaper alternative to coconut fibre (*Source: IMR Report by Protégé Associates*). Our Board is optimistic that our growth momentum is sustainable in the next few financial years based on the following factors:

- According to the market research conducted by Protégé Associates, the estimated revenue for biomass materials – coconut fibre and oil palm EFB fibre market in Malaysia stood at RM92.40 million in 2013. By 2018, this is expected to grow to RM180.40 million, representing a CAGR of 14.32% over the next five (5) years (*Source: IMR Report by Protégé Associates*);

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

- Growing applications of natural fibre and rising awareness of 'green' products is expected to further spur the demand for coconut and oil palm EFB biomass materials and value-added products;
- The recent banning of new coal-fired plants in Beijing, Shanghai and Guangzhou of China is likely to spur demand for cleaner, alternative source of energy including Briquette (*Source: IMR Report by Protégé Associates*);
- The know-how necessary for the design, customisation and installation of our continuous production lines, which enabled production of consistent, reliable and large quantities of biomass materials, together with the expansion of our production capacity to meet the growing demand for biomass materials and value-added products; and
- The expected demand for oil palm EFB fibre in China to continue to remain strong, as evident by the increase in average selling prices from RM547 per mt in the first half of 2013 to RM625 per mt in the second half of 2013 as well as consistent demand for our oil palm EFB fibre in the first quarter of 2014.

We experienced a decline in our GP margin for the FYE 31 December 2012 and 2013 mainly due to the decrease in the average selling prices of oil palm EFB fibre resulting from the following:

- (i) Revision in selling price as part of our Group's strategy to strengthen our sales volume in order to enhance market acceptance and awareness of oil palm EFB fibre as a substitute to coconut fibre within the China market; and
- (ii) Softening of prices of coconut fibre in the first half of 2013 due to higher supply of coconut fibre globally, which has resulted in a corresponding decline in the prices of oil palm EFB fibre. However, the prices of coconut fibre and oil palm EFB fibre have subsequently strengthened and stabilised in the second half of 2013 as a tighter supply situation eventuates (*Source: IMR Report by Protégé Associates*).

Notwithstanding the above, our Board expects further improvement in GP margin in future financial years to be possible through the following factors:

- Greater economies of scale arising from an increase in production and sales volume of oil palm EFB fibre, which will reduce the average cost of production overheads per mt;
- Greater magnitude of export sales to the China market, particularly to end users, thereby enabling us to obtain higher selling prices; and
- Product expansion, with the launch of value-added products with higher margins to complement the sales of biomass materials.

Save for any fluctuations driven by the market supply-demand forces and by the varying level of market activities within the relevant industries that consume biomass materials, we do not expect any significant seasonal/cyclical impact on our financial results for our biomass material division.

Our financial results are, however, exposed to certain degree of seasonality/cyclical effect for our mattresses and related products division as our sales are generally higher during festive seasons. Nonetheless, the impact is managed by our Group to remain within a reasonable range by maintaining a large base of retailers and distributors for our mattresses and related products.

12.6.2 Order Book

The nature of our business is such that the majority of our sales are based on order-by-order basis. As such, we do not have any long-term contracts with our customers.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (*Cont'd*)

12.6.3 Directors' Declaration on our Group's Financial Performance

As at the LPD, our operations have not been and are not expected to be affected by any of the following:

- (i) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have a material impact on our financial performance, position and operations other than those discussed in this section and Sections 4, 6 and 7 of this Prospectus;
- (ii) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations save as disclosed in this section and Section 4 of this Prospectus;
- (iii) known trends, demands, commitments, events or uncertainties that have resulted in a material impact on our revenue and/or profits, save for those that have been disclosed in this section and Sections 4, 6 and 7 of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have, a material impact on our liquidity and capital resources other than those discussed in this section and Sections 4, 6 and 7 of this Prospectus; and
- (v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical financial statements not indicative of our future financial performance and position other than those discussed in this section and Section 4 of this Prospectus.

Based on the outlook of the biomass materials – coconut and oil palm EFB fibres market in Malaysia and in China as set out in Section 7 of this Prospectus, our competitive strengths as set out in Section 6.11 of this Prospectus and our future plans as set out in Section 6.18.1 of this Prospectus, our Board is optimistic about the future prospects of our Group.

12.7 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 and any final dividend proposed is subject to our shareholders' approval.

Upon Listing, our Board intends 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 this regard, we envisage a dividend payout ratio of up to 20% of our future net profits to our shareholders in each financial year.

You should take note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our Company's future dividends, which are subject to our Board's absolute discretion.

Our ability to pay future dividends to our shareholders is subject to various factors including but not limited to our financial performance, cash flow requirements, availability of distributable reserves and capital expenditure plans.

As our Company is an investment holding company, our income and therefore, our ability to pay dividends is dependent upon the dividends and other distributions that we receive from our subsidiary companies. The payment of dividends or other distributions by our subsidiary companies will depend on their operation results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective board of directors deem relevant.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS (Cont'd)

12.8 FUTURE FINANCIAL INFORMATION

There is no future financial information for the FYE 31 December 2014 which has been prepared for inclusion in this Prospectus.

Our Board confirms that there are no material adverse information or known facts about our liquidity, capital resources and future results of operations which would reasonably have any material adverse effect on our financial condition and results which would make the historical information herein irrelevant to investors' evaluation.

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13. ACCOUNTANTS' REPORT



*Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report*

The Board of Directors
HENG HUAT RESOURCES GROUP BERHAD
51-9-A, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang

18 JUN 2014

Our ref : BDO/KTH/KTJ/lps

Dear Sirs,

**HENG HUAT RESOURCES GROUP BERHAD ("HENG HUAT" or "THE COMPANY")
ACCOUNTANTS' REPORT ("THE REPORT")**

1.0 INTRODUCTION

This Report has been prepared by BDO, an approved company auditor, for the inclusion in the Prospectus of Heng Huat to be dated 30 June 2014 in connection with the listing of and quotation for the enlarged issued and paid-up-share capital of Heng Huat on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") (hereinafter defined as "the Listing") and should not be relied upon for any other purposes. The details of the listing scheme are disclosed in Section 2 of this Report.

2.0 DETAILS OF THE LISTING SCHEME

In conjunction with and as an integral part of the listing of Heng Huat on the ACE Market of Bursa Securities, the Company had undertaken the following transactions:

2.1 Issuance of new share

Issuance of 1 new ordinary share of RM1.00 on 3 May 2012.

2.2 Heng Huat Industries Holdings Sdn. Bhd. ("HH Industries") reorganisation

(i) Acquisition of HK Palm Fibre Manufacturer Sdn. Bhd. ("HK Palm Fibre") by HH Industries

Acquisition of 50.00% of the issued and paid-up share capital of HK Palm Fibre comprising 100,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2,262,000 which was wholly satisfied by the issuance of 2,262,000 new ordinary shares in HH Industries at an issue price of RM1.00 per share. The acquisition was completed on 1 January 2012.

(ii) Acquisition of HK Kitaran Sdn. Bhd. ("HK Kitaran") by HH Industries

Acquisition of 49.00% of the issued and paid-up share capital of HK Kitaran comprising 490,000 ordinary shares of RM1.00 each for a total purchase consideration of RM3,871,000 which was wholly satisfied by the issuance of 3,871,000 new ordinary shares in HH Industries at an issue price of RM1.00 per share. The acquisition was completed on 1 January 2012.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

2.0 DETAILS OF THE LISTING SCHEME (CONTINUED)

(iii) Acquisition of HK Mega Industries Sdn. Bhd. ("HK Mega") by HH Industries

Acquisition of 10.00% of the issued and paid-up share capital of HK Mega comprising 10,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2 which was wholly satisfied by cash on 18 May 2012.

2.3 Fibre Star (M) Sdn. Bhd. ("Fibre Star") reorganisation

(i) Acquisition of property from Heng Huat Furniture Sdn. Bhd. ("Heng Huat Furniture")

Acquisition of land and building from Heng Huat Furniture for a total purchase consideration of RM2,800,000 which was wholly satisfied by cash. The acquisition was completed on 7 February 2013.

(ii) Acquisition of asset from Heng Huat Manufacturer Sdn. Bhd. ("Heng Huat Manufacturer")

Acquisition of machinery and equipment from Heng Huat Manufacturer for a total purchase consideration of RM1,650,000 which was wholly satisfied by the issuance of 1,650,000 new ordinary shares in Fibre Star at an issue price of RM1.00 per share. The acquisition was completed on 16 June 2012.

2.4 Share split

Share split involving the subdivision of every 1 existing ordinary share of RM1.00 each into 10 new ordinary shares of RM0.10 each in Heng Huat. The share split was effected on 16 May 2012.

2.5 Acquisitions

(i) Acquisition of HH Industries by Heng Huat

Acquisition of the entire issued and paid-up share capital of HH Industries comprising 9,095,000 ordinary shares of RM1.00 each for a total purchase consideration of RM14,280,000 which was wholly satisfied by the issuance of 142,800,000 new ordinary shares in Heng Huat at an issue price of RM0.10 per share. The acquisition was completed on 1 February 2012.

(ii) Acquisition of Fibre Star by Heng Huat

Acquisition of the entire issued and paid-up share capital of Fibre Star comprising 1,650,003 ordinary shares of RM1.00 each for a total purchase consideration of RM1,650,000 which was wholly satisfied by the issuance of 16,500,000 new ordinary shares in Heng Huat at an issue price of RM0.10 per share. The acquisition was completed on 16 June 2012.

(iii) Acquisition of Fibre Star Marketing Sdn. Bhd. ("Fibre Star Marketing") by Heng Huat

Acquisition of the entire issued and paid-up share capital of Fibre Star Marketing comprising 3 ordinary shares of RM1.00 each for a total purchase consideration of RM3 which was wholly satisfied by cash on 18 May 2012.

The new ordinary shares issued pursuant to the above acquisitions rank pari passu in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

2.0 DETAILS OF THE LISTING SCHEME (CONTINUED)**2.6 Public issue**

The 46,500,000 Public Issue Shares representing 22.59% of the enlarged issued and paid-up share capital upon Listing, is offered at an issue/offer price of RM0.45 per Share ("IPO Price"), payable in full on application upon the terms and conditions as set out in the Prospectus and will be allocated and allotted in the following manner:

(i) Malaysian Public

7,000,000 Public Issue Shares representing 3.40% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be made available for application by the Public, of which at least 50% shall be set aside for Bumiputera investors including individuals, companies, societies, co-operatives and institutions.

(ii) Eligible employees and persons who have contributed to the success of the Group

5,000,000 Public Issue Shares representing 2.43% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for application by the eligible employees and persons who have contributed to the success of the Group.

(iii) Private Placement

12,200,000 Public Issue Shares representing 5.93% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for placement to selected investors.

(iv) Bumiputera Investors Approved by the Ministry of International Trade and Industry ("MITI").

22,300,000 Public Issue Shares representing 10.84% of the enlarged issued and paid-up share capital of Heng Huat upon listing will be reserved for Bumiputera investors approved by MITI.

The Public Issue Shares will rank pari passu in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

2.7 Offer for Sale

Simultaneous with the Public Issue, the offer for sale of 14,660,000 Shares representing 7.12% of the enlarged issued and paid-up share capital of Heng Huat upon Listing is offered at the IPO Price, payable in full on application upon the terms and conditions as set out in the prospectus and will be allocated and allotted by way of private placement to selected investors.

2.8 Listing and Quotation

Upon completion of the initial public issue ("IPO"), Heng Huat shall seek admission to the Official List of Bursa Securities for the listing of and quotation for the entire enlarged issued and paid-up share capital of Heng Huat of RM20,580,003 comprising 205,800,030 ordinary shares of RM0.10 each on the ACE Market of Bursa Securities.

13. ACCOUNTANTS' REPORT (Cont'd)

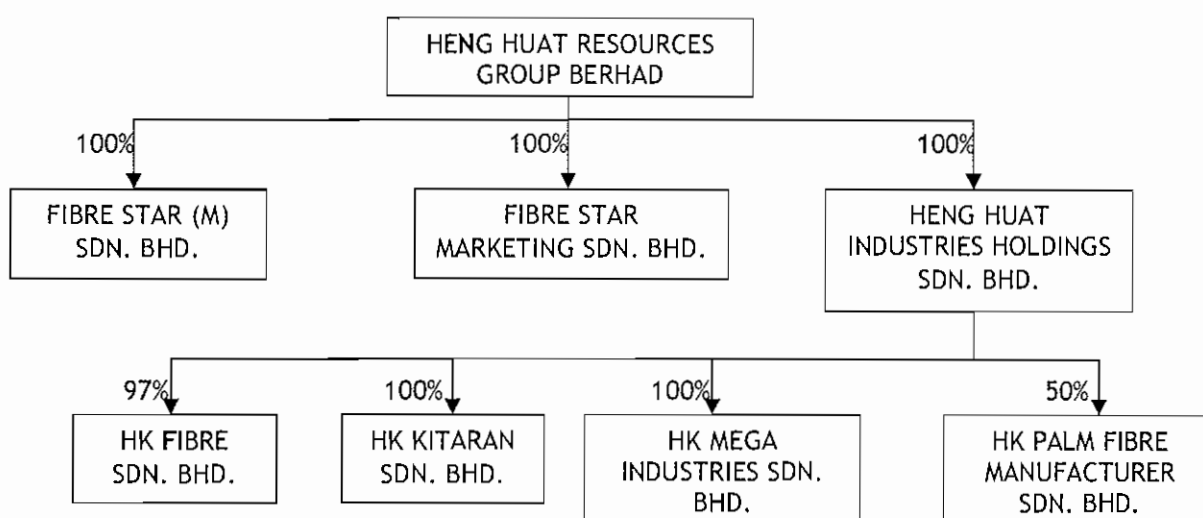
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3.0 GENERAL INFORMATION

Heng Huat was incorporated and domiciled in Malaysia under the Companies Act, 1965 on 25 November 2011 as a private limited company and subsequently changed its status to become a public limited company on 18 June 2012. The registered office of Heng Huat is located at 51-9-A, Menara BHL, Jalan Sultan Ahmad Shah, 10050 Penang.

3.1 Group structure

The group structure of Heng Huat and its subsidiaries ("Heng Huat Group" or "the Group") is as follows:

**3.2 Principal activities**

The principal activity of Heng Huat is investment holding whilst the principal activities of its subsidiaries as at the date of this Report are as follows:

Name	Date of incorporation	Place of incorporation	Paid-up capital	Effective equity interest (%)	Principal activities
Fibre Star	29 December 2011	Malaysia	RM1,650,003	100	Manufacturing of mattresses and related products
Fibre Star Marketing	29 December 2011	Malaysia	RM3	100	Marketing of mattress and related products

13. ACCOUNTANTS' REPORT (Cont'd)



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3.0 GENERAL INFORMATION (CONTINUED)

3.2 Principal activities (continued)

Name	Date of incorporation	Place of incorporation	Paid-up capital	Effective equity interest (%)	Principal activities
HH Industries	2 July 2007	Malaysia	RM9,095,000	100	Investment holding
<u>Subsidiaries of HH Industries</u>					
HK Fibre Sdn. Bhd. ("HK Fibre")	13 March 2007	Malaysia	RM500,000	97	Manufacturing and trading of coconut biomass materials and value-added products
HK Kitaran	8 December 2009	Malaysia	RM1,000,000	100	Manufacturing and trading of oil palm biomass materials and value-added products
HK Mega	12 June 2007	Malaysia	RM100,000	100	Dormant
HK Palm Fibre	4 June 2009	Malaysia	RM200,000	50	Manufacturing and trading of oil palm biomass materials

4.0 SHARE CAPITAL

As at the date of this Report, the authorised and issued and paid-up share capital of Heng Huat is as follows:

	Number of shares	RM
Ordinary shares of RM0.10 each		
Authorised	500,000,000	50,000,000
Issued and fully paid	159,300,030	15,930,003

Heng Huat was incorporated with an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each.

On 16 May 2012, the authorised share capital of the Company had been increased to RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each. On the same date, the authorised share capital was subdivided into 500,000,000 units of new ordinary shares of RM0.10 each ("Share Split").

13. ACCOUNTANTS' REPORT (Cont'd)

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4.0 SHARE CAPITAL (CONTINUED)

The details of changes in the issued and fully paid share capital of Heng Huat since the date of incorporation are as follows:

Date of allotment	Number of shares allotted	Par value (RM)	Consideration	Cumulative total issued and fully paid share capital (RM)
25 November 2011	2	1.00	Subscribers' shares	2
3 May 2012	1	1.00	Issuance of new share	3
16 May 2012	-	0.10	Share split	3
18 May 2012	142,800,000	0.10	Acquisition of HH Industries	14,280,003
18 May 2012	16,500,000	0.10	Acquisition of Fibre Star	15,930,003

Upon completion of the Public Issue and Offer for Sale as set out in Section 2 of this Report, the issued and fully paid share capital of Heng Huat will be enlarged to RM20,580,003 comprising 205,800,030 Shares.

5.0 DIVIDEND

No dividend was declared by Heng Huat since the date of its incorporation.

13. ACCOUNTANTS' REPORT (Cont'd)

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6.0 RELEVANT FINANCIAL PERIODS AND AUDITORS

Set out as below are the relevant periods of the audited financial statements presented for the purpose of this Report ("Relevant Financial Periods") and the auditors of the respective companies within the Heng Huat Group for the Relevant Financial Periods:

Companies	Relevant Financial Periods	Auditors
Heng Huat	Financial period ("FPE") from 25 November 2011 (Date of incorporation) to 31 December 2011	BDO
	Financial year ended ("FYE") 31 December 2012	BDO
	FYE 31 December 2013	BDO
Fibre Star	FPE from 29 December 2011 (Date of incorporation) to 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
Fibre Star Marketing	FPE from 29 December 2011 (Date of incorporation) to 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
HH Industries	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO

Subsidiaries of HH Industries

HK Fibre	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
HK Kitaran	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
HK Mega	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO
HK Palm Fibre	FYE 31 December 2011	BDO
	FYE 31 December 2012	BDO
	FYE 31 December 2013	BDO

The audited financial statements of all the companies within the Group for the financial years/periods reported above were not subject to any audit qualification or modification.

The audit reports of the financial years/periods reported are disclosed in Appendix 1 of this Report

13. ACCOUNTANTS' REPORT (Cont'd)

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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES

There were no consolidated financial statements prepared for Heng Huat Group for FYE 31 December 2011 as Heng Huat Group was not in existence as at the end of this financial year.

Consolidated financial statements were prepared for HH Industries and its subsidiaries ("HH Industries Group") for FYE 31 December 2011. However from FYE 31 December 2012 onwards, consolidated financial statements of HH Industries Group have not been prepared as a result of HH Industries becoming a wholly owned subsidiary of Heng Huat.

Accordingly, for the purpose of this Report, we have presented the consolidated financial information of Heng Huat Group for the FYE 31 December 2012 and 31 December 2013 and the financial information for Heng Huat, Fibre Star, Fibre Star Marketing, HK Palm Fibre, HH Industries, HK Fibre, HK Kitaran and HK Mega for the FPE/FYE 31 December 2011, FYE 31 December 2012 and 31 December 2013 in Section 9 based on their respective audited financial statements.

This report is prepared on a basis consistent with the accounting policies adopted by the Group as disclosed in Section 7.1 of this Report.

The financial statements of the Group for the FYE 31 December 2011 had been previously prepared in accordance with applicable approved Financial Reporting Standards ("FRS") in Malaysia. We have reviewed the relevant financial statements for the conversion to MFRSs, prepared for the purpose of this Report. The transition from FRSs to MFRSs did not materially affect these companies' reported financial position, financial results and cash flows as at the date of transition. The Group has adopted MFRSs for the FYE 31 December 2012 and FYE 31 December 2013 which are as disclosed in Section 7.2 of this Report.

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the functional currency of the Company and its respective subsidiaries.

7.1 Significant accounting policies

The significant accounting policies set out below have been applied consistently for all periods presented in the Group's financial statements.

(a) Basis of accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in the financial statements.

The preparation of financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Section 7.4. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries. Subsidiaries are entities (including special purposes entities) over which the Company has the power to govern the financial operating policies, generally accompanied by a shareholding giving rise to the majority of the voting rights, as obtain benefits from their activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intragroup balances, transactions, income and expenses are eliminated on consolidation. Unrealised gain arising are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the other entities in Group.

Non-controlling interests represents the equity in subsidiaries that are not attributable, directly or indirectly, to owners of the Company, and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially be measured at either fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by MFRSs. The choice of measurement is made on a combination-by-combination basis. Subsequent to initial recognition the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 *Financial Instruments: Recognition and Measurement* or, where applicable, the cost on initial recognition of an investment in associate or jointly controlled entity.

(c) Business combinations

Business combinations are accounted for by applying the acquisition method of accounting.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

- (i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;
- (ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- (iii) assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the serviced are received.

Any contingent consideration payable is recognised at fair value at the acquisition date. Measurement period adjustments to contingent consideration are dealt with as follows:

- (i) If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.
- (ii) Subsequent changes to contingent consideration classified as an asset or liability that is a financial instrument within the scope of FRS 139 are recognised either in profit or loss or in other comprehensive income in accordance with MFRS 139. All other subsequent changes are recognised in profit or loss.

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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Accountants' Report*

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(c) Business combinations (continued)**

In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree net identifiable assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree, over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. The accounting policy for goodwill is set out in Section 7.1(g). In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

(d) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(d) Property, plant and equipment and depreciation (continued)

Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life, is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal annual depreciation rates are as follows:

Factory building	2%
Signboard	10%
Renovation	10%
Office equipment	10%
Computer and accessories	10% - 40%
Container	10%
Electrical installation	10%
Furniture and fittings	10%
Machinery and equipment	10%
Motor vehicles	20%

Freehold land has unlimited useful life and is not depreciated. Construction-in-progress represents machinery under installation and is stated at cost. Construction-in-progress is not depreciated until such time when the asset is available for use.

At the end of each reporting period, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Section 7.1(h) on impairment of non-financial assets).

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss and the revaluation surplus related to those assets, if any, is transferred directly to retained earnings.

13. ACCOUNTANTS' REPORT (Cont'd)



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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(e) Hire purchase

Assets acquired under hire purchase which transfer substantially all the risks and rewards of ownership to the Group are recognised initially at amounts equal to the fair value of the hire purchased assets or, if lower, the present value of minimum hire purchase payments, each determined at the inception of the hire purchase. The discount rate used in calculating the present value of the minimum hire purchase payments is the interest rate implicit in the hire purchase, if this is practicable to determine; if not, the Group's incremental borrowing rate is used. Any initial direct costs incurred by the Group are added to the amount recognised as an asset. The assets are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

The minimum hire purchase payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are recognised in profit or loss over the period of the hire purchase term so as to produce a constant periodic rate of interest on the remaining hire purchase liabilities.

(f) Investment in subsidiaries

A subsidiary is an entity in which the Group and the Company have power to control the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

An investment in subsidiary, which is eliminated on consolidation, is stated in the Company's separate financial statements at cost. Investments accounted for at cost shall be accounted for in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale in accordance with MFRS 5.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the Group would derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

(g) Goodwill

Goodwill recognised in a business combination is an asset at the acquisition date and is initially measured at cost being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

I. Goodwill (continued)

After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is not amortised but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

II. Impairment of non-financial assets

The carrying amount of assets, except for financial assets (excluding investments in subsidiaries) and inventories are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment or more frequently if events or changes in circumstances indicate that the goodwill or intangible asset might be impaired.

The recoverable amount of an asset is estimated for an individual asset. Where it is not possible to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit ('CGU') to which the asset belongs. Goodwill acquired in a business combination is from the acquisition date, allocated to each of the Group's CGU or groups of CGU that are expected to benefit from the synergies of the combination giving rise to the goodwill irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Goodwill acquired in a business combination shall be tested for impairment as part of the impairment testing of CGU to which it relates. The CGU to which goodwill is allocated shall represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and not larger than an operating segment determined in accordance with MFRS 8 *Operating segments*.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU, including the goodwill or intangible asset, exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated, first, to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

The impairment loss is recognised in profit or loss immediately.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(h) Impairment of non-financial assets (continued)**

An impairment loss on goodwill is not reversed in subsequent periods. An impairment loss for other assets is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

An impairment loss for other assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Such reversals are recognised as income immediately in profit or loss.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out formula. The cost of packing materials and raw materials comprises all costs of purchase plus the cost of bringing the inventories to their present location and condition. The cost of finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

Net realisable value is the estimated selling price in the ordinary business, less the estimated costs of completion and estimated costs necessary to make the sales.

(j) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

Financial instruments are recognised on the statement of financial position when the Group has become a party to the contractual provisions of the instrument. At initial recognition, a financial instrument is recognised at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial instrument.

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristic and risks of the embedded derivative is not closely related to the economic characteristic and risks of the host contract, a separate instrument with same terms as the embedded derivative meets the definition of a derivative, and the hybrid instrument is not measured at fair value through profit or loss.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(j) Financial instruments (continued)

(i) Financial assets

A financial asset is classified into the following four (4) categories after initial recognition for the purpose of subsequent measurement:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading (i.e. financial assets acquired principally for the purpose of resale in the near term), derivatives (both, freestanding and embedded) and financial assets that were specifically designated into this classification upon initial recognition.

Subsequent to initial recognition, financial assets classified as at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as at fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial assets classified as at fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such income is recognised separately in profit or loss as components of other income or other operating losses.

However, derivatives that is linked to and must be settled by delivery of unquoted equity instruments that do not have a quoted market price in an active market are recognised at cost.

(b) Held-to-maturity investments

Financial assets classified as held-to-maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, financial assets classified as held-to-maturity are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as held-to-maturity are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

(c) Loans and receivables

Financial assets classified as loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, financial assets classified as loans and receivables are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as loans and receivables are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(j) Financial instruments (continued)

(i) Financial assets (continued)

(d) Available-for-sale financial assets

Financial assets classified as available-for-sale comprise non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, financial assets classified as available-for-sale are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss whilst dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

Cash and cash equivalents include cash and bank balances, bank overdrafts, deposits and other short term, highly liquid investments with original maturities of three (3) months or less, which are readily convertible to cash and are subject to insignificant risk changes in value.

A financial asset is derecognised when the contractual right to receive cash flows from the financial asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised directly in other comprehensive income shall be recognised in profit or loss.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or marketplace convention. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting.

(ii) Financial liabilities

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. A financial liability is classified into the following two (2) categories after initial recognition for the purpose of subsequent measurement:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are held for trading, derivatives (both, freestanding and embedded) and financial liabilities that were specifically designated into this classification upon initial recognition.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.1 Significant accounting policies (continued)

(j) Financial instruments (continued)

(ii) Financial liabilities (continued)

(a) Financial liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, financial liabilities classified as at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial liabilities classified as at fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial liabilities classified as at fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such income is recognised separately in profit or loss as components of other operating losses.

(b) Other financial liabilities

Financial liabilities classified as other financial liabilities comprise non-derivative financial liabilities that are neither held for trading nor initially designated as at fair value through profit or loss.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains or losses on other financial liabilities are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

A financial liability is derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iii) Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity instruments.

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to profit or loss.

Interim dividends to shareholders are recognised in equity in the period in which they are declared. Final dividends are recognised upon the approval of shareholders in a general meeting.

13. ACCOUNTANTS' REPORT (Cont'd)

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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(k) Impairment of financial assets**

The Group assesses whether there is any objective evidence that a financial asset is impaired at the end of each reporting period.

Loans and receivables

The Group collectively considers factors such as the probability of bankruptcy or significant financial difficulties of the receivable, and default or significant delay in payments to determine whether there is objective evidence that an impairment loss on loans and receivables has occurred. Other objective evidence of impairment include historical collection rates determined on an individual basis and observable changes in national or local economic conditions that are directly correlated with the historical default rates of receivables.

If any such objective evidence exists, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of loans and receivables are reduced through the use of an allowance account.

If in a subsequent period, the amount of the impairment loss decreases and it objectively relates to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of impairment reversed is recognised in profit or loss.

(l) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(m) Income taxes

Taxes in the income statement comprise current tax and deferred tax.

(i) Current tax

Current tax is the amount of income taxes payable in respect of the taxable profit or loss for a period.

Current tax for the current and prior periods is measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted by the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(m) Income taxes (continued)****(ii) Deferred tax**

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. If it is no longer probable that sufficient taxable profits will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profits will be available, such reductions will be reversed to the extent of the taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority on either:

- (i) the same taxable entity; or
- (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax will be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax will be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(n) Provisions**

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount of a provision will be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision will be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

(o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interest.

(p) Employee benefits**(i) Short term employee benefits**

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as an expense in the financial year when employees have rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.1 Significant accounting policies (continued)****(p) Employee benefits (continued)****(i) Short term employee benefits (continued)**

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(ii) Defined contribution plans

The Group makes contributions to a statutory provident fund. The contributions are recognised as a liability after deducting any contribution already paid and as an expense in the period in which the employees render their services.

(q) Foreign currencies**Foreign currency translations and balances**

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of the reporting period are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition, and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Group's activities as follows:

(i) Sale of goods

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement over the goods, which coincides with the delivery of goods and acceptance by customers.

(ii) Management fee

Revenue in respect of management fee received from subsidiaries is recognised on an accrual basis.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.2 New MFRSs adopted

Prior to 1 January 2012, the Group adopted FRSS. The Group adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") mandatory for financial periods beginning on or after 1 January 2012.

Title

MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*
MFRS 2 *Share-based Payment*
MFRS 3 *Business Combinations*
MFRS 4 *Insurance Contracts*
MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
MFRS 6 *Exploration for and Evaluation of Mineral Resources*
MFRS 7 *Financial Instruments: Disclosures*
MFRS 8 *Operating Segments*
MFRS 101 *Presentation of Financial Statements*
MFRS 102 *Inventories*
MFRS 107 *Statement of Cash Flows*
MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
MFRS 110 *Events After the Reporting Period*
MFRS 111 *Construction Contracts*
MFRS 112 *Income Taxes*
MFRS 116 *Property, Plant and Equipment*
MFRS 117 *Leases*
MFRS 118 *Revenue*
MFRS 119 *Employee Benefits*
MFRS 120 *Accounting for Government Grants and Disclosure of Government Assistance*
MFRS 121 *The Effects of Changes in Foreign Exchange Rates*
MFRS 123 *Borrowing Costs*
MFRS 124 *Related Party Disclosures*
MFRS 126 *Accounting and Reporting by Retirement Benefit Plans*
MFRS 127 *Consolidated and Separate Financial Statements*
MFRS 128 *Investments in Associates*
MFRS 129 *Financial Reporting in Hyperinflationary Economies*
MFRS 131 *Interests in Joint Ventures*
MFRS 132 *Financial Instruments: Presentation*
MFRS 133 *Earnings Per Share*
MFRS 134 *Interim Financial Reporting*
MFRS 136 *Impairment of Assets*
MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*
MFRS 138 *Intangible Assets*
MFRS 139 *Financial Instruments: Recognition and Measurement*
MFRS 140 *Investment Property*
MFRS 141 *Agriculture*
Improvements to MFRSs (2008)
Improvements to MFRSs (2009)
Improvements to MFRSs (2010)
IC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
IC Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*
IC Interpretation 4 *Determining Whether an Arrangement Contains a Lease*

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.2 New MFRSs adopted (continued)

IC Interpretation 6 *Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment*
 IC Interpretation 7 *Applying the Restatement Approach under MFRS 129 Financial Reporting in Hyper inflationary Economies*
 IC Interpretation 9 *Reassessment of Embedded Derivatives*
 IC Interpretation 10 *Interim Financial Reporting and Impairment*
 IC Interpretation 12 *Service Concession Arrangements*
 IC Interpretation 13 *Customer Loyalty Programmes*
 IC Interpretation 14 *MFRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
 IC Interpretation 15 *Agreements for the Construction of Real Estate*
 IC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*
 IC Interpretation 17 *Distributions of Non-cash Assets to Owners*
 IC Interpretation 18 *Transfers of Assets from Customers*
 IC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*
 IC Interpretation 107 *Introduction of the Euro*
 IC Interpretation 110 *Government Assistance - No Specific Relation to Operating Activities*
 IC Interpretation 112 *Consolidation - Special Purpose Entities*
 IC Interpretation 113 *Jointly Controlled Entities - Non-Manetary Contributions by Venturers*
 IC Interpretation 115 *Operating Leases - Incentives*
 IC Interpretation 125 *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*
 IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
 IC Interpretation 129 *Service Concession Arrangements: Disclosures*
 IC Interpretation 131 *Revenue - Barter Transactions Involving Advertising Services*
 IC Interpretation 132 *Intangible Assets - Web Site Costs*
 Amendments to MFRS 101 *Presentation of Items of Other Comprehensive Income*
 MFRS 10 *Consolidated Financial Statements*
 MFRS 11 *Joint Arrangements*
 MFRS 12 *Disclosure of Interests in Other Entities*
 MFRS 13 *Fair Value Measurement*
 MFRS 119 *Employee Benefits (2011)*
 MFRS 127 *Separate Financial Statements*
 MFRS 128 *Investments in Associates and Joint Ventures*
 Amendments to MFRS 1 *Government Loans*
 Amendments to MFRS 7 *Disclosures - Offsetting Financial Assets and Financial Liabilities*
 Amendments to MFRSs *Annual Improvements 2009 - 2011 Cycle*
 Amendments to MFRS 10, MFRS 11 and MFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*
 IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

The adoption of the above standards and interpretations does not have any effect on the financial performance or position of the Group other than the form of presentation and disclosure.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014**

The following are Standards of the MFRS Framework that have been issued by the MASB but have not been early adopted by the Group.

Title	Effective Date
Amendments to MFRS 10 <i>Consolidated Financial Statements: Investment Entities</i>	1 January 2014
Amendments to MFRS 12 <i>Disclosure of Interest in Other Entities: Investment Entities</i>	1 January 2014
Amendments to MFRS 127 <i>Separate Financial Statements (2011): Investment Entities</i>	1 January 2014
Amendments to MFRS 132 <i>Offsetting Financial Assets and Financial Liabilities</i>	1 January 2014
Amendments to MFRS 136 <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	1 January 2014
Amendments to MFRS 139 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	1 January 2014
IC Interpretation 21 <i>Levies</i>	1 January 2014
<i>Defined Benefit Plans: Employee Contributions</i> (Amendments to MFRS 119)	1 July 2014
Amendments to MFRSs <i>Annual Improvements 2010 - 2012 Cycle</i>	1 July 2014
Amendments to MFRSs <i>Annual Improvements 2011 - 2013 Cycle</i>	1 July 2014
<i>Mandatory Effective Date of MFRS 9 and Transition Disclosures</i>	Deferred
<i>MFRS 9 Financial Instruments (2009)</i>	Deferred
<i>MFRS 9 Financial Instruments (2010)</i>	Deferred
<i>MFRS 9 Financial Instruments</i> (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139)	Deferred

- (a) Amendments to MFRS 10, MFRS 12 and MFRS 127 *Investment Entities* are mandatory for annual periods beginning on or after 1 January 2014.

These Amendments introduce an exception to the consolidation principle in MFRS 10 for investment entities. These Amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with MFRS 9 (or MFRS 139, if MFRS 9 has not yet been adopted) instead of consolidating those subsidiaries in its consolidated and separate financial statements.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

- (b) Amendments to MFRS 132 *Offsetting Financial Assets and Financial Liabilities* are mandatory for annual periods beginning on or after 1 January 2014.

These Amendments provide application guidance for criteria to offset financial assets and financial liabilities.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

- (c) Amendments to MFRS 136 *Recoverable Amount Disclosures for Non-Financial Assets* are mandatory for annual periods beginning on or after 1 January 2014.

The Amendments clarify that recoverable amount (determined based on fair value less costs of disposal) of any cash-generating unit with a significant carrying amount of goodwill or intangible assets with indefinite useful lives is required to be disclosed only when an impairment loss is recognised or reversed. In addition, there are new disclosure requirements about fair value measurement when impairment or reversal of impairment is recognised.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

- (d) Amendments to MFRS 139 *Novation of Derivatives and Continuation of Hedge Accounting* are mandatory for annual periods beginning on or after 1 January 2014.

These Amendments provide relief from discontinuing hedge accounting in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

- (e) IC Interpretation 21 *Levies* is mandatory for annual periods beginning on or after 1 January 2014.

This Interpretation clarifies that the obligating event giving to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Interpretation also clarifies that the liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If an obligation to pay a levy is triggered when a minimum threshold is reached, the liability to pay a levy is recognised when that minimum activity threshold is reached.

The Group is in the process of assessing the impact of implementing this IC Interpretation since the effects would only be observable for the financial year ending 31 December 2014.

- (f) *Defined Benefit Plans: Employee Contributions* (Amendments to MFRS 119) is mandatory for annual periods beginning on or after 1 July 2014.

These Amendments provide a practical expedient in accounting for contributions from employees or third parties to defined benefit plans.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2015.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

- (g) Amendments to *MFRSs Annual Improvements 2010 - 2012 Cycle* are mandatory for annual periods beginning on or after 1 July 2014.

Amendments to *MFRS 2 Share-based Payment* clarify the definition of 'vesting conditions' by separately defining 'performance condition' and 'service condition' to ensure consistent classification of conditions attached to a share-based payment.

Amendments to *MFRS 3 Business Combinations* clarify that when contingent consideration meets the definition of financial instrument, its classification as a liability or equity is determined by reference to *MFRS 132 Financial Instruments: Presentation*. The Amendments also clarify that contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

Amendments to *MFRS 8 Operating Segments* require the disclosure of judgements made in applying the aggregation criteria to operating segments. This includes a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The Amendments also clarify that reconciliation of the total reportable segments' assets to the entity's assets is required if that amount is regularly provided to the chief operating decision maker.

Amendments to *MFRS 13 Fair Value Measurement* relates to the IASB's Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarify that when the IASB issued IFRS 13, it did not remove the practical ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, if the effect of discounting is immaterial.

Amendments to *MFRS 116 Property, Plant and Equipment* and *MFRS 138 Intangible Assets* clarify the accounting for accumulated depreciation or amortisation when an asset is revalued. It clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation or amortisation is calculated as the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

Amendments to *MFRS 124 Related Party Disclosures* extends the definition of 'related party' to include an entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2015.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

- (h) Amendments to MFRSs *Annual Improvements 2011 - 2013 Cycle* are mandatory for annual periods beginning on or after 1 July 2014.

Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* relates to the IASB's Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarify that a first-time adopter is permitted but not required to apply a new or revised Standard that is not yet mandatory but is available for early application.

Amendments to MFRS 3 *Business Combinations* clarify that MFRS 3 excludes from its scope the accounting for the formation of all types of joint arrangements (as defined in MFRS 11 *Joint Arrangements*) in the financial statements of the joint arrangement itself, but not to the parties to the joint arrangement for their interests in the joint arrangement.

Amendments to MFRS 13 *Fair Value Measurement* clarify that the scope of the portfolio exception of MFRS 13 includes all contracts accounted for within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* or MFRS 9 *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in MFRS 132 *Financial Instruments: Presentation*.

Amendments to MFRS 140 *Investment Property* clarify that the determination of whether an acquisition of investment property meets the definition of both a business combination as defined in MFRS 3 and investment property as defined in MFRS 140 requires the separate application of both Standards independently of each other.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2015.

- (i) *Mandatory Effective Date of MFRS 9 and Transition Disclosures* is effective immediately upon the adoption of MFRS 9.

This Amendment modifies the effective date of MFRS 9 from 1 January 2013 to 1 January 2015. Transitional provisions in MFRS 9 were also amended to provide certain relief from retrospective adjustments.

However, this effective date has been superseded with the issuance of MFRS 9 *Financial Instruments* (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139). Consequently, MFRS 9 is available for application but is not mandatorily effective.

The Group has elected not to adopt MFRS 9 until the mandatory effective date is announced by the MASB.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.3 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2014 (continued)

(j) MFRS 9 is mandatory for annual periods beginning on or after 1 January 2015.

This Standard addresses the classification and measurement of financial assets and financial liabilities. All financial assets shall be classified on the basis of the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Financial assets are subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. Financial liabilities are subsequently measured at amortised cost, except for financial liabilities measured at fair value through profit or loss, transfer of financial asset not qualifying for derecognition and financial guarantee contracts or commitments to provide a below-market interest rate. However, changes due to own credit risk in relation to the fair value option for financial liabilities shall be recognised in other comprehensive income.

However, this effective date has been superseded with the issuance of MFRS 9 *Financial Instruments* (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139). Consequently, MFRS 9 is available for application but is not mandatorily effective.

The Group has elected not to adopt MFRS 9 until the mandatory effective date is announced by the MASB.

(k) MFRS 9 *Financial Instruments* (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139)

The new hedge accounting model together with corresponding disclosures about risk management activity were developed in response to concerns raised by preparers of financial statements about the difficulty of appropriately reflecting their risk management activities. The new model represents a substantial overhaul of hedge accounting that would enable entities to better reflect their risk management activities in their financial statements. As a result of these changes, users of the financial statements would be provided with better information about risk management activities and about the effect of hedge accounting on the financial statements. The MFRS 9 hedge accounting model, if adopted, applies prospectively with limited exceptions.

As part of the Amendments, an entity is now allowed to change the accounting for liabilities that it has elected to measure at fair value, before applying any of the other requirements in MFRS 9. This change in accounting would mean that gains caused by a worsening in the entity's own credit risk on such liabilities are no longer recognised in profit or loss.

These Amendments also removes the previous effective date of MFRS 9, resulting in MFRS 9 being available for application but is not mandatorily effective.

The Group has elected not to adopt MFRS 9 until the mandatory effective date is announced by the MASB.

13. ACCOUNTANTS' REPORT (Cont'd)



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7.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

7.4 Significant accounting estimates and judgements

7.4.1 Changes in estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Directors are of the opinion that there are no changes in estimates at the end of the reporting period.

7.4.2 Critical judgements made in applying accounting policies

There are no critical judgements made by the management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

7.4.3 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Depreciation of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and machinery to be ten (10) years. This is the common life expectancy applied in the fibre manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, and therefore future depreciation charges could be revised.

(b) Impairment of receivables

The Group makes impairment of receivables based on assessment of the recoverability of receivables. Impairment is applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses historical bad debt, customer concentration, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of impairment of receivables. Where expectations differ from the original estimates, the differences will impact the carrying amount of receivables.

(c) Fair values of borrowings

The fair values of borrowings are estimated by discounting future contractual cash flows at the current market interest rates available to the Group for similar financial instruments. It is assumed that the effective interest rates approximate the current market interest rates available to the Group based on its size and its business risk.

13. ACCOUNTANTS' REPORT (Cont'd)

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8.0 FINANCIAL INFORMATION AND LIMITATION

The financial information of Heng Huat Group, Heng Huat, Fibre Star, Fibre Star Marketing, HK Palm Fibre, HH Industries, HK Fibre, HK Kitaran and HK Mega as presented in Section 9.1 to Section 9.8, are based on audited financial statements.

The scope of work conducted in the preparation of this Report does not constitute an audit in accordance with approved standards of auditing in Malaysia.

All information are extracted from the audited financial statements except those in italics, which are prepared based on calculation, representation and/or explanation provided by the management of the Group.

9.0 AUDITED FINANCIAL STATEMENTS**Key financial ratios**

The key financial ratios used in the following sections are derived as follows:

- (a) Earnings before interest, tax, depreciation and amortisation ("EBITDA") is the total net profit for the financial year before interest, tax, depreciation and amortisation for the respective financial years/period.
- (b) Number of ordinary shares is the number of shares in issue at the end of the respective financial years/period.
- (c) Gross earnings per share is computed by dividing profit before tax for the respective financial years/period over the number of ordinary shares in issue at the end of the respective years/period.
- (d) Net earnings per share is computed by dividing profit after tax and attributable to the owners of the company for the respective financial years/period over the number of ordinary shares in issue at the end of the respective years/period.
- (e) Profit before tax ("PBT") margin is computed by dividing the profit before tax over revenue earned in the respective financial years/period.
- (f) EBITDA margin is computed by dividing EBITDA over revenue earned in the respective financial years/period.
- (g) Effective tax rate is computed by dividing tax expense over profit before tax in the respective financial years/period.
- (h) Net assets per ordinary share is computed by dividing net assets over number of ordinary shares in issue at the end of the respective years/period.
- (i) Trade receivables' turnover period is computed by dividing total net trade receivables over revenue earned and multiply by 365 days.
- (j) Trade payables' turnover period is computed by dividing total trade payables over cost of goods sold and multiply by 365 days.
- (k) Gearing ratio (times) is computed by dividing total borrowings over total shareholders' equity.
- (l) Inventories turnover period is computed by dividing average stock over purchases (for raw materials) or costs of goods sold (for finished goods) and multiply by 365 days.

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat****9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat**

The statements of profit or loss and other comprehensive income of Heng Huat Group which are extracted from the audited financial statements for the FYE 31 December 2012 and 31 December 2013 are set out below:

		Group	
		FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
	Section		
Revenue	9.1.5	62,965	73,740
Cost of sales	9.1.6	(32,389)	(41,762)
Gross profit		30,576	31,978
Other operating income		741	812
Selling and distribution cost		(9,810)	(12,746)
Administrative and other expenses		(6,513)	(6,360)
Finance costs	9.1.7	(1,366)	(2,302)
Profit before tax	9.1.8	13,628	11,382
Tax expense	9.1.9	(993)	(1,490)
Profit for the financial year		12,635	9,892
Other comprehensive income		0	0
Total comprehensive income		12,635	9,892

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat****9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat (continued)**

The statements of profit or loss and other comprehensive income of Heng Huat Group which are extracted from the audited financial statements for the FYE 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	Group	
	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Profit for the financial year attributable to:		
Owners of the parent	12,163	9,740
Non-controlling interests	472	152
	12,635	9,892
Total comprehensive income attributable to:		
Owners of the parent	12,163	9,740
Non-controlling interests	472	152
	12,635	9,892
Earnings per ordinary share attributable to equity holders of the Company (sen):		
Basic 9.1.30	7.94	6.11
Diluted 9.1.30	7.94	6.11

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat (continued)

The statements of profit or loss and other comprehensive income of Heng Huat Group which are extracted from the audited financial statements for the FYE 31 December 2012 and 2013 are set out below: (continued)

	Group	
	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	18,356	18,626
Number of ordinary shares of RM0.10 each	159,300	159,300
Weighted average number of ordinary shares of RM0.10 each	159,300	159,300
Gross profit per share (RM)	0.19	0.20
Net profit per share (RM)	0.08	0.06
Profit before tax ("PBT") margin (%)	21.64	15.44
EBIDTA margin (%)	29.15	25.26
Effective tax rate (%)	7.29	13.09

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat (continued)

The statements of profit or loss and other comprehensive income of Heng Huat which are extracted from the audited financial statements for the financial period from 25 November 2011 to 31 December 2011 ("FPE 31 December 2011"), FYE 31 December 2012 and 2013 are set out below:

Section	Company		
	FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Revenue	0	0	0
Administrative expenses	(36)	(1,433)	(630)
Loss before tax 9.1.8	(36)	(1,433)	(630)
Tax expense	0	0	0
Loss for the financial period/year	(36)	(1,433)	(630)
Other comprehensive income	0	0	0
Total comprehensive loss	(36)	(1,433)	(630)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.1 Statements of profit or loss and other comprehensive income of Heng Huat Group and Heng Huat (continued)

The statements of profit or loss and other comprehensive income of Heng Huat which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below: (continued)

	Company		
	FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
Loss before interest, taxation, depreciation and amortisation ("LBITDA")	(36)	(1,433)	(630)
Number of ordinary shares of RM1.00/RM0.10 each	Q ₂	159,300	159,300
Weighted average number of ordinary shares of RM1.00/RM0.10 each	Q ₂	159,300	159,300
Gross loss per share (RM)	(18,000)	(0.009)	(0.004)
Net loss per share (RM)	(18,000)	(0.009)	(0.004)
Loss before tax ("LBT") margin (%)	N/A	N/A	N/A
LBIDTA margin (%)	N/A	N/A	N/A
Effective tax rate (%)	N/A	N/A	N/A

Q₂ - represents 2 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.2 Statements of financial position of Heng Huat Group and Heng Huat

The statements of financial position of Heng Huat Group which are extracted from the audited financial statements as at 31 December 2012 and 31 December 2013 are set out below:

		Group	
		As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Section			
ASSETS			
Non-current asset			
Property, plant and equipment	9.1.10	50,412	59,247
Intangible assets	9.1.11	269	325
		50,681	59,572
Current asset			
Inventories	9.1.12	2,679	4,218
Trade and other receivables	9.1.13	16,510	19,387
Current tax assets		37	267
Cash and cash equivalents	9.1.14	3,596	5,537
		22,822	29,409
TOTAL ASSET		73,503	88,981
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	9.1.15	15,930	15,930
Reserves	9.1.16	11,676	21,416
		27,606	37,346
Non-controlling interests		2,350	2,502
Total Equity		29,956	39,848

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.2 Statements of financial position of Heng Huat Group and Heng Huat (continued)

The statements of financial position of Heng Huat Group which are extracted from the audited financial statements as at 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	Group	
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
LIABILITIES		
Non-current liabilities		
Borrowings 9.1.18	22,607	22,960
Deferred tax liabilities 9.1.19	542	1,103
	23,149	24,063
Current liabilities		
Trade and other payables 9.1.17	10,456	11,225
Borrowings 9.1.18	9,732	13,841
Current tax liabilities	210	4
	20,398	25,070
TOTAL LIABILITIES	43,547	49,133
TOTAL EQUITY AND LIABILITIES	73,503	88,981
Number of ordinary shares of RM0.10 each in issue	159,300	159,300
Net assets	27,606	37,346
Net asset per ordinary share of RM0.10 each (RM)	0.17	0.23
Trade receivables' turnover period (days)	82	86
Trade payables' turnover period (days)	61	30
Inventories turnover periods (days)	30	37
Gearing ratio (times)	0.59	0.53

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.2 Statements of financial position of Heng Huat Group and Heng Huat (continued)

The statements of financial position of Heng Huat which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

Section	Company		
	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
ASSETS			
Non-current asset			
Property, plant and equipment 9.1.10	0	0	447
Investment in subsidiaries 9.1.20	0	15,930	16,430
	0	15,930	16,877
Current asset			
Other receivables 9.1.13	S ₂	0	0
Cash and cash equivalents 9.1.14	0	1	4
	0	1	4
TOTAL ASSET	S ₂	15,931	16,881
EQUITY AND LIABILITIES			
Share capital 9.1.15	S ₂	15,930	15,930
Accumulated losses	(36)	(1,469)	(2,099)
	(36)	14,461	13,831
Current liability			
Other payables 9.1.17	36	1,470	3,050
TOTAL EQUITY AND LIABILITY	S ₂	15,931	16,881
Number of ordinary shares of RM1.00/RM0.10 each in issue	Q ₂	159,300	159,300
Net (liabilities)/asset	(36)	14,461	13,831
Net (liabilities)/asset per ordinary share of RM1.00/RM0.10 each (RM)	(18,000)	0.09	0.09
Trade receivables' turnover period (days)	N/A	N/A	N/A
Trade payables' turnover period (days)	N/A	N/A	N/A
Inventories turnover periods (days)	N/A	N/A	N/A
Gearing ratio (times)	N/A	N/A	N/A

S₂ - represents RM2

Q₂ - represents 2 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.3 Statements of cash flows of Heng Huat Group and Heng Huat

The statements of cash flows of Heng Huat Group, which are extracted from the audited financial statements for the FYE 31 December 2012 and 31 December 2013 are set out below:

	Group	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	13,628	11,382
Adjustments for:		
Amortisation of intangible assets		
-Development costs	56	56
-Trademarks	1	#
Bad debts written off	0	60
Depreciation of property, plant and equipment	3,305	4,886
Gain on disposal of property, plant and equipment	0	(6)
Loss on disposal of property, plant and equipment	32	4
Unrealised gain on foreign currency exchange transactions	(25)	0
Interest expense	1,366	2,302
Interest income	(28)	(54)
Operating profit before working capital changes	18,335	18,630
Increase in inventories	(2,397)	(1,539)
Increase in trade and other receivables	(10,021)	(2,937)
Increase in trade and other payables	2,807	769
	8,724	14,923
Tax paid	(261)	(1,365)
Interest paid	(1,366)	(2,302)
Net cash from operating activities	7,097	11,256
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of subsidiary company	363	0
Interest received	28	54
Changes in fixed deposits with licensed banks	(774)	(887)
Development costs incurred	0	(112)
Purchase of property, plant and equipment	(6,108)	(6,814)
Purchase of trademarks	(2)	0
Proceeds from disposal of property, plant and equipment	201	34
Net cash used in investing activities	(6,292)	(7,725)

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.3 Statements of cash flows of Heng Huat Group and Heng Huat (continued)

The statements of cash flows of Heng Huat Group, which are extracted from the audited financial statements for the FYE 31 December 2012 and 31 December 2013 are set out below: (continued)

	Group	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling interests of a subsidiary	(438)	0
Drawdown of term loan	100	738
Drawdown of bankers' acceptance (net)	3,467	2,569
Repayment of hire purchase payables	(2,093)	(3,947)
Repayment of term loans	(1,295)	(2,574)
Net cash flow (used in)/from operating activities	(259)	(3,214)
NET CHANGE IN CASH AND CASH EQUIVALENTS	546	317
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	1,321	1,867
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	1,867	2,184

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.3 Statements of cash flows of Heng Huat Group and Heng Huat (continued)

The statements of cash flows of Heng Huat, which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 31 December 2013 are set out below:

	Company		
	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax	(36)	(1,433)	(630)
Working capital change:			
Increase in other receivables	(S ₂)	0	0
Increase in other payables	36	1,434	1,580
Net cash flow (used in)/from operating activities	(S ₂)	1	950
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	0	0	(447)
Purchase of investment in subsidiaries	0	0	(500)
Net cash flow used in investing activities	0	0	(947)
NET(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(S ₂)	1	3
CASH AND CASH EQUIVALENTS AT DATE OF INCORPORATION/ BEGINNING OF FINANCIAL YEAR	0	0	1
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD/YEAR	0	1	4

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.4 Statements of changes in equity of Heng Huat Group and Heng Huat

The statements of changes in equity of Heng Huat Group, which are extracted from the audited financial statement for the FYE 31 December 2012 and 31 December 2013 are set out below:

	Group				
	Share capital RM'000	Reorganisation Reserve RM'000	Retained earnings RM'000	Total attributable to owners of the Parent RM'000	Non-controlling interest RM'000
Balance at 1 January 2012	2,962	0	4,467	7,429	4,156
Profit for the financial year	0	0	12,163	12,164	472
Other comprehensive income	0	0	0	0	0
Total comprehensive income	0	0	12,163	12,164	472
Transactions with owners					
Issuance of ordinary shares	6,133	0	0	6,133	0
Changes in ownership interest in subsidiaries	0	0	231	231	(4,102)
Ordinary shares subscribed by non-controlling interest of a subsidiary company	0	0	0	0	2,262
Acquisition of subsidiaries, accounted for as reorganization	6,835	(5,185)	0	1,650	0
Dividend paid to non-controlling interest of a subsidiary	0	0	0	0	(438)
Total transaction with owners	12,968	(5,185)	231	8,014	(2,278)
Balance at 31 December 2012	15,930	(5,185)	16,861	27,607	2,350

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.4 Statements of changes in equity of Heng Huat Group and Heng Huat (continued)

The statements of changes in equity of Heng Huat Group, which are extracted from the audited financial statement for the FYE 31 December 2012 and 31 December 2013 are set out below: (continued)

	Group					
	Share capital RM'000	Reorganisation Reserve RM'000	Retained earnings RM'000	Total attributable to owners of the Parent RM'000	Non-controlling interest RM'000	Total equity RM'000
Balance at 1 January 2013	15,930	(5,185)	16,861	27,606	2,350	29,956
Profit for the financial year	0	0	9,740	9,740	152	9,892
Other comprehensive income	0	0	0	0	0	0
Total comprehensive income	0	0	9,740	9,740	152	9,892
Balance at 31 December 2013	15,930	(5,185)	26,601	37,346	2,502	39,848

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.4 Statements of changes in equity of Heng Huat Group and Heng Huat (continued)

The statements of changes in equity of Heng Huat, which are extracted from the audited financial statement for the FPE 31 December 2011, FYE 31 December 2012 and 31 December 2013 are set out below:

	Company		
	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 25 November 2011 (Date of incorporation)	S ₂	0	S ₂
Total comprehensive loss	0	(36)	(36)
As at 31 December 2011	S ₂	(36)	(36)
Issuance of ordinary shares	15,930	0	15,930
Total comprehensive loss	0	(1,433)	(1,433)
As at 31 December 2012	15,930	(1,469)	14,461
Total comprehensive loss	0	(630)	(630)
As at 31 December 2013	15,930	(2,099)	13,831

S₂ - represents RM2

9.1.5 Revenue

	Group FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Sale of goods	62,965	73,740

9.1.6 Cost of sales

	Group FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Cost of goods sold	32,389	41,762

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.7 Finance costs**

	Group		Company	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Interest expenses on:				
- Bank overdrafts	31	49	0	0
- Term loans	740	1,057	0	0
- Hire purchase	486	872	0	0
- Bankers' acceptance	87	305	0	0
Other finance charges	22	19	#	#
	1,366	2,302	#	#

- represents amount less than RM1,000

9.1.8 Profit/(Loss) before tax

	Group		Company		
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit/(Loss) before tax is arrived at after charging:					
Amortisation of intangible assets					
-Development costs	56	56	0	0	0
-Trademarks	1	#	0	0	0
Auditors remuneration:					
-current year	34	73	0	1	8
-underprovision in prior year	12	4	0	0	0
Bad debts written off	0	60	0	0	0
Depreciation of property, plant and equipment	3,305	4,886	0	0	0
Directors' remuneration					
-other emoluments	846	1,824	0	35	60
Loss on disposal of property, plant and equipment	32	4	0	0	0
Realised loss on foreign currency exchange transaction	131	46	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.8 Profit/(Loss) before tax (continued)

	Group		Company		
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit/(Loss) before tax is arrived at after charging: (continued)					
Operating lease payments:					
-Hire of equipment	5	34	0	0	0
-Hire of motor vehicles	3	11	0	0	0
-Rental of factory	111	72	0	0	0
-Rental of hostel	16	23	0	0	0
-Rental of safety tank	3	0	0	0	0
-Rental of warehouse	156	288	0	0	0
And crediting:					
Interest income	28	54	0	0	0
Gain on disposal of property, plant and equipment	0	6	0	0	0
Realised gain on foreign currency exchange transaction	22	686	0	0	0
Unrealised gain on foreign exchange transactions	25	0	0	0	0

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.9 Tax expense

	Group FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Current tax expense based on profit for the financial year	453	623
Under/(Over) provision in prior years	(2)	307
	451	930
Deferred tax		
Relating to origination and reversal of temporary differences	163	354
Under provision in prior years	379	206
	542	560
	993	1,490

The Malaysia income tax is calculated at the statutory tax rate of 25% (2012:25%) of the estimated taxable profits for the fiscal year.

	Group		Company		
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit/(Loss) before tax	13,628	11,382	(36)	(1,434)	(630)
Tax at Malaysian statutory tax rate of 25%	3,407	2,845	(9)	(358)	(158)
Tax effect in respect of:					
-Expenses not deductible for tax purposes	824	355	0	#	158
-Income not subject to tax	(4,004)	(2,449)	0	0	0
(Over)/Under provision of tax expense in prior years	(2)	307	0	0	0
Underprovision of deferred tax expense in prior years	379	206	0	0	0
Utilisation of previously unrecognised deferred tax assets	0	169	9	0	0
Deferred tax assets not recognised during the year	389	57	0	358	0
Tax expense for the financial year	993	1,490	0	0	0

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.10 Property, plant and equipment

	Freehold land RM'000	Factory building RM'000	Signboard RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Computers RM'000	Container RM'000	Electrical installation RM'000	Machinery and equipment RM'000	Motor vehicles RM'000	Total RM'000
At cost											
At 1 January 2012	1,795	6,231	18	858	183	32	94	482	10,766	2,089	22,548
Acquisition of a subsidiary	0	2,438	3	0	56	0	99	838	4,839	987	9,260
Additions	6,878	1,562	2	50	348	112	17	582	14,084	1,583	25,218
Disposals	0	0	0	0	0	0	0	0	(213)	(103)	(316)
At 31 December 2012	8,673	10,231	23	908	587	144	210	1,902	29,476	4,556	56,710
Accumulated depreciation											
At 1 January 2012	0	20	2	229	24	7	12	106	1,098	427	1,925
Acquisition of a subsidiary	0	219	1	0	7	0	23	93	688	120	1,151
Current year charges	0	269	2	90	53	43	20	153	1,941	734	3,305
Disposals	0	0	0	0	0	0	0	0	(20)	(63)	(83)
At 31 December 2012	0	508	5	319	84	50	55	352	3,707	1,218	6,298
Net Book Value											
At 31 December 2012	8,673	9,723	18	589	503	94	155	1,550	25,769	3,338	50,412

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.10 Property, plant and equipment (continued)

	Freehold land RM'000	Long term leasehold land RM'000	Factory building RM'000	Signboard RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Computers RM'000	Container RM'000	Electrical installation RM'000	Machinery and equipment RM'000	Motor vehicles RM'000	Total RM'000
At cost												
At 1 January 2013	8,673	0	10,231	23	908	587	144	210	1,902	29,476	4,556	56,710
Additions	573	808	2,567	0	159	55	12	0	1,483	6,529	1,567	13,753
Disposals	0	0	0	0	0	(1)	0	0	0	(5)	(89)	(95)
At 31 December 2013	9,246	808	12,798	23	1,067	641	156	210	3,385	36,000	6,034	70,368
Accumulated depreciation												
At 1 January 2013	0	0	508	5	319	84	50	55	352	3,707	1,218	6,298
Current year charges	0	0	338	1	94	121	3	2	280	3,059	988	4,886
Disposals	0	0	0	0	0	(#)	0	0	0	0	(63)	(63)
At 31 December 2013	0	0	846	6	413	204	53	57	632	6,767	2,143	11,121
Net Book Value												
At 31 December 2013	9,246	808	11,952	17	654	437	103	153	2,753	29,233	3,891	59,247

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.10 Property, plant and equipment (continued)

	Company As at 31 December 2013 RM'000
At cost/net book value	
At 1 January 2013	0
Additions	447
At 31 December 2013	447

(a) During the financial year, the Group made the following cash payments to purchase property, plant and equipment:

	Group	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Purchase of property, plant and equipment	25,217	13,753
Financed by:		
Hire purchase and lease arrangements	(10,633)	(4,147)
Term loans	(8,476)	(2,792)
Cash payments on purchase of property, plant and equipment	6,108	6,814

(b) The carrying amount of the property, plant and equipment of the Group under the finance leases at the end of the reporting period are as follows:

	Group	
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Motor Vehicles	2,852	2,342
Machinery and equipment	11,636	16,646
	14,488	18,988

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.11 Intangible assets

	Balance as at 1.1.2012 RM'000	Additions RM'000	Amortisation charge for the financial year RM'000	Balance as at 31.12.2012 RM'000
Group				
Carrying amount				
Goodwill	37	6	0	43
Development costs	281	0	(56)	225
Trademarks	0	2	(1)	1
	<u>318</u>	<u>8</u>	<u>(57)</u>	<u>269</u>

	Cost RM'000	At 31.12.2012 Accumulated amortisation RM'000	Carrying amount RM'000
Goodwill	43	0	43
Development costs	281	(56)	225
Trademarks	2	(1)	1
	<u>326</u>	<u>(57)</u>	<u>269</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.11 Intangible assets (continued)

	Balance as at 1.1.2013 RM'000	Additions RM'000	Amortisation charge for the financial year RM'000	Balance as at 31.12.2013 RM'000
Group				
Carrying amount				
Goodwill	43	0	0	43
Development costs	225	112	(56)	281
Trademarks	1	0	(#)	1
	269	112	(56)	325

- represents amount less than RM1,000

	Cost RM'000	At 31.12.2013 Accumulated amortisation RM'000	Carrying amount RM'000
Goodwill	43	0	43
Development costs	393	(112)	281
Trademarks	2	(1)	1
	438	(113)	325

9.1.12 Inventories

	Group	
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
At cost		
Raw materials	1,075	2,278
Work-in-progress	12	131
Packing materials	226	242
Finished goods	1,366	1,567
	2,679	4,218

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.13 Trade and other receivables

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade receivables		
Third parties	14,143	17,288
Other receivables		
Amount owing by related parties	2	0
Other receivables	700	721
Loans and receivables	14,845	18,009
Deposits and prepayments		
Deposits	580	116
Prepayments	1,085	1,262
	16,510	19,387

- (a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group range from 30 to 120 days (2012: 30 to 120 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.
- (b) Amount owing by related parties were unsecured, interest-free and repayable on demand in cash and cash equivalents.
- (c) The currency exposure profile of receivables is as follows:

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Ringgit Malaysia	8,508	9,035
Chinese Renmimbi	5,046	7,618
US Dollar	2,957	2,734
	16,511	19,387

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.13 Trade and other receivables (continued)

(d) The ageing analysis of trade receivables of the Group are as follows:

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Neither past due nor impaired	4,767	16,238
Past due, not impaired		
1 to 30 days	3,878	870
31 to 60 days	3,975	180
61 to 90 days	391	0
91 to 120 days	105	0
More than 120 days	1,027	0
	<u>9,376</u>	<u>1,050</u>
	<u>14,143</u>	<u>17,288</u>

(e) Information on financial risks of trade and other receivables is disclosed in Note 9.1.26 to the financial statements

	Company As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Amount owing by Directors	<u>S₂</u>	<u>0</u>	<u>0</u>

S₂ - represents RM2

The amount owing by Directors is unsecured, interest free and repayable on demand.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.14 Cash and cash equivalents

	Group		Company		
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Cash and bank balances	2,359	3,413	0	1	4
Deposits with licensed banks	1,237	2,124	0	0	0
	<u>3,596</u>	<u>5,537</u>	<u>0</u>	<u>1</u>	<u>4</u>

(a) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	Group		Company		
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Cash and bank balances	2,359	3,413	0	1	4
Deposits with licensed banks	1,237	2,124	0	0	0
	<u>3,596</u>	<u>5,537</u>	<u>0</u>	<u>1</u>	<u>4</u>
Less:					
Deposits pledged to license banks	(1,237)	(2,124)	0	0	0
Bank overdrafts included in borrowings (Note 9.1.18)	(492)	(1,230)	0	0	0
	<u>1,867</u>	<u>2,183</u>	<u>0</u>	<u>1</u>	<u>4</u>

(b) The deposits with licensed banks have been pledged as security for bank facilities granted to the Group.

(c) Cash and cash equivalents are denominated in Ringgit Malaysia ('RM').

(d) Information on financial risks of cash and cash equivalents is disclosed in Note 9.1.26

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.15 Share capital

		Group As at 31 December 2012	
	Par value	Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
As at 1 January 2012/Prior to reorganisation of HH Industries	RM1.00 each	10,000,000	10,000
Adjustment on reorganization of HH Industries			
-elimination of HH Industries's issued and paid up ordinary share capital	RM1.00 each	(10,000,000)	(10,000)
-restated to the Company's authorized ordinary share capital	RM0.10 each	500,000,000	50,000
		490,000,000	40,000
After reorganization of HH Industries/As at 31 December 2012	RM0.10 each	500,000,000	50,000
Issued and fully paid:			
As at 1 January 2012	RM1.00 each	2,962,000	2,962
Issued during the financial year, at par	RM1.00 each	6,133,000	6,133
Prior to reorganization of HH Industries	RM1.00 each	9,095,000	9,095
Adjustment on reorganization of HH Industries			
-elimination of HH Industries's issued and fully paid-up ordinary share capital	RM0.10 each	(9,095,000)	(9,095)
-restated to the Company's issued and fully paid-up ordinary share capital	RM0.10 each	159,300,030	15,930
		150,205,030	6,835
After reorganization of HH Industries/ As at 31 December 2012	RM0.10 each	159,300,030	15,930
		Group As at 31 December 2013	
	Par value	Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
As at 1 January/31 December 2013	RM0.10 each	500,000,000	50,000
Issued and fully paid:			
As at 1 January/31 December 2013	RM0.10 each	159,300,030	15,930

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.15 Share capital (continued)

		Company As at 31 December 2011	
	Par value	Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
At 25 November/As at 31 December 2011	RM1.00 each	100,000	100
Issued and fully paid:			
At 25 November/As at 31 December 2011	RM1.00 each	S ₂	S ₂

		Company As at 31 December 2012	
	Par value	Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
As at 1 January 2012	RM1.00 each	100,000	100
Subdivision of ordinary shares during the financial year	RM0.10 each	900,000	0
After subdivision	RM0.10 each	1,000,000	100
Created during the financial year, at par	RM0.10 each	499,000,000	49,900
As at 31 December 2012	RM0.10 each	500,000,000	50,000
Issued and fully paid:			
As at 1 January 2012	RM1.00 each	2	S ₂
Issued during the financial year, at par	RM1.00 each	1	S ₁
	RM1.00 each	3	#
Subdivision of ordinary shares during the financial year	RM0.10 each	27	0
After subdivision	RM0.10 each	30	#
Issued during the financial year, at par	RM0.10 each	159,300,000	15,930
As at 31 December 2012	RM0.10 each	159,300,030	15,930

S₂ - represents RM2

S₁ - represents RM1

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.15 Share capital (continued)

The owners of the parent are entitled to receive dividend as and when declared by the Company and are entitled to one (1) vote per ordinary share at meeting of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.

	Par value	Company As at 31 December 2013 Number of shares	RM'000
Ordinary shares of RM1 each			
Authorised:			
As at 1 January/31 December 2013	RM0.10 each	500,000,000	50,000
Issued and fully paid:			
As at 1 January/31 December 2013	RM0.10 each	159,300,030	15,930

9.1.16 Reserves

	Group		Company		
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Non-distributable:					
Reorganisation reserve	(5,185)	(5,185)	0	0	0
Distributable:					
Retained earnings/ (Accumulated losses)	16,861	26,601	(36)	(1,469)	(2,099)
	11,676	21,416	(36)	(1,469)	(2,099)

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.16 Reserves (continued)

Reorganisation reserve

The reorganization reserve arose from the reverse acquisition of the Company by HH Industries in 2012, as follows:

	Group RM
Issued equity of HH Industries	2,962
Deemed purchase consideration of:	
-remaining non-controlling interest in an existing subsidiary, HK Kitaran	3,871
-a subsidiary, HK Palm Fibre	2,262
	6,133
Issued equity of the accounting acquirer, prior to the reverse acquisition	9,095
<u>Compare against:</u>	
Issued equity of the Company for the acquisition (comprising 14,280,000 ordinary shares of RM1 each)	(14,280)
Reorganisation reserve	(5,185)

9.1.17 Trade and other payables

	Group		Company		
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade payables					
Third parties	4,600	2,980	0	0	0
Amounts owing to related parties	846	485	0	0	0
	5,446	3,465		0	0
Other payables					
Amount owing to related party	133	301	27	0	0
Amount owing to a subsidiary	0	0	0	1,465	3,050
Other payables	3,013	5,028	0	0	0
Accruals	1,864	2,431	9	5	0
	5,010	7,760	36	1,470	3,050
	10,456	11,225	36	1,470	3,050

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.17 Trade and other payables (continued)**

- (a) Trade and other payables are denominated in RM.
- (b) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2012: 30 to 90 days).
- (c) Amounts owing to all related parties are unsecured, interest-free and payable upon demand in cash and cash equivalents
- (d) Amount owing to a subsidiary is unsecured, interest free and payables upon demand in cash and cash equivalents.
- (e) Information on financial risks of trade and other payables is disclosed in Note 9.1.26.

9.1.18 Borrowings

	Group	
	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Current liabilities		
Term loans	2,161	2,633
Hire purchase and lease creditors	3,612	3,942
Banker's acceptance	3,467	6,036
Bank overdrafts	492	1,230
	9,732	13,841
Non-current liabilities		
Term loans	12,576	13,060
Hire purchase and lease creditors	10,031	9,900
	22,607	22,960
Total borrowings		
Term loans	14,737	15,693
Hire purchase and lease creditors	13,643	13,842
Banker's acceptance	3,467	6,036
Bank overdrafts	492	1,230
	32,339	36,801

All borrowings are denominated in RM.

Bankers' acceptance are repayable within 30 days to 120 days.

Term loans of the Group are repayable by 60, 84, 120 and 240 equal monthly installments.

Term loans of the Group are secured by:

- (a) Legal charge over the Group's lands and factory buildings;
- (b) Joint and several guarantee by certain Directors of the Group;
- (c) Corporate guarantees provided by certain entities within the Group and a related company with common Directors and shareholders;
- (d) Guarantees by external credit guarantee providers (namely Syarikat Jaminan Pembiayaan Perniagaan Berhad and Credit Guarantee Corporation); and
- (e) Debentures over the Group's machinery and equipment.

Information on financial risks of borrowings and its remaining maturity is disclosed in Note 9.1.26.

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.18 Borrowings (continued)**Hire purchase and lease creditors

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Minimum hire purchase and lease payments		
-not later than one (1) year	4,293	4,710
-later than one (1) year and not later than five (5) years	11,210	10,818
Total minimum hire purchase and lease payments	15,503	15,528
Less: Future interest charges	(1,860)	(1,686)
Present value of hire purchase and lease payments	13,643	13,842
Repayable as follows:		
Current liabilities:		
-not later than one (1) year	3,612	3,942
Non-current liabilities		
- later than one (1) year and not later than five (5) years	10,031	9,900
	13,643	13,842

Information on financial risks of hire purchase and lease creditors is disclosed in Note 9.1.26.

Bank overdrafts

Bank overdrafts of the Group are secured by deposits pledged to licensed bank, joint and several guarantee by certain Directors of the Group.

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.19 Deferred tax liabilities

(a) The deferred tax liabilities are made up to the following:

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
At 1 January	0	542
Recognised in profit and loss		
-current year	163	355
-under provision in respect of prior year	379	206
At 31 December	542	1,103
<u>Deferred tax liabilities</u>		
Property, plant and equipment	542	1,103

(b) The estimated amount of net deferred tax assets calculated at the applicable tax rate, which is not recognised in the financial statements is as follows:

	Group As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Property, plant and equipment	2	2
Unused tax losses	494	160
	496	162
Deferred tax assets		
Property, plant and equipment	7	7
Unused tax losses	494	160
Deferred tax assets (prior to offsetting)	501	167
Offsetting	(5)	(5)
Deferred tax assets (after offsetting)	496	162
Deferred tax liability		
Property, plant and equipment	5	5
Deferred tax liability (prior to offsetting)	5	5
Offsetting	(5)	(5)
Deferred tax liability (after offsetting)	0	0

Deferred tax assets of certain companies within the Group have not been recognised in respect of these items as it is not probable that taxable profits of these companies would be available against which the deductible temporary differences would be utilized.

The deductible temporary differences do not expire under the current tax legislation.

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.20 Investment in subsidiaries**

	Company As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
At cost	15,930	16,430
Unquoted shares		

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Effective interest in equity (%) 2013 2012	Principal activities
Heng Huat Industries Holdings Sdn. Bhd. ("HH Industries")	Malaysia	100% 100%	Investment holding
Fibre Star Marketing Sdn. Bhd. ("Fibre Star Marketing")	Malaysia	100% 100%	Marketing of mattresses and related products
Fibre Star (M) Sdn. Bhd. ("Fibre Star")	Malaysia	100% 100%	Manufacturing of mattress and related products
<u>Subsidiaries of HH Industries</u>			
HK Fibre Sdn. Bhd.	Malaysia	97% 97%	Manufacturing and trading of coconut biomass materials and value-added products
HK Mega Industries Sdn. Bhd.	Malaysia	100% 100%	Dormant
HK Kitaran Sdn. Bhd. ("HK Kitaran")	Malaysia	100% 100%	Manufacturing and trading of oil palm biomass materials and value-added products
HK Palm Fibre Manufacturer Sdn. Bhd. ("HK Palm Fibre")	Malaysia	50% 50%	Manufacturing and trading of oil palm biomass materials

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.20 Investment in subsidiaries (continued)

Although the Group owns 50% equity interest in HK Palm Fibre, it is able to govern the financial and operating policies of the company as the operational matters and the requisite technology and processes adopted for the company's production are designed and dictated by the Group's Managing Director, H'ng Choon Seng and Deputy Managing Director, Kee Swee Lai since the inception of HK Palm Fibre. The remaining two directors and shareholders of the company, which form the non-controlling interests, merely assume the role of an investor without active involvement in the company's operations.

In the event of equality of votes at any of the general or board meeting, the Group is able to exercise a second or casting vote through the Group's Managing Director, H'ng Choon Seng by virtue of his appointment as the Chairman of the Board of Directors of HK Palm Fibre pursuant to a board resolution dated 5 October 2009. Accordingly, HK Palm Fibre is deemed as a subsidiary company and is consolidated into the Group's financial statements.

The subsidiary of the Group that has material non-controlling interests ('NCI') is as follows:

	HK Palm Fibre	
	As at 31 December 2012	As at 31 December 2013
NCI percentage of ownership interest and voting interest	50%	50%
Carrying amount of NCI (RM)	2,225	2,277
Profit allocated to NCI (RM)	402	52

The NCI of the other subsidiary that is not wholly owned by the Group is deemed to be immaterial.

The summarised financial information before intra-group elimination of the subsidiary that has material NCI as at the end of each reporting is as follows:

	HK Palm Fibre	
	As at 31 December 2012	As at 31 December 2013
Assets and liabilities		
Non-current assets	8,164	7,677
Current assets	1,687	2,477
Non-current liabilities	(2,413)	(837)
Current liabilities	(2,988)	(4,762)
Net assets	4,450	4,555

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.20 Investment in subsidiaries (continued)

The summarised financial information before intra-group elimination of the subsidiary that has material NCI as at the end of each reporting is as follows:

	HK Palm Fibre	
	FYE	FYE
	31 December 2012	31 December 2013
Results		
Revenue	9,538	(9,087)
Profit for the financial year/Total comprehensive income	803	105
Cash flows from operating activities	2,426	1,508
Cash flows from investing activities	(954)	(507)
Cash flows from financing activities	(1,728)	(793)
Net increase/(decrease) in cash and cash equivalents	(256)	208

9.1.21 Contingent liabilities

	Company	
	As at	As at
	31 December 2012	31 December 2013
Corporate guarantee given to banks for credit facilities granted to subsidiaries-secured	13,930	15,430

The Directors are of the opinion that the chances of the financial institutions calling upon the corporate guarantees are remote.

9.1.22 Employee Benefits

	Group		Company	
	FYE	FYE	FYE	FYE
	31 December	31 December	31 December	31 December
	2012	2013	2012	2013
	RM'000	RM'000	RM'000	RM'000
Wages, salaries and bonuses	8,983	14,428	35	60
Contribution to defined contribution plan	428	759	0	0
Social security contributions	46	70	0	0
Other benefits	480	333	0	0
	9,937	15,590	35	60

Included in the employee benefits of the Group and of the Company are Directors' remuneration amounting to RM1,824,252 (2012: RM846,494) and RM60,000 (2012: RM35,000) respectively.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.23 Acquisition of subsidiaries

In 2012, the Group was constituted by a series of transactions to set up the prevailing group structure. This involved the establishment of the Company as holding company and the acquisition of HH Industries Group, Fibre Star and Fibre Star Marketing. Details of the acquisitions by the Company in 2012 are as follows:

- (i) acquisition of 9,095,000 ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital of HH Industries, for a total consideration of RM14,280,000 based on the followings:
 - (a) pro forma consolidated net assets of HH Industries and its subsidiaries as at 31 December 2011 after taking into account the effects of the acquisition of the remaining 49% equity interests of HK Kitaran Sdn. Bhd. and 50% equity interests of HK Palm Fibre Sdn. Bhd.; and
 - (b) estimated earnings of approximately of RM1.48 million generated by HH Industries and its subsidiaries for the month of January 2012.

The purchase consideration was satisfied entirely via the issuance of 142,800,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.10 per ordinary share. The effective completion of the acquisition was on 1 February 2012.

(Hereinafter referred to as "Reorganisation of HH Industries Group")

- (ii) acquisition of 1,650,003 ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital of Fibre Star (M) Sdn. Bhd. ("Fibre Star"), for a total consideration of RM1,650,000 based on the unaudited net tangible assets of Fibre Star as at 18 May 2012.

The purchase consideration was satisfied entirely via the issuance of 16,500,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.10 per ordinary share.

- (iii) acquisition of 3 ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital of Fibre Star Marketing Sdn. Bhd. ("Fibre Star Marketing"), for a total consideration of RM3 based on the unaudited net tangible assets of Fibre Star Marketing as at 18 May 2012.

The purchase consideration was satisfied entirely by cash.

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.23 Acquisition of subsidiaries (continued)

Acquisitions of Fibre Star and Fibre Star Marketing have been accounted for using the purchase method of accounting, with HH Industries identified as the accounting acquirer for the business combinations and consolidation purposes.

(a) Acquisition of HH Industries, HK Palm Fibre and remaining non-controlling interest in HK Kitaran

On consolidation, the reorganisation reserve comprises:

	Group As at 31 December 2012
Issued equity of HH <u>Industries</u>	2,962
Deemed purchase consideration of:	
-remaining non-controlling interest in an existing subsidiary, HK Kitaran	3,871
-a subsidiary, HK Palm Fibre	2,262
	6,133
Issued equity of the accounting acquirer, prior to the reverse acquisition	9,095
Compare against:	
Issued equity of the Company for the acquisition (comprising 14,280,000 ordinary shares of RM1 each)	(14,280)
Reorganisation reserve	(5,185)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.23 Acquisition of subsidiaries (continued)

- (a) Acquisition of HH Industries, HK Palm Fibre and remaining non-controlling interest in HK Kitaran (continued)

The fair value of the identifiable assets and liabilities of the subsidiary, HK Palm Fibre, as at the date of acquisition were as follows:

	Group As at 31 December 2012
Property, plant and equipment	8,111
Inventories	55
Trade and other receivables	236
Current tax assets	#
Cash and cash equivalents	363
Total identifiable assets	<u>8,765</u>
Trade and other payables	1,951
Borrowings	2,291
Total identifiable liabilities	<u>4,242</u>
Total identifiable net assets	4,523
Less: Non-controlling interest measured at fair value	<u>(2,262)</u>
Group's share of net assets	2,261
Goodwill arising from acquisition	<u>1</u>
Deemed purchase consideration transferred	<u>2,262</u>

- represents amount less than RM1,000

The goodwill arising from acquisition was due to the acquisition of HK Palm Fibre, where the purchase consideration was derived based on the audited net assets as at 31 December 2011 and not at the fair value of the identifiable net assets of the company as at the acquisition date.

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.23 Acquisition of subsidiaries (continued)

- (a) Acquisition of HH Industries, HK Palm Fibre and remaining non-controlling interest in HK Kitaran (continued)

The effects of the acquisition of the subsidiaries on cash flows were as follows:

	Group As at 31 December 2012
Deemed purchase consideration transferred	
-remaining non-controlling interest in an existing subsidiary, HK Kitaran	3,871
-a subsidiary, HK Palm Fibre	2,262
	6,133
Less: Non-cash consideration	(6,133)
Consideration settled in cash	0
Cash and cash equivalents of subsidiaries acquired	363
Net cash inflow of the Group on acquisition	363

- (b) Acquisition of Fibre Star and Fibre Star Marketing

The fair value of the identifiable assets and liabilities of the Fibre Star and Fibre Star Marketing as at the date of acquisition were as follows:

	Fibre Star RM'000	Group Fibre Star Marketing RM'000	Total RM'000
Trade and other receivables	1,650	#	1,650
Total identifiable assets	1,650	#	1,650
Trade and other payables	3	3	6
Total identifiable liabilities	3	3	6
Total identifiable net assets	1,647	(3)	1,644
Goodwill arising from acquisition	3	3	6
Total consideration transferred	1,650	#	1,650

The effects of the acquisition of the subsidiaries on cash flows were as follows:

	Group As at 31 December 2012
Total consideration	(1,650)
Less: Non-cash consideration	1,650
Consideration settled in cash	#
Less: Cash and cash equivalents of subsidiaries acquired	0
Net cash outflow of the Group on acquisition	#
# - represents amount less than RM1,000	

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.24 Related party disclosures****(a) Identities of related parties**

Parties are considered to be related to Heng Huat if Heng Huat has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Heng Huat and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

Heng Huat has controlling related party relationship with a company in which the Directors have significant and controlling financial interests.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, Heng Huat had the following transactions with related party during the financial period/year:

	Group	
	FYE	FYE
	31 December 2012	31 December 2013
Related companies:		
-Sale of products	1,501	0
-Rental paid and payable	168	380
-Purchase of property, plant and equipment	0	378
-Purchase of raw material	1,250	188
	Company	
	FPE	FYE
	31 December	31 December
	2011	2012
	RM'000	RM'000
Expenses paid on behalf by a related party:		
-HK Kitaran Sdn. Bhd.	27	0
	FYE	FYE
	31 December	31 December
	2013	2013
	RM'000	RM'000

The related party transactions described above were carried out on terms and conditions not materially different from those obtainable from transactions with unrelated parties.

Information regarding outstanding balances arising from related party transactions at the end of the reporting period are disclosed in Notes 9.1.13 and 9.1.17 to the financial statements.

(c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any Director (whether executive or otherwise) of the Group and the Company.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.24 Related party disclosures (continued)****(C) Compensation of key management personnel (continued)**

The remuneration of Directors and other key management personnel during the financial year was as follows:

	Group		Company	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Short term employee benefits	1,391	2,447	35	60
Contributions to defined contribution plan	131	275	0	0
Social security contribution	5	7	0	0
	1,527	2,729	35	60

9.1.25 Financial instruments**(a) Capital management**

The primary objective of the capital management of the Heng Huat Group is to ensure that entities of the Group would be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of the Group remains unchanged from that in the previous financial year.

Heng Huat Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the financial years ended 31 December 2013 and 31 December 2012.

Heng Huat Group and Company is not subject to any externally imposed capital requirements during the financial years ended 31 December 2013 and 31 December 2012.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.25 Financial instruments (continued)

(a) Capital management (continued)

Heng Huat Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and bank balances. Capital represents equity attributable to the owners of the parent.

	Section	Group	
		As at 31 December 2012	As at 31 December 2013
Borrowings	9.1.18	32,339	36,801
Trade and other payables	9.1.17	10,456	11,225
		<u>42,795</u>	<u>48,026</u>
Less: Cash and cash equivalents	9.1.14	(3,596)	(5,537)
Net debt		<u>39,199</u>	<u>42,489</u>
Total capital		27,606	37,346
Net debt		<u>39,200</u>	<u>42,489</u>
Equity plus net debt		<u>66,806</u>	<u>79,835</u>
Gearing ratio %		58.68	53.22

	Section	Company		
		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Other payables	9.1.17	36	1,470	3,050
Less: Cash and cash equivalents	9.1.14		(1)	(4)
Net debt		<u>36</u>	<u>1,469</u>	<u>3,046</u>
(Deficit)/Surplus in equity		(36)	14,461	13,831
Net debt		<u>36</u>	<u>1,469</u>	<u>3,046</u>
		<u>S₂</u>	<u>15,930</u>	<u>16,877</u>
Gearing ratio		*	9%	18%

S₂- represents RM2

* Gearing ratio is not presented as the Company is showing a deficit in equity as at the reporting date.

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.25 Financial instruments (continued)

(b) Financial instruments

(i) Categories of financial instruments

	Section	Group As at 31 December 2012	As at 31 December 2013
Financial assets			
<i>Loans and receivables</i>			
Trade and other receivables	9.1.13	14,845	18,009
Cash and cash equivalents	9.1.14	3,596	5,537
		<u>18,441</u>	<u>23,546</u>
Financial liability			
<i>Other financial liabilities</i>			
Trade and other payables	9.1.17	10,456	11,225
Borrowings	9.1.18	32,339	36,801
		<u>42,795</u>	<u>48,026</u>

	Section	Company As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Financial asset				
<i>Loans and receivables</i>				
Other receivables	9.1.13	S ₂	S ₂	0
Cash and cash equivalents	9.1.14	0	1	4
		<u>S₂</u>	<u>1</u>	<u>4</u>
Financial liability				
<i>Other financial liabilities</i>				
Other payables	9.1.17	36	1,470	3,050

S₂- represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.25 Financial instruments (continued)

(b) Financial instruments (continued)

(ii) Fair values of financial instruments

The fair values of financial instruments that are not carried at fair value and whose carrying amounts do not approximate its fair values are as follows:

	Carrying amount RM	Fair value RM
As at 31 December 2013		
Hire purchase and lease creditors (Note 9.1.18)	13,842	13,827
As at 31 December 2012		
Hire purchase and lease creditors (Note 9.1.18)	13,643	13,302

(c) Determination of fair values

Method and assumption used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

III. Financial instruments that are not carried at fair values and whose carrying amounts are at reasonable approximation of fair values.

The carrying amounts of financial assets and financial liabilities, such as trade and other receivables, trade and other payables and borrowings, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced at market interest rates on or near the end of the reporting period.

The carrying amounts of the current position of loans and borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

(ii) Hire purchase and lease creditors

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of borrowing at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.26 Financial risk management policies and objectives

The financial risk management objective of the Group is to optimise value creation for shareholders whilst minimising potential adverse impact arising from fluctuations in foreign currency exchange and interest rates and the unpredictability of the financial markets. The Group is mainly exposed to credit risk, liquidity and cash flow risk, interest rate risk, foreign currency risk and market risk. Information on the management of the related exposures is detailed below:

(a) Credit risk

Cash deposits and trade receivables could give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are organisations that the Group has dealt with for numerous years, and with whom the Group maintains regular visits and communications. It is the policy of the Group to monitor the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

The primary exposure of the Group to credit risk arises through its trade receivables. The trading terms of the Group with its customers are mainly on credit, except for new customers, where deposits in advance are normally required. The credit period ranges between 30 days to 120 days. Each customer has a maximum credit limit and the Group seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Major classes of financial assets of the Group comprise trade and other receivables and cash and cash equivalents.

Bank balances and deposits with banks and other financial institutions possessed by the Group are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Exposure to credit risk

At the end of each reporting period, the maximum exposure of the Group to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Credit risk concentration profile

The Group determines concentration of credit risk by monitoring the country profiles of its trade receivables on an ongoing basis. The credit risk concentration profile of the trade receivables of the Group at the end of each reporting period are as follows:

		Group			
		As at 31 December 2013 RM	As at 31 December 2013 % of total	As at 31 December 2012 RM	As at 31 December 2012 % of total
By country:					
-Malaysia		6,936	40.12	6,140	43.42
-People's Republic of China		10,352	59.88	8,003	56.58
		17,288	100.00	14,143	100.00

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.26 Financial risk management policies and objectives****(a) Credit risk (continued)**

At the end of the reporting period, approximately 57% (2012: 49%) of the trade receivables of the Group were due from one (1) major customer located in People's Republic of China.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 9.1.13 to the financial statements.

Financial assets that are past due but not impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 9.1.13 to the financial statements.

(b) Liquidity and cash flow risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In executing its liquidity risk management strategy, the Group measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance the activities of the Group. In addition, the Group strives to maintain available banking facilities at a reasonable level to meet its business needs.

The table below summarises the maturity profile of the Group's and the Company's liabilities at the end of each reporting period based on contractual undiscounted repayment obligations.

	Group			
	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
As at 31 December 2012				
Financial liabilities				
Trade and other payables	10,456	0	0	10,456
Borrowings	9,732	18,315	4,292	32,339
Total undiscounted financial liabilities	20,188	18,315	4,292	42,795
As at 31 December 2013				
Financial liabilities				
Trade and other payables	11,225	0	0	11,225
Borrowings	13,841	18,917	4,043	36,801
Total undiscounted financial liabilities	25,066	18,917	4,043	48,026

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.25 Financial risk management policies and objectives

(b) Liquidity and cash flow risk (continued)

	Company		
	On demand or within one year RM	One to five years RM	Total RM
As at 31 December 2012			
Financial liabilities			
Trade and other payables	1,471	0	1,471
Total undiscounted financial liabilities	1,471	0	1,471
As at 31 December 2013			
Financial liabilities			
Trade and other payables	3,050	0	3,050
Total undiscounted financial liabilities	3,050	0	3,050

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments of the Group will fluctuate because of changes in market interest rates.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The exposure of the Group to interest rate risk arises primarily from its borrowings and deposits with licensed banks, and is managed through the use of fixed and floating rates instruments. The Group monitors the interest rates on borrowings closely to ensure that the borrowings are maintained at favourable rates. The Group's deposits are placed at fixed rates and management endeavours to obtain the best rate available in the market. The Group does not use derivative financial instruments to hedge this risk.

Sensitivity analysis for interest rate risk

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which the Group has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variables remain constant.

	Effects on profit after tax	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
<u>Applicable interest rate:</u>		
Increase 10 basis points	-20	-35
Decrease 10 basis points	+20	+35

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.26 Financial risk management policies and objectives

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of the Company's financial instruments that are exposed to interest rate risk:

		Group							
	Note	Weighted average effective interest rate%	Within 1 year RM'000	1-2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2012									
Fixed rates									
Deposits with licensed bank	9.1.14	3.18	1,237	0	0	0	0	0	1,237
Hire purchase and lease creditors	9.1.18	6.40	3,512	3,224	2,801	2,452	1,654	0	13,643
Floating rates									
Bank overdrafts	9.1.18	8.19	492	0	0	0	0	0	492
Bankers' acceptance	9.1.18	5.05	3,467	0	0	0	0	0	3,467
Term loans	9.1.18	6.85	2,161	2,308	2,348	2,187	1,441	4,292	14,737

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.2.7 Financial risk management policies and objectives

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of the Company's financial instruments that are exposed to interest rate risk:

	Group							
	Weighted average effective interest rate%	Within 1 year RM'000	1-2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2013								
Fixed rates								
Deposits with licensed bank	3.12	2,124	0	0	0	0	0	2,124
Hire purchase and lease creditors	6.56	3,942	3,583	3,272	2,496	549	0	13,842
Floating rates								
Bank overdrafts	8.04	1,230	0	0	0	0	0	1,230
Bankers' acceptance	4.97	6,036	0	0	0	0	0	6,036
Term loans	6.50	2,633	2,789	2,628	1,930	1,670	4,043	15,693

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.1 Heng Huat Group and Heng Huat (continued)

9.1.28 Financial risk management policies and objectives

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at the end of reporting period, the Group did not engage any foreign currency hedging instruments in respect of such foreign exchange fluctuations.

Transactional currency exposures arise from sales to customers in China. These sales invoiced either in the RMB or USD.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the profit after tax of the Group to a reasonably possible changes in the RMB and USD exchange rates against the functional currency of the Company with all the other variables held constant.

	Group Effects on profit after tax	
	FYE 31 December 2012	FYE 31 December 2013
	RM'000	RM'000
RMB/RM		
-Strength by 3%	(189)	(229)
-Weaken by 3%	189	229
USD/RM		
-Strength by 3%	(64)	(82)
-Weaken by 3%	64	82

9.1.29 Operating segments

Heng Huat, through its subsidiaries, are principally engaged in manufacturing and trading of biomass materials and manufacturing and trading of mattresses and related products.

Heng Huat 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:

(a) Biomass materials and related products

Manufacturing and trading of coconut fibre and related products, and oil palm EFB (empty fruit bunches) fibre and related products.

(b) Mattresses and related products

Manufacturing and trading of mattresses and related products.

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.1 Heng Huat Group and Heng Huat (continued)****9.1.29 Operating segments (continued)**

The accounting policies of operating segments are the same as those described in the summary of significant accounting policies.

The Group evaluates performance on the basis of profit or loss from operations before tax.

Inter-segment revenue is priced along the same lines as sales to external customers and is eliminated in the consolidated financial statements. These policies have been applied consistently throughout the current and previous financial years.

Segment assets exclude tax assets and assets used primarily for corporate purposes.

Segment liabilities exclude tax liabilities. Even though loans and borrowings arise from financing activities rather than operating activities, they are allocated to the segments based on relevant factors (e.g. funding requirements). Details are provided in the reconciliations from segment assets and liabilities to the position of the Group.

	Biomass materials and related products RM	Mattresses and related products RM	Total RM
2012			
Revenue			
Total revenue	54,817	14,794	69,611
Inter-segment revenue	(1,511)	(5,134)	(6,645)
Revenue from external customers	53,306	9,660	62,966
Interest income	28	0	28
Finance costs	(1,357)	(9)	(1,366)
Net finance expense	(1,329)	(9)	(1,338)
Depreciation	3,199	96	3,295
Amortisation	56	1	57
Segment profit before tax	14,615	715	15,330
Tax expense	(783)	(210)	(993)
Additions to non-current assets other than financial instruments and intangible assets	24,027	1,661	25,688
Segment assets	70,481	11,465	81,946
Segment liabilities	42,490	9,127	51,617

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Heng Huat Group and Heng Huat (continued)

9.1.29 Operating segments (continued)

	Biomass materials and related products RM	Mattresses and related products RM	Total RM
2013			
Revenue			
Total revenue	58,044	31,618	89,662
Inter-segment revenue	(3,898)	(12,024)	(15,922)
Revenue from external customers	54,146	19,594	73,740
Interest income	52	2	54
Finance costs	(2,105)	(196)	(2,301)
Net finance expense	(2,053)	(194)	(2,247)
Depreciation	4,623	258	4,881
Amortisation	56	#	56
Segment profit before tax	11,548	800	12,348
Tax expense	(1,007)	(483)	(1,490)
Additions to non-current assets other than financial instruments and intangible assets	9,559	3,746	13,305
Segment assets	83,955	17,570	101,525
Segment liabilities	45,430	14,283	59,713

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Heng Huat Group and Heng Huat (continued)

9.1.29 Operating segments (continued)

i. Reconciliations

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Revenue		
Total revenue for reportable segments	69,610	89,662
Elimination of inter-segmental revenues	(6,645)	(15,922)
Revenue of the Group per consolidated statement of profit or loss and other comprehensive income	62,965	73,740
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit for the financial year		
Profit before tax for reportable segments	15,330	12,348
Unallocated corporate income and expenses (net)	(1,453)	(1,167)
Elimination of intragroup transactions and profits	(249)	201
Profit before tax of the Group	13,628	11,382
Tax expense	(993)	(1,490)
Profit for the financial year of the Group per consolidated statement of profit or loss and other comprehensive income	12,635	9,892
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Assets		
Total assets for reportable segments	81,946	101,525
Tax assets	37	267
Unallocated assets	2,146	2,353
Elimination of intragroup balances and profits	(10,625)	(15,164)
Assets of the Group per consolidated statement of financial position	73,504	88,981

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 Heng Huat Group and Heng Huat (continued)****9.1.29 Operating segments (continued)****i. Reconciliations (continued)**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Liabilities		
Total liabilities for reportable segments	51,617	59,714
Tax liabilities	752	1,107
Unallocated liabilities	1,717	3,291
Elimination of intragroup balances	(10,538)	(14,979)
Liabilities of the Group per consolidated statement of financial position	43,548	49,133

ii. Geographical information

The manufacturing facilities and sales offices of the Group are primarily based in Malaysia.

In presenting information on the basis of geographical areas, segment revenue is based on the geographical location from which the sale transactions originated.

All the assets and liabilities of the Group are derived from Malaysia. Hence, no additional disclosure is made on geographical breakdown/ details of the segment assets of the Group.

	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Revenue from external customers		
Malaysia	23,279	32,903
China	39,590	40,719
Singapore	96	118
	62,965	73,740

iii. Major customer

During the financial year ended 31 December 2013, revenue from a customer in the biomass materials and related products segment accounted for approximately 30.14% (2012: 20.52%) of the Group's total revenue.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 Heng Huat Group and Heng Huat (continued)

9.1.30 Earnings per share

(a) Basic

Basic earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Profit attributable to equity holders of parents (RM)	12,163	9,740
Weighted average number of ordinary shares in issue (units)	153,226	159,300
Basic earnings per ordinary share: Profit for the financial year (sen)	7.94	6.11

(b) Diluted

Diluted earnings per ordinary share equals basic earnings per ordinary share, as the Group does not have any potential dilutive ordinary shares in issue during and at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star

9.2.1 Statements of profit or loss and other comprehensive income of Fibre Star

The statements of profit or loss and other comprehensive income of Fibre Star which are extracted from the audited financial statements for the financial period from 29 December 2011 to 31 December 2011("FPE 31 December 2011"), FYE 31 December 2012 and 31 December 2013 are set out below:

		FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
	Section			
Revenue		0	8,417	12,003
Cost of sales		0	(6,825)	(11,026)
Gross profit		0	1,592	977
Other operating income		0	2	9
Administrative and selling and distribution expenses		(3)	(968)	(437)
Finance expenses		0	0	(185)
(Loss)/Profit before tax	9.2.5	(3)	626	364
Tax expense	9.2.6	0	(159)	(191)
(Loss)/Profit for the financial period/year		(3)	467	173
Other comprehensive income		0	0	0
Total comprehensive (loss)/profit		(3)	467	173

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.1 Statements of profit or loss and other comprehensive income of Fibre Star (continued)

The statements of profit or loss and other comprehensive income of Fibre Star which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below: (continued)

	FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
(LBITDA)/EBITDA	(3)	722	730
Number of ordinary shares of RM1.00 each	Q ₂	1,650	1,650
Weighted average number of ordinary shares of RM1.00 each	Q ₂	1,650	1,650
Gross (loss)/earnings per share (RM)	(1,500)	0.38	0.22
Net (loss)/earnings per share (RM)	(1,500)	0.28	0.10
(Loss)/Profit before tax ("LBT"/"PBT") margin (%)	N/A	7.44	3.03
(LBITDA)/PBITDA margin (%)	N/A	8.58	6.08
Effective tax rate (%)	N/A	25.40	52.47

Q₂ - represents 2 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.2 Statements of financial position of Fibre Star

The statements of financial position of Fibre Star which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
	Section			
ASSETS				
Non-current assets				
Property, plant and equipment	9.2.7	0	1,290	4,037
Intangible assets	9.2.8	0	2	1
		0	1,292	4,038
Current assets				
Inventories	9.2.9	0	830	2,577
Trade and other receivables	9.2.10	S ₂	4,309	4,220
Current tax asset		0	0	13
Cash and cash equivalents	9.2.11	0	127	43
		S ₂	5,266	6,853
TOTAL ASSETS		S ₂	6,558	10,891
EQUITY AND LIABILITIES				
Share capital	9.2.12	S ₂	1,650	1,650
(Accumulated losses)/Retained profit		(3)	464	637
		(3)	2,114	2,287
Non-current liabilities				
Deferred tax liability	9.2.13	0	95	153
Borrowings	9.2.14	0	0	1,850
		0	95	2,003
Current liabilities				
Trade and other payables	9.2.15	3	4,307	5,107
Borrowings	9.2.14	0	0	1,494
Current tax liability		0	42	0
		3	4,349	6,601
TOTAL LIABILITIES		3	4,444	8,604
TOTAL EQUITY AND LIABILITIES		S ₂	6,558	10,891

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.2 Statements of financial position of Fibre Star (continued)

The statements of financial position of Fibre Star which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Section			
Number of ordinary shares of RM1.00 each in issue	Q ₂	1,650	1,650
Net (liabilities)/assets	(3)	2,114	2,287
Net (liabilities)/assets per ordinary share of RM1.00 each (RM'000)	(1.5)	1.28	1.38
Trade receivables' turnover period (days)	N/A	175	125
Trade payables' turnover period (days)	N/A	111	47
Inventories turnover periods (days)	N/A	44	85
Gearing ratio (times)	N/A	N/A	1.46

S₂ - represents RM2

Q₂ - represents 2 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.3 Statements of cash flows of Fibre Star

The statements of cash flows of Fibre Star, which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 31 December 2013 are set out below:

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax	(3)	626	364
Adjustments for:			
Depreciation of property, plant and equipment	0	96	181
Amortisation	0	#	#
Gain on disposal of property, plant and equipment	0	(1)	0
Operating (loss)/profit before working capital changes	(3)	722	546
Increase in inventories	0	(830)	(1,747)
(Increase)/Decrease in trade and other receivables	(S ₂)	(4,309)	89
Increase in trade and other payables	3	4,304	800
	S ₂	(113)	(312)
Tax paid	0	(22)	(188)
Net cash flow from/(used in) operating activities	S ₂	(135)	(500)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	0	(1,660)	(699)
Purchase of trademark	0	(2)	0
Proceed from disposal of property, plant and equipment	0	274	0
Net cash used in investing activities	0	(1,388)	(699)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	0	1,650	0
Drawdown of banker acceptance	0	0	1,082
Repayment of term loan	0	0	(157)
Net cash from financing activities	0	1,650	925
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	S ₂	127	(274)
CASH AND CASH EQUIVALENTS AT DATE OF INCORPORATION/BEGINNING OF FINANCIAL YEAR	0	0	127
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD/YEAR	0	127	(147)

S₂ - represents RM2

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.4 Statements of changes in equity of Fibre Star

The statements of changes in equity of Fibre Star, which are extracted from the audited financial statement for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below:

	Share capital RM'000	(Accumulated losses)/Retained profits RM'000	Total RM'000
At 29 December 2011 (Date of incorporation)	S ₂	0	S ₂
Total comprehensive loss	0	(3)	(3)
As at 31 December 2011	S ₂	(3)	(3)
As at 1 January 2012	S ₂	(3)	(3)
Total comprehensive income	0	467	467
Issuance of ordinary shares	1,650	0	1,650
As at 31 December 2012	1,650	464	2,114
As at 1 January 2013	1,650	464	2,114
Total comprehensive income	0	173	173
As at 31 December 2013	1,650	637	2,287

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.5 (Loss)/Profit before tax

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
(Loss)/Profit before tax is arrived at after charging			
- Auditors' remuneration			
- Current year	0	3	23
- Underprovision in respect of prior year	0	0	0
- Directors' remuneration	0	168	267
- Depreciation of property, plant and equipment	0	96	181
- Rental of hostel	0	1	3
- Rental of warehouse	0	156	288
And crediting:			
Gain on disposal of property, plant and equipment	0	1	0
Realised gain on foreign exchange	0	#	3

- represents amount less than RM1,000

9.2.6 Tax expense

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Reconciliation of tax expense and accounting loss/(profit):			
Accounting (loss)/profit before tax	(3)	626	364
Tax rate (%)	25	25	25
Tax at the applicable tax rate	#	157	91
Permanent loss not recognised during the period/year	#	0	0
Tax effect of expenses not deductible for tax purpose	0	2	100
Tax expense for the period/year	0	159	191

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.7 Property, plant and equipment

	Balance as at 1.1.2012 RM'000	Additions RM'000	Disposal RM'000	Balance as at 31.12.2012 RM'000
2012				
At cost				
Plant and machinery	0	1,625	(278)	1,347
Office equipment, furniture and fitting	0	3	0	3
Factory equipment	0	32	0	32
Computer	0	#	0	#
	0	1,660	(278)	1,382
	Balance as at 1.1.2012 RM'000	Current Charge RM'000	Disposal RM'000	Balance as at 31.12.2012 RM'000
Accumulated depreciation				
Plant and machinery	0	94	(4)	90
Office equipment, furniture and fitting	0	#	0	#
Factory equipment	0	2	0	2
Computer	0	#	0	#
	0	96	(4)	92

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.7 Property, plant and equipment (continued)

	Balance as at 1.1.2013 RM'000	Additions RM'000	Balance as at 31.12.2013 RM'000
2013			
At cost			
Freehold land	0	573	573
Factory building	0	2,326	2,326
Plant and machinery	1,347	13	1,360
Office equipment, furniture and fitting	3	6	9
Factory equipment	32	2	34
Computer	#	8	8
	1,382	2,928	4,310
	Balance as at 1.1.2013 RM'000	Current Charge RM'000	Balance as at 31.12.2013 RM'000
Accumulated depreciation			
Factory building	0	43	43
Plant and machinery	90	135	225
Office equipment, furniture and fitting	#	#	#
Factory equipment	2	3	5
Computer	#	#	#
	92	181	273

- represents amount less than RM1,000

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Net carrying amount			
Freehold land	0	0	573
Factory building	0	0	2,283
Plant and machinery	0	1,257	1,135
Office equipment, furniture and fitting	0	3	9
Factory equipment	0	30	29
Computer	0	#	8
	0	1,290	4,037

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.7 Property, plant and equipment (continued)

(a) During the financial year, the Company made the following cash payments to purchase property, plant and equipment:

	As at 31 December	
	2012	2013
	RM'000	RM'000
Purchase of property, plant and equipment	1,660	2,929
Financed by term loan arrangement	0	(2,230)
Cash payment on purchase	1,660	699

9.2.8 Intangible assets

	As at 31 December	
	2012	2013
	RM'000	RM'000
Trade mark, at cost	2	2
Less: Accumulated amortisation	(#)	(1)
	2	1

- represent amount less than RM1,000

9.2.9 Inventories

	← 2011	As at 31 December	→ 2013
	RM'000	2012	RM'000
		RM'000	RM'000
At cost			
Raw materials	N/A	818	1,911
Work in progress	N/A	12	131
Finished goods	N/A	0	535
	N/A	830	2,577

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.10 Trade and other receivables

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade receivable			
Amount owing by a fellow subsidiary	0	4,028	4,097
Other receivables			
Amount owing by a fellow subsidiary	0	274	72
Amount owing by Directors	S ₂	0	0
Other receivables	0	5	0
Prepayments	0	2	51
	S ₂	4,309	4,220

S₂ - represents RM2

The amount owing by Directors are unsecured, interest free and repayable on demand.

The fellow subsidiary is a company incorporated in Malaysia in which the Directors have significant controlling financial interests.

9.2.11 Cash and cash equivalents

	As at 31 December 2012 RM'000	2013 RM'000
Cash and bank balances	127	43

- (a) Cash and cash equivalents are denominated in RM.
- (b) Information on financial risk of cash and cash equivalents are disclosed in 9.2.19 to the financial statements.
- (c) For the purpose of the statement of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	As at 31 December 2012 RM'000	2013 RM'000
Cash and bank balances	127	43
Less: Bank overdraft	0	(190)
	127	(147)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.12 Share capital

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Ordinary shares of RM1 each			
Authorised:			
100,000 ordinary shares	100	5,000	5,000
Issued and fully paid:			
2 ordinary shares	S ₂	1,650	1,650
S ₂ - represents RM2			

9.2.13 Deferred tax liabilities

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Balance as at 1 January	0	0	95
Recognised in profit or loss:-			
- Property, plant and equipment	0	95	58
Balance as at 31 December	0	95	153
Subject to income tax			
Deferred tax liability:-			
Property, plant equipment	0	95	153

9.2.14 Borrowings

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Current Liabilities			
Bankers' acceptance	N/A	N/A	1,082
Bank overdraft	N/A	N/A	189
Term loan	N/A	N/A	223
	N/A	N/A	1,494
Non-current liabilities			
Term loan	N/A	N/A	1,850
Total borrowings			
Bank overdraft	N/A	N/A	3,344
N/A: Not applicable			

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.15 Trade and other payables

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Non-current			
Amount owing to a related party	3	0	0
Current			
Trade payables	0	2,080	1,428
Non trade payables	0	52	56
Accruals	0	343	469
Amount owing to a fellow subsidiary	0	1,832	3,154
	0	4,307	5,107

The amount owing to a related party is unsecured, interest free and repayable on demand.

The related party is a company incorporated in Malaysia in which the Directors have significant controlling financial interests.

9.2.16 Employee benefits

	FPE 31 December 2011 RM'000	Audited FYE 31 December 2012 2013 RM'000 RM'000	
Salaries, wages and allowances	0	731	1,026
Contributions to defined contribution plan and Social security contributions	0	75	92
Other benefits	0	197	81
	0	1,003	1,199

9.2.17 Related party transaction

(a) Identities of related parties

Parties are considered to be related to Fibre Star if Fibre Star has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Fibre Star and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

Fibre Star has controlling related party relationship with a company in which the Directors have significant and controlling financial interests.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.17 Related party transaction (continued)

- (b) In addition to the transactions and balances detailed elsewhere in the financial statements, Fibre Star had the following transactions with related party during the financial year/period:

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Expenses paid on behalf by a related party: -Heng Huat Furniture Sdn. Bhd.	3	0	0
Sales of products to a fellow subsidiary: -Fibre Star Marketing Sdn. Bhd.	0	5,124	12,928
Purchase of coconut fibre sheet from a fellow subsidiary: -HK Fibre Sdn. Bhd.	0	1,244	3,552

9.2.18 Financial instruments

(a) Capital management

The primary objective of Fibre Star's capital management is to ensure that it would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fibre Star remains unchanged from that in the FPE 31 December 2011 and FYE 31 December 2012.

Fibre Star manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Fibre Star may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FPE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

Fibre Star is not subject to any externally imposed capital requirements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.18 Financial instruments (continued)

(a) Capital management (continued)

Fibre Star monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Fibre Star includes within net debt, trade and other payables. Capital represents equity attributable to the shareholders.

		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
	Section			
Trade and other payables	9.2.15	3	4,307	5,107
Less: Cash and cash equivalents		0	127	43
Net debt		3	4,180	5,064
Deficit/Surplus in equity		(3)	2,114	2,287
Net debt		3	4,180	5,064
Total capital		S ₂	6,294	7,351
Gearing ratio		*	66%	69%

S₂- represents RM2

*Gearing ratio is not presented as Fibre Star is showing a deficit in equity as at the reporting date.

(b) Categories of financial instruments

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Financial asset			
<i>Loans and receivables</i>			
Trade and other receivables	S ₂	4,307	4,169
Cash and cash equivalents	0	127	43
	S ₂	4,434	4,212
Financial liability			
<i>Other financial liabilities</i>			
Trade and other payables	3	4,307	5,107

(c) Fair values of financial instruments

The carrying amounts of financial instruments approximate their fair values.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.18 Financial instruments (continued)

- (d) Method and assumption used to estimate fair value
The carrying amounts of financial assets and liabilities, such as other receivables and other payables, are reasonable approximation of fair value due to relatively short-term maturity of these financial instruments.

9.2.19 Financial risk management policies and objectives

Fibre Star's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

Fibre Star operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the Group's financial risk management policies. Fibre Star is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(i) Liquidity and cash flow risk

Fibre Star actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, Fibre Star measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance Fibre Star's activities.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.2 Fibre Star (continued)

9.2.19 Financial risk management policies and objectives (continued)

The table below summarises the maturity profile of Fibre Star's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within 1 year 2011 RM'000
Financial liability:	
Trade and other payables	0
Total undiscounted financial liabilities	0
	On demand or within 1 year 2012 RM'000
Financial liability:	
Trade and other payables	4,307
Total undiscounted financial liabilities	4,307
	On demand or within 1 year 2013 RM'000
Financial liability:	
Trade and other payables	5,107
Total undiscounted financial liabilities	5,107

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing****9.3.1 Statements of profit or loss and other comprehensive income of Fibre Star Marketing**

The statements of profit or loss and other comprehensive income of Fibre Star Marketing which are extracted from the audited financial statements for the financial period from 29 December 2011 to 31 December 2011 ("FPE 31 December 2011"), FYE 31 December 2012 and 2013 are set out below:

		FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
	Section			
Revenue		0	6,377	19,614
Cost of sales		0	(4,585)	(14,184)
Gross profit		0	1,792	5,430
Other income		0	0	43
Administrative expenses		(3)	(1,704)	(5,036)
(Loss)/profit before tax	9.3.5	(3)	88	437
Tax expense	9.3.6	0	(51)	(292)
(Loss)/profit for the financial period/year		(3)	37	145
Other comprehensive income		0	0	0
Total comprehensive (loss)/profit		(3)	37	145

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.1 Statements of profit or loss and other comprehensive income of Fibre Star Marketing (continued)**

The statements of profit or loss and other comprehensive income of Fibre Star Marketing which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below: (continued)

	FPE 31 DECEMBER 2011 RM'000	FYE 31 DECEMBER 2012 RM'000	FYE 31 DECEMBER 2013 RM'000
(LBITDA)/EBITDA	(3)	89	512
Number of ordinary shares of RM1.00 each	Q ₃	Q ₃	500
Weighted average number of ordinary shares of RM1.00 each	Q ₃	Q ₃	500
Gross (loss)/earnings per share (RM)	(1,000)	29,333	0.87
Net (loss)/earnings per share (RM)	(1,000)	12,333	0.29
(Loss)/Profit before tax (LBT) margin (%)	N/A	1.38	2.23
(LBITDA)/PBITDA margin (%)	N/A	1.40	2.61
Effective tax rate (%)	N/A	57.30	66.82

Q₃ - represents 3 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.2 Statements of financial position of Fibre Star Marketing

The statements of financial position of Fibre Star Marketing which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
	Section			
ASSETS				
Non-current asset				
Property, plant and equipment	9.3.7	0	#	742
Current assets				
Inventories	9.3.8	0	1,075	520
Trade and other receivables	9.3.9	S ₃	3,055	3,659
Cash and cash equivalents	9.3.10	0	776	1,771
CURRENT ASSETS		S ₃	4,906	5,950
TOTAL ASSETS		S ₃	4,906	6,692
EQUITY AND LIABILITIES				
Share capital				
Share capital	9.3.11	S ₃	S ₃	500
Accumulated losses/Retained profit				
		(3)	34	179
		(3)	34	679
Non-current liabilities				
Borrowings	9.3.12	0	0	93
Deferred tax liabilities		0	0	177
Non-Current Liabilities		0	0	270
Current liabilities				
Trade and other payables	9.3.14	3	4,821	5,690
Borrowings	9.3.12	0	0	49
Current tax liability		0	51	4
CURRENT LIABILITIES		3	4,872	5,743
TOTAL LIABILITIES		3	4,872	6,013
TOTAL EQUITY AND LIABILITIES		S ₃	4,906	6,692
# represents amount less than RM1,000				

#- represents amount less than RM1,000

S₃ - represents RM3

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.2 Statements of financial position of Fibre Star Marketing (continued)

The statements of financial position of Fibre Star Marketing which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Number of ordinary shares of RM1.00 each in issue	Q ₃	Q ₃	500
Net (liabilities)/assets	(3)	34	679
Net (liabilities)/ assets per ordinary share of RM1.00 each (RM'000)	(1)	11	1.36
Trade receivables' turnover period (days)	N/A	172	66
Trade payables' turnover period (days)	N/A	19	4
Inventories turnover periods (days)	N/A	86	13
Gearing ratio (times)	N/A	N/A	0.21

S₃ - represents RM3

Q₃ - represents 3 ordinary shares, RM1 each

N/A: Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.3 Statements of cash flows of Fibre Star Marketing

The statements of cash flows of Fibre Star Marketing, which are extracted from the audited financial statements for the FPE 31 December 2011, FYE 31 December 2012 and 2013 is set out below:

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax	(3)	88	437
Adjustment for:			
Bad debt written off	0	0	2
Depreciation of property, plant and equipment	0	#	75
Interest income	0	0	(43)
Operating (loss)/profit before working capital changes	(3)	88	471
Increase in inventories	0	(1,075)	555
Increase in trade and other receivables	(S ₃)	(3,055)	(605)
Increase in other payables	3	4,818	869
	(S ₃)	777	1,290
Tax paid	0	0	(163)
Net cash flow (used in)/ from operating activities	(S ₃)	777	1,127
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	0	#	(662)
Interest received	0	0	43
Net cash flow used in investing activities	0	#	(619)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceed from issuance of ordinary shares	0	0	500
Repayment of hire purchase payables	0	0	(13)
Net cash flow from financing activities	0	0	487
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(S ₃)	776	995
CASH AND CASH EQUIVALENTS AT DATE OF INCORPORATION/BEGINNING OF FINANCIAL YEAR	0	0	776
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD/YEAR	(S ₃)	776	1,771

S₃ - represents RM3

#- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.4 Statements of changes in equity of Fibre Star Marketing

The statements of changes in equity of Fibre Star Marketing, which are extracted from the audited financial statement for the FPE 31 December 2011, FYE 31 December 2012 and 2013 are set out below:

	Share capital RM'000	(Accumulated losses)/Retained profits RM'000	Total RM'000
At 29 December 2011 (Date of incorporation)	S ₃	0	S ₃
Total comprehensive loss	0	(3)	(3)
As at 31 December 2011	S ₃	(3)	(3)
As at 1 January 2012	S ₃	(3)	(3)
Total comprehensive income	0	37	37
As at 31 December 2012	S ₃	34	34
As at 1 January 2013	S ₃	34	34
Issuance of ordinary shares	500	0	500
Total comprehensive income	0	145	145
As at 31 December 2013	500	179	679

S₃ - represents RM3

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.5 (Loss)/Profit before tax

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
(Loss)/Profit before tax is arrived at after charging			
- Preliminary expenses written off	3	0	0
- Auditors' remuneration			
- Current year	0	2	12
- Underprovision in respect of prior year	0	#	4
- Directors' remuneration	0	160	525
- Depreciation of property, plant and equipment	0	#	75
- Bad debts written off	0	0	2
- Professional fee	0	0	32
And crediting:			
Bank interest received	0	0	1
Bad debts recovered	0	0	#
Transport charges received	0	0	41
Credit card rebates	0	0	#

9.3.6 Tax expense

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Reconciliation of tax expense and accounting (loss)/profit:			
Accounting (loss)/profit before tax	(3)	89	437
Tax rate (%)	25	25	25
Tax at the applicable tax rate	#	22	109
Permanent loss not recognised during the period/year	#	0	0
Expenses not deductible for tax purpose	0	29	36
Underprovision of tax expense in prior year	0	0	(22)
Underprovision unrecognized deferred tax assets	0	0	169
Underprovision for deferred tax expense in respect of prior year	0	0	#
Tax expense for the period/year	0	51	292
# - represents amount less than RM1,000			

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.7 Property, plant and equipment**

	Balance as at 1.1.2012 RM'000	Additions RM'000	Balance as at 31.12.2012 RM'000
2012			
At cost			
Computer	0	#	#
Furniture and fittings	0	#	#
	0	#	#
	Balance as at 1.1.2012 RM'000	Current Charge RM'000	Balance as at 31.12.2012 RM'000
Accumulated depreciation			
Computer	0	#	#
Furniture and fittings	0	#	#
	0	#	#

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.7 Property, plant and equipment (continued)**

	Balance as at 1.1.2013 RM'000	Additions RM'000	Balance as at 31.12.2013 RM'000
2013			
At cost			
Computer	#	3	3
Furniture and fittings	#	12	12
Office equipment	0	2	2
Motor vehicles	0	800	800
	#	817	817
	Balance as at 1.1.2013 RM'000	Current Charge RM'000	Balance as at 31.12.2013 RM'000
Accumulated depreciation			
Computer	#	#	#
Furniture and fittings	#	#	#
Office equipment	0	#	#
Motor Vehicles	0	74	74
	#	75	75

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.7 Property, plant and equipment (continued)

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Net carrying amount			
Computer	0	#	3
Furniture and fittings	0	#	11
Office equipment	0	0	2
Motor vehicles	0	0	726
	0	#	742

- represent amount less than RM1,000

9.3.8 Inventories

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
At cost			
Packing material	0	144	172
Finished goods	0	931	348
	0	1,075	520

9.3.9 Trade and other receivables

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade receivables	0	3,010	3,522
Other receivables	S ₃	9	6
Deposits	0	2	2
Prepayments	0	30	87
Amount owing by fellow subsidiaries	0	4	42
	S ₃	45	137
Total receivables	S ₃	3,055	3,659

S₃ - represents RM3

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.9 Trade and other receivables (continued)**

- (a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Fibre Star Marketing range from 30 to 120 days (2012: 30 to 120 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.
- (b) The ageing analysis of the Company's trade receivables is as follows:

	2011 RM'000	2012 RM'000	2013 RM'000
Neither past due nor impaired	0	1,558	3,396
Past due, not impaired			
1 to 30 days	0	1,033	9
31 to 60 days	0	362	117
61 to 90 days	0	57	0
More than 90 days	0	0	0
	0	1,452	126
Total trade receivables	0	3,010	3,522

Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy receivables with good payment records with the Fibre Star Marketing. None of the trade receivables of Fibre Star Marketing that are neither past due nor impaired have been renegotiated during the financial year.

Trade receivables that are past due but not impaired

Fibre Star Marketing has trade receivables amounting to RM126,000 (2012 : RM1,452,000) that are past due at the reporting date but not impaired. The management is confident that the amounts are recoverable as these accounts are still active.

- (c) Trade and other receivables are denominated in RM.

9.3.10 Cash and cash equivalents

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Cash and bank balances	0	776	1,771

- (a) Cash and cash equivalents are denominated in RM.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.11 Share capital**

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Ordinary shares of RM1 each			
Authorised:			
Ordinary shares of RM1 each			
At 1 January	100	100	100
Created during the financial year	0	0	400
At 31 December	100	100	500
Issued and fully paid:			
Ordinary shares of RM1 each			
At 1 January	S ₃	S ₃	S ₃
Issued during the financial year, at par	0	0	500
At 31 December	S ₃	S ₃	500

S₃ - represents RM3

9.3.12 Borrowings

		← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Current Liabilities				
Hire purchase payables	9.3.13	0	0	49
Bank overdraft		0	0	#
		0	0	49
Non-current liabilities				
Hire purchase payables	9.3.13	0	0	93
Total borrowings				
Hire purchase payables	9.3.13	0	0	142
Bank overdraft		0	0	#
		0	0	142

- represents amount less than RM1,000

All borrowings are denominated in RM.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.13 Hire purchase payables

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Representing hire purchase liabilities:			
- current	0	0	49
- non-current	0	0	93
	0	0	142
Hire purchase liabilities:			
Minimum hire purchase repayments:			
- Not later than one (1) year	0	0	56
- Later than 1 year and not later than five (5) years	0	0	98
	0	0	154
Future finance charges on hire purchase	0	0	(12)
Present value of hire purchase liabilities	0	0	142
Present value of hire purchase liabilities:			
- Not later than one (1) year	0	0	49
- Later than 1 year and not later than five (5) years	0	0	93
	0	0	142

Information on financial risks of hire purchase liabilities is disclosed in 9.3.18 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.14 Trade and other payables**

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Trade payables	0	235	162
Other payables	0	557	662
Amount owing to related party	3	0	769
Amount owing to a fellow subsidiary	0	4,029	4,097
Amount owing to directors	0	0	S ₃
	<u>3</u>	<u>4,821</u>	<u>5,690</u>

The amount owing to a related party is unsecured, interest free and repayable on demand.

The related party is a company incorporated in Malaysia in which the Directors have significant controlling financial interests.

S₃ - represents RM3

9.3.15 Employee benefits

	FPE 31 December 2011 RM'000	Audited FYE 31 December 2012 2013 RM'000 RM'000	
Salaries, wages and allowances	0	329	906
Contributions to defined contribution plan and Social security contributions	0	31	122
Other benefits	0	13	4
	<u>0</u>	<u>373</u>	<u>1,032</u>

9.3.16 Related party transaction**(a) Identities of related parties**

Parties are considered to be related to Fibre Star Marketing if Fibre Star Marketing has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Fibre Star Marketing and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

Fibre Star Marketing has controlling related party relationship with a company in which the Directors have significant controlling financial interests.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.16 Related party transaction (continued)**

- (b) In addition to the transactions and balances detailed elsewhere in the financial statements, Fibre Star Marketing had the following transactions with related party during the financial year/period:

	FPE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000
Expenses paid on behalf by a related party: -Heng Huat Furniture Sdn. Bhd.	3	0	0
Purchase of finished goods from fellow subsidiary: -Fibre Star (M) Sdn. Bhd.	0	(5,125)	(12,928)
Purchase of mattress from a fellow subsidiary: -HK Kitaran Sdn. Bhd.	0	9	0
Expenses paid to fellow subsidiaries: -Fibre Star (M) Sdn. Bhd.	0	3	#
-HK Kitaran Sdn. Bhd.	0	#	0
-HK Fibre Sdn. Bhd.	0	0	41

The related party transactions described above were under taken on terms and conditions not materially different from those obtainable from transactions with unrelated parties.

- represents amount less than RM1,000

9.3.17 Financial instruments**(a) Capital management**

The primary objective of Fibre Star Marketing's capital management is to ensure that it would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fibre Star Marketing remains unchanged from that in the FPE 31 December 2011 and FYE 31 December 2012.

Fibre Star Marketing manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Fibre Star Marketing may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FPE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

Fibre Star Marketing is not subject to any externally imposed capital requirements.

Fibre Star Marketing monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Fibre Star Marketing includes within net debt, trade and other payables. Capital represents equity attributable to the shareholders.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.17 Financial instruments (continued)

(a) Capital management (continued)

		As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
	Section			
Trade and other payables	9.3.14	3	4,821	5,690
Borrowings		0	0	142
Total liabilities		3	4,821	5,832
Less: Cash and cash equivalent		0	(776)	(1,771)
Net debt		3	4,045	4,061
(Deficit)/Surplus in equity		(3)	34	679
Net debt		3	4,045	4,061
Total capital		0	4,079	4,740
Gearing ratio		*	99%	86%

S₃ - represents RM3

*Gearing ratio is not presented as Fibre Star Marketing is showing a deficit in equity as at the reporting date.

(b) Categories of financial instruments

	As at 31 December 2011 RM'000	As at 31 December 2012 RM'000	As at 31 December 2013 RM'000
Financial asset			
Loans and receivables			
Trade and other receivables	S ₃	3,023	3,570
Cash and cash equivalents	0	776	1,771
	S ₃	3,799	5,341
Financial liability			
Other financial liabilities			
Trade and other payables	3	4,821	5,690
Borrowings	0	0	142
	3	4,821	5,832

S₃ - represents RM3

(c) Fair values of financial instruments

The carrying amounts of financial instruments approximate their fair values.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.3 Fibre Star Marketing (continued)****9.3.17 Financial instruments (continued)****(d) Method and assumption used to estimate fair value**

The carrying amounts of financial assets and liabilities, such as other receivables and other payables, are reasonable approximation of fair value due to relatively short-term maturity of these financial instruments.

9.3.18 Financial risk management policies and objectives

Fibre Star Marketing's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

Fibre Star Marketing operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the Group's financial risk management policies. Fibre Star Marketing is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(g) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognized if a counter party fails to perform as contracted. The counter parties are creditworthy debtors with good payment records with Fibre Star Marketing. It is Fibre Star Marketing's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that Fibre Star Marketing is exposed to minimal credit risk.

Fibre Star Marketing's primary exposure to credit risk arises through its trade receivables. Fibre Star Marketing's trading terms with its customers are mainly on credit, except for new customers, where deposits in advance are normally required. The credit period is generally for a period of two (2) months, extending up to four (4) months for major customers. Each customer has a maximum via a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in 9.3.9 to the financial statements. Deposits with banks and other financial institutions, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are past due but not impaired

Information regarding financial assets that are past due but not impaired is disclosed in 9.3.9 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.18 Financial risk management policies and objectives (continued)

(ii) Liquidity and cash flow risk

Fibre Star Marketing actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, Fibre Star Marketing measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance Fibre Star Marketing's activities.

The table below summarises the maturity profile of Fibre Star Marketing's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within 1 year 2011 RM'000
Financial liability:	
Trade and other payables	3
Total undiscounted financial liabilities	<u>3</u>
	On demand or within 1 year 2012 RM'000
Financial liability:	
Trade and other payables	4,821
Total undiscounted financial liabilities	<u>4,821</u>
	On demand or within 1 year 2013 RM'000
Financial liability:	
Trade and other payables	5,690
Borrowings	49
Total undiscounted financial liabilities	<u>5,739</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.3 Fibre Star Marketing (continued)

9.3.18 Financial risk management policies and objectives (continued)

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of Fibre Star Marketing's financial instruments will fluctuate because of changes in market interest rates.

Fibre Star Marketing's exposure to interest rate risk arises primarily from variable loans and borrowings. These interest-bearing borrowings are monitored to ensure Fibre Star Marketing enjoys competitive borrowing rates.

As at the reporting date, Fibre Star Marketing does not engage any interest hedging instruments in respect of such interest rate fluctuations.

Sensitivity analysis for interest rate risk

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which Fibre Star Marketing has significant exposure at the end of the reporting year. In determining, the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

	Effects on profit net of tax		
	2011 RM'000	2012 RM'000	2013 RM'000
Applicable interest rate:			
Increase 50 basis points	0	0	(3)
Decrease 50 basis points	0	0	3

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre****9.4.1 Statements of profit or loss and other comprehensive income of HK Palm Fibre**

The statements of profit or loss and other comprehensive income of HK Palm Fibre which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue 9.4.5	11,664	9,538	9,087
Cost of sales	(4,899)	(6,644)	(6,648)
Gross profit	6,765	2,894	2,439
Other income	131	48	707
Selling and distribution expenses	(123)	(862)	(1,346)
Administrative and other expenses	(346)	(480)	(1,379)
Finance costs 9.4.6	(135)	(141)	(79)
Profit before tax 9.4.7	6,292	1,459	342
Tax (expense)/income 9.4.8	(25)	(655)	(238)
Profit for the financial period/year	6,267	804	104
Other comprehensive income	0	0	0
Total comprehensive income	6,267	804	104

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.1 Statements of profit or loss and other comprehensive income of HK Palm Fibre (continued)**

The statements of profit or loss and other comprehensive income of HK Palm Fibre which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
EBITDA	7,097	2,564	1,421
Number of ordinary shares of RM1.00 each ('000)	200	200	200
Weighted average number of ordinary shares of RM1.00 each ('000)	200	200	200
Gross earnings per share (RM)	31.46	7.30	1.71
Net earnings per share (RM)	31.34	4.02	0.52
Gross profit (GP) margin (%)	58.00	30.34	26.84
PBT margin (%)	53.94	15.30	3.76
EBITDA margin (%)	60.85	26.88	15.64
Effective tax rate (%)	0.40	44.89	69.59

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.2 Statements of financial position of HK Palm Fibre

The statements of financial position of HK Palm Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Section				
ASSETS				
Non-current asset				
Property, plant and equipment	9.4.9	8,111	8,164	7,677
Current assets				
Inventories	9.4.10	54	245	83
Trade and other receivables	9.4.11	236	1,225	1,855
Current tax assets		#	0	108
Cash and cash equivalents	9.4.12	363	217	431
Total current assets		653	1,687	2,477
TOTAL ASSETS		8,764	9,851	10,154
EQUITY AND LIABILITIES				
Share capital	9.4.13	200	200	200
Retained earnings		4,322	4,250	4,354
TOTAL EQUITY		4,522	4,450	4,554

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.2 Statements of financial position of HK Palm Fibre (continued)**

The statements of financial position of HK Palm Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
 (continued)

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
LIABILITIES			
Non-current liabilities			
Trade and other payables 9.4.14	2	1,176	0
Borrowings 9.4.15	1,526	791	314
Deferred taxation 9.4.18	0	447	523
Total non-current liabilities	1,528	2,414	837
Current liabilities			
Trade and other payables 9.4.14	1,949	2,085	4,262
Borrowings 9.4.15	765	818	501
Current tax liability	0	84	0
Total current liabilities	2,714	2,987	4,763
TOTAL LIABILITIES	4,242	5,401	5,600
TOTAL EQUITY AND LIABILITIES	8,764	9,851	10,154

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.2 Statements of financial position of HK Palm Fibre (continued)

The statements of financial position of HK Palm Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	200	200	200
Net assets	4,522	4,450	4,554
Net assets per ordinary share of RM1.00 each (RM)	22.61	22.25	22.77
Trade receivables' turnover period (days)	0	41	34
Trade payables' turnover period (days)	18	29	38
Inventories turnover periods (days)			
- Raw material	N/A	N/A	N/A
- Finished goods	2	12	3
Gearing ratio (times)	0.51	0.36	0.18

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.3 Statements of cash flows of HK Palm Fibre**

The statements of cash flows of HK Palm Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	6,292	1,459	342
Adjustments for:			
Depreciation for property, plant and equipment 9.4.9	670	964	1,000
Interest income	0	0	(6)
Interest expenses	135	141	79
Loss/(Gain) on disposal of property, plant and equipment	(5)	(5)	(6)
Property, plant and equipment written off	1	0	0
Operating profit before working capital changes	7,094	2,559	1,409
(Increase)/Decrease in inventories	(10)	(191)	162
(Increase)/Decrease in trade and other receivables	461	(989)	106
Increase in trade and other payables	166	1,311	264
Interest paid	7,711	2,690	1,941
Tax paid	(135)	(141)	(78)
Net cash flow from operating activities	(25)	(123)	(355)
	7,551	2,426	1,508

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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 Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.3 Statements of cash flows of HK Palm Fibre (continued)**

The statements of cash flows of HK Palm Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment 9.4.9 (a)	(4,088)	(848)	(524)
Proceeds from disposal of property, plant and equipment	132	0	17
Net changes in fixed deposit pledged to a licensed bank 9.4.12	(84)	(106)	0
Net cash flow used in investing activities	(4,040)	(954)	(507)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid 9.4.19	(3,524)	(876)	0
Drawdown of term loan	700	0	0
Proceeds from issuance of shares 9.4.13	0	0	0
Repayment of hire purchase payables	(341)	(724)	(656)
Repayment of term loan	(100)	(129)	(137)
Net cash flow from/(used in) financing activities	(3,265)	(1,729)	(793)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	246	(257)	208
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF FINANCIAL YEAR	33	279	22
CASH AND CASH EQUIVALENTS AS AT END OF FINANCIAL YEAR 9.4.12 (d)	279	22	230

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.4 Statements of changes in equity of HK Palm Fibre

The statements of changes in equity of HK Palm Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	Share capital RM'000	<u>Distributable</u>	Total RM'000
		Retained earnings RM'000	
At 1 January 2011	200	1,579	1,779
Dividend for the financial year ended 31 December 2011	0	(3,524)	(3,524)
Total comprehensive income	0	6,267	6,267
As at 31 December 2011	200	4,322	4,522
At 1 January 2012	200	4,322	4,522
Dividend for the financial year ended 31 December 2012	0	(876)	(876)
Total comprehensive income	0	804	804
At 31 December 2012	200	4,250	4,450
At 1 January 2013	200	4,250	4,450
Total comprehensive income	0	104	104
As at 31 December 2013	200	4,354	4,554

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.5 Revenue**

Revenue represents invoiced value of goods sold net of returns and discounts.

9.4.6 Finance costs

	2011	FYE 31 December	
	RM'000	2012	2013
		RM'000	RM'000
Interest on bank overdrafts	#	0	0
Interest on hire purchases	102	111	56
Interest on term loan	33	30	23
	<u>135</u>	<u>141</u>	<u>79</u>

- represent amount less than RM1,000

9.4.7 Profit before tax

	2011	FYE 31 December	
	RM'000	2012	2013
		RM'000	RM'000
Profit before tax is arrived after charging:			
Audit fee			
- Current year	5	10	10
- Underprovision in respect of prior year	0	5	0
Depreciation of property, plant and equipment	670	964	1,000
Loss on disposal of property, plant and equipment	0	0	0
Property, plant and equipment written off	1	0	0
Rental of machinery	0	0	0
Rental of motor vehicle	0	0	0
Interest expense on:			
-bank overdrafts	#	0	#
-hire purchase	102	111	56
-term loan	33	30	23
And crediting:			
Gain on disposal of property, plant and equipment	5	5	6
Interest income - fixed deposit	0	0	6
Forwarding charges	<u>126</u>	<u>0</u>	<u>0</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.8 Tax (expense)/income

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
The major components of the tax expense/(income) are:			
Current tax expense based on profit for the year	25	210	56
(Over)/Underprovision of tax expense in prior year	0	(2)	106
	25	208	162
Deferred tax expense (Section 9.4.16)			
- relating to origination and reversal of temporary differences	0	68	76
- overprovision in respect of prior year	0	379	0
	0	447	76
	25	655	238
Reconciliation of tax expense/(income) and accounting profit:			
Accounting profit before tax	6,292	1,459	342
Tax rate (%)	25	25	25
Tax at the applicable tax rate	1,573	364	86
Tax effects of:			
- exempted income	(1,546)	(105)	(3)
- expenses not deductible for tax purposes	4	19	49
- different tax rate for first RM500,000 of chargeable income	(6)	0	0
(Over)/Underprovision of tax expense in prior year	0	(2)	106
(Over)/Underprovision of deferred taxation in respect of prior year	0	379	0
Tax expense for the financial year	25	655	238

HK Palm Fibre has been granted pioneer status by the Ministry of International Trade and Industry for its products under the Promotion of Investments (Amendment) Act, 1986 in which the statutory income is exempted from tax for a period of five years from 1 October 2009.

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of shareholders. HK Palm Fibre does not have any Section 108 tax credit and thus it will be automatically moved to the new single tier dividend system.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Transfer RM'000	Written off RM'000	Balance as At 31.12.2011 RM'000
2011						
At cost						
Electrical installation	207	630	0	0	0	837
Factory building	1,339	1,099	0	0	0	2,438
Factory equipment	121	62	0	0	0	183
Furniture and fittings	10	17	0	0	0	27
Motor vehicles	225	909	(147)	0	0	987
Office equipment	15	17	0	0	(1)	31
Plant and machinery	2,222	2,304	0	230	0	4,756
Signboard	2	0	0	0	0	2
Capital work-in-progress	230	0	0	(230)	0	0
	4,371	5,038	(147)	0	(1)	9,261

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2011 RM'000	Current charge RM'000	Disposals RM'000	Written off RM'000	Balance as At 31.12.2011 RM'000
2011					
Accumulated depreciation					
Electrical installation	21	73	0	0	94
Factory building	97	122	0	0	219
Factory equipment	18	15	0	0	33
Furniture and fittings	1	2	0	0	3
Motor vehicles	51	89	(20)	0	120
Office equipment	2	2	0	#	4
Plant and machinery	310	367	0	0	677
Signboard	#	#	0	0	#
Capital work-in-progress	0	0	0	0	0
	500	670	(20)	#	1,150

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2012 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Balance as At 31.12.2012 RM'000
2012					
At cost					
Electrical installation	837	39	0	0	876
Factory building	2,438	486	0	0	2,924
Factory equipment	183	28	0	0	211
Furniture and fittings	27	8	0	0	35
Motor vehicles	987	0	0	0	987
Office equipment	31	5	0	0	36
Plant and machinery	4,756	451	0	0	5,207
Signboard	2	0	0	0	2
	9,261	1,017	0	0	10,278

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2012 RM'000	Current charge RM'000	Disposals RM'000	Written off RM'000	Balance as At 31.12.2012 RM'000
2012					
Accumulated depreciation					
Electrical installation	94	87	0	0	181
Factory building	219	142	0	0	361
Factory equipment	33	21	0	0	54
Furniture and fittings	3	3	0	0	6
Motor vehicles	120	197	0	0	317
Office equipment	4	4	0	0	8
Plant and machinery	677	510	0	0	1,187
Signboard	#	#	0	0	#
	1,150	964	0	0	2,114

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2013 RM'000	Additions RM'000	Disposals RM'000	Balance as At 31.12.2013 RM'000
2013				
At cost				
Electrical installation	876	22	0	898
Factory building	2,924	15	0	2,939
Factory equipment	211	82	0	293
Furniture and fittings	35	#	0	35
Motor vehicles	987	175	(48)	1,114
Office equipment	36	3	0	39
Plant and machinery	5,207	227	0	5,434
Signboard	2	0	0	2
	10,278	524	(48)	10,754

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

	Balance as At 1.1.2013 RM'000	Current charge RM'000	Disposals RM'000	Balance as At 31.12.2013 RM'000
2013				
Accumulated depreciation				
Electrical installation	181	90	0	271
Factory building	361	147	0	508
Factory equipment	54	24	0	78
Furniture and fittings	6	3	0	9
Motor vehicles	317	201	(37)	481
Office equipment	8	4	0	12
Plant and machinery	1,187	531	0	1,718
Signboard	#	#	0	#
	2,114	1,000	(37)	3,077

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.9 Property, plant and equipment (continued)**

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Net carrying amount			
Electrical installation	743	695	627
Factory building	2,219	2,563	2,431
Factory equipment	150	157	215
Furniture and fittings	24	29	26
Motor vehicles	867	670	633
Office equipment	27	28	27
Plant and machinery	4,079	4,020	3,716
Signboard	2	2	2
Capital work in progress	0	0	0
	<u>8,111</u>	<u>8,164</u>	<u>7,677</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.9 Property, plant and equipment (continued)

- (a) During the financial year, HK Palm Fibre made the following cash payments to purchase property, plant and equipment:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Purchase of property, plant and equipment	5,038	1,018	524
Financed by hire purchase arrangements	(950)	(170)	0
Cash payments on purchase of property, plant and equipment	4,088	848	524

- (b) The carrying amount of property, plant and equipment of HK Palm Fibre acquired under hire purchase arrangements are as follows:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Plant and equipment	1,683	1,071	942
Motor vehicles	553	579	420
	2,236	1,650	1,362

9.4.10 Inventories

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
At cost			
Packing materials	30	26	28
Finished goods	24	219	55
	54	245	83

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.11 Trade and other receivables

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Trade receivables	0	1,067	835
Non-trade receivables	6	0	693
Deposits	2	#	2
Prepayments	228	158	140
Amount due by related party	0	0	142
	236	1,225	1,855

- represents amount less than RM1,000

- (a) Trade receivables are non-interest bearing and are generally on 30 days terms. They are recognised at their original invoice amounts which represent their fair value on initial recognition.
- (b) The currency profile of trade and other receivables of HK Palm Fibre is in RM.
- (c) The ageing analysis of trade receivables of HK Palm Fibre are as follows:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
<u>Ageing analysis of trade receivables</u>			
The ageing analysis of trade receivables is as follows:			
Neither past due nor impaired	0	60	834
Past due, not impaired			
1 to 30 days	0	398	1
31 to 60 days	0	609	0
More than 61 days	0	0	0
	0	1,007	1
Total trade receivables	0	1,067	835

Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with HK Palm Fibre.

None of HK Palm Fibre's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Trade receivables that are past due but not impaired

HK Palm Fibre has trade receivables amounting to RM1,000 (2012:RM1,007,000 and 2011: RMNil) that are past due at the reporting date but not impaired.

All the amount past due but not impaired are unsecured in nature. The management is confident that the amounts are recoverable as these accounts are still active.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.12 Cash and cash equivalents

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	84	195	201
Cash and bank balances	279	22	230
	<u>363</u>	<u>217</u>	<u>431</u>

- (a) Information on financial risks of cash and cash equivalents are disclosed in Section 9.4.22.
- (b) Included in the fixed deposits is an amount of RM201,000 (2012: RM195,000 and 2011: RM84,000) pledged as security for bank guarantee granted to the Company.
- (c) The currency profile of cash and cash equivalents of HK Palm Fibre is in RM.
- (d) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	84	195	201
Cash and bank balances	279	22	230
	<u>363</u>	<u>217</u>	<u>431</u>
Less: Fixed deposits pledged to licensed banks	(84)	(195)	(201)
	<u>279</u>	<u>22</u>	<u>230</u>

9.4.13 Share capital

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
Authorised:			
Ordinary shares of RM1 each			
At 1 January	500	500	500
Created during the financial year	0	0	0
At 31 December	<u>500</u>	<u>500</u>	<u>500</u>
Issued and fully paid:			
Ordinary shares of RM1 each			
At 1 January	200	200	200
Issued during the financial year, at par	0	0	0
At 31 December	<u>200</u>	<u>200</u>	<u>200</u>

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.4 HK Palm Fibre (continued)

9.4.14 Trade and other payables

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Current			
Trade payables	41	171	201
Non trade-payables	940	1,061	1,909
Amount owing to a related party			
- trade	203	362	486
- non trade	67	133	301
Amount owing to immediate holding company	0	0	#
Amount owing to fellow subsidiaries	0	0	792
Amount owing to Directors	92	0	0
Deposits received	274	28	28
Accruals	332	330	545
Total current liabilities	1,949	2,085	4,262
Non-current			
Amount owing to immediate holding company			
- non trade	0	2	0
Amount owing to fellow subsidiaries			
- non trade	2	1,174	0
	2	1,176	0
	1,951	3,261	4,262

- represent amount less than RM1,000

- (a) The amount owing to Directors is non-trade in nature, unsecured, interest free and repayable on demand.
- (b) The amount owing to a related party is unsecured, interest free and has no fixed terms of repayment.
- (c) The related party is a company incorporated in Malaysia, in which certain Directors of HK Palm Fibre have significant controlling financial interests.
- (d) The currency profile of trade and other payables of HK Palm Fibre is in RM.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.15 Borrowings**

		← As at 31 December →		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Current liabilities				
Term loan	9.4.16	129	137	146
Hire purchase payables	9.4.17	636	681	356
		<u>765</u>	<u>818</u>	<u>502</u>
Non-current liabilities				
Term loan	9.4.16	471	335	189
Hire purchase payables	9.4.17	1,055	456	125
		<u>1,526</u>	<u>791</u>	<u>314</u>
Total borrowings				
Term loan	9.4.16	600	472	333
Hire purchase payables	9.4.17	1,691	1,137	481
		<u>2,291</u>	<u>1,609</u>	<u>814</u>

The currency profile of borrowings of HK Palm Fibre is in RM.

9.4.16 Term loan

The term loan of HK Palm Fibre is secured by:

- (a) a corporate guarantee by a related party; and
- (b) a joint and several guarantee by all Directors.

Information on financial risks of borrowings and its remaining maturity is disclosed in Section 9.4.23 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.17 Hire purchase payables

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Representing hire purchase liabilities:			
- current	636	681	356
- non-current	1,055	456	125
	1,691	1,137	481
Minimum hire purchase repayments:			
- Not later than one (1) year	737	704	369
- Later than 1 year and not later than five (5) years	1,134	515	138
	1,871	1,219	507
Future finance charges on hire purchase	(180)	(82)	(26)
Present value of hire purchase liabilities	1,691	1,137	481
Present value of hire purchase liabilities:			
- Not later than one (1) year	636	681	356
- Later than 1 year and not later than five (5) years	1,055	456	125
	1,691	1,137	481
Weighted average effective interest rate			
	2011 %	2012 %	2013 %
Hire purchase payables	7.31	7.32	7.41

9.4.18 Deferred taxation

	2011 RM'000	2012 RM'000	2013 RM'000
At 1 January	0	0	447
Recognised in profit or loss:			
- property, plant and equipment	0	68	76
- overprovision in respect of prior year	0	379	0
At 31 December	0	447	523
Subject to income tax:			
Deferred tax liability			
Property, plant and equipment	0	447	523

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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Accountants' Report*

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.19 Dividend**

Dividend declared and paid are as follows:

	Financial year ended 31 December 2011	
	Gross dividend per share RM	Amount of dividend RM'000
Single tier interim dividend	17.62	3,524
	Financial year ended 31 December 2012	
	Gross dividend per share RM	Amount of dividend RM'000
Single tier interim dividend	4.38	876

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.20 Employee benefits

	Audited FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Salaries, wages and allowances	1,332	1,792	2,112
Contributions to defined contribution plan	41	54	60
Social security contributions	8	8	8
Other benefits	32	23	98
	<u>1,413</u>	<u>1,877</u>	<u>2,278</u>

9.4.21 Related party transaction

(a) Identities of related parties

Parties are considered to be related to HK Palm Fibre if the HK Palm Fibre has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HK Palm Fibre and the party are subject to common control or common significant influence. Related parties may be individuals or companies.

HK Palm Fibre has controlling related party relationship with its direct and indirect subsidiaries and its immediate and ultimate holding company.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, HK Palm Fibre had the following transactions with related party during the financial year:

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
<u>Purchase of products from a related party:</u>			
Arah Kawasan Sdn. Bhd.	<u>897</u>	<u>897</u>	<u>267</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.22 Financial instruments

(a) Capital management

The primary objective of HK Palm Fibre's capital management is to ensure that HK Palm Fibre would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

HK Palm Fibre manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HK Palm Fibre may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Palm Fibre is not subject to any externally imposed capital requirements.

HK Palm Fibre monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. HK Palm Fibre includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Borrowings	9.4.15	2,291	1,609	815
Trade and other payables	9.4.14	1,951	3,261	4,262
Total liabilities		4,242	4,870	5,077
Less: Cash and cash equivalents	9.4.12	(363)	(217)	(431)
Net debt		3,879	4,653	4,646
Equity		4,522	4,450	4,554
Net debt		3,879	4,653	4,646
Total capital		8,401	9,103	9,200
Gearing ratio		46%	51%	51%

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.22 Financial instruments (continued)

(b) Categories of financial instruments

		← As at 31 December	→	
		2011	2012	2013
		RM'000	RM'000	RM'000
Section				
Financial assets				
<i>Loans and receivables</i>				
Trade and other receivables (excludes deposits and prepayments)				
9.4.11	6	1,066	1,713	
Cash and cash equivalents				
9.4.12	363	217	431	
	369	1,283	2,144	
		← As at 31 December	→	
		2011	2012	2013
		RM'000	RM'000	RM'000
Financial liabilities				
<i>Other financial liabilities</i>				
Trade and other payables				
9.4.14	1,951	3,261	4,262	
Borrowings				
9.4.15	2,291	1,609	815	
	4,242	4,870	5,077	

(c) Fair values of financial instruments

The fair values of financial instruments that are not carried at fair value and whose carrying amounts do not approximate its fair values are as follows:

	Section	Carrying amount RM'000	Fair value RM'000
At 31.12.2011			
Hire purchase payables	9.4.17	<u>1,691</u>	<u>1,686</u>
At 31.12.2012			
Hire purchase payables	9.4.17	<u>1,137</u>	<u>1,136</u>
At 31.12.2013			
Hire purchase payables	9.4.17	<u>481</u>	<u>479</u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.22 Financial Instruments (continued)

(d) Determination of fair value

Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follow:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amount of financial assets and liabilities, such as trade and other receivables, trade and other payables and term loan, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

- (ii) Hire purchase payables

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of borrowing at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies

HK Palm Fibre's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

HK Palm Fibre operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to HK Palm Fibre's financial risk management policies. HK Palm Fibre is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(a) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is HK Palm Fibre's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HK Palm Fibre is exposed to minimal credit risk.

HK Palm Fibre's primary exposure to credit risk arises through its trade receivables. HK Palm Fibre's trading terms with its customers normally requires deposits in advance. The credit period is generally for a period of one (1) month, extending up to three (3) months for major customers. Each customer has a maximum credit limit and HK Palm Fibre seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

At the end of the reporting period, there was no significant concentration of credit risk. The maximum exposure to credit risk for HK Palm Fibre was represented by the carrying amount of each financial asset shown in the statements of financial position.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Section 9.4.11 to the financial statements. Deposits with banks and other financial institutions, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Section 9.4.11.

(b) Liquidity and cash flow risk

HK Palm Fibre actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HK Palm Fibre measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance HK Palm Fibre's activities.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.4 HK Palm Fibre (continued)****9.4.23 Financial risk management objectives and policies (continued)****(b) Liquidity and cash flow risk (continued)**Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of HK Palm Fibre's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Trade and other payables	1,949	2	1,951
Borrowings	765	1,526	2,291
	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Trade and other payables	2,085	1,176	3,261
Borrowings	818	791	1,609
	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Trade and other payables	4,262	0	4,262
Borrowings	501	314	815

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of HK Palm Fibre financial instruments will fluctuate because of changes in market interest rates.

HK Palm Fibre exposure to interest rate risk arises primarily from variable loans and borrowings. These interest-bearing borrowings are monitored to ensure HK Palm Fibre enjoys competitive borrowing rates.

As at the reporting date, HK Palm Fibre does not engage any interest hedging instruments in respect of such interest rate fluctuations.

Sensitivity analysis for interest rate risk

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which HK Palm Fibre has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which HK Palm Fibre has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

	← As at 31 December 2011 RM	2012 RM	→ 2013 RM
Applicable interest rate:			
Increase 10 basis points	(450)	(45)	(460)
Decrease 10 basis points	450	45	460

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Palm Fibre's financial instruments that are exposed to interest rate risk:

Section	Weighted average effective interest rate %	RM'000		
		Within 1 year	More than 2 years	Total
		RM'000	RM'000	RM'000
31.12.2011				
Fixed rate				
Hire purchase payables	7.31	636	1,055	1,691
Floating rate				
Term loan	6.66	129	471	600

154

386

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.4 HK Palm Fibre (continued)

9.4.23 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Palm Fibre's financial instruments that are exposed to interest rate risk: (continued)

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2012					
Fixed rate					
Hire purchase payables	9.4.17	7.32	681	456	1,137
Floating rate					
Term loan	9.4.16	6.66	137	335	472
	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2013					
Fixed rate					
Hire purchase payables	9.4.17	7.32	356	125	481
Floating rate					
Term loan	9.4.16	6.60	145	189	334
	155				
	387				

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries

9.5.1 Statements of profit or loss and other comprehensive income of HH Industries

The statements of profit or loss and other comprehensive income of HH Industries which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

	Section	FYE 31 DECEMBER		
		2011 RM'000	2012 RM'000	2013 RM'000
Revenue	9.5.5	240	300	300
Cost of sales		0	0	0
Gross profit		240	300	300
Other income		94	438	#
Selling and distribution expenses		0	0	0
Administrative and other expenses		(343)	(447)	(533)
Finance costs	9.5.6	#	#	#
(Loss)/Profit before tax	9.5.7	(9)	291	(233)
Tax income/(expense)	9.5.8	0	0	0
(Loss)/Profit for the financial year		(9)	291	(233)
Other comprehensive income		0	0	0
Total comprehensive (loss)/income		(9)	291	(233)

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.1 Statements of profit or loss and other comprehensive income of HH Industries (continued)

The statements of profit or loss and other comprehensive income of HH Industries which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
(LBITDA)/EBITDA	(7)	295	(228)
Number of ordinary shares of RM1.00 each ('000)	2,962	9,095	9,095
Weighted average number of ordinary shares of RM1.00 each ('000)	2,962	9,095	9,095
Gross (loss)/earnings per share (RM)	(0.003)	0.03	(0.03)
Net (loss)/earnings per share (RM)	(0.003)	0.03	(0.03)
GP margin (%)	100	100	100
(LBT)/PBT margin (%)	(3.75)	97	(77.67)
EBITDA margin (%)	(2.92)	98.33	(76.00)
Effective tax rate (%)	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.2 Statements of financial position of HH Industries

The statements of financial position of HH Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment 9.5.9	30	32	27
Investment in subsidiary companies	1,085	7,206	7,206
	1,115	7,238	7,233
Current assets			
Other receivables 9.5.10	1,627	1,937	1,706
Cash and cash equivalents 9.5.11	24	11	8
Total current assets	1,651	1,948	1,714
TOTAL ASSETS	2,766	9,186	8,947
EQUITY AND LIABILITIES			
Share capital 9.5.12	2,962	9,095	9,095
Accumulated losses	(411)	(120)	(353)
	2,551	8,975	8,742
LIABILITIES			
Current liabilities			
Other payables 9.5.13	215	211	205
TOTAL EQUITY AND LIABILITIES	2,766	9,186	8,947

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.2 Statements of financial position of HH Industries (continued)

The statements of financial position of HH Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	2,962	9,095	9,095
Net assets	2,551	8,975	8,742
Net assets per ordinary share of RM1.00 each (RM)	0.86	0.99	0.96
Trade receivables' turnover period (days)	N/A	N/A	N/A
Trade payables' turnover period (days)	N/A	N/A	N/A
Inventories turnover periods (days)			
- Raw material	N/A	N/A	N/A
- Trading goods	N/A	N/A	N/A
Gearing ratio (times)	N/A	N/A	N/A

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
 (Company No.: 969678-D)
 Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.3 Statements of cash flows of HH Industries**

The statements of cash flows of HH Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax	(9)	291	(233)
Adjustments for:			
Depreciation for property, plant and equipment	3	4	5
Property, plant and equipment written off	0	0	0
Dividend income	(95)	(438)	0
Impairment loss on investment in subsidiary	0	12	0
Operating loss before working capital changes	(101)	(131)	(228)
Decrease/(Increase) in trade and other receivables	(1,013)	(310)	231
(Decrease)/Increase in trade and other payables	(1,005)	(4)	(6)
	(2,119)	(445)	(3)
Interest paid	0	0	0
Tax paid	0	0	0
Net cash flow from/(used in) operating activities	(2,119)	(445)	(3)

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.3 Statements of cash flows of HH Industries (continued)

The statements of cash flows of HH Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	Section	FYE 31 DECEMBER		
		2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of a subsidiary for cash, net of cash acquired		(408)	(6,133)	0
Dividend received		95	438	0
Changes in fixed deposits pledged with licensed banks		0	0	0
Purchase of property, plant and equipment	9.5.9	(16)	(6)	0
Net cash flow used in investing activities		(329)	(5,701)	0
CASH FLOW FROM FINANCING ACTIVITY				
Proceeds from issuance of ordinary shares		2,462	6,133	0
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14	(13)	(3)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		10	24	11
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	9.5.11	24	11	8

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
 (Company No.: 969678-D)
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.4 Statements of changes in equity of HH Industries**

The statements of changes in equity of HH Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 1 January 2011	500	(402)	98
Issuance of ordinary shares	2,462	0	2,462
Total comprehensive income	0	(9)	(9)
At 31 December 2011	2,962	(411)	2,551
At 1 January 2012	2,962	(411)	2,551
Issuance of ordinary shares	6,133	0	6,133
Total comprehensive income	0	291	291
At 31 December 2012	9,095	(120)	8,975
At 1 January 2013	9,095	(120)	8,975
Total comprehensive income	0	(233)	(233)
At 31 December 2013	9,095	(353)	8,742

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.5 Revenue

	← FYE 31 December →		
	2011	2012	2013
	RM	RM	RM
Management fee	240	300	300

9.5.6 Finance costs

	← FYE 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
Bank charges	#	#	#

- represents amount less than RM1,000

9.5.7 (Loss)/Profit before tax

	← FYE 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
(Loss)/Profit before tax is arrived after charging:			
Audit fee	3	4	5
Depreciation of property, plant and equipment	3	4	5
Directors' remuneration			
- fee	0	0	0
- other emoluments	81	81	81
Property, plant and equipment written off	0	0	0
Rental of premises	0	0	0
And crediting:			
Dividend income	94	438	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.8 Tax expense

	← FYE 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
Reconciliation of tax expense and accounting profit:			
Accounting profit before tax	(9)	291	(233)
Tax rate (%)	25	25	25
Tax at the applicable tax rate	(2)	73	(59)
Tax effects of:			
- expenses not deductible for tax purposes	2	4	0
- income not subject to tax	0	(110)	0
Deferred tax assets not recognized during the year	#	33	59
Tax expense for the financial year	0	0	0

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to elect for a switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of the shareholders. HH Industries has no Section 108 tax credit at the balance sheet date and therefore will automatically move to the new single tier dividend system on 1 January 2010.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.9 Property, plant and equipment

	Balance as at 1.1.2011 RM'000	Additions RM'000	Balance as at 31.12.2011 RM'000
2011			
At cost			
Signboard	2	2	4
Office equipment	12	3	15
Computer and accessories	5	11	16
Furniture and fittings	5	#	5
	24	16	40

	Balance as at 1.1.2011 RM'000	Current charge RM'000	Balance as at 31.12.2011 RM'000
Accumulated depreciation			
Signboard	#	#	#
Office equipment	5	1	6
Computer and accessories	1	1	3
Furniture and fittings	1	#	1
	7	3	10

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.9 Property, plant and equipment

	Balance as at 1.1.2012 RM'000	Additions RM'000	Balance as at 31.12.2012 RM'000
2012			
At cost			
Signboard	4	2	6
Office equipment	15	0	15
Computer and accessories	16	4	20
Furniture and fittings	5	0	5
	40	6	46
	Balance as at 1.1.2012 RM'000	Current charge RM'000	Balance as at 31.12.2012 RM'000
Accumulated depreciation			
Signboard	#	#	#
Office equipment	6	2	8
Computer and accessories	3	2	5
Furniture and fittings	1	#	1
	10	4	14

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.9 Property, plant and equipment

	Balance as at 1.1.2013 RM'000	Additions RM'000	Balance as at 31.12.2013 RM'000
2013			
At cost			
Signboard	6	0	6
Office equipment	15	0	15
Computer and accessories	20	0	20
Furniture and fittings	5	0	5
	46	0	46
	Balance as at 1.1.2013 RM'000	Current charge RM'000	Balance as at 31.12.2013 RM'000
Accumulated depreciation			
Signboard	#	#	#
Office equipment	8	2	10
Computer and accessories	5	2	7
Furniture and fittings	1	1	2
	14	5	19

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.9 Property, plant and equipment (continued)**

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Net carrying amount			
Signboard	4	6	6
Renovation	0	0	0
Office equipment	9	7	5
Computer and accessories	13	15	13
Electrical installation	0	0	0
Furniture and fittings	4	4	3
	<u>30</u>	<u>32</u>	<u>27</u>

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.10 Other receivables

	← As at 31 December		→
	2011	2012	2013
	RM'000	RM'000	RM'000
Non-trade receivables	0	0	0
Amount owing by Directors	9	0	0
Amount owing by subsidiaries	1,616	1,936	1,705
Amount owing by related parties	1	0	0
Deposits and prepayments	#	#	#
	<u>1,627</u>	<u>1,937</u>	<u>1,706</u>

- represents amount less than RM1,000

Amount owing by Directors and subsidiaries are unsecured, interest-free and repayable on demand.

Amount owing by related parties are unsecured, interest-free and repayable on demand.

The related parties are companies incorporated in Malaysia, in which certain Directors of HH Industries have significant and controlling financial interests.

9.5.11 Cash and cash equivalents

	← As at 31 December		→
	2011	2012	2013
	RM'000	RM'000	RM'000
Cash and bank balances	<u>24</u>	<u>11</u>	<u>8</u>

Information on financial risks of cash and cash equivalents are disclosed in Section 9.5.24 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.12 Share capital

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Ordinary shares of RM1 each			
Authorised:			
At 1 January	500	10,000	10,000
Created during the financial year	9,500	0	0
At 31 December	10,000	10,000	10,000
Issued and fully paid:			
At 1 January	500	2,962	9,095
Issued during the financial year, at par	2,462	6,133	0
At 31 December	2,962	9,095	9,095

9.5.13 Other payables

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Other payables			
Non-trade payables	2	#	#
Amount owing to Directors	0	0	0
Amount owing to a subsidiary	164	179	169
Amount owing to related parties	4	0	0
Accruals	44	32	36
	214	211	205

- represents amount less than RM1,000

- (a) The amount owing to related parties are unsecured, interest free and repayable on demand.
- The related parties are companies incorporated in Malaysia, in which certain Directors of HH Industries have significant and controlling financial interests.
- (b) The amount owing to a subsidiary company is unsecured, interest free and repayable on demand.
- (c) The amount owing to Directors is non-trade in nature, unsecured, interest free and repayable on demand.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.14 Deferred tax asset

The estimated amount of net deferred tax asset calculated at the applicable tax rate, which is not recognised in the financial statements is as follows:

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Property, plant and equipment	1	2	2
Unabsorbed tax losses	104	136	160
	<u>105</u>	<u>138</u>	<u>162</u>
Subject to income tax:			
Deferred tax assets (before offsetting)			
Property, plant and equipment	5	7	7
Unabsorbed tax losses	104	136	160
	<u>109</u>	<u>143</u>	<u>167</u>
Offsetting	(4)	(5)	(5)
Deferred tax assets (after offsetting)	<u>105</u>	<u>138</u>	<u>162</u>
Deferred tax liability (before offsetting)			
Property, plant and equipment	4	5	5
Offsetting	(4)	(5)	(5)
Deferred tax liability (after offsetting)	<u>0</u>	<u>0</u>	<u>0</u>

- represents amount less than RM1,000

9.5.15 Employee benefits

	← Audited FYE 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Wages, salaries and bonuses	184	271	325
Contributions to defined contribution plan	17	30	43
Social security contributions	2	4	4
	<u>203</u>	<u>305</u>	<u>372</u>

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.16 Investments in subsidiaries**

Details of the subsidiary companies which are incorporated in Malaysia are as follows:-

Name of company	2011	2012	2013	
HK Fibre Sdn. Bhd. ("HK Fibre")	97%	97%	97%	Manufacturing and trading of coconut biomass materials
HK Mega Industries Sdn. Bhd. ("HK Mega")	90%	90%	90%	Dormant
HK Kitaran Sdn. Bhd. ("HK Kitaran")	51%	51%	51%	Manufacturing and trading of oil palm biomass materials

9.5.17 Related party transaction**(a) Identities of related parties**

Parties are considered to be related to HH Industries if it has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HH Industries and the party are subject to common control or common significant influence. Related parties may be individuals or other companies.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, HH Industries had the following transactions with related parties during the financial year.

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Management fee received from subsidiary companies:-			
- HK Kitaran	150	180	180
- HK Fibre	90	120	120
- HK Mega	0	0	0
Sales commission received from subsidiaries:-			
- HK Fibre	0	0	0
- HK Mega	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.18 Financial instruments****(a) Capital management**

The primary objective of HH Industries' capital management is to ensure that HH Industries would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of HH Industries remains unchanged from that in the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HH Industries manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HH Industries may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HH Industries is not subject to any externally imposed capital requirements.

HH Industries monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. HH Industries includes within net debt, other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		← As at 31 December →		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Other payables	9.5.13	215	211	205
		215	211	205
Total liabilities				
Less: Cash and cash equivalents	9.5.11	(24)	(11)	(8)
Net debt		191	200	197
Equity		2,551	8,975	8,742
Net debt		191	200	197
Total capital		2,742	9,175	8,939
Gearing ratio		7%	2%	2%

13. ACCOUNTANTS' REPORT (Cont'd)



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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.18 Financial instruments (continued)

(b) Categories of financial instruments

		← As at 31 December →		
		2011	2012	2013
		RM'000	RM'000	RM'000
Financial assets	Section			
<i>Loans and receivables</i>				
Other receivables (excludes deposits and prepayments)	9.5.12	1,627	1,937	1,706
Cash and cash equivalents	9.5.13	24	11	8
		<u>1,651</u>	<u>1,948</u>	<u>1,714</u>
		← As at 31 December →		
		2011	2012	2013
		RM'000	RM'000	RM'000
Financial liabilities				
Other financial liabilities				
Other payables	9.5.15	214	211	205
		<u>214</u>	<u>211</u>	<u>205</u>

(c) Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amounts of financial assets and liability, such as other receivables and other payables are reasonable approximation of fair value due to their short-term nature.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.5 HH Industries (continued)****9.5.19 Financial risk management objectives and policies**

The HH Industries' financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

HH Industries operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the HH Industries financial risk management policies. HH Industries is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(i) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is HH Industries' policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HH Industries is exposed to minimal credit risk.

HH Industries' primary exposure to credit risk arises through its trade receivables. HH Industries' trading terms with its customers are mainly on credit. The credit period is generally 30 to 40 days for major customers. Each customer has a maximum credit limit and HH Industries seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

At the end of the reporting period, there was no significant concentration of credit risk. The maximum exposure to credit risk for HH Industries was represented by the carrying amount of each financial asset shown in the statements of financial position.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Section 9.5.12 in this Report. Deposits with financial institutions, that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Section 9.5.12 in this Report.

(ii) Liquidity and cash flow risk

HH Industries actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HH Industries measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance HH Industries' activities.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.19 Financial risk management objectives and policies (continued)

(ii) Liquidity and cash flow risk (continued)

The table below summarises the maturity profile of HH Industries' liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Other payables	215	0	215
Total undiscounted financial liabilities	215	0	215

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Other payables	211	0	211
Total undiscounted financial liabilities	211	0	211

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Other payables	205	0	205
Total undiscounted financial liabilities	205	0	205

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.5 HH Industries (continued)

9.5.20 Prior year adjustment

By applying Private Entity Reporting Standards, HH Industries had previously recognised a deferred credit as a reserve on consolidation, for the excess of its interests in the net fair value of its subsidiaries' identifiable assets and liabilities over the cost of that interest.

Upon adoption of FRS3 *Business Combinations*, such deferred credit was derecognised with a corresponding adjustment to the opening balance of HH Industries' retained earnings.

The effect of the changes on HH Industries' financial statements is as follows:

	2011 RM'000
Effect on retained earnings:	
At 1 January, as previously stated	258
Effect from derecognition of reserve on consolidation	<u>247</u>
At 1 January, as restated	<u><u>505</u></u>

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries

9.6.1 Statements of profit or loss and other comprehensive income of HK Mega Industries

The statements of profit or loss and other comprehensive income of HK Mega Industries which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue	0	0	0
Cost of sales	0	0	0
Gross profit	0	0	0
Other income	0	0	0
Selling and distribution expenses	0	0	0
Administrative and other expenses	(21)	(10)	(4)
Finance costs 9.6.5	(2)	0	0
Profit/(Loss) before tax 9.6.6	(23)	(10)	(4)
Tax (expense)/income 9.6.7	#	0	0
Profit/(loss) for the financial period/year	(23)	(10)	(4)
Other comprehensive income	0	0	0
Total comprehensive income/(loss)	(23)	(10)	(4)

#- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.1 Statements of profit or loss and other comprehensive income of HK Mega Industries (continued)**

The statements of profit or loss and other comprehensive income of HK Mega Industries which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
EBITDA/(LBITDA)	(5)	(4)	(4)
Number of ordinary shares of RM1.00 each ('000)	100	100	100
Weighted average number of ordinary shares of RM1.00 each ('000)	100	100	100
Gross earnings/(loss) per share (RM)	(0.23)	(0.10)	(0.04)
Net earnings/(loss) per share (RM)	(0.23)	(0.10)	(0.04)
GP margin (%)	0	0	0
PBT margin (%)	NA	NA	NA
EBITDA margin (%)	NA	NA	NA
Effective tax rate (%)	0	0	0

N/A- Not applicable

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.2 Statements of financial position of HK Mega Industries**

The statements of financial position of HK Mega Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
ASSETS			
Non-current asset			
Property, plant and equipment 9.6.8	35	3	3
Current assets			
Trade and other receivables 9.6.9	91	116	116
Current tax asset	2	2	2
Cash and bank balances 9.6.10	1	3	#
Total current assets	94	121	118
TOTAL ASSETS	129	124	121
EQUITY AND LIABILITIES			
Share capital 9.6.11	100	100	100
Retained earnings /(Accumulated losses)	(1)	(11)	(15)
TOTAL EQUITY	99	89	85

#- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.2 Statements of financial position of HK Mega Industries (continued)**

The statements of financial position of HK Mega Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
LIABILITIES			
Non-current liabilities			
Hire purchase payable 9.6.13	0	0	0
Current liabilities			
Trade and other payables 9.6.12	30	35	36
Hire purchase payable 9.6.13	0	0	0
Total current liabilities	30	35	36
TOTAL LIABILITIES	30	35	36
TOTAL EQUITY AND LIABILITIES	129	124	121

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.2 Statements of financial position of HK Mega Industries (continued)

The statements of financial position of HK Mega Industries which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	100	100	100
Net assets	99	89	85
Net assets per ordinary share of RM1.00 each (RM)	0.99	0.89	0.85
Trade receivables' turnover period (days)	N/A	N/A	N/A
Trade payables' turnover period (days)	N/A	N/A	N/A
Inventories turnover periods (days)			
- Raw material	N/A	N/A	N/A
- Finished goods	N/A	N/A	N/A
Gearing ratio (times)	N/A	N/A	N/A

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.3 Statements of cash flows of HK Mega Industries**

The statements of cash flows of HK Mega Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax	(23)	(10)	(4)
Adjustments for:			
Bad debts written off	0	0	0
Depreciation for property, plant and equipment	16	6	#
Waiver of debts	0	0	0
Interest expenses	2	0	0
Loss/(Gain) on disposal of property, plant and equipment	0	0	0
Operating profit/(loss) before working capital changes	(5)	(5)	(4)
(Increase)/Decrease in trade and other receivables	21	(25)	0
Increase/(Decrease) in trade and other payables	16	5	1
Interest paid	32	(24)	(3)
Tax paid	(2)	0	0
Net cash flow (used in)/from operating activities	(2)	0	0
	28	(24)	(3)

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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 Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.3 Statements of cash flows of HK Mega Industries (continued)**

The statements of cash flows of HK Mega Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment 9.6.8 (a)	#	0	0
Proceeds from disposal of property, plant and equipment	0	26	0
Net cash flow from investing activities	#	26	0
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of hire purchase payables 9.6.13	(32)	0	0
Net cash flow used in financing activities	(32)	0	0
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4)	2	(3)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	5	1	3
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR 9.6.10	1	3	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.4 Statements of changes in equity of HK Mega Industries

The statements of changes in equity of HK Mega Industries, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 1 January 2011	100	22	122
Total comprehensive income	0	(23)	(23)
As at 31 December 2011	100	(1)	99
At 1 January 2012	100	(1)	99
Total comprehensive income	0	(10)	(10)
At 31 December 2012	100	(11)	89
At 1 January 2013	100	(11)	89
Total comprehensive income	0	(4)	(4)
As at 31 December 2013	100	(15)	85

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.5 Finance costs

	2011 RM'000	FYE 31 December 2012 RM'000	2013 RM'000
Bank charges	#	0	0
Interest on hire purchases	2	0	0
	2	0	0

#- represents amount less than RM1,000

9.6.6 Profit/(Loss) before tax

	2011 RM'000	FYE 31 December 2012 RM'000	2013 RM'000
Profit/(Loss) before tax is arrived after charging:			
Audit fee			
- Current year	2	#	1
Depreciation of property, plant and equipment	16	6	#
Bad debts written off	0	0	0
Directors' remuneration			
- other emoluments	0	0	0
Staff cost	0	0	0
And crediting:			
Gain on disposal of property, plant and equipment	0	0	0
Waiver of debts	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.7 Tax (expense)/income

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
The major components of the tax expense/(income) are:			
Current tax expense based on profit for the year	#	0	0
Underprovision of tax expense in prior year	0	0	0
	#	0	0
Reconciliation of tax expense/(income) and accounting profit:			
Accounting profit/(loss) before tax	(23)	(10)	(4)
Tax rate (%)	25	25	25
Tax at the applicable tax rate	(6)	(3)	(1)
Tax effects of:			
- expenses not deductible for tax purposes	1	1	2
- different tax rate for first RM500,000 of chargeable income	0	0	0
Overprovision of tax expense in prior Year	#	0	0
Deferred tax assets not recognized during the year	5	2	(1)
Tax expense for the financial year	#	0	0

- represent amount less than RM1,000

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of shareholders. HK Mega Industries does not have any Section 108 tax credit and thus it will be automatically moved to the new single tier dividend system.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.8 Property, plant and equipment**

	Balance as at 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Balance as at 31.12.2011 RM'000
2011					
At cost					
Furniture and fittings	#	#	0	0	#
Office equipment	4	0	0	0	4
Motor vehicles	78	0	0	0	78
	82	#	0	0	82

	Balance as at 1.1.2011 RM'000	Current Charge RM'000	Disposals RM'000	Written off RM'000	Balance as at 31.12.2011 RM'000
Accumulated depreciation					
Furniture and fittings	#	#	0	0	#
Office equipment	#	#	0	0	#
Motor vehicles	31	16	0	0	47
	31	16	0	0	47

	Balance as at 1.1.2012 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Balance as at 31.12.2012 RM'000
2012					
At cost					
Furniture and fittings	#	0	0	0	#
Office equipment	4	0	0	0	4
Motor vehicles	78	0	(78)	0	0
	82	0	(78)	0	4

	Balance as at 1.1.2012 RM'000	Current charge RM'000	Disposals RM'000	Written off RM'000	Balance as at 31.12.2012 RM'000
Accumulated depreciation					
Furniture and fittings	#	#	0	0	#
Office equipment	#	1	0	0	1
Motor vehicles	47	5	(52)	0	0
	48	6	(52)	0	1

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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Accountants' Report*

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.8 Property, plant and equipment**

2013	Balance as at 1.1.2013 RM'000	Current charge RM'000	Disposals RM'000	Balance as at 31.12.2013 RM'000
At cost				
Furniture and fittings	#	0	0	#
Office equipment	4	0	0	4
	4	0	0	4
Accumulated depreciation				
Furniture and fittings	#	0	0	#
Office equipment	1	0	0	1
	1	0	0	1

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.8 Property, plant and equipment (continued)**

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Net carrying amount			
Furniture and fittings	#	#	#
Motor vehicles	31	0	0
Office equipment	4	3	3
	35	3	3

- (a) During the financial year, HK Mega Industries made the following cash payments to purchase property, plant and equipment:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Purchase of property, plant and equipment	0	0	0
Financed by hire purchase arrangements	0	0	0
Cash payments on purchase of property, plant and equipment	0	0	0

- (b) The carrying amount of property, plant and equipment of HK Mega Industries acquired under hire purchase arrangements are as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Motor vehicles	0	0	0
	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
 (Company No.: 969678-D)
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.9 Trade and other receivables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade receivables	0	0	0
Non-trade receivables	0	0	0
Amount owing by related party	0	0	0
Amount owing by fellow subsidiary	0	0	0
Amount owing by holding company	91	116	116
	91	116	116

represents amount less than RM1,000

- (a) Trade receivables are non-interest bearing and are generally on 30 days terms. They are recognised at their original invoice amounts which represent their fair value on initial recognition.
- (b) The currency profile of trade and other receivables of HK Mega Industries is in RM.
- (c) The amount owing by immediate holding company is unsecured, interest free and repayable on demand in cash and cash equivalents.
- (d) Information on financial risks of other receivables is disclosed in Section 9.6.16 to the financial statements.

9.6.10 Cash and cash equivalents

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Cash and bank balances	1	3	#
	1	3	#

- (a) Cash and bank balances are denominated in RM.
- (b) Information on financial risks of cash and cash equivalents are disclosed in Section 9.6.16 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.11 Share capital

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Authorised:			
Ordinary shares of RM1 each			
At 1 January	100	100	100
Created during the financial year	0	0	0
At 31 December	100	100	100
Issued and fully paid:			
Ordinary shares of RM1 each			
At 1 January	100	100	100
Issued during the financial year, at par	0	0	0
At 31 December	100	100	100

9.6.12 Trade and other payables

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Current			
Trade payables	0	0	0
Non trade-payables	0	0	0
Amount owing to holding company	0	0	0
Amount owing to fellow subsidiaries	29	34	35
Amount owing to related parties	0	0	0
Deposits received	0	0	0
Accruals	1	1	1
Total current liabilities	30	35	36

- (a) The amount owing to holding company is unsecured, interest free and has no fixed terms of repayment.
- (b) The amount owing to fellow subsidiaries is unsecured, interest free and repayable on demand.
- (c) The amount owing to related parties is non-trade in nature, is secured, interest free and has no fixed terms of repayment.
- (d) Other payables are denominated in RM.
- (e) Information on financial risks of other payables is disclosed in Note 9.6.16 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.13 Hire purchase payables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Representing hire purchase liabilities:			
- current	0	0	0
- non-current	0	0	0
	0	0	0
Minimum hire purchase repayments:			
- Not later than one (1) year	0	0	0
- Later than 1 year and not later than five (5) years	0	0	0
	0	0	0
Future finance charges on hire purchase	0	0	0
Present value of hire purchase liabilities	0	0	0
Present value of hire purchase liabilities:			
- Not later than one (1) year	0	0	0
- Later than 1 year and not later than five (5) years	0	0	0
	0	0	0
	0	0	0
	As at 31 December		
	2011	2012	2013
	%	%	%
Weighted average effective interest rate			
Hire purchase payables	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.14 Related party transaction

(a) Identities of related parties

Parties are considered to be related to HK Mega Industries if HK Mega Industries has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HK Mega Industries and the party are subject to common control or common significant influence. Related parties may be individuals or companies.

HK Mega Industries has controlling related party relationship with its direct and indirect subsidiaries and its immediate and ultimate holding company.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, HK Mega Industries had the following transactions with related parties during the financial year:

	← As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
<u>Sale commission received from a fellow subsidiary company:</u>			
- HK Fibre Sdn. Bhd.	0	0	0
<u>Management fee paid to holding company:</u>			
- Heng Huat Industries Holding Sdn. Bhd. (formerly known as HK Vision Sdn. Bhd.)	0	0	0

The Directors of HK Mega Industries are of the opinion that the related party transactions have been entered into in the normal course of business on an arm's length basis and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.6 HK Mega Industries (continued)****9.6.15 Financial instruments****(a) Capital management**

The primary objective of HK Mega Industries' capital management is to ensure that HK Mega Industries would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of the Company remains unchanged from that in the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Mega Industries manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HK Mega Industries may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Mega Industries is not subject to any externally imposed capital requirements.

HK Mega Industries monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. HK Mega Industries includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Trade and other payables	9.6.12	30	35	36
Less: Cash and cash equivalents	9.6.10	(1)	(3)	(#)
Net debt		29	32	36
Equity		99	89	85
Net debt		29	32	36
Total capital		128	121	121
Gearing ratio		23%	26%	30%

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.15 Financial instruments (continued)

(b) Categories of financial instruments

		<div> <div>←</div> <div>As at 31 December</div> <div>→</div> </div>		
Section		2011 RM'000	2012 RM'000	2013 RM'000
Financial assets				
<i>Loans and receivables</i>				
Trade and other receivables (excludes deposits and prepayments)	9.6.9	91	116	116
Cash and cash equivalents	9.6.10	1	3	#
		92	119	116
		<div> <div>←</div> <div>As at 31 December</div> <div>→</div> </div>		
Section		2011 RM'000	2012 RM'000	2013 RM'000
Financial liabilities				
<i>Other financial liabilities</i>				
Trade and other payables	9.6.12	30	35	35
Borrowings	9.6.13	0	0	0
		30	35	35

(c) Determination of fair value

Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follow:

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value.

The carrying amounts of financial assets and liability, such as other receivables and other payables are reasonable approximation of fair value due to their short-term nature.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.6 HK Mega Industries (continued)

9.6.16 Financial risk management objectives and policies

The HK Mega Industries' overall financial risk management objective is to ensure that HK Mega Industries creates value for its shareholders whilst minimising potential adverse effects on its financial performance and positions. HK Mega Industries is mainly exposed to credit risk and liquidity and cash flow risk. Information on the management of the related exposures is detailed below:

(a) Credit risk

Cash deposits and other receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are creditworthy debtors with good payment records with HK Mega Industries. It is HK Mega Industries' policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HK Mega Industries is exposed to minimal credit risk.

Information regarding credit enhancements for other receivables is disclosed in Section 9.6.9 to the financial statements.

(b) Liquidity and cash flow risk

HK Mega Industries actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HK Mega Industries measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance the HK Mega Industries' activities.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Other payables	30	0	30
Borrowings	0	0	0

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Other payables	35	0	35
Borrowings	0	0	0

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Trade and other payables	36	0	36
Borrowings	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran

9.7.1 Statements of profit or loss and other comprehensive income of HK Kitaran

The statements of profit or loss and other comprehensive income of HK Kitaran which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue 9.7.5	15,160	35,612	36,440
Cost of sales	(6,089)	(14,813)	(18,363)
Gross profit	9,071	20,799	18,077
Other income	381	676	639
Selling and distribution expenses	(1,354)	(7,273)	(6,861)
Administrative and other expenses	(847)	(2,369)	(2,868)
Finance costs 9.7.6	(328)	(1,148)	(1,874)
Profit before tax 9.7.7	6,923	10,685	7,113
Tax (expense)/income 9.7.8	0	0	0
Profit for the financial period/year	6,923	10,685	7,113
Other comprehensive income	0	0	0
Total comprehensive income	6,923	10,685	7,113

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.1 Statements of profit or loss and other comprehensive income of HK Kitaran (continued)

The statements of profit or loss and other comprehensive income of HK Kitaran which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	7,845	13,729	12,233
Number of ordinary shares of RM1.00 each ('000)	1,000	1,000	1,000
Weighted average number of ordinary shares of RM1.00 each ('000)	1,000	1,000	1,000
Gross earnings per share (RM)	6.92	10.69	7.11
Net earnings per share (RM)	6.92	10.69	7.11
GP margin (%)	59.84	58.40	49.61
PBT margin (%)	45.67	30.00	19.52
EBITDA margin (%)	51.75	38.55	33.57
Effective tax rate (%)	0	0	0

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.2 Statements of financial position of HK Kitaran**

The statements of financial position of HK Kitaran which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012, and 31 December 2013 are set out below:

		As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
ASSETS				
Non-current asset				
Property, plant and equipment	9.7.9	18,849	38,890	40,730
Research and development	9.7.10	281	225	281
		19,130	39,115	41,011
Current assets				
Inventories	9.7.11	139	148	731
Trade and other receivables	9.7.12	3,883	13,140	17,543
Current tax asset		15	36	43
Cash and cash equivalents	9.7.13	1,293	1,553	1,874
Total current assets		5,330	14,877	20,191
TOTAL ASSETS		24,460	53,992	61,202
EQUITY AND LIABILITIES				
Share capital	9.7.14	1,000	1,000	1,000
Retained earnings		7,165	17,850	24,963
TOTAL EQUITY		8,165	18,850	25,963

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.2 Statements of financial position of HK Kitaran (continued)**

The statements of financial position of HK Kitaran which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
 (continued)

		As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Section				
LIABILITIES				
Non-current liabilities				
Trade and other payables	9.7.15	350	433	0
Borrowings	9.7.16	7,692	21,189	17,884
Total non-current liabilities		8,042	21,622	17,884
Current liabilities				
Trade and other payables	9.7.15	6,799	5,354	6,811
Borrowings	9.7.16	1,454	8,166	10,544
Total current liabilities		8,253	13,520	17,355
TOTAL LIABILITIES		16,295	35,142	35,239
TOTAL EQUITY AND LIABILITIES		24,460	53,992	61,202

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.2 Statements of financial position of HK Kitaran (continued)

The statements of financial position of HK Kitaran which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012, and 31 December 2013 are set out below: (continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	1,000	1,000	1,000
Net assets	8,165	18,850	25,963
Net assets per ordinary share of RM1.00 each (RM)	8.17	18.85	25.96
Trade receivables' turnover period (days)	76	79	107
Trade payables' turnover period (days)	23	42	15
Inventories turnover periods (days)			
- Raw material	11	1	8
- Finished goods	2	3	10
Gearing ratio (times)	1.12	1.56	1.09

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.3 Statements of cash flows of HK Kitaran

The statements of cash flows of HK Kitaran, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	6,923	10,685	7,113
Adjustments for:			
Depreciation for property, plant and equipment	594	1,896	3,245
Amortisation of research and development	0	56	56
Gain on unrealized foreign currency exchange	0	25	0
Interest income	0	(8)	(17)
Interest expenses	328	1,148	1,874
Loss on disposal of property, plant and equipment	39	32	4
Property, plant and equipment written off	4	0	0
Operating profit before working capital changes	7,888	13,834	12,275
Research and development	(281)	0	0
(Increase)/Decrease in inventories	(55)	(8)	(583)
(Increase)/Decrease in trade and other receivables	(3,626)	(9,282)	(4,404)
Increase/(Decrease) in trade and other payables	4,142	(1,363)	1,024
Interest paid	8,068	3,181	8,312
Tax refund	(328)	(1,148)	(1,874)
Tax paid	0	0	9
Tax paid	(15)	(21)	(17)
Net cash flow from operating activities	7,725	2,012	6,430

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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 Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.3 Statements of cash flows of HK Kitaran (continued)**

The statements of cash flows of HK Kitaran, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 are set out below: (continued)

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Addition on research and development	0	0	(112)
Purchase of property, plant and equipment 9.7.9 (a)	(5,841)	(3,503)	(3,319)
Proceeds from disposal of property, plant and equipment	30	379	17
Interest received 9.7.13	0	0	18
Net cash flow used in investing activities	(5,811)	(3,124)	(3,396)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid 9.7.20	(186)	0	0
Fixed deposit pledged with a licensed bank	0	(550)	(453)
Drawdown of term loan	1,519	0	0
Proceeds from issuance of shares 9.7.14	0	0	0
Repayment of hire purchase payables	(359)	(1,301)	(2,967)
Drawdown of bankers' acceptance	0	3,467	1,487
Repayment of term loan	(1,559)	(878)	(1,820)
Net cash flow from/(used in) financing activities	(585)	738	(3,753)
NET DECREASE IN CASH AND CASH EQUIVALENTS	1,329	(374)	(719)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	(76)	1,253	879
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR 9.7.13 (d)	1,253	879	160

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.4 Statements of changes in equity of HK Kitaran

The statements of changes in equity of HK Kitaran, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 are set out below:

	Share capital RM'000	Distributable	Total RM'000
		Retained earnings RM'000	
Balance at 1 January 2011	200	427	627
Profit for the financial year	0	6,924	6,924
Total comprehensive income	0	6,924	6,924
Transactions with owners			
Ordinary shares issued	800	0	800
Dividend paid	0	(186)	(186)
Total transactions with owners	800	(186)	614
Balance at 31 December 2011	1,000	7,165	8,165

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.4 Statements of changes in equity of HK Kitaran (continued)**

The statements of changes in equity of HK Kitaran, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012, and 31 December 2013 are set out below: (continued)

	Share capital RM'000	<u>Distributable</u> Retained earnings RM'000	Total RM'000
Balance at 1 January 2012	1,000	7,165	8,165
Profit for the financial year	0	10,685	10,685
Total comprehensive income	0	10,685	10,685
At 31 December 2012	1,000	17,850	18,850
Balance at 1 January 2013	1,000	17,850	18,850
Profit for the financial year	0	7,113	7,113
Total comprehensive income	0	7,113	7,113
At 31 December 2013	1,000	24,963	25,963

9.7.5 Revenue

Revenue represents invoiced value of goods sold net of returns and discounts.

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.6 Finance costs**

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Bank charges	0	0	0
Interest on bank overdrafts	4	7	12
Interest on banker's acceptance	0	87	237
Interest charges	0	10	#
Interest on hire purchases	102	366	772
Interest on term loan	222	678	853
	<u>328</u>	<u>1,148</u>	<u>1,874</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.7 Profit before tax

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Profit before tax is arrived after charging:			
Audit fee			
- Current year	5	10	10
- underprovision in respect of prior year	0	5	0
Depreciation of property, plant and equipment	594	1,896	3,245
Director's remuneration			
-Other emoluments	123	265	400
Finance costs on:			
-Interest charges			
-Interest on bank overdraft	3	10	0
-Interest on hire purchase	102	366	0
-Interest on term loan	222	678	0
-Interest on banker's acceptance	0	87	0
Loss on disposal of property, plant and equipment	39	32	4
Loss on foreign currency exchange	5	129	0
Property, plant and equipment written off	4	0	0
Rental of factory	71	44	0
Rental of cylinder	#	0	0
Rental of safety tank	#	3	0
And crediting:			
Bank interest	0	0	11
Fixed deposits interest received	0	8	17
Forwarding charges	61	52	0
Gain on unrealised foreign currency exchange	0	25	0
Gain on foreign currency exchange	8	21	590
Local charges and phyto certificate	25	#	0
Transport charges	#	2	17
Weight charges received	6	8	5

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.8 Tax (expense)/income

	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
The major components of the tax expense/(income) are:			
Current tax expense based on profit for the year	0	0	0
Overprovision of tax expense in prior year	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Deferred tax expense			
- relating to origination and reversal of temporary differences	0	0	0
- overprovision in respect of prior year	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>	<u>0</u>
Reconciliation of tax expense/(income) and accounting profit:			
Accounting profit before tax	<u>6,923</u>	<u>10,685</u>	<u>7,114</u>
Tax rate (%)	25	25	25
Tax at the applicable tax rate	1,731	2,671	1,778
Tax effects of:			
- exempted income	(1,886)	(3,196)	(2,320)
- expenses not deductible for tax purposes	155	542	542
- income not subject to tax	0	(17)	
Overprovision of tax expense in prior year	0	0	0
(Over)/Underprovision of deferred taxation in respect of prior year	0	0	0
Tax expense for the financial year	<u>0</u>	<u>0</u>	<u>0</u>

HK Kitaran has been granted pioneer status by the Ministry of International Trade and Industry for its products under the Promotion of Investments (Amendment) Act, 1986 in which the statutory income is exempted from tax for a period of ten years from 1 July 2010.

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of shareholders. HK Kitaran does not have any Section 108 tax credit and thus it will be automatically moved to the new single tier dividend system.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

	Balance as at 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Transfer RM'000	Balance as at 31.12.2011 RM'000
2011						
At cost						
Freehold land	1,774	21	0	0	0	1,795
Factory building	955	5,277	0	0	0	6,232
Electrical installation	209	101	0	0	0	310
Motor vehicles	417	1,330	(70)	0	0	1,677
Office equipment, furniture and fittings	36	203	0	0	0	239
Machinery and equipment	2,835	6,212	0	(4)	362	9,405
Capital work-in-progress	362	0	0	0	(362)	0
	6,588	13,144	(70)	(4)	0	19,658

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13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

2011	Balance as at 1.1.2011 RM'000	Current charge RM'000	Disposals RM'000	Balance as at 31.12.2011 RM'000
Accumulated depreciation				
Freehold land	0	0	0	0
Factory building	1	19	0	20
Electrical installation	10	22	0	32
Motor vehicles	33	165	(1)	197
Office equipment, furniture and fittings	2	14	0	16
Machinery and equipment	170	374	0	544
	216	594	(1)	809

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

	Balance as At 1.1.2012 RM'000	Additions RM'000	Disposals RM'000	Balance as At 31.12.2012 RM'000
2012				
At cost				
Freehold land	1,795	6,878	0	8,673
Factory building	6,232	1,075	0	7,307
Electrical installation	310	544	0	854
Motor vehicles	1,677	1,465	(25)	3,117
Office equipment, furniture and fittings	239	452	0	691
Machinery and equipment	9,405	11,934	(476)	20,863
	19,658	22,348	(501)	41,505

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

	Balance as At 1.1.2012 RM'000	Current charge RM'000	Disposals RM'000	Balance as At 31.12.2012 RM'000
2012				
Accumulated depreciation				
Freehold land	0	0	0	0
Factory building	21	127	0	148
Electrical installation	32	49	0	81
Motor vehicles	196	457	(11)	642
Office equipment, furniture and fittings	16	92	0	108
Machinery and equipment	544	1,171	(79)	1,636
	809	1,896	(90)	2,615

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

	Balance as At 1.1.2013 RM'000	Additions RM'000	Disposals RM'000	Balance as At 31.12.2013 RM'000
2013				
At cost				
Freehold land	8,673	0	0	8,673
Factory building	7,307	226	0	7,533
Electrical installation	854	1,461	0	2,315
Motor vehicles	3,117	145	(41)	3,221
Office equipment, furniture and fittings	691	31	#	722
Machinery and equipment	20,863	3,242	(5)	24,100
	41,505	5,105	(46)	46,564

- represent amount less than RM1,000

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13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

	Balance as At 1.1.2013 RM'000	Current charge RM'000	Disposals RM'000	Written off RM'000	Balance as At 31.12.2013 RM'000
2013					
Accumulated depreciation					
Freehold land	0	0	0	0	0
Factory building	148	149	0	0	297
Electrical installation	81	174	0	0	255
Motor vehicles	642	641	(26)	0	1,257
Office equipment, furniture and fittings	108	107	#	0	215
Machinery and equipment	1,636	2,174	0	0	3,810
	2,615	3,245	(26)	0	5,834

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.9 Property, plant and equipment (continued)**

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Net carrying amount			
Freehold land	1,795	8,673	8,673
Factory building	6,212	7,159	7,236
Electrical installation	278	773	2,060
Motor vehicles	1,480	2,475	1,964
Office equipment, furniture and fittings	223	583	507
Machinery and equipment	8,861	19,227	20,290
Capital Work in progress	0	0	0
	<u>18,849</u>	<u>38,890</u>	<u>40,730</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.9 Property, plant and equipment (continued)

- (a) During the financial year, HK Kitaran made the following cash payments to purchase property, plant and equipment:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Purchase of property, plant and equipment	13,143	22,348	5,106
Financed by hire purchase and term loan arrangements	(7,302)	(18,845)	(1,787)
Cash payments on purchase of property, plant and equipment	5,841	3,503	3,319

- (b) The carrying amount of property, plant and equipment of HK Kitaran acquired under hire purchase arrangements are as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Plant and equipment	3,793	10,565	12,886
Motor vehicles	1,097	2,108	1,635
	4,890	12,673	2,921

9.7.10 Research & Development

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Research & development, at cost	281	281	281
Add: Addition	0	0	112
Less: Amortisation	0	(56)	(112)
Carrying amount	281	225	281

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.11 Inventories

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
At cost			
Raw material	47	3	28
Packing material	54	23	8
Finished goods	38	122	508
Spare parts	0	0	187
	139	148	731

9.7.12 Trade and other receivables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade receivables	3,149	7,724	10,686
Non-trade receivables	220	683	8
Deposits	196	314	71
Prepayments	278	837	846
Amount due by related parties	40	2	0
Amount owing by ultimate holding company	0	0	3,050
Amount owing by holding companies	0	1,465	0
Amount owing by fellow subsidiaries	0	2,115	2,882
	3,883	13,140	17,543

- (a) Trade receivables are non-interest bearing and are the normal credit trade terms granted by the Company range from 30 to 40 days. They are recognised at their original invoice amounts which represent their fair value on initial recognition.
- (b) Amount owing by related parties, amount owing by fellow subsidiaries and amount owing by holding companies are unsecured, interest-free and repayable on demand in cash and cash equivalents.
- (c) The currency exposure profile of receivables is as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Ringgit Malaysia	2,892	5,668	7,257
Renminbi	991	5,046	7,618
US Dollar	0	2,426	2,668
	3,883	13,140	17,543

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.12 Trade and other receivables (continued)

(d) The ageing analysis of trade receivables of HK Kitaran are as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

Neither past due nor impaired	2,538	2,230	9,773
Past due, not impaired			
1 to 30 days	611	1,801	850
31 to 60 days	0	2,537	63
61 to 90 days	0	49	0
91 to 120 days	0	80	0
More than 120 days	0	1,027	0
	611	5,494	913
Total trade receivables	3,149	7,724	10,686

Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with HK Kitaran.

None of the trade receivables of HK Kitaran that are neither past due nor impaired have been renegotiated during the financial year.

Trade receivables that are past due but not impaired

HK Kitaran has trade receivables amounting to RM913,000 (2012:RM5,494,000 and 2011:RM611,000) that are past due at the reporting date but not impaired.

The management is confident that the amounts are recoverable as these accounts are still active.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.13 Cash and cash equivalents

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	1,293	995	863
Deposits with licensed banks	0	558	1,011
	<u>1,293</u>	<u>1,553</u>	<u>1,874</u>

- (a) Cash and cash equivalents are denominated in RM.
- (b) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Cash and bank balances	1,293	995	863
Deposits with licensed banks	0	558	1,011
	<u>1,293</u>	<u>1,553</u>	<u>1,874</u>
Less: Bank overdraft including in borrowings	(39)	(115)	(703)
Deposits pledged to licensed banks	0	(558)	(1,011)
	<u>1,254</u>	<u>880</u>	<u>160</u>

9.7.14 Share capital

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Authorised:			
Ordinary shares of RM1 each			
At 1 January	500	1,000	1,000
Additions during the financial year, at par	500	0	0
At 31 December	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Issued and fully paid:			
Ordinary shares of RM1 each			
At 1 January	200	1,000	1,000
Issued during the financial year, at par	800	0	0
At 31 December	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

S₂ - represents RM2

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.15 Trade and other payables

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
Current			
Trade payables	377	1,688	744
Non trade-payables	4,164	1,411	2,546
Amount owing to immediate holding company	1,600	1,600	1,704
Amount owing to fellow subsidiaries	0	#	1,111
Amount owing to Directors	0	0	0
Deposits received	0	0	0
Accruals	658	655	706
Total current liabilities	6,799	5,354	6,811
Non-current			
Amount owing to related parties	0	0	0
Amount owing to immediate holding company	0	334	0
Amount owing to holding company	6	0	0
Amount owing to fellow subsidiaries	344	99	0
	350	433	0
	7,149	5,787	6,811

- (a) Trade and other payables are denominated in RM.
- (b) The amount owing to holding company is unsecured, interest free and repayable on demand in cash and cash equivalents.
- (b) The amount owing to fellow subsidiary companies are unsecured, interest free and repayable on demand in cash and cash equivalents.
- (d) Trade payables are non-interest bearing and the normal trade credit terms granted to HK Kitaran is 90 days (2012: 90 days and 2011: 90 days)

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.16 Borrowings

		← As at 31 December →		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Current liabilities				
Term loan	9.7.16	588	1,705	1,899
Hire purchase payables	9.7.17	826	2,878	2,988
Bank overdraft	9.7.18	40	116	703
Banker's acceptance		0	3,467	4,954
		<u>1,454</u>	<u>8,166</u>	<u>10,544</u>
Non-current liabilities				
Term loan	9.7.16	5,186	11,667	9,653
Hire purchase payables	9.7.17	2,506	9,522	8,231
		<u>7,692</u>	<u>21,189</u>	<u>17,884</u>
Total borrowings				
Term loan	9.7.16	5,774	13,372	11,552
Hire purchase payables	9.7.17	3,332	12,400	11,219
Bank overdraft	9.7.18	40	116	703
Banker's acceptance		0	3,467	4,954
		<u>9,146</u>	<u>29,355</u>	<u>28,428</u>

All borrowings are denominated in RM.

9.7.17 Term loan

The term loan of HK Kitaran is secured by:

- legal charge over the HK Kitaran's land and building (Section 9.7.9)
- joint and several guarantee by the Directors; and
- Corporate guarantee provided by the immediate holding company and fellow subsidiary companies

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.18 Hire purchase payables

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Representing hire purchase liabilities:			
- current	826	2,878	2,988
- non-current	2,505	9,521	8,231
	<u>3,331</u>	<u>12,399</u>	<u>11,219</u>
Minimum hire purchase repayments:			
- Not later than one (1) year	1,030	3,530	3,757
- Later than 1 year and not later than five (5) years	2,782	10,639	8,770
	<u>3,812</u>	<u>14,169</u>	<u>12,527</u>
Future finance charges on hire purchase	(481)	(1,770)	(1,308)
Present value of hire purchase liabilities	<u>3,331</u>	<u>12,399</u>	<u>11,219</u>
Present value of hire purchase liabilities:			
- Not later than one (1) year	826	2,878	2,988
- Later than 1 year and not later than five (5) years	2,505	9,521	8,231
	<u>3,331</u>	<u>12,399</u>	<u>11,219</u>
	← As at 31 December →		
	2011 %	2012 %	2013 %
Weighted average effective interest rate			
Hire purchase payables	<u>6.81</u>	<u>6.26</u>	<u>6.20</u>

9.7.19 Bank Overdraft

Bank overdraft of HK Kitaran is secured by joint and several guarantee by the Directors and corporate guarantee provided by a fellow subsidiary company.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.20 Dividend**

Dividend declared and paid is as follows:

Financial year ended
 31 December 2011

	Gross dividend per share RM	Amount of dividend RM'000
Single tier interim dividend	0.186	186,000

9.7.21 Employee benefits

	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Salaries, wages and allowances	1,499	3,945	5,800
Contributions to defined contribution plan	80	166	244
Social security contributions	6	18	23
Other benefits	116	325	110
	<u>1,701</u>	<u>4,454</u>	<u>6,177</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.22 Related party transaction

(a) Identities of related parties

Parties are considered to be related to HK Kitaran if HK Kitaran has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HK Kitaran and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

HK Kitaran has controlling related party relationship with its direct and indirect subsidiaries and its immediate and ultimate holding company.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, HK Kitaran had the following transactions with its related parties during the financial year:

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
<u>Purchase of empty fruit bunch from a fellow subsidiary company:</u>			
HK Palm Fibre Manufacturer Sdn. Bhd.	0	267	0
<u>Management fee paid to holding company:</u>			
Heng Huat Industries Holdings Sdn. Bhd.	150	180	180
<u>Advances from a fellow subsidiary company</u>			
HK Fibre Sdn. Bhd.	150	180	180
<u>Advances to a fellow subsidiary company</u>			
HK Palm Fibre Manufacturer Sdn. Bhd.	0	1,155	0
<u>Purchase of mattress from a fellow subsidiary company</u>			
Fibre Star Marketing Sdn. Bhd.	0	9	0

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.23 Financial instruments****(a) Capital management**

The primary objective of HK Kitaran's capital management is to ensure that HK Kitaran would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

HK Kitaran manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HK Kitaran may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Kitaran is not subject to any externally imposed capital requirements.

HK Kitaran monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. HK Kitaran includes within net debt, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Loan and Borrowings	9.7.16	9,146	29,355	28,428
Trade and other payables	9.7.15	6,799	5,354	6,811
Total liabilities		15,945	34,709	35,239
Less: Cash and cash equivalents	9.7.13	(1,293)	(1,553)	(1,874)
Net debt		14,652	33,156	33,365
Equity		8,165	18,029	25,963
Net debt		14,652	33,156	33,365
Total capital		22,817	51,185	59,328
Gearing ratio		64%	65%	56%

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.23 Financial instruments (continued)

(b) Categories of financial instruments

	Section	As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Financial assets				
<i>Loans and receivables</i>				
Trade and other receivables (excludes deposits and prepayments)	9.7.12	3,409	11,989	16,627
Cash and cash equivalents	9.7.13	1,293	1,553	1,874
		<u>4,702</u>	<u>13,542</u>	<u>18,501</u>

	Section	As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
Financial liabilities				
<i>Other financial liabilities</i>				
Trade and other payables	9.7.15	6,799	5,787	6,811
Borrowings	9.7.16	9,145	29,355	28,428
		<u>15,944</u>	<u>35,142</u>	<u>35,239</u>

(c) Fair values of financial instruments

The fair values of financial instruments that are not carried at fair value and whose carrying amounts do not approximate its fair values are as follows:

	Section	Carrying amount RM'000	Fair value RM'000
At 31.12.2011			
Hire purchase payables	9.7.17	<u>3,332</u>	<u>3,328</u>
At 31.12.2012			
Hire purchase payables	9.7.17	<u>12,400</u>	<u>12,064</u>
At 31.12.2013			
Hire purchase payables	9.7.17	<u>11,219</u>	<u>11,219</u>

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.23 Financial instruments (continued)

(d) Determination of fair value

Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follow:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amount of financial assets and liabilities, such as trade and other receivables, trade and other payables and term loan, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

- (ii) Hire purchase payables

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of borrowing at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.24 Financial risk management objectives and policies**

HK Kitaran's overall financial risk management objective is to ensure that HK Kitaran creates value for its shareholders whilst minimising the potential adverse effects on its financial performance and positions. HK Kitaran is mainly exposed to credit risk, interest rate risk, foreign currency risk and liquidity and cash flow risk. Information on the management of the related exposures are detailed below:

(a) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is HK Kitaran's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HK Kitaran is exposed to minimal credit risk.

HK Kitaran's primary exposure to credit risk arises through its trade receivables. HK Kitaran's trading terms with its customers normally requires deposits in advance. The credit period is generally for a period of one (1) month, extending up to three (3) months for major customers. Each customer has a maximum credit limit and HK Kitaran seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Credit risk concentration profile

HK Kitaran determines concentration of credit risk by monitoring the country and industry sector profiles of its trade receivables on an ongoing basis. The credit risk concentration profile of HK Kitaran's trade receivables at the end of the reporting period are as follows:

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
By country			
Malaysia	2,158	251	3,214
People's Republic of China	991	5,046	5,046
United States	0	2,426	2,426
	<u>3,149</u>	<u>7,723</u>	<u>10,686</u>

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Section 9.7.12 to the financial statements. Deposits with banks and other financial institutions, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Section 9.7.12.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies

(b) Liquidity and cash flow risk

HK Kitaran actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HK Kitaran measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance HK Kitaran's activities.

The table below summarises the maturity profile of HK Kitaran's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Trade and other payables	6,799	350	7,149
Borrowings	1,454	7,691	9,145
Total undiscounted financial liabilities	8,253	8,041	16,294

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.24 Financial risk management objectives and policies (continued)****(b) Liquidity and cash flow risk (continued)**

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Trade and other payables	5,354	433	5,787
Borrowings	8,166	21,189	29,355
Total undiscounted financial liabilities	13,520	21,622	35,142

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Trade and other payables	6,811	0	6,811
Borrowings	10,544	17,884	28,428
Total undiscounted financial liabilities	17,355	17,884	35,239

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of HK Kitaran's financial instruments will fluctuate because of changes in market interest rates.

HK Kitaran's exposure to interest rate risk arises primarily from variable loans and borrowings. These interest-bearing borrowings are monitored to ensure HK Kitaran enjoys competitive borrowing rates.

As at the reporting date, HK Kitaran does not engage any interest hedging instruments in respect of such interest rate fluctuations.

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.7 HK Kitaran (continued)****9.7.24 Financial risk management objectives and policies (continued)****(c) Interest rate risk**Sensitivity analysis for interest rate risk

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which HK Kitaran has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

The following table indicates the approximate (decrease)/increase in profit for the financial year in response to reasonably possible changes in an interest rate to which HK Kitaran has significant exposure at the end of reporting year. In determining the effect of profit for the financial year, we assumed that the change in interest rate had occurred at the end of the reporting period and all other variable remain constant.

	← 2011 RM	As at 31 December 2012 RM	→ 2013 RM
Applicable interest rate:			
Increase 10 basis points	(1)	(66)	(45)
Decrease 10 basis points	1	66	45

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Kitaran's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	31.12.2011		
			Within 1 year RM'000	More than 2 years RM'000	Total RM'000
Fixed rate					
Hire purchase payables	9.7.17	6.81	826	2,505	3,331
Floating rate					
Bank overdraft	9.7.18	7.60	39	0	39
Term loan	9.7.16	6.05	588	5,186	5,774

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13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Kitaran's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2012					
Fixed rate					
Hire purchase payables	9.7.17	6.29	2,806	9,594	12,400
Floating rate					
Bank overdraft	9.7.18	8.10	115	0	115
Term loan	9.7.16	5.19	1,705	11,667	13,372

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Kitaran's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2013					
Fixed rate					
Hire purchase payables	9.7.17	6.29	2,988	8,231	11,219
Floating rate					
Bank overdraft	9.7.18	8.10	703	0	703
Term loan	9.7.16	5.19	1,899	9,653	11,552

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.7 HK Kitaran (continued)

9.7.24 Financial risk management objectives and policies (continued)

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at the reporting date, HK Kitaran does not engage any foreign currency hedging instruments in respect of such foreign exchange fluctuations.

Transactional currency exposures arise from sales to East Asia customer. These sales are priced in RM but invoiced in the currencies of the customers involved.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of HK Kitaran's profit net of tax to a reasonably possible change in the RMB and USD exchange rates against the functional currency of HK Kitaran with all the other variables held constant.

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
RMB/RM - strengthen by 5%	(99)	(189)	(286)
- weaken by 5%	99	189	286
USD/RM - strengthen by 5%	0	(91)	(100)
- weaken by 5%	0	91	100

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre

9.8.1 Statements of profit or loss and other comprehensive income of HK Fibre

The statements of profit or loss and other comprehensive income of HK Fibre which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
Revenue 9.8.5	4,596	9,667	12,516
Cost of sales	(3,148)	(6,080)	(7,362)
Gross profit	1,448	3,587	5,154
Other income	9	16	108
Selling and distribution expenses	(281)	(616)	(455)
Administrative and other expenses	(452)	(447)	(562)
Finance costs 9.8.6	(57)	(68)	(152)
Profit before tax 9.8.7	667	2,472	4,093
Tax (expense)/income 9.8.8	0	(128)	(769)
Profit for the financial year	667	2,344	3,324
Other comprehensive income	0	0	0
Total comprehensive income	667	2,344	3,324

#- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.1 Statements of profit or loss and other comprehensive income of HK Fiber (continued)

The statements of profit or loss and other comprehensive income of HK Fibre which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 after appropriate adjustments and reclassifications, are set out below: (continued)

	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
EBITDA	995	2,879	4,624
Number of ordinary shares of RM1.00 each ('000)	500	500	500
Weighted average number of ordinary shares of RM1.00 each ('000)	500	500	500
Gross earnings per share (RM)	1.33	4.94	8.19
Net earnings per share (RM)	1.33	4.69	6.65
GP margin (%)	31.51	37.11	41.18
PBT margin (%)	14.51	25.57	32.70
EBITDA margin (%)	21.65	29.78	36.94
Effective tax rate (%)	0	5.18	18.79

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.2 Statements of financial position of HK Fibre**

The statements of financial position of HK Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

		As at 31 December		
		2011 RM'000	2012 RM'000	2013 RM'000
ASSETS				
Non-current asset				
Property, plant and equipment	9.8.9	1,709	2,032	5,583
Current assets				
Inventories	9.8.10	89	467	493
Trade and other receivables	9.8.11	1,120	3,267	5,267
Current tax asset		0	0	102
Cash and cash equivalents	9.8.12	633	907	1,299
Total current assets		1,842	4,641	7,161
TOTAL ASSETS		3,551	6,673	12,744
EQUITY AND LIABILITIES				
Share capital	9.8.13	500	500	500
Retained earnings		1,319	3,663	6,987
TOTAL EQUITY		1,819	4,163	7,487

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.2 Statements of financial position of HK Fibre (continued)

The statements of financial position of HK Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

Section	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
LIABILITIES			
Non-current liabilities			
Borrowings 9.8.15	840	628	3,052
Deferred tax liability	0	0	250
	840	628	3,302
Current liabilities			
Trade and other payables 9.8.14	441	1,102	1,043
Current tax liability	0	32	0
Borrowings 9.8.15	451	748	912
Total current liabilities	892	1,882	1,955
TOTAL LIABILITIES	1,732	2,510	5,257
TOTAL EQUITY AND LIABILITIES	3,551	6,673	12,744

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.2 Statements of financial position of HK Fibre (continued)

The statements of financial position of HK Fibre which are extracted from the audited financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	As at 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Number of ordinary shares of RM1.00 each in issue ('000)	500	500	500
Net assets	1,819	4,163	7,487
Net assets per ordinary share of RM1.00 each (RM)	3.64	8.33	14.97
Trade receivables' turnover period (days)	43	89	66
Trade payables' turnover period (days)	10	26	22
Inventories turnover periods (days)			
- Raw material	1	28	19
- Finished goods	5	11	15
Gearing ratio (times)	0.71	0.33	0.53

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.3 Statements of cash flows of HK Fibre

The statements of cash flows of HK Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	667	2,472	4,093
Adjustments for:			
Interest income	(9)	(15)	(17)
Gain on foreign exchange	0	0	(90)
Depreciation for property, plant and equipment	271	339	377
Loss/(Gain) on disposal of property, plant and equipment	#	0	0
Interest expense	51	65	148
Operating profit before working capital changes	979	2,861	4,511
(Increase)/Decrease in inventories	135	(379)	(26)
(Increase)/Decrease in trade and other receivables	(841)	(2,147)	(1,909)
Increase/ (decrease) in trade and other payables	(57)	661	(59)
Interest paid	216	996	2,517
Tax paid	(51)	(65)	(148)
	0	(96)	(653)
Net cash flow from operating activities	165	835	1,716

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.3 Statements of cash flows of HK Fibre (continued)

The statements of cash flows of HK Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:
(continued)

Section	FYE 31 DECEMBER		
	2011 RM'000	2012 RM'000	2013 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment 9.8.9 (a)	(440)	(568)	(1,899)
Interest income	9	15	17
Proceeds from disposal of property, plant and equipment	14	0	0
Net changes in fixed deposit pledged to a licensed bank 9.8.12	(134)	(21)	322
Net cash flow used in investing activities	(551)	(574)	(1,560)
CASH FLOW FROM FINANCING ACTIVITIES			
Drawdown of term loan	750	100	1,300
Repayment of hire purchase payables	(43)	(69)	(136)
Repayment of term loan	(233)	(288)	(460)
Net cash flow from/(used in) financing activities	474	(257)	704
NET CHANGE IN CASH AND CASH EQUIVALENTS	88	4	860
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	(46)	42	46
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR 9.8.12 (d)	42	46	906

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.4 Statements of changes in equity of HK Fibre

The statements of changes in equity of HK Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

	Share capital RM'000	Distributable	Total RM'000
		Retained earnings RM'000	
At 1 January 2011	500	652	1,152
Effect of adoption of MFRS 1	0	0	0
Restated balance as at 1 January 2011	500	652	1,152
Profit for the financial year	0	667	667
Total comprehensive income	0	667	667
As at 31 December 2011	500	1,319	1,819

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.4 Statements of changes in equity of HK Fibre (continued)**

The statements of changes in equity of HK Fibre, which are extracted from the audited financial statements for the FYE 31 December 2011, 31 December 2012 and 31 December 2013 are set out below: (continued)

	Share capital RM'000	<u>Distributable</u> Retained earnings RM'000	Total RM'000
At 1 January 2012	500	1,319	1,819
Profit for the financial year	0	2,344	2,344
Total comprehensive income	0	2,344	2,344
At 31 December 2012	500	3,663	4,163
At 1 January 2013	500	3,663	4,163
Profit for the financial year	0	3,324	3,324
Total comprehensive income	0	3,324	3,324
At 31 December 2013	500	6,987	7,487

9.8.5 Revenue

Revenue represents invoiced value of goods sold net of returns and discounts.

9.8.6 Finance costs

	2011 RM'000	FYE 31 December 2012 RM'000	2013 RM'000
Bank charges	6	2	4
Interest on bank overdrafts	14	25	35
Interest on hire purchases	6	9	42
Interest on term loan	32	32	71
	<u>58</u>	<u>68</u>	<u>152</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.7 Profit before tax

	FYE 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Profit before tax is arrived after charging:			
Audit fee	5	5	7
Bad debt written off	0	0	0
Depreciation of property, plant and equipment	271	339	377
Directors' remuneration			
- other emolument	0	0	0
Loss on disposal of property, plant and equipment	#	0	0
Rental	63	63	5
Staff cost	880	1,143	2,043
Interest expenses on:			
-bank overdraft	14	25	35
-hire purchase	6	9	42
-term loan	32	32	71
and crediting:			
Interest income	9	15	17

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.8 Tax (expense)/income

	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
The major components of the tax (income)/expense are:			
Current tax expense based on profit for the year	0	128	362
Underprovision of tax expense in prior year	0	0	157
	0	128	519
Deferred tax expense (Section 9.8.16)			
-relating to origination and reversal of temporary differences	0	0	64
-(over)/underprovision of deferred tax in respect of prior year	0	0	186
	0	0	769
Reconciliation of tax (income)/expense and accounting profit:			
Accounting profit before tax	667	2,472	4,093
Tax rate (%)	25	25	25
Tax at the applicable tax rate	167	618	1,023
Tax effects of:			
- exempted income	(196)	(4)	(25)
- expenses not deductible for tax purposes	29	86	42
- tax exempt income under pioneer status	0	(572)	(614)
Underprovision of tax expense in prior year	0	0	157
(Over)/Underprovision of deferred tax in respect of prior year	0	0	186
Tax (income)/expense for the financial year	0	128	769

The Malaysian Budget 2008 introduced a single tier income tax system with effect from year of assessment 2008. Companies without Section 108 tax credit will automatically move to the new single tier dividend system on 1 January 2008 whilst companies with such tax credit are given an irrevocable option to switch to the new system during the transitional period of six years. All the companies will be in the new system on 1 January 2014. Under the new system, tax on profits of companies is a final tax and dividend distributed will be exempted from tax in the hands of shareholders. HK Fibre does not have any Section 108 tax credit and thus it will be automatically moved to the new single tier dividend system.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.9 Property, plant and equipment

	Balance as at 1.1.2011 RM'000	Additions RM'000	Disposals RM'000	Balance as at 31.12.2011 RM'000
2011				
At cost				
Container	18	0	0	18
Electrical installation	172	0	0	171
Furniture and fittings	6	0	0	6
Machinery and equipment	1,320	68	(27)	1,361
Motor vehicles	255	79	0	334
Office equipment	17	0	0	17
Renovation	509	349	0	858
Signboard	2	0	0	2
	2,299	496	(27)	2,767

	Balance as at 1.1.2011 RM'000	Current charge RM'000	Disposals RM'000	Balance as at 31.12.2011 RM'000
Accumulated depreciation				
Container	6	2	0	8
Electrical installation	56	17	0	73
Furniture and fittings	1	#	0	3
Machinery and equipment	433	136	(13)	555
Motor vehicles	124	60	0	184
Office equipment	5	1	0	5
Renovation	176	54	0	230
Signboard	#	#	0	#
	801	271	(13)	1,058

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.9 Property, plant and equipment (continued)

	Balance as at 1.1.2012 RM'000	Additions RM'000	Balance as At 31.12.2012 RM'000
2012			
At cost			
Container	18	0	18
Electrical installation	171	0	171
Furniture and fittings	6	0	6
Machinery and equipment	1,361	491	1,852
Motor vehicles	334	118	452
Office equipment	17	3	20
Renovation	858	50	908
Signboard	2	0	2
	<u>2,767</u>	<u>662</u>	<u>3,429</u>
	Balance as at 1.1.2012 RM'000	Current charge RM'000	Balance as at 31.12.2012 RM'000
2012			
Accumulated depreciation			
Container	8	2	10
Electrical installation	73	17	90
Furniture and fittings	3	#	3
Machinery and equipment	555	154	709
Motor vehicles	184	74	258
Office equipment	5	2	7
Renovation	230	90	320
Signboard	#	#	#
	<u>1,058</u>	<u>339</u>	<u>1,397</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.9 Property, plant and equipment (continued)

	Balance as at 1.1.2013 RM'000	Additions RM'000	Disposals RM'000	Balance as at 31.12.2013 RM'000
2013				
At cost				
Land	0	807	0	807
Container	18	0	0	18
Electrical installation	171	0	0	172
Furniture and fittings	6	0	0	6
Machinery and equipment	1,852	2,963	0	4,815
Motor vehicles	452	0	0	452
Office equipment	20	0	0	20
Renovation	908	158	0	1,066
Signboard	2	0	0	2
	<u>3,429</u>	<u>3,929</u>	<u>0</u>	<u>7,358</u>

	Balance as At 1.1.2013 RM'000	Current charge RM'000	Disposals RM'000	Balance as At 31.12.2013 RM'000
2013				
Accumulated depreciation				
Land	0	0	0	0
Container	10	2	0	12
Electrical installation	90	18	0	108
Furniture and fittings	3	#	0	4
Machinery and equipment	709	192	0	901
Motor vehicles	258	70	0	328
Office equipment	7	2	0	9
Renovation	320	93	0	413
Signboard	#	#	0	#
	<u>1,397</u>	<u>377</u>	<u>0</u>	<u>1,775</u>

- represent amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.9 Property, plant and equipment (continued)

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Net carrying amount			
Land	0	0	807
Container	10	8	6
Electrical installation	98	81	64
Furniture and fittings	3	3	2
Machinery and equipment	806	1,143	3,914
Motor vehicles	150	194	124
Office equipment	12	13	11
Renovation	628	588	653
Signboard	2	2	2
	1,709	2,032	5,583

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.9 Property, plant and equipment (continued)

- (a) During the financial year, HK Fibre made the following cash payments to purchase property, plant and equipment:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Purchase of property, plant and equipment	496	662	3,929
Financed by hire purchase arrangements	(56)	(94)	(2,030)
Cash payments on purchase of property, plant and equipment	440	568	1,899

- (b) The carrying amount of property, plant and equipment of HK Fibre acquired under hire purchase arrangements are as follows:

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
Motor vehicles	81	165	118
Machinery and equipment	0	0	2,818
	81	165	2,936

9.8.10 Inventories

	← 2011 RM'000	As at 31 December 2012 RM'000	→ 2013 RM'000
At cost			
Raw Materials	4	254	152
Packing material	46	34	34
Finished goods	39	180	307
	89	468	493

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.11 Trade and other receivables

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Trade receivables	532	2,343	2,245
Non-trade receivables	37	4	15
Amount owing by a fellow subsidiary company	373	537	2,775
Amount owing by a related party	68	0	0
Amount owing by holding company	63	62	53
Deposits	42	263	41
Prepayments	5	58	138
	<u>1,120</u>	<u>3,267</u>	<u>5,267</u>

(a) Trade receivables are non-interest bearing and are generally on 30 to 90 days. They are recognised at their original invoice amounts which represent their fair value on initial recognition.

(b) The ageing analysis of trade receivables of HK Fibre are as follows:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

Neither past due nor impaired	354	920	2,235
Past due, not impaired			
1 to 30 days	161	646	10
31 to 60 days	#	467	0
61 to 90 days	2	285	0
> 120 days	15	25	0
	<u>178</u>	<u>1,423</u>	<u>10</u>
Total trade receivables	<u>532</u>	<u>2,343</u>	<u>2,245</u>

- represents amount less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

*Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.11 Trade and other receivables (continued)**Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with HK Fibre.

None of HK Fibre's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Trade receivables that are past due but not impaired

HK Fibre has trade receivables amounting to RM10,000 (2012:RM1,423,000 and 2011: RM178,000) that are past due at the reporting date but not impaired.

The management is confident that the amounts are recoverable as these accounts are still active.

(c) The currency exposure profile of receivables is as follows:

	← 2011 RM'000	As at 31 December 2012 RM'000	2013 RM'000 →
Ringgit Malaysia	755	2,737	5,201
US Dollar	0	530	66
Chinese Renmimbi	365	0	0
	1,120	3,267	5,267

(d) The amount owing by a fellow subsidiary company, a related party and holding company are unsecured, interest free and have no fixed terms of repayment.

(e) Information on financial risks of trade and other receivables are disclosed in Section 9.8.23 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre (continued)

9.8.12 Cash and cash equivalents

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	463	484	162
Cash and bank balances	170	423	1,137
	<u>633</u>	<u>907</u>	<u>1,299</u>

- (a) Information on financial risks of cash and cash equivalents are disclosed in Section 9.8.23.
- (b) The fixed deposits are pledged as security for bank guarantee granted to the Company.
- (c) All cash and cash equivalents are denominated in RM.
- (d) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Fixed deposits	463	484	162
Cash and bank balances	170	423	1,137
	<u>633</u>	<u>907</u>	<u>1,299</u>
Less: Fixed deposits pledged to licensed banks	(463)	(484)	(162)
Less: Bank overdrafts included in borrowings	(129)	(377)	(231)
	<u>41</u>	<u>46</u>	<u>906</u>

9.8.13 Share capital

	As at 31 December		
	2011	2012	2013
	RM'000	RM'000	RM'000
Authorised:			
Ordinary shares of RM1 each	<u>500</u>	<u>500</u>	<u>500</u>
Issued and fully paid:			
Ordinary shares of RM1 each	<u>500</u>	<u>500</u>	<u>500</u>

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.14 Trade and other payables**

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Trade payables	82	426	446
Non trade-payables	147	256	326
Amount owing to holding company		0	0
Amount owing to a fellow subsidiary company	0	0	0
Amount owing to a related party			
- trade	1	274	95
- non trade	0	0	0
Amount owing to Directors	125	0	0
Accruals	86	146	176
	<u>441</u>	<u>1,102</u>	<u>1,043</u>

- (a) Trade payables are non-interest bearing and the normal trade credit term granted to HK Fibre is 60 days.
- (b) The amount owing to Directors is non-trade in nature, unsecured, interest free and repayable on demand.
- (c) The amount owing to a related party is unsecured, interest free and has no fixed terms of repayment.
- The related party is a company incorporated in Malaysia, in which certain Directors of HK Fibre have significant and controlling financial interests.
- (d) Trade and other payables are denominated in RM.
- (e) Information on financial risks of trade and other payables are disclosed in section 9.8.23 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre (continued)****9.8.15 Borrowings**

		← As at 31 December →		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Current liabilities				
Term loan	9.8.16	275	319	282
Hire purchase payables	9.8.17	47	52	399
Bank overdraft		129	377	231
		<u>451</u>	<u>748</u>	<u>912</u>
Non-current liabilities				
Term loan	9.8.16	807	575	1,452
Hire purchase payables	9.8.17	33	53	1,600
		<u>840</u>	<u>628</u>	<u>3,052</u>
Total borrowings				
Term loan	9.8.16	1,082	894	1,734
Hire purchase payables	9.8.17	80	105	1,999
Bank overdraft		129	377	231
		<u>1,291</u>	<u>1,376</u>	<u>3,964</u>

The currency profile of borrowings of HK Fibre is in RM.

9.8.16 Term loan

The bank borrowings are covered by way of the following:

- (a) Facility Agreement to be stamped for RM770,000.
- (b) Jointly and severally guaranteed by three Directors of HK Fibre.
- (c) Fresh Syarikat Jaminan Pembiayaan Perniagaan Bhd (SJPP) guarantee of RM616,000 (80% of term loan limit).
- (d) Fresh Specific Debenture for RM770,000 over machinery and equipment financed by the Bank for the manufacturing of palm fibre.

Information on financial risks of hire purchase liabilities is disclosed in Section 9.8.23 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.17 Hire purchase payables

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
Representing hire purchase liabilities:			
- current	47	52	399
- non-current	33	53	1,600
	<u>80</u>	<u>105</u>	<u>1,999</u>
Hire purchase liabilities:			
Minimum hire purchase repayments:			
- Not later than one (1) year	52	58	528
- Later than 1 year and not later than five (5) years	35	55	1,813
	<u>87</u>	<u>113</u>	<u>2,341</u>
Future finance charges on hire purchase	(7)	(8)	(342)
Present value of hire purchase liabilities	<u>80</u>	<u>105</u>	<u>1,999</u>
Present value of hire purchase liabilities:			
- Not later than one (1) year	47	52	399
- Later than 1 year and not later than five (5) years	33	53	1,600
	<u>80</u>	<u>105</u>	<u>1,999</u>

Information on financial risk of hire purchase liabilities is disclosed in Section 9.8.23 to the financial statements.

9.8.18 Deferred taxation

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
As at 1 January	0	0	0
Recognised in profit or loss:			
-property, plant and equipment	0	0	64
-(over)/underprovision in respect of prior year	0	0	186
At 31 December	<u>0</u>	<u>0</u>	<u>250</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.19 Employee benefits

	FYE 31 December		
	2011 RM'000	2012 RM'000	2013 RM'000
Salaries, wages and allowances	823	1,090	1,967
Contributions to defined contribution plan	44	39	54
Social security contributions	7	6	7
Other benefits	6	8	15
	<u>880</u>	<u>1,143</u>	<u>2,043</u>

9.8.20 Related party transaction

(a) Identities of related parties

Parties are considered to be related to HK Fibre if HK Fibre has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HK Fibre and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

HK Fibre has controlling related party relationship with its fellow subsidiaries companies and its holding company.

13. ACCOUNTANTS' REPORT (Cont'd)

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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre(continued)****9.8.20 Related party transaction**

- (b) In addition to the transactions and balances detailed elsewhere in the financial statements, HK Fibre had the following transactions with related parties during the financial year:

	← As at 31 December →		
	2011 RM'000	2012 RM'000	2013 RM'000
<u>Purchase of products from a related party:</u>			
Heng Huat Manufacturer Sdn. Bhd.	0	614	0
<u>Sales of products to a related party:</u>			
Heng Huat Furniture Sdn. Bhd.	0	461	0
Heng Huat Manufacturer Sdn. Bhd.	0	1,040	0
HK Kitaran Sdn. Bhd.	0	0	4
<u>Sales of products to a fellow subsidiary company</u>			
Fiber Star (M) Sdn. Bhd.	0	1,244	3,552
<u>Sales commission paid to a fellow subsidiary company</u>			
-HK Mega Industries Sdn. Bhd. (Formerly known as HK Mega Trading Sdn. Bhd.)	0	0	0
<u>Holding company:</u>			
Management fee paid			
-Heng Huat Industries Holdings Sdn. Bhd.	90	120	120

The related party transactions described above were under taken on terms and conditions not materially different from those obtainable from transactions with unrelated parties.

Information regarding outstanding balances arising from related party transactions as at 31 December 2013 are disclosed in Sections 9.8.11 and 9.8.14 to the financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.21 Financial instruments

(a) Capital management

The primary objective of HK Fibre's capital management is to ensure that HK Fibre would be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of HK Fibre remains unchanged from that in the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Fibre manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, HK Fibre may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the FYE 31 December 2011, FYE 31 December 2012 and FYE 31 December 2013.

HK Fibre is not subject to any externally imposed capital requirements.

HK Fibre monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. HK Fibre includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve.

		As at 31 December		
	Section	2011 RM'000	2012 RM'000	2013 RM'000
Borrowings	9.8.15	1,291	1,376	3,964
Trade and other payables	9.8.14	441	1,102	1,043
Total liabilities		1,732	2,478	5,007
Less: Cash and cash equivalents	9.8.12	(633)	(907)	(1,299)
Net debt		1,099	1,571	3,708
Equity		1,819	4,163	7,487
Net debt		1,099	1,571	3,708
Total capital		2,918	5,734	11,195
Gearing ratio		38%	27%	33%

13. ACCOUNTANTS' REPORT (Cont'd)



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9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.22 Financial instruments (continued)

(b) Categories of financial instruments

		←	As at 31 December		→
			2011	2012	2013
			RM'000	RM'000	RM'000
Section					
Financial assets					
<i>Loans and receivables</i>					
Trade and other receivables (excludes deposits and prepayments)					
9.8.11			1,073	2,946	5,088
Cash and cash equivalents	9.8.12		633	907	1,299
			<u>1,706</u>	<u>3,853</u>	<u>6,387</u>
		←	As at 31 December		→
			2011	2012	2013
			RM'000	RM'000	RM'000
Financial liabilities					
<i>Other financial liabilities</i>					
Trade and other payables					
9.8.14			441	1,102	1,043
Borrowings	9.8.15		1,291	1,376	3,964
			<u>1,732</u>	<u>2,478</u>	<u>5,007</u>

(c) Determination of fair value

Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follow:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value

The carrying amount of financial assets and liabilities, such as trade and other receivables, trade and other payables and term loan, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

- (ii) Hire purchase payables

The fair value of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of borrowing at the end of the reporting period.

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre(continued)****9.8.23 Financial risk management objectives and policies**

HK Fibre's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

HK Fibre operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried out through risk review programmes, internal control systems, insurance programmes and adherence to the Company's financial risk management policies. HK Fibre is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(a) Credit risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is HK Fibre's policy to monitor the financial standing of these counter parties on an ongoing basis to ensure that HK Fibre is exposed to minimal credit risk.

HK Fibre's primary exposure to credit risk arises through its trade receivables. HK Fibre trading terms with its customers normally requires deposits in advance. The credit period is generally for a period of one (1) month, extending up to three (3) months for major customers. Each customer has a maximum credit limit and HK Fibre seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Section 9.8.11 to the financial statements. Deposits with banks and other financial institutions, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Section 9.8.11.

(b) Liquidity and cash flow risk

HK Fibre actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In liquidity risk management strategy, HK Fibre measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance HK Fibre's activities.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)

9.8 HK Fibre(continued)

9.8.23 Financial risk management objectives and policies (continued)

(b) Liquidity and cash flow risk (continued)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of HK Fibre's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2011			
Financial liabilities:			
Trade and other payables	441	-	441
Borrowings	450	839	1,289
Total undiscounted financial liabilities	891	839	1,730

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2012			
Financial liabilities:			
Trade and other payables	1,102	0	1,102
Borrowings	748	628	1,376
Total undiscounted financial liabilities	1,850	628	2,478

	On demand or within one year RM'000	One to five years RM'000	Total RM'000
31.12.2013			
Financial liabilities:			
Trade and other payables	1,043	0	1,043
Borrowings	912	3,052	3,964
Total undiscounted financial liabilities	1,955	3,052	5,007

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre(continued)****9.8.23 Financial risk management objectives and policies (continued)****(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of HK Fibre's financial instruments will fluctuate because of changes in market interest rates.

HK Fibre's exposure to interest rate risk arises primarily from variable loans and borrowings. These interest-bearing borrowings are monitored to ensure HK Fibre enjoys competitive borrowing rates. Fixed deposits are placed at fixed rates and management endeavours to obtain the best rate available in the market.

As at the reporting date, HK Fibre does not engage any interest hedging instruments in respect of such interest rate fluctuations.

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Fibre's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2011					
Fixed rate					
Fixed deposits	9.8.12	3.15	463	0	463
Hire purchase payables	9.8.17	7.81	47	33	80
Floating rate					
Bank overdraft		8.35	128	0	128
Term loan	9.8.16	7.09	275	806	1,081

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.0 AUDITED FINANCIAL STATEMENTS (CONTINUED)**9.8 HK Fibre(continued)****9.8.23 Financial risk management objectives and policies (continued)****(c) Interest rate risk (continued)**

The following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of HK Fibre's financial instruments that are exposed to interest rate risk:

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2012					
Fixed rate					
Fixed deposits	9.8.12	3.15	484	0	484
Hire purchase payables	9.8.17	7.81	52	53	105
Floating rate					
Bank overdraft		8.35	376	0	376
Term loan	9.8.16	7.09	319	575	894

	Section	Weighted average effective interest rate %	Within 1 year RM'000	More than 2 years RM'000	Total RM'000
31.12.2013					
Fixed rate					
Fixed deposits	9.8.12	3.15	162	0	162
Hire purchase payables	9.8.17	7.81	399	1600	1,999
Floating rate					
Bank overdraft		8.35	231	0	231
Term loan	9.8.16	7.09	282	1,452	1,734

13. ACCOUNTANTS' REPORT (Cont'd)

Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

9.8 HK Fibre(continued)**9.8.24 Adjustments and reclassifications****(d) Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at the reporting date, HK Fibre does not engage any foreign currency hedging instruments in respect of such foreign exchange fluctuations.

Transactional currency exposures arise from sales to East Asia customer. These sales are priced in RM but invoiced in the currencies of the customers involved.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of HK Fibre's profit net of tax to a reasonably possible change in the RMB and USD exchange rates against the functional currency of HK Fibre with all the other variables held constant.

	← As at 31 December →		
	2011	2012	2013
	RM'000	RM'000	RM'000
RMB/RM - strengthen by 5%	62	0	0
- weaken by 5%	(62)	0	0
USD/RM - strengthen by 5%	0	26	3
- weaken by 5%	0	(26)	(3)

9.0 SUBSEQUENT EVENTS

There were no significant subsequent events between the date of the latest financial statements used in the preparation of this report and the date of this report which will affect materially the contents of this report.

13. ACCOUNTANTS' REPORT (Cont'd)



Heng Huat Resources Group Berhad
(Company No.: 969678-D)
Accountants' Report

Yours faithfully

A handwritten signature in black ink that reads 'BDO'.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Ooi Thiam Poh'.

Ooi Thiam Poh
2495/01/16 (J)
Chartered Accountant

Appendix 1

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP SDN. BHD.**

(Company No. 969678-D)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Resources Group Sdn. Bhd. which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 25 November 2011 (Date of incorporation) to 31 December 2011, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 46.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP SDN. BHD. (continued)
(Company No. 969678-D)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial period from 25 November 2011 (Date of incorporation) to 31 December 2011.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely representing the BDO firm.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, likely belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD
(Company No. 969678-D)
(Incorporated in Malaysia)**

Report on the Financial Statements

We have audited the financial statements of Heng Huat Resources Group Berhad which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 13 to 94.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD(continued)
(Company No. 969678-D)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD(continued)
(Company No. 969678-D)
(Incorporated in Malaysia)

Other Matters

As stated in Note 3 to the financial statements, Heng Huat Resources Group Berhad adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011 and 25 November 2011 for the Group and for the Company respectively. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011, 25 November 2011 and 1 January 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as at 31 December 2012 and financial performance and cash flows for the year then ended.

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be 'BDO'.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Koay Theam Hock'.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD
(Company No. 969678-D)
(Incorporated in Malaysia)**

Report on the Financial Statements

We have audited the financial statements of Heng Huat Resources Group Berhad, which comprise statements of financial position as at 31 December 2013 of the Group and of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 103.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT RESOURCES GROUP BERHAD (continued)

(Company No. 969678-D)

(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely belonging to a representative of BDO.

BDO

AF : 0206

Chartered Accountants

A stylized signature in black ink, likely belonging to Kay Theam Hock.

Kay Theam Hock

2141/04/15 (J)

Chartered Accountant

Penang

Dated : 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FIBRE STAR MARKETING SDN. BHD.**

(Company No. 973299-X)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star Marketing Sdn. Bhd. which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 29 December 2011 (Date of incorporation) to 31 December 2011, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 46.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FIBRE STAR MARKETING SDN. BHD. (continued)
(Company No. 973299-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial period from 29 December 2011 (Date of incorporation) to 31 December 2011.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in black ink.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD.**

(Company No. 973299-X)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star Marketing Sdn. Bhd. which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 49.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT *(Cont'd)*



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD. (continued)
(Company No. 973299-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 29 December 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 29 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 29 December 2011 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD.(continued)
(Company No. 973299-X)
(Incorporated in Malaysia)

Other Matters (continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature in black ink, likely representing the BDO firm.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD.**
(Company No. 973299-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star Marketing Sdn. Bhd. which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 52.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR MARKETING SDN. BHD.(continued)
(Company No. 973299-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature in black ink, likely belonging to a representative of BDO.

BDO
AF : 0206
Chartered Accountants

Penang

Dated : 09 APR 2014

A handwritten signature in black ink, belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FIBRE STAR (M) SDN. BHD.**
(Company No. 973296-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star (M) Sdn. Bhd. which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 29 December 2011 (Date of incorporation) to 31 December 2011, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 46.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FIBRE STAR (M) SDN. BHD. (continued)
(Company No. 973296-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial period from 29 December 2011 (Date of incorporation) to 31 December 2011.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, written in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in a cursive, handwritten style.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.
(Company No. 973296-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star (M) Sdn. Bhd. which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 51.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.(continued)
(Company No. 973296-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 29 December 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 29 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 29 December 2011 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.(continued)
(Company No. 973296-M)
(Incorporated in Malaysia)

Other Matters (continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely representing the BDO firm.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, identified as Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.
(Company No. 973296-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Fibre Star (M) Sdn. Bhd. which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 52.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
FIBRE STAR (M) SDN. BHD.(continued)
(Company No. 973296-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely belonging to a representative of BDO.

BDO
AF : 0206
Chartered Accountants

A stylized signature in black ink, likely belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD.**
(Company No. 859511-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Palm Fibre Manufacturer Sdn. Bhd., which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 74.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD. (continued)
(Company No. 859511-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants
Penang

A handwritten signature of Koay Theam Hock, written in black ink.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Dated: 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD.**

(Company No. 859511-M)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Palm Fibre Manufacturer Sdn. Bhd., which comprise statement of financial position as at 31 December 2012, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 63.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements; whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD. (continued)
(Company No. 859511-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD. (continued)
(Company No. 859511-M)
(Incorporated in Malaysia)

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, flowing script.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in black ink. The signature is fluid and cursive, with the first letter 'K' being particularly large and prominent.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated: 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +60-1 227 6888
Fax: +60-4 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD.
(Company No. 859511-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Palm Fibre Manufacturer Sdn. Bhd., which comprise statement of financial position as at 31 December 2013, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 57.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORTS TO THE MEMBERS OF
HK PALM FIBRE MANUFACTURER SDN. BHD. (continued)
(Company No. 859511-M)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature in black ink, likely belonging to a representative of BDO.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, belonging to Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated: 09 APR 2014

13. ACCOUNTANTS' REPORT (*Cont'd*)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK MEGA INDUSTRIES SDN. BHD.

(FORMERLY KNOWN AS HK MEGA TRADING SDN. BHD.)
(Company No. 776763-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Mega Industries Sdn. Bhd. (formerly known as HK Mega Trading Sdn. Bhd.) which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 60.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK MEGA INDUSTRIES SDN. BHD.

(FORMERLY KNOWN AS HK MEGA TRADING SDN. BHD.) (continued)

(Company No. 776763-X)

(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of a representative from BDO.

BDO

AF : 0206

Chartered Accountants

Penang

Dated : 30 APR 2012

A stylized signature of Koay Theam Hock.

Koay Theam Hock

2141/04/13 (J)

Chartered Accountant

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD.

(Company No. 776763-X)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Mega Industries Sdn. Bhd. which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 44.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD. (Continued)
(Company No. 776763-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD. (Continued)
(Company No. 776763-X)
(Incorporated in Malaysia)

Other Matters (Continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be 'BDO'.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Koay Theam Hock'.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD.
(Company No. 776763-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Mega Industries Sdn. Bhd. which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 41.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK MEGA INDUSTRIES SDN. BHD. (Continued)
(Company No. 776763-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature in black ink, likely representing a BDO representative.

BDO
AF : 0206
Chartered Accountants

A handwritten signature in black ink, identified as Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(FORMERLY KNOWN AS HK VISION SDN.BHD.)**

(Company No. 779222-P)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Industries Holdings Sdn. Bhd. (formerly known as HK Vision Sdn. Bhd.), which comprise the statements of financial position as at 31 December 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 92.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT *(Cont'd)*



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(FORMERLY KNOWN AS HK VISION SDN.BHD.)(Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(FORMERLY KNOWN AS HK VISION SDN.BHD.)(Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, consisting of a series of loops and curves.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(Company No. 779222-P)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Industries Holdings Sdn. Bhd., which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 49.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (*Cont'd*)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD. (Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD. (Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Other Matters (Continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, written in a cursive, handwritten style.

BDO
AF: 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in a cursive, handwritten style.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Date: 06 JUN 2013

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD.
(Company No. 779222-P)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Heng Huat Industries Holdings Sdn. Bhd., which comprise statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 46.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HENG HUAT INDUSTRIES HOLDINGS SDN. BHD. (Continued)
(Company No. 779222-P)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature in black ink, likely belonging to a representative of BDO.

BDO
AF: 0206
Chartered Accountants

A handwritten signature in black ink, identified as Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang,
Date: 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK KITARAN SDN. BHD.
(Company No. 881898-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Kitaran Sdn. Bhd., which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 76.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK KITARAN SDN. BHD. (continued)
(Company No. 881898-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in black ink.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD.
(Company No. 881898-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Kitaran Sdn. Bhd., which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 66.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD. (Continued)
(Company No. 881898-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT *(Cont'd)*



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD. (Continued)
(Company No. 881898-X)
(Incorporated in Malaysia)

Other Matters (Continued)

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in black ink.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 15 MAY 2013

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD.**
(Company No. 881898-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Kitaran Sdn. Bhd., which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 62.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HK KITARAN SDN. BHD. (continued)
(Company No. 881898-X)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, flowing script.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in a cursive style.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

Penang

Dated : 09 APR 2014

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD.

(Company No. 765548-H)

(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Fibre Sdn. Bhd., which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 71.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD. (CONTINUED)
(Company No. 765548-H)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the preceding year were examined by another firm of auditors whose report dated 11 May 2011, expressed an unqualified opinion on those statements.

A stylized signature of the BDO firm, written in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

A handwritten signature of Koay Theam Hock, written in a cursive, handwritten style.

Koay Theam Hock
2141/04/13 (J)
Chartered Accountant

Penang

Dated : 30 APR 2012

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD.
(Company No. 765548-H)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Fibre Sdn. Bhd., which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 63.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD. (continued)
(Company No. 765548-H)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

As stated in Note 3 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD. (continued)
(Company No. 765548-H)
(Incorporated in Malaysia)

Other Matters (continued)

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized, handwritten signature of the BDO firm.

BDO
AF : 0206
Chartered Accountants

Penang

Dated : 06 JUN 2013

A handwritten signature of Koay Theam Hock.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

13. ACCOUNTANTS' REPORT (Cont'd)



Tel : +604 227 6888
Fax: +604 229 8118
www.bdo.my

51-21-F, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD.**
(Company No. 765548-H)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HK Fibre Sdn. Bhd., which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 59.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

13. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HK FIBRE SDN. BHD. (continued)
(Company No. 765548-H)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

BDO
AF : 0206
Chartered Accountants

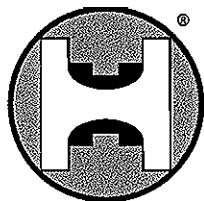
Penang

Dated : 09 APR 2014

A handwritten signature of Koay Theam Hock, written in a cursive style.

Koay Theam Hock
2141/04/15 (J)
Chartered Accountant

14. DIRECTORS' REPORT



HENG HUAT RESOURCES GROUP BERHAD

(Company No. 969678-D)

Lot. 2945 (Plot A2) Jalan Sungai Baong, Kawasan Perindustrian Perabot, Sungai Baong, Mukim 5
14200 Sungai Bakap, Seberang Perai Selatan, Pulau Pinang, Malaysia.
Tel: 604-582 5888, Fax: 04-582 1888

Date: 18 JUNE 2014

Registered Office:
51-9-A, Menara BHL
Jalan Sultan Ahmad Shah
10050 Penang

The shareholders of Heng Huat Resources Group Berhad ("Heng Huat" or "Company")

Dear Sirs/Madams

On behalf of the Board of Directors of Heng Huat, I report after due and careful enquiry that during the period from 31 December 2013 (being the date to which the last audited financial statements of our Company and subsidiary companies ("Group") have been made) up to the date of this letter (being a date not earlier than 14 days before the issuance of this Prospectus):

- (i) the business of our Group have, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of our Group which have adversely affected the trading or the value of the assets of our Group;
- (iii) the current assets of our Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) there are no material contingent liabilities by reason of any guarantee or indemnities given by our Group;
- (v) since the last audited financial statements of our Group, there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of our Group; and
- (vi) since the last audited financial statements of our Group and save as disclosed in the Accountants' Report enclosed in this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of our Group.

Yours faithfully

For and on behalf of the Board of Directors
HENG HUAT RESOURCES GROUP BERHAD


H'NG CHOON SENG
MANAGING DIRECTOR

15. ADDITIONAL INFORMATION

15.1 SHARE CAPITAL

- (i) No securities will be allotted or issued on the basis of this Prospectus later than twelve (12) months after the date of this Prospectus.
- (ii) None of the capital of our Company or our subsidiary companies are under option or agreed conditionally or unconditionally to be put under option.
- (iii) There is no scheme involving our employees in the capital of our Company or our subsidiary companies.
- (iv) Save as disclosed in Section 8.1 of this Prospectus, there are no other persons who are able to, directly or indirectly, jointly or severally, exercise control over our Company or our subsidiary companies.
- (v) There is no limitation on the right to own securities, including limitations on the right of non-resident or foreign shareholders to hold or exercise voting rights on our Shares imposed by the applicable Malaysian law or by our Memorandum and Articles of Association.

15.2 ARTICLES OF ASSOCIATION

The following provisions relate to the remuneration of directors, voting and borrowing powers of directors, transfer of securities and changes in capital and variation of class rights as reproduced from our Articles of Association ("Articles"). The words and expressions appearing in the following provisions shall bear the same meaning used in our Articles unless they are otherwise defined here or the context otherwise requires:

(i) Remuneration of Directors

90. Directors' Remuneration

The fees payable to the Directors shall from time to time be determined by an Ordinary Resolution of the Company in general meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree Provided Always that:-

- (a) *salaries payable to executive Director(s) may not include a commission on or percentage of turnover;*
- (b) *fees payable to non-executive Directors shall be a fixed sum and not by a commission on or percentage of profits or turnover;*
- (c) *any fee paid to an alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter; and*
- (d) *fees payable to Directors shall not be increased except pursuant to an Ordinary Resolution passed at a general meeting, where notice of the proposed increase has been given in the notice convening the meeting.*

15. ADDITIONAL INFORMATION (Cont'd)**91. Reimbursement of expenses**

- (1) *The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending board meetings of the Company.*
- (2) *If by arrangement with the Directors, any Director shall perform or render any special duties or services outside his ordinary duties as a Director in particular without limiting to the generality of the foregoing if any Director being willing shall be called upon to perform extra services or to make any special efforts in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Company may remunerate the Director so doing a special remuneration in addition to his Director's fees and such special remuneration may be by way fixed sum or otherwise as may be arranged.*

(ii) Voting Powers and Borrowing Powers of Directors**109. Disclosure of Interest & Restriction on Discussion and Voting**

Every Director shall declare his interest in the Company and his interest in any contract or proposed contract with the Company as may be required by law. Subject to Section 131A of the Act, a Director shall not participate in any discussion or vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly an interest and if he shall do so his vote shall not be counted. A Director shall, notwithstanding his interest, be counted in the quorum for any meeting where a decision is to be taken upon any contract or proposed contract or arrangement in which he is in any way interested.

110. Power to vote

Subject to Article 109, a Director may vote in respect of:-

- (a) *any arrangement for giving the Director himself or any other Director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company or any of its subsidiaries; or*
- (b) *any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of security.*

94. Directors' borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or its subsidiaries.

15. ADDITIONAL INFORMATION (Cont'd)**(iii) Transfer of Securities****23. Transfer of shares**

The transfer of any listed security or class of any listed security of the Company, shall be by way of book entry by Bursa Depository in accordance with the Rules of Bursa Depository and, notwithstanding sections 103 and 104 of the Act, but subject to section 107C(2) of the Act and any exemption that may be made from compliance with section 107C(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the listed securities.

24. Transferor's Right

Subject to any written law, the instrument of transfer of any security that is not deposited with Bursa Depository shall be in writing and in any usual or common form or in any other form which the Directors may approve. The instrument of transfer shall be executed by or on behalf of the transferor and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register of Members thereof.

25. Deposited Security

Bursa Depository may refuse to register any transfer of the Deposited Security that does not comply with the Central Depositories Act and the Rules of Bursa Depository.

26. No liability for fraudulent transfer

Neither the Company nor its Directors nor any of its officers shall incur any liability for any transfer of shares apparently made by sufficient parties, although the same may, by reason of any fraud or other cause not known to the Company or its Directors or other officers be legally inoperative or insufficient to pass the property in the shares proposed or professed to be transferred and although transferred, the transfer may, as between the transferor and transferee be liable to be set aside and notwithstanding that the Company may have notice of such transfer. And in every such case, the transferee, his executors, administrators and assignees alone shall be entitled to be recognised as the holder of such shares and the previous holder shall so far as the Company is concerned, be deemed to have transferred his whole title hereto.

27. No transfer to infant, bankrupt or person of unsound mind

No shares shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

28. Renunciation

Subject to the provisions of these Articles, the Directors may recognise a renunciation of any shares by the allottee thereof in favour of some other persons.

29. Suspension of registration

The registration of transfer may be suspended at such times and for such periods as the Directors may from time to time determine not exceeding in the whole thirty (30) days in any year. At least Ten (10) market days' notice of intention to close the Register shall be published in a daily newspaper circulating in Malaysia and shall also be given to Bursa Securities. The said notice shall state the reason for which the Register is being closed. At least three (3) market days before the notice shall be given to Bursa Depository to prepare the appropriate Record of Depositors.

15. ADDITIONAL INFORMATION (Cont'd)**30. Death of Member**

In the case of the death of a Member, the legal representatives of the deceased shall be the only person recognised by the Company as having any title to his interest in the shares but nothing herein contained shall release the estate of the deceased Member from any liability in respect of the shares which had been held by the deceased Member.

31. Share of deceased or bankrupt Member

Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member may, upon such evidence being produced as may from time to time properly be required by the Directors and subject as hereinafter provided, elect either to be registered himself as holder of the share or to have a person nominated by him registered as the transferee thereof, but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy.

32. Notice of election

If the person so becoming entitled elects to be registered himself, he shall deliver or send to the Company, a notice in writing signed by him stating that he so elects. If he elects to have another person registered, he shall testify his election by executing to that person a transfer of the shares. All the limitations, restrictions and provisions of these Articles relating to the rights to transfer shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by that Member.

(iv) Changes in Capital and Variation of Class Rights**4. Allotment of shares**

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares and subject to the provisions of these Articles, the Central Depositories Act, any other requirements of the Securities Commission, the Act and to the provisions of any resolution of the Company, shares in the Company for the time being unissued (whether forming part of the original capital or of any increase in capital) are under the control of the Directors who may issue, allot or otherwise dispose of such shares to such persons, on such terms and conditions, with such preferred, deferred or other special rights and subject to such restrictions and at such times as the Directors may determine but the Directors in making any issue of shares shall comply with the following conditions:-

- (a) no shares shall be issued at a discount except in compliance with the provisions of Section 59 of the Act;*
- (b) in the case of shares other than ordinary shares, no special rights shall be attached until the same have been expressed in these Articles and in the resolution creating the same;*
- (c) no shares shall be issued which shall have the effect of transferring a controlling interest in the Company without the prior approval of the Members in general meeting;*

15. ADDITIONAL INFORMATION (Cont'd)

- (d) every issue of shares or options to employees and/or Directors of the Company and its subsidiaries under an Employee Share Option Scheme shall be approved by the Members in general meeting; and
- (e) no Director shall participate in a Share Issuance Scheme unless the Members in a general meeting have approved the specific allotment to be made to such Director.

5. Rights of preference shareholders

- (1) Subject to the Act, Securities Laws and any other requirements of the Commission, any preference shares may with the sanction of an Ordinary Resolution be issued on the terms that they are or at the option of the Company are liable to be redeemed and the Company shall not issue preference shares ranking in priority over preference shares already issued but may issue preference shares ranking equally therewith.
- (2) A holder of preference shares must have a right to vote in each of the following circumstances:-
 - (a) when the dividend or part of the dividend on the share is in arrears for more than six (6) months;
 - (b) on a proposal to reduce the Company's share capital;
 - (c) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
 - (d) on a proposal that affects the rights attached to the preference shares;
 - (e) on a proposal to wind up the Company; and
 - (f) during the winding up of the Company.
- (3) A holder of preference shares must be entitled to the same rights as a holder of ordinary shares in relation to receiving notices, reports, audited financial statements and attending meetings.

6. Repayment of preference capital

Notwithstanding Article 5, the repayment of preference capital other than redeemable preference capital or any alteration of preference shareholders' rights shall only be made pursuant to a Special Resolution of the preference shareholders concerned PROVIDED ALWAYS that where the necessary majority for such a Special Resolution is not obtained at the meeting, consent in writing obtained from the holders of three fourths (3/4) of the preference capital concerned within two (2) months of the meeting shall be as valid and effectual as a Special Resolution carried at the meeting.

15. ADDITIONAL INFORMATION (Cont'd)

7. Modification of class rights

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied or abrogated with the consent in writing of the holders of three fourths (3/4) of the issued shares of that class or with the sanction of a Special Resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of these Articles relating to general meetings shall mutatis mutandis apply so that the necessary quorum shall be two (2) persons at least holding or representing by proxy one-third (1/3) of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll. To every such Special Resolution the provisions of Section 152 of the Act shall apply with such adaptations as are necessary.

8. Alteration of rights by issuance of new shares

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall, unless otherwise expressly provided by the terms of issue of the shares of that class be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects pari passu therewith.

48. Power to increase capital

Subject to the provisions of the Securities Laws, the Company may from time to time, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued shall have been fully called up or not, by Ordinary Resolution increase its share capital by the creation and issue of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital or otherwise as the Company by the resolution authorising such increase may direct.

49. Offer of new shares

Subject to any direction to the contrary that may be given by the Company in general meeting, all new shares or other convertible securities of whatever kind for the time being unissued and not allotted and any new shares or securities from time to time to be created shall, before they are issued, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled. The offer shall be made by notice specifying the number of shares or securities offered and limiting a time within which the offer, if not accepted shall be deemed to be declined and after the expiration of that time or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may also dispose of any new shares or securities which (by reason of the ratio which the new shares or securities bear to the shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered under this Article.

15. ADDITIONAL INFORMATION (Cont'd)

50. Ranking of new shares

Except so far as otherwise provided by the conditions of issue in these Articles, any share capital raised by the creation of new shares shall be considered as part of the original share capital of the Company and shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the original share capital.

51. Power to alter capital

The Company may by Ordinary Resolution and subject to the Securities Laws:-

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;*
- (b) subdivide its share capital or any part thereof into shares of smaller amount than is fixed by the Memorandum of Association of the Company by subdivision of its existing shares or any of them, subject nevertheless to the provisions of the Act and so that as between the resulting shares, one (1) or more of such shares may, by the resolution by which such subdivision is effected, be given any preference or advantage as regards dividend, return of capital, voting or otherwise over the others or any other of such shares;*
- (c) cancel shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the amount of the shares so cancelled; and*
- (d) subject to the provisions of these Articles and the Act, convert and/or re-classify any class of shares into any other class of shares.*

52. Power to reduce capital

The Company may by Special Resolution, subject to the Securities Laws, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner authorised by the Act and subject to any consent required by law.

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15. ADDITIONAL INFORMATION (Cont'd)**15.3 MATERIAL CONTRACTS**

Save as disclosed below, there are no material contracts (including contracts not in writing), not being contracts in the ordinary course of business, that have been entered into by our Group within the two (2) years preceding the date of this Prospectus:

On 27 June 2014, Heng Huat entered into an Underwriting Agreement with Kenanga IB for the underwriting of 7,000,000 Public Issue Shares for an underwriting commission of 2.50% of the total value of the underwritten Shares at the IPO Price.

15.4 MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, neither we nor our subsidiary companies are engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, including any proceedings pending or threatened against our Company or our subsidiary companies, or of any fact likely to give rise to any proceeding which may materially and adversely affect our financial position or business.

15.5 REPATRIATION OF CAPITAL AND REMITTANCE OF PROFIT

As our Group does not physically operate in other countries, there is no governmental law, decree, regulation or other requirement which may affect the repatriation of capital and the remittance of profit by or to our Group.

15.6 PUBLIC TAKE-OVER OFFERS

None of the following has occurred in the last financial year or the current financial year up to the LPD:

- (i) Public take-over offers by third parties for our Shares; and
- (ii) Public take-over offers by our Company for other companies' shares.

15.7 CONSENTS

The written consents of our Adviser, Sponsor, Underwriter and Placement Agent, Corporate Finance Adviser, Solicitors, Principal Bankers, Issuing House, Share Registrar and Company Secretary for inclusion in this Prospectus of their names and all references thereto in the manner, form and context in which their names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn.

The written consent of the Auditors and Reporting Accountants for the inclusion of its name, Accountants' Report, Letter on Pro forma Consolidated Financial Information of Heng Huat and all references thereto in the manner, form and context in which they appear in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of the Independent Market Researcher for the inclusion in this Prospectus of its name and Executive Summary of the Independent Market Research Report and all references thereto in the manner, form and context in which they appear in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

15. ADDITIONAL INFORMATION (Cont'd)**15.8 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected at our Registered Office during normal business hours for a period of twelve (12) months from the date of this Prospectus:

- (i) Memorandum and Articles of Association of our Company;
- (ii) Material contracts as referred to in Section 15.3 of this Prospectus;
- (iii) Reporting Accountants' Letter on the Pro forma Consolidated Financial Information as included in Section 11.5 of this Prospectus;
- (iv) Accountants' Report as included in Section 13 of this Prospectus;
- (v) Independent Market Research Report referred to in this Prospectus and the Executive Summary thereof as included in Section 7 of this Prospectus;
- (vi) Directors' Report as included in Section 14 of this Prospectus;
- (vii) Audited financial statements of:-
 - (a) Heng Huat for the financial period from 25 November 2011 (date of incorporation) to 31 December 2011, FYE 31 December 2012 and 2013;
 - (b) Fibre Star for the financial period from 29 December 2011 (date of incorporation) to 31 December 2011, FYE 31 December 2012 and 2013;
 - (c) Fibre Star Marketing for the financial period from 29 December 2011 (date of incorporation) to 31 December 2011, FYE 31 December 2012 and 2013;
 - (d) HH Industries for the past three (3) FYE 31 December 2011 to 2013;
 - (e) HK Fibre for the past three (3) FYE 31 December 2011 to 2013;
 - (f) HK Kitaran for the past three (3) FYE 31 December 2011 to 2013;
 - (g) HK Mega for the past three (3) FYE 31 December 2011 to 2013; and
 - (h) HK Palm Fibre for the past three (3) FYE 31 December 2011 to 2013.
- (viii) Letters of consent as referred to in Section 15.7 of this Prospectus.

15.9 RESPONSIBILITY STATEMENT

Our Directors, Promoters and Offeror have seen and approved this Prospectus and they collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm, after having made all reasonable enquiries, that to the best of their knowledge and belief, there are no false or misleading statement or other facts the omission of which would make any statement herein false or misleading.

Kenanga IB, being our Adviser, Sponsor, Underwriter and Placement Agent, acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

WYNCORP Advisory Sdn Bhd, being our Corporate Finance Adviser, acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE

16.1 OPENING AND CLOSING OF APPLICATION

Application for our IPO Shares will open at 10.00 a.m. on 30 June 2014 and will remain open until 5.00 p.m. on 16 July 2014 or such later date or dates as our Board, Promoters and Offeror, together with Kenanga IB, may mutually decide at their absolute discretion. If the date of closing of application is extended, the dates of balloting, allotment and listing would be extended accordingly. We will publish any extension of the date of closing of application in a widely circulated English and Bahasa Malaysia newspaper in Malaysia prior to the original closing date of application. **Late applications will not be accepted.**

16.2 ELIGIBILITY

You can only apply for our IPO Shares if you fulfil **all** of the following:

- (i) You must have a CDS account. If you do not have a CDS account, you may open one by contacting any of the ADAs listed in Section 16.14 of this Prospectus;
- (ii) You must be **one** of the following:
 - (a) A Malaysian citizen with a Malaysian address who is at least 18 years old as at the closing date of the application; or
 - (b) A corporation/ institution incorporated in Malaysia with a Malaysian address; or
 - (c) A superannuation, co-operative, foundation, provident or pension fund established or operating in Malaysia.

We will not accept applications from trustees, persons under 18 years of age, sole proprietorships, partnerships or other incorporated bodies or associations, other than corporations / institutions referred to in (b) or (c) above; and

- (iii) You are not a director or employee of Equiniti or their immediate family members.

16.3 CATEGORY OF INVESTORS

Application for our IPO Shares must be made using the method designated for each of the four categories of investors as follows:

Category of investors	Application Method
Malaysian Public (for individuals)	White Application Form or Electronic Share Application ⁽¹⁾ or Internet Share Application ⁽²⁾
Malaysian Public (for non-individuals, e.g. corporations, institutions, etc.)	White Application Form
Eligible employees and persons who have contributed to the success of the Group	Pink Form
Selected investors via private placement	Separate letters/forms delivered to the respective investors

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Note:

(1) *The following processing fee per ESA will be charged by the respective Participating Financial Institutions:*

- *Affin Bank Berhad – No fee will be charged for application by their account holders;*
- *AmBank (M) Berhad – RM1.00;*
- *CIMB Bank Berhad – RM2.50;*
- *HSBC Bank Malaysia Berhad – RM2.50;*
- *Malaysia Banking Berhad – RM1.00;*
- *Public Bank Berhad – RM2.00;*
- *RHB Bank Berhad – RM2.50; or*
- *Standard Chartered Bank Malaysia Berhad (at selected branches only) – RM2.50.*

(2) *The following processing fee per ISA will be charged by the respective Internet Participating Financial Institution:*

- *Affin Bank Berhad (www.affinOnline.com) - No fee will be charged for application by their account holders;*
- *Affin Investment Bank Berhad (www.affinTrade.com) – No fee will be charged for application by their account holders;*
- *CIMB Investment Bank Berhad (www.eipocimb.com) – RM2.00 for payment via CIMB Bank Berhad or via Malayan Banking Berhad;*
- *CIMB Bank Berhad (www.cimbclicks.com.my) - RM2.00 for applicants with CDS Accounts held with CIMB Investment Bank Berhad and RM2.50 for applicants with CDS Accounts with other ADAs;*
- *Malayan Banking Berhad (www.maybank2u.com.my) – RM1.00;*
- *RHB Bank Berhad (www.rhbbank.com.my) – RM2.50; or*
- *Public Bank Berhad (www.pbebank.com) – RM2.00.*

16.4 PROCEDURES FOR APPLICATION

Only one application from each applicant will be considered and an application must be for at least 100 Shares or multiples thereof. **Multiple applications will not be accepted.** If you submit multiple applications in your own name or by using the name of others, with or without their consent, you commit an offence under Section 179 of the CMSA and if convicted, may be punished with a minimum fine of RM1 million and a jail term of up to 10 years under Section 182 of the CMSA.

16.5 PROCEDURES FOR APPLICATION BY WAY OF AN APPLICATION FORM

The public, the identified investors and other investors should follow the following procedures in making an application:

Step 1: Obtain application documents

Obtain the Application Form together with the Official 'A' and 'B' envelopes and this Prospectus. These documents can be obtained subject to availability from the following parties:

- (a) Kenanga IB;
- (b) Participating organisations of Bursa Securities;
- (c) Members of the Association of Banks in Malaysia;
- (d) Members of the Malaysian Investment Banking Association; and
- (e) Equiniti.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**Step 2: Read the Prospectus**

In accordance with Section 232(2) of the CMSA, the Application Form is accompanied by this Prospectus. You are advised to read and understand this Prospectus before making your application.

Step 3: Complete the Application Form

Complete the relevant Application Form legibly and **STRICTLY** in accordance with the notes and instructions printed on it and in this Prospectus.

(i) Personal particulars

You must ensure that your personal particulars submitted in your application are identical with the records maintained by Bursa Depository. Please inform Bursa Depository promptly of any changes to your personal particulars.

If you are an individual and you are not a member of the armed forces or police, your name and national registration identity card ("NRIC") number or passport number must be the same as that stated in:

- (a) your NRIC/passport;
- (b) any valid temporary identity document issued by the National Registration Department from time to time; or
- (c) your 'Rcsit Pengenalan Sementara (KPPK 09)' issued pursuant to Peraturan 5(5), Peraturan-peraturan Pendaftaran Negara 1990.

If you are a member of the armed forces or police, your name and your armed forces or police personnel number, as the case may be, must be the same as that stated in your authority card.

If you are a corporation/institution, your name and incorporation number must be the same as that stated in your certificate of incorporation.

(ii) CDS account number

You must state your CDS account number in the space provided in the Application Form. Invalid, nominee or third party CDS accounts will **not** be accepted.

(iii) Details of payment

You must state the details of your payment in the appropriate boxes provided in the Application Form.

(iv) Number of Shares applied

Your application must be for at least 100 Shares or multiples thereof.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**Step 4: Prepare appropriate form of payment**

Prepare the correct form of payment in RM for the FULL amount payable for our IPO Shares based on the IPO Price, which is RM0.45 per Share.

Payment must be made in favour of **EQSB SHARE ISSUE ACCOUNT NO. 655** and crossed '**A/C PAYEE ONLY**' (excluding ATM statements) and endorsed on the reverse side with your name and address. We only accept the following forms of payment:

- (i) banker's draft or cashier's order purchased within Malaysia only and drawn on a bank in Kuala Lumpur;
- (ii) money order or postal order (for applicants from Sabah and Sarawak only);
- (iii) Guaranteed Giro Order ("GGO") from Bank Simpanan Nasional Malaysia Berhad; or
- (iv) ATM statement obtained only from any of the following financial institutions:
 - Alliance Bank Malaysia Berhad;
 - Hong Leong Bank Berhad;
 - Malayan Banking Berhad; or
 - RHB Bank Berhad.

We will not accept applications with excess or insufficient remittances or inappropriate forms of payment.

Step 5: Finalise application

Insert the Application Form with the appropriate payment and a legible photocopy of your identification document (NRIC/passport/valid temporary identity document issued by the National Registration Department/'Resit Pengenalan Sementara (KPPK 09)'/authority card/certificate of incorporation) into the Official 'A' envelope and seal it. Write your name and address on the outside of the Official 'A' and 'B' envelopes. The name and address written must be identical to your name and address as per your NRIC/passport/valid temporary identity document issued by the National Registration Department/'Resit Pengenalan Sementara (KPPK 09)'/authority card/certificate of incorporation. Affix a stamp on the Official 'A' envelope and insert the Official 'A' envelope into the Official 'B' envelope.

Step 6: Submit application

You can submit your application in the Official 'B' envelope by either one of the following methods:

- (a) despatch by **ORDINARY POST** to:
Equiniti Services Sdn Bhd (11324-H)
Level 8, Menara MIDF
82, Jalan Raja Chulan
50200 Kuala Lumpur
P.O.BOX 11122
50736 Kuala Lumpur; or
- (b) **DELIVERY BY HAND** and deposited in the Drop-in Boxes provided at Ground Floor, Menara MIDF, 82 Jalan Raja Chulan, 50200 Kuala Lumpur.

so as to arrive not later than 5.00 p.m. on 16 July 2014 or such later date or dates as our Board, Promoters and Offeror, together with Kenanga IB, may mutually decide at their absolute discretion.

No acknowledgement of receipt of Application Form or application monies will be made.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**16.6 PROCEDURES FOR APPLICATION BY WAY OF AN ELECTRONIC SHARE APPLICATION (FOR INDIVIDUAL MALAYSIAN PUBLIC ONLY)**

Applications for our IPO Shares by way of ESA are only applicable to Malaysian public who are individuals. Please read carefully and follow the terms of this Prospectus, the procedures, terms and conditions for ESA and the procedures set out on the ATM screens of the Participating Financial Institution before making an ESA.

16.6.1 Steps for ESA through a Participating Financial Institution's ATM

You may apply for our IPO Shares *via* the ATM of the Participating Financial Institution by choosing the ESA option. Mandatory statements required for the application are set out in Section 16.6.3 below. You are to enter at least the following information through the ATM where the instructions on the ATM screen at which you enter your ESA require you to do so:

- Personal Identification Number ("PIN");
- EQSB Share Issue Account Number 655;
- CDS Account Number;
- Number of IPO Shares applied for and/or the RM amount to be debited from the account; and
- Confirmation of several mandatory statements.

16.6.2 Participating Financial Institutions

ESA may be made through an ATM of the following Participating Financial Institutions and their branches:

- Affin Bank Berhad;
- AmBank (M) Berhad;
- CIMB Bank Berhad;
- HSBC Bank Malaysia Berhad;
- Malayan Banking Berhad;
- Public Bank Berhad;
- RHB Bank Berhad; or
- Standard Chartered Bank Malaysia Berhad (at selected branches only).

16.6.3 Terms and conditions of Electronic Share Application

The procedures for ESA are set out on the ATM screens of the relevant Participating Financial Institutions ("Steps"). For illustration purposes, the procedures for ESA at ATMs are set out in Section 16.6.1 above. The Steps set out the actions that you must take at the ATM to complete an ESA. Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for ESA set out below before making an ESA.

You must have a CDS Account to be eligible to utilise the facility. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted. You must have an existing account with, and be an ATM cardholder of, one of the Participating Financial Institutions before you can make an ESA. An ATM card issued by one of the Participating Financial Institutions cannot be used to apply for our IPO Shares at an ATM belonging to other Participating Financial Institutions. Upon the completion of your ESA transaction, you will receive a computer-generated transaction slip ("Transaction Record") confirming the details of your ESA. The Transaction Record is only a record of the completed transaction at the ATM and not a record of the receipt of the ESA or any data relating to such an ESA by our Company or Equiniti. You must retain the Transaction Record and should not submit the Transaction Record with any Application Form.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Upon the closing for the application for our IPO Shares on 16 July 2014 at 5.00 p.m. or such later date or dates as our Board, Promoters and Offeror, together with Kenanga IB, in their absolute discretion may mutually decide ("Closing Date and Time"), the Participating Financial Institutions shall submit magnetic tapes containing their respective customers' applications for our IPO Shares to Equiniti as soon as practicable but not later than 12.00 p.m. of the 2nd business day after the Closing Date and Time.

You are allowed to make an ESA for our IPO Shares *via* an ATM that accepts the ATM cards of the Participating Financial Institution with which you have an account at one of its branches, subject to you making only one application.

You must ensure that you use your own CDS account number when making an ESA. If you have a joint account with any Participating Financial Institution, you must ensure that you enter your own CDS account number when using an ATM card issued to you in your own name. Your application will be rejected if you fail to comply with the foregoing.

The ESA shall be made on, and subject to, the above terms and conditions as well as the terms and conditions appearing below:

- (i) The ESA shall be made in connection with and subject to the terms of this Prospectus and our Memorandum and Articles of Association.
- (ii) You are required to confirm the following statements (by pressing predesignated keys (or buttons) on the ATM keyboard) and undertake that the following information given are true and correct:
 - You have attained 18 years of age as at the closing date of the share application;
 - You are a Malaysian citizen residing in Malaysia;
 - You have read this Prospectus and understood and agreed with the terms and conditions of this application;
 - This is the only application that you are submitting; and
 - You hereby give consent to the Participating Financial Institution and Bursa Depository to disclose information pertaining to you and your account with the Participating Financial Institution and Bursa Depository to Equiniti or other relevant regulatory bodies.

The application will not be successfully completed and cannot be recorded as a completed transaction at the ATM unless you complete all the Steps required by the Participating Financial Institution. By doing so, you shall be treated as signifying your confirmation of each of the above statements as well as giving consent in accordance with the relevant laws of Malaysia including Section 97 of the Banking and Financial Institutions Act, 1989 and Section 45 of the Central Depositories Act to the disclosure by the relevant Participating Financial Institution or Bursa Depository, as the case may be, of any of your particulars to Equiniti, or any relevant regulatory bodies.

- (iii) You confirm that you are not applying for our IPO Shares as a nominee of any other person and that any ESA that you make is made by you as the beneficial owner. You shall only make one ESA and shall not make any other application for our IPO Shares, whether at the ATMs of any Participating Financial Institution or on the prescribed Application Forms.
- (iv) You must have sufficient funds in your account with the relevant Participating Financial Institution at the time you make your ESA, failing which your ESA will not be completed. Any ESA, which does not strictly conform to the instructions set out on the screens of the ATM through which the ESA is being made, will be rejected.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- (v) You agree and undertake to subscribe for or purchase and to accept the number of IPO Shares applied for as stated on the Transaction Record or any lesser number of IPO Shares that may be allotted or allocated to you in respect of your ESA. In the event that we decide to allot or allocate any lesser number of such IPO Shares or not to allot or allocate any IPO Shares to you, you agree to accept any such decision as final. If your ESA is successful, your confirmation (by your action of pressing the designated key on the ATM) of the number of IPO Shares applied for shall signify, and shall be treated as, your acceptance of the number of IPO Shares that may be allotted or allocated to you and to be bound by our Memorandum and Articles of Association.
- (vi) Equiniti, on the authority of our Directors, reserves the right to reject any ESA or accept any ESA in part only without assigning any reason therefor. Due consideration will be given to the desirability of allotting or allocating our IPO Shares to a reasonable number of applicants with a view to establishing an adequate market for our Shares.
- (vii) If your ESA is not accepted or accepted in part only, the relevant Participating Financial Institution will be informed of the non-successful or partially successful application within two (2) Market Days after the balloting date. If your ESA is not successful, the relevant Participating Financial Institution will credit the full amount of the application monies without interest into your account with that Participating Financial Institution within two (2) Market Days after the receipt of confirmation from Equiniti. You may check your account on the fifth (5th) Market Day from the balloting date.

If your ESA is accepted in part only, the relevant Participating Financial Institution will credit the balance of the application monies without interest into your account with that Participating Financial Institution within two (2) Market Days after the receipt of confirmation from Equiniti. A number of applications will, however, be held in reserve to replace any successfully balloted applications, which are subsequently rejected. For such applications which are subsequently rejected, the application monies without interest will be refunded to you by Equiniti by crediting into your account with the Participating Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti.

Should you encounter any problems with your application, you may refer to the Participating Financial Institutions.

- (viii) You request and authorise us:
 - (a) to credit our IPO Shares allotted or allocated to you into your CDS account; and
 - (b) to issue share certificate(s) representing such IPO Shares allotted or allocated in the name of Bursa Malaysia Depository Nominees Sdn Bhd and send the same to Bursa Depository.
- (ix) You acknowledge that your ESA is subject to risks of electrical, electronic, technical and computer-related faults and breakdowns, fires and other events beyond our control, Equiniti or the Participating Financial Institution and irrevocably agree that if:
 - (a) our Company or Equiniti did not receive your ESA; and
 - (b) data relating to your ESA is wholly or partially lost, corrupted or not otherwise accessible, or not transmitted or communicated to us or Equiniti, you shall be deemed not to have made an ESA and you shall not claim whatsoever against our Company, Equiniti or the Participating Financial Institution for our IPO Shares applied for or for any compensation, loss or damage.
- (x) All your particulars in the records of the relevant Participating Financial Institution at the time you make your ESA shall be deemed to be true and correct and we, Equiniti and the relevant Participating Financial Institution shall be entitled to rely on the accuracy thereof.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- (xi) You shall ensure that your personal particulars as recorded by both Bursa Depository and the relevant Participating Financial Institution are correct and identical. You must inform Bursa Depository promptly of any change in address failing which the notification letter of successful allocation will be sent to your registered or correspondence address last maintained with Bursa Depository.
- (xii) By making and completing an ESA, you agree that:
 - (a) in consideration of our Company agreeing to allow and accept the making of any application for our IPO Shares *via* the ESA facility established by the Participating Financial Institutions at their respective ATMs, your ESA is irrevocable;
 - (b) our Company, the Participating Financial Institutions, Bursa Depository and Equiniti shall not be liable for any delays, failures or inaccuracies in the processing of data relating to your ESA due to a breakdown or failure of transmission or communication facilities or to any cause beyond our/their control;
 - (c) notwithstanding the receipt of any payment by or on behalf of our Company, the acceptance of your offer to subscribe for and purchase our IPO Shares for which your ESA has been successfully completed shall be constituted by the issue of notices of successful allocation for prescribed securities, in respect of the said IPO Shares;
 - (d) you irrevocably authorise Bursa Depository to complete and sign on your behalf as transferee or renounee any instrument of transfer and/or other documents required for the issue or transfer of our IPO Shares allocated to you; and
 - (e) we agree that in relation to any legal action or proceedings arising out of or in relation with the contract between the parties and/or the ESA scheme and/or any terms herein, all rights, obligations and liabilities shall be construed and determined in accordance with the laws of Malaysia and with all directives, rules, regulations and notices from regulatory bodies and that we irrevocably submit to the jurisdiction of the Courts of Malaysia.
- (xiii) If you are successful in your ESA, our Directors reserve the right to require you to appear in person at the registered office of Equiniti within 14 days from the date of the notice issued to you to ascertain your application is genuine and valid. Our Directors shall not be responsible for any loss or non-receipt of the said notice nor shall they be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.
- (xiv) Equiniti, on the authority of our Directors, reserves the right to reject any application which does not conform to these instructions.

16.7 PROCEDURES FOR APPLICATION BY WAY OF AN INTERNET SHARE APPLICATION

16.7.1 Steps for Internet Share Application

The exact steps for in respect of the IPO Shares are as set out on the internet financial services website of the Internet Participating Financial Institutions.

For illustration purposes only, we have set out below possible steps for an application for the IPO Shares using ISA. The steps set out the actions that you must take at the Internet financial services website of the Internet Participating Financial Institution to complete an ISA.

PLEASE NOTE THAT THE ACTUAL STEPS FOR INTERNET SHARE APPLICATIONS CONTAINED IN THE INTERNET FINANCIAL SERVICES WEBSITE OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTIONS MAY DIFFER FROM THE STEPS OUTLINED BELOW.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

- (i) Connect to the internet financial services website of the Internet Participating Financial Institution with which you have an account.
- (ii) Login to the internet financial services facility by entering your user identification and PIN/password.
- (iii) Navigate to the section of the website on applications in respect of initial public offerings.
- (iv) Select the counter in respect of the IPO Shares to launch the Electronic Prospectus and the terms and conditions of the ISA.
- (v) Select the designated hyperlink on the screen to accept the abovementioned terms and conditions, having read and understood such terms and conditions.
- (vi) At the next screen, complete the online application form.
- (vii) Check that the information contained in the online application form such as the share counter, NRIC number, CDS Account number, number of IPO Shares applied for and the account number to debit are correct, and select the designated hyperlink on the screen to confirm and submit the online application form.
- (viii) By confirming such information, you will undertake that the following mandatory statements are true and correct:
 - you have attained eighteen (18) years of age as at the closing date of the share application;
 - you are a Malaysian citizen residing in Malaysia;
 - you have, prior to making the ISA, received and/or had access to a printed/ electronic copy of this Prospectus, the contents of which you have read and understood;
 - you agree to all the terms and conditions of the ISA as set out in this Prospectus and have carefully considered the risk factors set out in this Prospectus, in addition to all other information contained in this Prospectus before making the ISA for our IPO Shares;
 - the ISA is the only application that you are submitting for our IPO Shares;
 - you authorise the Internet Participating Financial Institution or the Authorised Financial Institution to deduct the full amount payable for our IPO Shares from your account with the Internet Participating Financial Institution or the Authorised Financial Institution;
 - you give your express consent in accordance with the relevant laws of Malaysia (including but not limited to Section 99 of the Banking and Financial Institutions Act, 1989 and Section 45 of the Securities Industry (Central Depositories) Act, 1991) to the disclosure by the Internet Participating Financial Institution, the Authorised Financial Institution and/or Bursa Depository, as the case may be, of information pertaining to you, the ISA made by you or your account with the Internet Participating Financial Institution, to Equiniti and the Authorised Financial Institution, the SC and any other relevant authority;
 - YOU ARE NOT APPLYING FOR OUR IPO SHARES AS A NOMINEE OF ANY OTHER PERSON AND THE APPLICATION IS MADE IN YOUR OWN NAME, AS THE BENEFICIAL OWNER AND SUBJECT TO THE RISKS REFERRED TO IN THIS PROSPECTUS; AND

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

- you authorise the Internet Participating Financial Institution to disclose and transfer to any person, including any government or regulatory authority in any jurisdiction, us, Bursa Securities or other relevant parties in connection with our Public Issue, all information relating to you if required by any law, regulation, court order or any government or regulatory authority in any jurisdiction or if such disclosure and transfer is, in the reasonable opinion of the Internet Participating Financial Institution, necessary for the provision of the ISA services or if such disclosure is requested or required in connection with the Public Issue. Further, the Internet Participating Financial Institution will take reasonable precautions to preserve the confidentiality of information relating to you furnished by you to the Internet Participating Financial Institution in connection with the use of the ISA services.
- (ix) Upon submission of the online application form, you will be linked to the website of the Authorised Financial Institution to effect the online payment of the application money for our Public Issue.
- (x) As soon as the transaction is completed, a message from the Authorised Financial Institution pertaining to the payment status will appear on the screen of the website through which the online payment of the application of the Public Issue is being made.
- (xi) Subsequent to the above, the Internet Participating Financial Institution shall confirm that the ISA has been completed, via the Confirmation Screen on its website.
- (xii) You are advised to print out the Confirmation Screen for reference and retention.

16.7.2 Terms and Conditions for Internet Share Application

Your application for our IPO Shares may be made through the internet financial services website of the Internet Participating Financial Institutions.

YOU ARE ADVISED NOT TO APPLY FOR OUR IPO SHARES THROUGH ANY WEBSITE OTHER THAN THE INTERNET FINANCIAL SERVICES WEBSITE OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTIONS.

Internet Participating Financial Institution

ISAs may be made through the internet financial services websites of the following Internet Participating Financial Institutions:

- CIMB Bank Berhad at www.cimbclicks.com.my;
- CIMB Investment Bank Berhad at www.eipocimb.com;
- Malayan Banking Berhad at www.maybank2u.com.my;
- Affin Bank Berhad at www.affinOnline.com;
- RHB Bank Berhad at www.rhb.com.my;
- Public Bank Berhad at www.pbebank.com; or
- Affin Investment Bank Berhad at www.affinTrade.com

PLEASE READ THE TERMS OF THIS PROSPECTUS, THE TERMS AND CONDITIONS FOR INTERNET SHARE APPLICATIONS SET OUT HEREIN AND THE STEPS FOR INTERNET SHARE APPLICATIONS SET OUT HEREIN CAREFULLY PRIOR TO MAKING AN INTERNET SHARE APPLICATION.

THE EXACT TERMS AND CONDITIONS AND ITS SEQUENCE FOR INTERNET SHARE APPLICATIONS IN RESPECT OF THE IPO SHARES ARE AS SET OUT ON THE INTERNET FINANCIAL SERVICES WEBSITE OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTIONS.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

PLEASE NOTE THAT THE ACTUAL TERMS AND CONDITIONS OUTLINED BELOW SUPPLEMENT THE ADDITIONAL TERMS AND CONDITIONS FOR INTERNET SHARE APPLICATION CONTAINED IN THE INTERNET FINANCIAL SERVICES WEBSITES OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTIONS.

An ISA shall be made on and shall be subject to the terms and conditions as set out below:

(i) In order to make an ISA, you must:

- be an individual with a CDS account and in the case of a joint account, an individual CDS account registered in your name which is to be used for the purpose of the application if you are making the application instead of a CDS account registered in the joint account holder's name;
- have an existing account with access to internet financial services facilities with an Internet Participating Financial Institution. You must have ready your user identification ("User ID") and Personal Identification Numbers ("PIN")/ password for the relevant internet financial services facilities; and
- be a Malaysian citizen and have a Malaysian address.

You are advised to note that a User ID and PIN/ password issued by one of the Internet Participating Financial Institutions cannot be used to apply for the IPO Shares at internet financial service websites of other Internet Participating Financial Institutions.

(ii) An ISA shall be made on and shall be subject to the terms of this Prospectus and our Memorandum and Articles of Association.

(iii) You are required to confirm the following statements (by selecting the designated hyperlink on the relevant screen of the internet financial services website of the Internet Participating Financial Institution) and to undertake that the following information given is true and correct:

- you have attained eighteen (18) years of age as at the date of the application for the IPO Shares;
- you are a Malaysian citizen residing in Malaysia;
- you have, prior to making the ISA, received and/or have had access to a printed/ electronic copy of this Prospectus, the contents of which you have read and understood;
- you agree to all the terms and conditions of the Internet Share Application as set out in this Prospectus and have carefully considered the risk factors set out in this Prospectus, in addition to all other information contained in this Prospectus before making the ISA for the IPO Shares;
- the ISA is the only application that you are submitting for our IPO Shares;
- you authorise the Internet Participating Financial Institution or the Authorised Financial Institution to deduct the full amount payable for IPO Shares from your account with the Internet Participating Financial Institution or the Authorised Financial Institution;

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

- you give express consent in accordance with the relevant laws of Malaysia (including but not limited to Section 99 of the Banking and Financial Institutions Act, 1989 and Section 45 of the Securities Industry (Central Depositories) Act, 1991) to the disclosure by the Internet Participating Financial Institution, the Authorised Financial Institution and/or Bursa Depository, as the case may be, of information pertaining to you, the ISA made by you or your account with the Internet Participating Financial Institution, to Equiniti and the Authorised Financial Institution, the SC and any other relevant authority;
 - YOU ARE NOT APPLYING FOR OUR IPO SHARES AS A NOMINEE OF ANY OTHER PERSON AND THE APPLICATION IS MADE IN YOUR OWN NAME, AS THE BENEFICIAL OWNER AND SUBJECT TO THE RISKS REFERRED TO IN THIS PROSPECTUS; AND
 - you authorise the Internet Participating Financial Institution to disclose transfer to any person, including any government or regulatory authority in any jurisdiction, us, Bursa Securities or other relevant parties in connection with the Public Issue, all information relating to you if required by any law, regulation, court order or any government or regulatory authority in any jurisdiction or if such disclosure and transfer is, in the reasonable opinion of the Internet Participating Financial Institution, necessary for the provision of the ISA services or if such disclosure is requested or required in connection with the Public Issue. Further, the Internet Participating Financial Institution will take reasonable precautions to preserve the confidentiality of information relating to you furnished by you to the Internet Participating Financial Institution in connection with the use of the ISA services.
- (iv) Your application will not be successfully completed and cannot be recorded as a completed application unless you have completed all relevant application steps and procedures for the ISA which would result in the internet financial services website displaying the Confirmation Screen.
- For the purposes of this Prospectus, "Confirmation Screen" shall mean the screen which appears or is displayed on the internet financial services website, which confirms that the ISA has been completed and states the details of your ISA, including the number of IPO Shares applied for which can be printed out by you for your records.
- Upon the display of the Confirmation Screen, you shall be deemed to have confirmed the truth of the statements set out in Section 16.7.2(iii) of this Prospectus.
- (v) You must have sufficient funds in your account with the Internet Participating Financial Institution or the Authorised Financial Institution at the time of making the ISA, to cover and pay for our IPO Shares and the related processing fees, charges and expenses, if any, to be incurred, failing which the ISA will not be deemed complete, notwithstanding the display of the Confirmation Screen. Any ISA which does not conform strictly to the instructions set out in this Prospectus or any instructions displayed on the screens of the internet financial services website through which the ISA is made shall be rejected.
- (vi) You irrevocably agree and undertake to subscribe for and to accept the number of IPO Shares applied for as stated on the Confirmation Screen or any lesser number of IPO Shares that may be allotted or allocated to you in respect of the ISA. In the event that we decide to allot or allocate any lesser number of such IPO Shares or not to allot or allocate any IPO Shares to you, you agree to accept our decision as final.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

In the course of completing the ISA on the website of the Internet Participating Financial Institution, your confirmation of the number of IPO Shares applied for (by way of your action of clicking the designated hyperlink on the relevant screen of the website) shall be deemed to signify and shall be treated as:

- your acceptance of the number of IPO Shares that may be allotted or allocated to you in the event that your ISA is successful or successful in part, as the case may be; and
 - your agreement to be bound by our Memorandum and Articles of Association.
- (vii) You are fully aware that multiple or suspected multiple ISAs for the IPO Shares will be rejected. Equiniti on the authority of our Board reserves the right to reject any ISA or accept any ISA in part only without assigning any reason therefor. We will give due consideration to the desirability of allotting or allocating the IPO Shares to a reasonable number of applicants with a view to establishing a liquid and adequate market for our Shares.
- (viii) If your ISA is unsuccessful or successful in part only, Equiniti shall inform the relevant Internet Participating Financial Institution of the unsuccessful or partially successful ISA within two (2) Market Days after the balloting date. Where your ISA is unsuccessful, the relevant Internet Participating Financial Institution will credit or arrange with the Authorised Financial Institution to credit the full amount of the application monies, in Ringgit Malaysia (without interest or any share of revenue or other benefit arising therefrom) into your account with the Internet Participating Financial Institution or the Authorised Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti.

If your ISA is successful in part only, the relevant Internet Participating Financial Institution will credit the balance of the application monies, in Ringgit Malaysia (without interest or any share of revenue or other benefit arising therefrom) into your account with the Internet Participating Financial Institution or the Authorised Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti. We will, however, hold in reserve a number of applications to replace any successfully balloted applications that are subsequently rejected. If your application held in reserve is subsequently rejected, your application monies will be refunded, in Ringgit Malaysia (without interest or any share of revenue or other benefit arising therefrom) to you by the Internet Participating Financial Institution by crediting into your account with the Internet Participating Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti.

For applications that are held in reserve and which are subsequently unsuccessful (or partly successful), the Internet Participating Financial Institution will credit into your account the application monies (or any part thereof but without interest or any share of revenue or other benefit arising therefrom) within two (2) Market Days after the receipt of confirmation from Equiniti.

Except where Equiniti is required to refund application monies, it is the sole responsibility of the Internet Participating Financial Institution to ensure the timely refund of application monies from unsuccessful or partially successful ISAs. Therefore, you are strongly advised to consult the Internet Participating Financial Institution through which the application was made in respect of the mode or procedure of enquiring on the status of the ISA in order to determine the status or exact number of IPO Shares allotted or allocated, if any, before trading of our IPO Shares on Bursa Securities.

- (ix) ISAs will be closed at 5.00 p.m. on 16 July 2014 or such other date(s) as our Directors, Promoters and Offeror, together with Kenanga IB may mutually decide in their absolute discretion. An ISA is deemed to be received only upon its completion that is when the Confirmation Screen is displayed on the internet financial services website. You are advised to print out and retain a copy of the Confirmation Screen for record purposes. Late ISAs will not be accepted.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- (x) You irrevocably agrees and acknowledge that the ISA is subject to risk of electrical, electronic, technical and computer-related faults and breakdowns, faults with computer software, problems occurring during data transnission, computer security threats such as viruses, hackers and crackers, fires, acts of God and other events beyond our control and the control of Equiniti or the Internet Participating Financial Institutions and the Authorised Financial Institution. If, in any such event, we, Equiniti and/or the Internet Participating Financial Institution and/or the Authorised Financial Institution do not receive your ISA and/or the payment therefor, or in the event that any data relating to the ISA or the tape or any other devices containing such data is lost, corrupted, destroyed or otherwise not accessible, whether wholly or partially and for any reason whatsoever, you shall be deemed not to have made an ISA and you shall have no claim whatsoever against us, Equiniti or the Internet Participating Financial Institution and the Authorised Financial Institution in relation to the IPO Shares applied for or for any compensation, loss or damage whatsoever, as a consequence thereof or arising therefrom.

- (xi) All your particulars in the records of the relevant Internet Participating Financial Institution at the time you make your ISA shall be deemed to be true and correct, and we, Equiniti, the relevant Internet Participating Financial Institutions and all other persons who, are entitled or allowed under the law to such information or where you expressly consent to the provision of such information shall be entitled to rely on the accuracy thereof.

You shall ensure that your personal particulars as recorded by both Bursa Depository and the Internet Participating Financial Institution are correct and identical. Otherwise, your ISA is liable to be rejected. The notification letter on successful allotment or allocation will be sent to your registered address last maintained with Bursa Depository. It is your responsibility to notify the Internet Participating Financial Institution and Bursa Depository of any changes in your personal particulars that may occur from time to time.

- (xii) By making and completing an ISA, you are deemed to have agreed that:

- in consideration of us making available the ISA facility to you through the Internet Participating Institution acting as our agents, the ISA is irrevocable;
- you have irrevocably requested and authorised us to register the IPO Shares allotted or allocated to you for deposit into your CDS Account;
- neither us nor the Internet Participating Financial Institution shall be liable for any delay, failure or inaccuracy in the recording, storage or transmission or delivery of data relating to the ISA to Equiniti or Bursa Depository due to any breakdown or failure of transmission, delivery or communication facilities or due to any risk referred to in **Section 16.7.2(x)** of this Prospectus or to any cause beyond their control;
- you shall hold the Internet Participating Financial Institution harmless from any damages, claims or losses whatsoever, as a consequence of or arising from any rejection of your ISA by Equiniti, us and/or the Internet Participating Financial Institution for reasons of multiple application, suspected multiple application, inaccurate and/or incomplete details provided by you, or any other cause beyond the control of the Internet Participating Financial Institution;
- the acceptance of your offer to subscribe for our IPO Shares for which your ISA has been successfully completed shall be constituted by written notification in the form of the issue of a notice of allotment by us or on our behalf and not otherwise, notwithstanding the receipt of any payment by us or on our behalf;
- you are not entitled to exercise any remedy of rescission for misrepresentation at any time after we have accepted your ISA;

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- in making the ISA, you have relied solely on the information contained in this Prospectus. We, Kenanga IB and any other person involved in the Public Issue shall not be liable for any information not contained in this Prospectus which you may have relied on in making the ISA; and
- the acceptance of your ISA and the contract resulting therefrom under our Public Issue shall be governed by and construed in accordance with the laws of Malaysia, and the applicant irrevocably submits to the jurisdiction of the courts of Malaysia.

16.8 AUTHORITY OF OUR BOARD AND EQUINITI

If you are successful in your application, our Board reserve the right to require you to appear in person at the registered office of Equiniti within fourteen (14) days from the date of the notice issued to you to ascertain your application is genuine and valid. Our Board are not responsible for any loss or non-receipt of the said notice nor shall they be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

Applicants will be selected in a manner to be determined by our Board. Due consideration will be given to the desirability of allotting or allocating our IPO Shares to a reasonable number of applicants with a view to establishing an adequate market for our Shares.

Equiniti, on the authority of our Board, reserves the right to:

- (i) reject applications which do not conform to the instructions in this Prospectus or are illegible, incomplete or inaccurate;
- (ii) reject or accept any application, in whole or in part, on a non-discriminatory basis without giving any reason; and
- (iii) bank in all application monies from unsuccessful / partially successful applicants which would subsequently be refunded without interest by registered post.

16.9 OVER/UNDER-SUBSCRIPTION

In the event of an over-subscription, Equiniti will conduct a ballot in a manner as approved by our Board to determine acceptance of applications. In determining the manner of balloting, our Board will consider the desirability of distributing our IPO Shares in a fair and equitable manner to a reasonable number of applicants for the purpose of broadening our shareholding base and establishing an adequate market in the trading of our Shares.

Pursuant to the Listing Requirements, we are required to have at least 25% of our enlarged issued and paid-up share capital to be held by a minimum number of 200 public shareholders holding not less than 100 Shares each upon our Listing and completion of this Public Issue. We expect to achieve this at the point of our Listing. However, in the event that the above requirement is not met, we may not be allowed to proceed with our Listing. In the event thereof, monies paid in respect of all applications will be returned without interest.

In the event of an under-subscription for our IPO Shares reserved for application by the Public, all such IPO Shares not applied for will be subscribed by our Underwriter pursuant to the Underwriting Agreement.

In the event of an under-subscription of IPO Shares by our eligible employees and persons who have contributed to the success of our Group, such IPO Shares will be made available for Application by the Malaysian Public. Likewise, in the event of an under-subscription of IPO Shares by the Malaysian Public, such IPO Shares will be made available for application by our eligible employees and persons who have contributed to our success.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Our IPO Shares reserved for subscription by identified investors will not be underwritten as written irrevocable undertakings to subscribe for such IPO Shares have been procured from the respective identified investors.

Where your successfully balloted application under White Application Form is subsequently rejected, the full amount of your application monies, will be refunded without interest to you within 10 Market Days from the date of the final ballot of the application list to your address registered with the Bursa Depository.

Where your successfully balloted application under ESA or ISA is subsequently rejected, the full amount of your application monies, will be refunded without interest to you by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institution respectively.

16.10 UNSUCCESSFUL/PARTIALLY SUCCESSFUL APPLICANTS

If you are unsuccessful/partially successful in your application, we will return your application monies without interest in the following manner:

16.10.1 For applications by way of Application Form

- (i) The application monies or the balance of it, as the case may be, will be returned to you via the self-addressed and stamped Official 'A' envelope you provided by ordinary post (for fully unsuccessful applications) or by registered post to your last address maintained with Bursa Depository (for partially successful applications) within ten (10) Market Days from the date of the final ballot.
- (ii) If your application was rejected because you did not provide a CDS account number, your application monies will be sent to the address stated in the NRIC or 'Resit Pengenalan Sementara (KPPK 09)' or any valid temporary identity document issued by the National Registration Department from time to time at your own risk.
- (iii) Equiniti reserves the right to bank in all application monies from unsuccessful applicants. These monies will be refunded by registered post to your last address maintained with Bursa Depository or as per item (ii) above, as the case may be, at your own risk within ten (10) Market Days from the date of the final ballot.

16.10.2 For applications by way of Electronic Share Application

- (i) Equiniti shall inform the Participating Financial Institutions of the non-successful or partially successful applications within two (2) Market Days after the balloting date. The application monies or the balance of it will be credited into your account with the Participating Financial Institution without interest within two (2) Market Days after the receipt of confirmation from Equiniti.
- (ii) You may check your account on the fifth (5th) Market Day from the balloting date.
- (iii) A number of applications will be reserved to replace any balloted applications which are rejected. The application monies relating to these applications which are subsequently rejected will be refunded without interest by the Participating Financial Institution by crediting into your account with the Participating Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti. For applications that are held in reserve and are subsequently unsuccessful (or only partly successful), the relevant Participating Financial Institution will credit the application money (or part thereof) into your account without interest within two (2) Market Days after the receipt of confirmation from Equiniti.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

16.10.3 For applications by way of Internet Share Application

- (i) Equiniti shall inform the Internet Participating Financial Institutions of the non-successful or partially successful applications within two (2) Market Days after the balloting date. The application monies or the balance of it will be credited into your account with the Internet Participating Financial Institution without interest within two (2) Market Days after the receipt of confirmation from Equiniti.
- (ii) You may check your account on the fifth (5th) Market Day from the balloting date.
- (iii) A number of applications will be reserved to replace any balloted applications which are rejected. The application monies relating to these applications which are subsequently rejected will be refunded without interest by the Internet Participating Financial Institution by crediting into your account with the Internet Participating Financial Institution within two (2) Market Days after receipt of written confirmation from Equiniti. For applications that are held in reserve and are subsequently unsuccessful (or only partly successful), the relevant Participating Financial Institution will credit the application money (or part thereof) into your account without interest within two (2) Market Days after the receipt of confirmation from Equiniti.

16.11 SUCCESSFUL APPLICANTS

If you are successful in your application:

- (i) our Shares allocated to you will be credited into your CDS account. We will not be issuing any share certificates to you; and
- (ii) a notice of allotment will be despatched to you at the address last maintained with Bursa Depository where you have an existing CDS account at your own risk prior to our Listing. This is your only acknowledgement of acceptance of your application.

16.12 CDS ACCOUNTS

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, Bursa Securities has prescribed our IPO Shares as "Prescribed Securities". Therefore, our IPO Shares offered through this Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the aforesaid Act and Rules of Bursa Depository.

Following the above, in accordance with Section 29 of the Central Depositories Act, all dealings in our Shares, including our IPO Shares, will be by book entries through CDS accounts. No Share certificates will be issued but notices of allotment or transfer shall be despatched.

You must have a CDS account when applying for our IPO Shares. If you do not presently have a CDS account, you should open a CDS account at an ADA prior to making an application for our IPO Shares.

In the case of an application by way of Application Form, you should state your CDS account number in the space provided on the Application Form and you shall be deemed to have authorised Bursa Depository to disclose information pertaining to your CDS account to Equiniti or our Company.

In the case of an application by way of ESA, you shall furnish your CDS account number to the Participating Financial Institution by way of keying in your CDS account number if the instructions on the ATM screen require you to do so.

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

In the case of an application by way of ISA, only an applicant who has a CDS account can make an ISA. In certain cases, only an applicant who has a CDS account opened with the Internet Participating Financial Institution can make an ISA. Arising therewith, the applicant's CDS account number would automatically appear in the e-IPO online application form.

Failure to comply with these specific instructions or inaccuracy in the CDS account number, arising from use of invalid, third party or nominee accounts, may result in your application being rejected. If a successful applicant fails to state his/her CDS account number, Equiniti, on the authority of our Directors, will reject the application. Equiniti, on the authority of our Directors, also reserves the right to reject any incomplete and/or inaccurate application. Applications may also be rejected if the applicants' particulars provided in the Application Forms, or in the case of ESA or ISA, if the records of the Participating Financial Institutions at the time of making the ESA or ISA, differ from those in Bursa Depository's records, such as the identity card number, name and nationality.

16.13 ENQUIRIES

You may contact Equiniti if you have any queries on the White Application Form at (603) 2166 0933 or (603) 2166 0811. If you have any enquiry with regards to your ESA, you may refer to the relevant Participating Financial Institution. If you have any enquiry with regards to your ISA, you may refer to the relevant Internet Participating Financial Institution and Authorised Financial Institution.

You may check the status of your application by logging into Equiniti's website at www.equiniti.com.my or by calling Equiniti at (603) 2166 0933 or (603) 2166 0811 or your ADA at the telephone number as stated in Section 16.14 below between five (5) to ten (10) Market Days (during office hours only) after the balloting date.

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16. PROCEDURES FOR APPLICATION AND ACCEPTANCE**16.14 LIST OF ADAS**

The list of ADAs and their respective addresses, telephone numbers and broker codes are as follows:

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KUALA LUMPUR			
AFFIN INVESTMENT BANK BERHAD Ground Mezzanine & 3rd Floor Chulan Tower No. 3, Jalan Conlay 50450 Kuala Lumpur Tel No.: 03-2143 8668	028-001	AFFIN INVESTMENT BANK BERHAD No. 38A & 40A Jalan Midah 1 Taman Midah, Cheras 56000 Kuala Lumpur Tel No.: 03-9130 8803	028-005
ALLIANCE INVESTMENT BANK BERHAD 17 th Floor, Menara Multi-Purpose Capital Square No. 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Tel No.: 03-2604 6333	076-001	AMINVESTMENT BANK BERHAD 8-9, 11-18, 21-25 Floor Bangunan AmBank Group 55, Jalan Raja Chulan 50200 Kuala Lumpur Tel No.: 03-2036 2633	086-001
BIMB SECURITIES SDN BHD 32 nd Floor, Menara Multi-Purpose Capital Square No. 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Tel No.: 03-2691 8887	024-001	CIMB INVESTMENT BANK BERHAD 10 th Floor, Bangunan CIMB Prineipal Office MENARA CIMB Jalan Stesen Sentral 2 Kuala Lumpur Sentral 50470 Kuala Lumpur Tel No.: 03-2261 8888	065-001
CITIGROUP GLOBAL MARKETS MALAYSIA SDN BHD Level 43, Menara Citibank 165 Jalan Ampang 50450 Kuala Lumpur Tel No.: 03-2383 3890	038-001	CLSA SECURITIES SDN BHD Suite 20-01, Aras 20 Menara Dion2 27 Jalan Sultan Ismail 50250 Kuala Lumpur Tel No.: 03-2056 7888	033-001
CREDIT SUISSE SECURITIES (MALAYSIA) SDN BHD Suite 7.6, Level 7 Menara IMC8 Jalan Sultan Ismail 50250 Kuala Lumpur Tel No.: 2723 2020	036-001	FA SECURITIES SDN BHD A-10-1 & A-10-1 Level 10, Menara UOA Bangsar No. 5, Jalan Bangsar Utama 1 59000 Kuala Lumpur Tel No.: 2288 1676	021-002
HONG LEONG INVESTMENT BANK BERHAD Level 6-8, 13, 22 & 23 Menara HLA No. 3, Jalan Kia Peng 50450 Kuala Lumpur Tel No.: 03-2168 1168	066-001	HONG LEONG INVESTMENT BANK BERHAD 18 th & 21 st Floor Menara Raja Laut 288, Jalan Raja Laut 50350 Kuala Lumpur Tel No.: 03-2691 0200	066-006
HWANGDBS INVESTMENT BANK BERHAD 2 nd Floor, Bangunan AHP No. 2, Jalan Tun Mohd Fuad 3 Taman Tun Dr. Ismail 60000 Kuala Lumpur Tel No.: 03-7710 6688	068-009	HWANGDBS INVESTMENT BANK BERHAD 7 th , 22 nd and 23 rd Floor Menara Keck Seng 203, Jalan Bukit Bintang 55100 Kuala Lumpur Tel No.: 03-2711 6888	068-014

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
HWANGDBS INVESTMENT BANK BERHAD No. 57-10 Level 10 The Boulevard, Mid Valley City Lingkaran Syed Putra 59000 Kuala Lumpur Tel No.: 03-2287 2273	068-017	INTER-PACIFIC SECURITIES SDN BHD West Wing, Level 13 Berjaya Times Square No. 1, Jalan Imbi 55100 Kuala Lumpur Tel No.: 03-2117 1888	054-001
INTER-PACIFIC SECURITIES SDN BHD Ground Floor, 7-0-8 Jalan 3/109F Danau Business Centre Danau Desa 58100 Kuala Lumpur Tel No.: 03-7984 7796	054-003	JPMORGAN SECURITIES (MALAYSIA) SDN BHD Level 18, Integra Tower The Intermark 348 Jalan Tun Razak 50400, Kuala Lumpur Tel No.: 03-2270470	035-001
JUPITER SECURITIES SDN BHD Level 8 & 9, Menara Olympia 8, Jalan Raja Chulan 50200 Kuala Lumpur Tel No.: 03-2034 1888	055-001	KAF-SEAGROATT & CAMPBELL SECURITIES SDN BHD 11 th - 14 th Floor Chulan Tower No. 3, Jalan Conlay 50450 Kuala Lumpur Tel No.: 03-2168 8800	053-001
KENANGA INVESTMENT BANK BERHAD 4-10, 15-16, 18 & 20 Floor Kenanga International Jalan Sultan Ismail 50250 Kuala Lumpur Tel No.: 03-2164 9080	073-001	KENANGA INVESTMENT BANK BERHAD M3-A-7 & M3-A-8 Jalan Pandan Indah 4/3A Pandan Indah 55100 Kuala Lumpur Tel No.: 03-4297 8806	073-020
KENANGA INVESTMENT BANK BERHAD Ground Mezzanine, 1 st & 2 nd Floor (West & Center Wing) & 1 st Floor East Wing Bangunan ECM Libra 8, Jalan Damansara Endah Damansara Heights 50490 Kuala Lumpur Tel No.: 03-2089 2888	073-021	KENANGA INVESTMENT BANK BERHAD 1 st Floor, Wisma Genting Jalan Sultan Ismail 50250 Kuala Lumpur Tel No.: 03-2178 1133	073-029
M & A SECURITIES SDN BHD Level 1-2, No. 45 & 47 and No. 43-6 The Boulevard, Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Tel No.: 03-2282 1820	057-002	M & A SECURITIES SDN BHD 22A & 22A-1 Jalan Kuchai Maju 1 Kuchai Entrepreneurs' Park Off Jalan Kuchai Lama 58200, Kuala Lumpur Tel No.: 03-2282 1820	057-004
MACQUARIE CAPITAL SECURITIES(MALAYSIA) SDN BHD Level 10, Menara Dion 27 Jalan Sultan Ismail 50250, Kuala Lumpur Tel. No.: 03-2059 8833	032-001	MAYBANK INVESTMENT BANK BERHAD 5-13 Floor, Mayban Life Tower Dataran Maybank No. 1, Jalan Maarof 59000 Kuala Lumpur Tel No.: 03-2297 8888	098-001

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
MERCURY SECURITIES SDN BHD L-7-2, No.2 Jalan Solaris Solaris Mont Kiara 50480 Kuala Lumpur Tel No.: 03-6203 7227	093-002	MIDF AMANAH INVESTMENT BANK BERHAD 8 th , 9 th , 10 th , 11 th & 12 th Floor Menara MIDF 82, Jalan Raja Chulan 50200 Kuala Lumpur Tel No.: 03-2173 8888	026-001
NOMURA SECURITIES MALAYSIA SDN BHD Suite 16.5, Level 16 Menara IMC, Letter Box 47 8 Jalan Sultan Ismail 50250 Kuala Lumpur Tel No. 2027 6811	037-001	PM SECURITIES SDN BHD Ground Floor Menara PMI No. 2, Jalan Changkat Ceylon 50200 Kuala Lumpur Tel No.: 03-2146 3000	064-001
PUBLIC INVESTMENT BANK BERHAD 27 th Floor, Bangunan Public Bank No. 6, Jalan Sultan Sulaiman 50000 Kuala Lumpur Tel No.: 03-2031 3011	051-001	RHB INVESTMENT BANK BERHAD Level 10, Tower One RHB Centre Jalan Tun Razak 50400 Kuala Lumpur Tel No.: 03-9287 3888	087-001
RHB INVESTMENT BANK BERHAD 12 th , 15 th , 20 th & 21 st Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Tel No.: 03-2333 8333	087-018	RHB INVESTMENT BANK BERHAD No. 62, 62-1, 64 & 64-1 Vista Magna Jalan Prima, Metro Prima Kepong 52100 Kuala Lumpur Tel No.: 03-6257 5869	087-028
RHB INVESTMENT BANK BERHAD No. 5 & 7 Jalan Pandan Indah 4/33 Pandan Indah 55100 Kuala Lumpur Tel No.: 03-4280 4798	087-054	RHB INVESTMENT BANK BERHAD Ground, 1 st , 2 nd & 3 rd Floor No. 55, Zone J4 Jalan Radin Anum Bandar Baru Seri Petaling 57000 Kuala Lumpur Tel No.: 03-9058 7222	087-058
TA SECURITIES HOLDINGS BERHAD Floor 13-16, 23, 28-30, 34 & 35 Menara TA One No. 22, Jalan P. Ramlee 50250 Kuala Lumpur Tel No.: 03-2072 1277	058-003	UBS SECURITIES MALAYSIA SDN BHD Level 7 Wisma Hong Leong 18, Jalan Perak 50450, Kuala Lumpur Tel No.: 03-2781 1100	031-001
UOB KAY HIAN SECURITIES (M) SDN BHD N3, Plaza Damas 60, Jalan Sri Hartamas 1 Sri Hartamas 50480 Kuala Lumpur Tel No.: 03-6201 1155	078-004	UOB KAY HIAN SECURITIES (M) SDN BHD Ground & 19th Floor Menara Keck Seng 203 Jalan Bukit Bintang 55100 Kuala Lumpur Tel No.: 03-2147 1888	078-010

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
SELANGOR DARUL EHSAN			
AFFIN INVESTMENT BANK BERHAD 2 nd , 3 rd & 4 th Floor Wisma Amsteel Securities No. 1, Lintang Pekan Baru Off Jalan Meru 41050 Klang Selangor Darul Ehsan Tel No.: 03-3343 9999	028-002	AFFIN INVESTMENT BANK BERHAD Lot 229, 2 nd Floor, The Curve No. 6, Jalan PJU 7/3 Mutiarra Damansara 47800 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7729 8016	028-003
AMINVESTMENT BANK BERHAD 4 th Floor, Plaza Damansara Utama No 2, Jalan SS 21/60 47400 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7710 6613	086-003	CIMB INVESTMENT BANK BERHAD Level G & Level 1 Tropicana City Office Tower No.3 Jalan SS20/27 47400 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7717 3388	065-009
HONG LEONG INVESTMENT BANK BERHAD Level 10 1 First Avenue Bandar Utama 47800 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7724 6888	066-002	HWANGDBS INVESTMENT BANK BERHAD 16 th , 18 th -20 th Floor Plaza Masalam No. 2, Jalan Tengku Ampuan Zabedah E9/E Section 9 40100 Shah Alam Selangor Darul Ehsan Tel No.: 03-5513 3288	068-002
HWANGDBS INVESTMENT BANK BERHAD East Wing & Centre Link Floor 3A, Wisma Consplant 2 No. 7, Jalan SS16/1 47500 Subang Jaya Selangor Darul Ehsan Tel No.: 03-5635 6688	068-010	INTER-PACIFIC SECURITIES SDN BHD No. 77 & 79, Jalan 2/3A Pusat Bandar Utara KM12, Jalan Ipoh Selayang 68100 Batu Caves Selangor Darul Ehsan Tel No.: 03-6137 1888	054-006
JF APEX SECURITIES BERHAD 3 rd , 5 th , 6 th and 10 th Floor Menara Apex Off Jalan Semenyih Bukit Mewah 43000 Kajang Selangor Darul Ehsan Tel No.: 03-8736 1118	079-001	JF APEX SECURITIES BERHAD 16 th Floor, Menara Choy Fook On No. 1B, Jalan Yong Shook Lin 46050 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7620 1118	079-002
JUPITER SECURITIES SDN BHD No. 42 – 46, 3 rd Floor Jalan SS19/1D 47500 Subang Jaya Selangor Darul Ehsan Tel No.: 03-5632 4838	055-004	KENANGA INVESTMENT BANK BERHAD Ground – Fifth Floor East Wing, Quattro West No. 4, Lorong Persiaran Barat 46200 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7862 6200	073-005

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KENANGA INVESTMENT BANK BERHAD 55C (2 nd Floor) Jalan USJ 10/1F 47610 Subang Jaya Selangor Darul Ehsan Tel No : 03-8024 1682	073-006	KENANGA INVESTMENT BANK BERHAD Lot 240, 2nd Floor The Curve No.6, Jalan PJU 7/3 Mutiarra Damansara 47800 Petaling Jaya Selangor Darul Ehsan Tel No : 03-7725 9095	073-016
KENANGA INVESTMENT BANK BERHAD Level 1 East Wing Wisma Consplant 2 No. 7, Jalan SS16/1 47500 Subang Jaya Selangor Darul Ehsan Tel No.: 03-5621 2118	073-030	KENANGA INVESTMENT BANK BERHAD No. 35, Ground, 1 st 2 nd Floor Jalan Tiara 3 Bandar Baru Klang 41150 Klang Selangor Darul Ehsan Tel No.: 03-3348 8080	073-035
MALACCA SECURITIES SDN BHD Subang Jaya Branch No. 16, Jalan SS15/4B 47500 Subang Jaya Selangor Darul Ehsan Tel No.: 03-5636 1533	012-002	MALACCA SECURITIES SDN BHD SS2 Petaling Jaya Branch No. 58A & 60A Jalan SS2/67 47300 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7876 1533	012-003
MAYBANK INVESTMENT BANK BERHAD Level 8 68 Jalan Batai Laut 4 Taman Bukit Camerlang 41300 Klang Selangor Darul Ehsan Tel No.: 03-3050 8888	098-003	MAYBANK INVESTMENT BANK BERHAD Wisma Bently Music Level 1, No. 3, Jalan PJU 7/2 Mutiarra Damansara 47800 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7718 8888	098-004
PM SECURITIES SDN BHD No. 157 & 159, Jalan Kenari 23/A Bandar Puchong Jaya 47100 Puchong Selangor Darul Ehsan Tel No.: 03-8070 0773	064-003	PM SECURITIES SDN BHD No. 18 & 20, Jalan Tiara 2 Bandar Baru Klang 41150 Klang Selangor Darul Ehsan Tel No.: 03-3341 5300	064-007
RHB INVESTMENT BANK BERHAD 24, 24M, 24A, 26M, 28M. 28A & 30, 30M & 30A Jalan SS2/63 47300 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7873 6366	087-011	RHB INVESTMENT BANK BERHAD No. 37, Jalan Semenyih 43000 Kajang Selangor Darul Ehsan Tel No.: 03-8736 3378	087-045
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 15, Jalan Bandar Rawang 4 48000 Rawang Selangor Darul Ehsan Tel No.: 03-6092 8916	087-047	RHB INVESTMENT BANK BERHAD Ground & Mezzanine Floor No. 87 & 89, Jalan Susur Pusat Perniagaan NBC Batu 1 ½, Jalan Meru 41050 Klang Selangor Darul Ehsan Tel No.: 03-3343 9180	087-048

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
RHB INVESTMENT BANK BERHAD Ground Floor and First Floor No. 13 Jalan Kenari 3 Bandar Puchong Jaya 47100 Puchong Selangor Darul Ehsan Tel No.: 03-8070 6899	087-049	RHB INVESTMENT BANK BERHAD 11-1 11-2, Jalan PJU 5/12 Dataran Sunway Kota Damansara 47810 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-6148 3361	087-051
RHB INVESTMENT BANK BERHAD Unit 1B & 2B, USJ 10/1J 47610 UEP Subang Jaya Selangor Darul Ehsan Tel No.: 03-8023 6518	087-059	SJ SECURITIES SDN BHD Ground Floor, Podium Block Wisma Synergy Lot 72, Persiaran Jubli Perak Section 22 40000 Shah Alam Selangor Darul Ehsan Tel No.: 03-5192 0202	096-001
SJ SECURITIES SDN BHD 101B, Jalan SS 15/5 ^a 47500, Subang Jaya Selangor Darul Ehsan Tel No.: 03-5631 7888	096-002	SJ SECURITIES SDN BHD No.74-2, Jalan Batu Nilam 5 Bandar Bukit Tinggi 41200 Klang Selangor Darul Ehsan Tel No.: 03-3122 1915	096-004
TA SECURITIES HOLDINGS BERHAD No. 2-1, 2-2, 2-3 & 4-2 Jalan USJ 9/5T Subang Business Centre 47620 UEP Subang Jaya Selangor Darul Ehsan Tel No.: 03-8025 1880	058-005	TA SECURITIES HOLDINGS BERHAD Damansara Utama Branch 2 nd Floor, Wisma TA No. 1A, Jalan SS 20/1 Damansara Utama 47400 Petaling Jaya Selangor Darul Ehsan Tel No.: 03-7795 5713	058-007
PERAK DARUL RIDZUAN			
CIMB INVESTMENT BANK BERHAD Ground, 1 st , 2 nd and 3 rd Floor No.8, 8A-C, Persiaran Greentown 4C Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2088 688	065-010	HONG LEONG INVESTMENT BANK BERHAD 51-53, Persiaran Greenhill 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2530 888	066-003
HWANGDBS INVESTMENT BANK BERHAD Ground, Level 1, 2 & 3 21, Jalan Stesen 30400 Taiping Perak Darul Ridzuan Tel No.: 05-8066 688	068-003	HWANGDBS INVESTMENT BANK BERHAD Ground, 1 st Floor & 2 nd Floor No.22, Persiaran Greentown 1 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2559 988	068-015
KENANGA INVESTMENT BANK BERHAD No. 63, Ground, 1 st , 2 nd & 4 th Floor Persiaran Greenhill 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2422 828	073-022	KENANGA INVESTMENT BANK BERHAD No. 7B-1, Jalan Laman Intan Bandar Baru Teluk Intan 36000 Teluk Intan Perak Darul Ridzuan Tel No.: 05-6222 828	073-026

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KENANGA INVESTMENT BANK BERHAD Ground Floor No. 25 & 25A Jalan Jaya 2, Medan Jaya 32000 Sitiawan Perak Darul Ridzuan Tel No.: 05-6939 828	073-031	M & A SECURITIES SDN BHD 5 th , 6 th , & Unit 8A M & A Building 52A, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan Tel No.: 05-2419 800	057-001
MAYBANK INVESTMENT BANK BERHAD B-G-04 (Ground Floor), Level 1 & 2 No. 42, Persiaran Greentown 1 Pusat Dagangan Greentown 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2453 400	098-002	RHB INVESTMENT BANK BERHAD Ground & 1st Floor No. 17, Jalan Intan 2, Bandar Baru 36000 Teluk Intan Perak Darul Ridzuan Tel No.: 05-6236 498	087-014
RHB INVESTMENT BANK BERHAD Ground, 1 st Floor, No. 23 & 25 Jalan Lumut 32000 Sitiawan Perak Darul Ridzuan Tel No.: 05-6921 228	087-016	RHB INVESTMENT BANK BERHAD 21-25, Jalan Seenivasagam Greentown 30450 Ipoh Perak Darul Ridzuan Tel No.: 05-2415 100	087-023
RHB INVESTMENT BANK BERHAD Ground Floor, No.40, 42 & 44 Jalan Berek 34000 Taiping Perak Darul Ridzuan Tel No.: 05-8088 229	087-034	RHB INVESTMENT BANK BERHAD 72, Ground Floor Jalan Idris 31900 Kampar Perak Darul Ridzuan Tel No.: 05-4651 261	087-044
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 2, Jalan Wawasan 4 Taman Wawasan 34200 Parit Buntar Perak Darul Ridzuan Tel No.: 05-7170 888	087-052	TA SECURITIES HOLDINGS BERHAD Ground, 1 st & 2 nd Floor Plaza Teh Teng Seng No. 227, Jalan Raja Permaisuri Bainun 30250 Ipoh Perak Darul Ridzuan Tel No.: 05-2531 313	058-001
UOB KAY HIAN SECURITIES (M) SDN BHD 29G, Jalan Intan 2 Bandar Baru 36000 Teluk Intan Perak Darul Ridzuan Tel No : 05-6216 010	078-009		
PULAU PINANG			
ALLIANCE INVESTMENT BANK BERHAD Ground & Mezzanine Floor, Bangunan Berkath, 21 Beach Street, 10300, Georgetown Tel No : 04-2611 688	076-015	AMINVESTMENT BANK BERHAD Mezzanine Floor & Level 3 No. 37, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel No : 04-2261 818	086-004

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
AMINVESTMENT BANK BERHAD Level 3 No. 15, Lebu Pantai 10300 Pulau Pinang Tel No : 04-2618 688	086-007	CIMB INVESTMENT BANK BERHAD Ground Floor Suite 1.01, Menara Boustead Penang 39, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel No.: 04-2385 900	065-003
HWANGDBS INVESTMENT BANK BERHAD Level 2, 3, 4, 7 & 8 Wisma Sri Pinang 60, Green Hall 10200 Pulau Pinang Tel No.: 04-2636 996	068-001	HWANGDBS INVESTMENT BANK BERHAD No. 2 & 4 Jalan Perda Barat Bandar Perda 14000 Bukit Mertajam Pulau Pinang Tel No.: 04-5372 882	068-006
INTER-PACIFIC SECURITIES SDN BHD Ground Floor, Mezzanine & 8th Floor Sentral Tower No. 3, Penang Street 10200 Pulau Pinang Tel No.: 04-2690 888	054-002	JUPITER SECURITIES SDN BHD 20-1 & 20-2 Persiaran Bayan Indah Bayan Bay Sungai Nibong 11900 Bayan Lepas Penang Tel No.: 04-641 2881	055-003
KENANGA INVESTMENT BANK BERHAD 7 th , 8 th & 16 th Floor Menara Boustead 39, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel No.: 04-2283 355	073-023	M & A SECURITIES SDN BHD 332H-1 & 332G-2, Harmony Square Jalan Perak 11600 Georgetown Pulau Pinang Tel No.: 04-2817 611	057-005
M & A SECURITIES SDN BHD 216, 216A, 218 and 218A Pengkalan Weld Lebu Macallum 10300 Pulau Pinang Tel No.: 04-2617 611	057-008	MALACCA SECURITIES SDN BHD Prima Tanjung Suite 98-3-13A Jalan Fettes 11200 Tanjung Tokong Pulau Pinang Tel No.: 04-8981 525	012-004
MERCURY SECURITIES SDN BHD Ground, 1 st , 2 nd & 3 rd Floor Wisma UMNO Lorong Bagan Luar Dua Seberang Perai 12000 Butterworth Pulau Pinang Tel No.: 04-3322 123	093-001	MERCURY SECURITIES SDN BHD 2 nd Floor Standard Chartered Bank Chambers 2 Lebu Pantai 10300 Pulau Pinang Tel No.: 04-2639 118	093-004
MERCURY SECURITIES SDN BHD 70-1-22 Jalan Mahsuri 11900 Bandar Bayan Baru Penang Tel No.: 04-6400 822	093-006	PM SECURITIES SDN BHD Level 25, Menara BHL 51, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel No.: 04-2273 000	064-004

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 2677, Jalan Chain Ferry Taman Inderawasih 13600 Seberang Prai Pulau Pinang Tel No.: 04-3900 022	087-005	RHB INVESTMENT BANK BERHAD Ground & Upper Floor No. 11A, Jalan Keranji Off Jalan Padang Lallang 14000 Bukit Mertajam Pulau Pinang Tel No.: 04-5402 888	087-015
RHB INVESTMENT BANK BERHAD 834, Ground Floor & First Floor 835, First Floor Jalan Besar, Sungai Bakap 14200 Sungai Jawi Seberang Perai Selatan Pulau Pinang Tel No.: 04-5831 888	087-032	RHB INVESTMENT BANK BERHAD 64 & 64-D Tingkat Bawah-Tingkat 3 & Tingkat 5-Tingkat 8 Lebuh Bishop 10200 Pulau Pinang Tel No.: 04-2634 222	087-033
RHB INVESTMENT BANK BERHAD Ground & 1st Floor No. 15-G-5, 15-G-6, 15-1-5, 15-1-6, 15-2-5, 15-2-6 & 15-2-24 Medan Kampung Relau (Bayan Point) 11950 Pulau Pinang Tel No.: 04-6404 888	087-042	RHB INVESTMENT BANK BERHAD 41-A, 41-B and 41-C Lintang Angsana Bandar Baru Air Itam 11500 Pulau Pinang Tel No.: 04-8352 988	087-056
SJ SECURITIES SDN BHD 12 th Floor, Office Tower Hotel Royal Penang No.3 Jalan Larut 10050 Georgetown Penang Tel No.: 04-2289 836	096-003	UOB KAY HIAN SECURITIES (M) SDN BHD 1 st , 2 nd & 3 rd Floor Bangunan Heng Guan 171 Jalan Burmah 10050 Pulau Pinang Tel No.: 04-2299 318	078-002
UOB KAY HIAN SECURITIES (M) SDN BHD Ground & 1 st Floor No. 2, Jalan Perniagaan 2 Pusat Perniagaan Alma 14000 Bukit Mertajam Pulau Pinang Tel No.: 04-5541 388	078-003		
PERLIS INDRA KAYANGAN			
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 39, Taman Suriani Persiaran Jubli Emas 01000 Kangar Perlis Indra Kayangan Tel No : 04-9793 888	087-060		

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KEDAH DARUL AMAN			
ALLIANCE INVESTMENT BANK BERHAD 2 nd Floor, Wisma PKNK Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman Tel No.: 04-7317 088	076-004	HWANGDBS INVESTMENT BANK BERHAD No. 70A, B & C, Jalan Mawar 1 Taman Pekan Baru 08000 Sungai Petani Kedah Darul Aman Tel No.: 04-4256 666	068-011
RHB INVESTMENT BANK BERHAD No. 112, Jalan Pengkalan Taman Pekan Baru 08000 Sungai Petani Kedah Darul Aman Tel No.: 04-4204 888	087-017	RHB INVESTMENT BANK BERHAD 35, Ground Floor Jalan Suria 1, Jalan Bayu 09000 Kulim Kedah Darul Aman Tel No.: 04-4964 888	087-019
RHB INVESTMENT BANK BERHAD 214-A, 214-B, 215-A & 215-B Medan Putra, Jalan Putra 05150 Alor Setar Kedah Darul Aman Tel No.: 04-7209 888	087-021	UOB KAY HIAN SECURITIES (M) SDN BHD Lot 4, 5 & 5A, 1 st Floor EMUM 55 No. 55, Jalan Gangsa Kawasan Perusahaan Mergong 2 Seberang Jalan Putra 05150 Alor Setar Kedah Darul Aman Tel No.: 04-7322 111	078-007
NEGERI SEMBILAN DARUL KHUSUS			
HWANGDBS INVESTMENT BANK BERHAD 1 st Floor 105, 107 & 109 Jalan Yam Tuan 70000 Seremban Negeri Sembilan Darul Khusus Tel No.: 06-7612 288	068-007	HWANGDBS INVESTMENT BANK BERHAD No. 6, Upper Level Jalan Mahligai 72100 Bahau Negeri Sembilan Darul Khusus Tel No.: 06-4553 188	068-013
KENANGA INVESTMENT BANK BERHAD 1C-1 & 1D-1, First Floor Jalan Tunku Munawir 70000 Seremban Negeri Sembilan Darul Khusus Tel No.: 06-7655 998	073-033	MAYBANK INVESTMENT BANK BERHAD Wisam HM Ground Floor No. 43 Jalan Dr. Krishnan 70000, Seremban Negeri Sembilan Darul Khusus Tel No.: 06-7669 555	098-005
PM SECURITIES SDN BHD 1 st , 2 nd & 3 rd Floor 19-21, Jalan Kong Sang 70000 Seremban Negeri Sembilan Darul Khusus Tel No.: 06-7623 131	064-002	RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor, No. 32 & 33 Jalan Dato' Bandar Tunggal 70000 Seremban Negeri Sembilan Darul Khusus Tel No : 06-7641 641	087-024
RHB INVESTMENT BANK BERHAD 1 st Floor, No. 3601, Jalan Besar 73000 Tampin Negeri Sembilan Darul Khusus Tel No : 06-4421 000	087-037	RHB INVESTMENT BANK BERHAD Ground & Mezzanine Floor No. 346 & 347, Batu ½, Jalan Pantai 71000 Port Dickson Negeri Sembilan Darul Khusus Tel No.: 06-6461 234	087-046

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
MELAKA			
CIMB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 191, Taman Melaka Raya Off Jalan Parameswara 75000 Melaka Tel No :06-2898 800	065-006	KENANGA INVESTMENT BANK BERHAD 71 (Ground, A&B) & 73(Ground, A&B), Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel No.: 06-2881 720	073-028
KENANGA INVESTMENT BANK BERHAD 22A & 22A-1 and 26 & 26-1 Jalan MP 10 Taman Merdeka Permai 75350 Batu Berendam Melaka Tel No.: 06-3372 550	073-034	MALACCA SECURITIES SDN BHD No. 1, 3 & 5, Jalan PPM 9 Plaza Pandan Malim (Business Park) Balai Panjang, P. O. Box 248 75250 Melaka Tel No.: 06-3371 533	012-001
MERCURY SECURITIES SDN BHD No. 81-B & 83-B Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel No.: 06-2921 898	093-003	PM SECURITIES SDN BHD No. 13, Jalan PM2 Plaza Mahkota 75000 Melaka Tel No.: 06-2866 008	064-006
RHB INVESTMENT BANK BERHAD No. 19, 21 & 23 Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel No.: 06-2833 622	087-002	RHB INVESTMENT BANK BERHAD 579, 580 & 581 Taman Melaka Raya 75000 Melaka Tel No.: 06-2825 211	087-026
TA SECURITIES HOLDINGS BERHAD No. 59, 59A & 59B Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel No.: 06-2862 618	058-008		
JOHOR DARUL TAKZIM			
ALLIANCE INVESTMENT BANK BERHAD No. 73, Ground & 1 st Floor Jalan Rambutan 86000 Kluang Johor Darul Takzim Tel No.: 07-7717 922	076-006	AMINVESTMENT BANK BERHAD 2 nd , 3 rd , 4 th Floor, Penggaram Complex 1, Jalan Abdul Rahman 83000 Batu Pahat Johor Darul Takzim Tel No.: 07-4342 282	086-002
AMINVESTMENT BANK BERHAD 18 th & 31 st Floor Selesa Tower Jalan Dato' Abdullah Tahir 80300 Johor Bahru Johor Darul Takzim Tel No.: 07-3343 855	086-006	CIMB INVESTMENT BANK BERHAD No. 73 Ground Floor, No. 73A First Floor & No.79A First Floor Jalan Kuning Dua 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3405 888	065-011

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
HONG LEONG INVESTMENT BANK BERHAD 1st Floor, No. 9, Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim Tel No : 07-4313 688	066-004	HONG LEONG INVESTMENT BANK BERHAD Suite 25.02, Level 25 Johor Bahru City Square (Office Tower) No. 106-108, Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim Tel No : 07-2227 388	066-005
HWANGDBS INVESTMENT BANK BERHAD Level 7, Johor Bahru City Square (Office Tower) 106-108, Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim Tel No.: 07-2222 692	068-004	INTER-PACIFIC SECURITIES SDN BHD 95, Jalan Tun Abdul Razak 80000 Johor Bahru Johor Darul Takzim Tel No.: 07-2231 211	054-004
JUPITER SECURITIES SDN BHD 3.01 Jalan Molek 1/8 Taman Molek 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3538 878	055-002	KENANGA INVESTMENT BANK BERHAD Level 2, Menara Pelangi Jalan Kuning, Taman Pelangi 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3333 600	073-004
KENANGA INVESTMENT BANK BERHAD No. 31, Lorong Dato' Ahmad Jalan Khalidi 84000 Muar Johor Darul Takzim Tel No.: 06-9542 711	073-008	KENANGA INVESTMENT BANK BERHAD Ground & Mezzanine Floor No. 34, Jalan Genuang 85000 Segamat Johor Darul Takzim Tel No.: 07-9333 515	073-009
KENANGA INVESTMENT BANK BERHAD No. 33 & 35 (Ground & 1st Floor A&B) Jalan Syed Abdul Hamid Sagaff 86000 Kluang Johor Darul Takzim Tel No.: 07-7771 161	073-010	KENANGA INVESTMENT BANK BERHAD Ground Floor No. 4 Jalan Dataran 1 Taman Bandar Tangkak 84900 Tangkak Johor Darul Takzim Tel No.: 06-9782 292	073-011
KENANGA INVESTMENT BANK BERHAD No. 24, 24A & 24B Jalan Penjaja 3 Kim Park Centre 83000 Batu Pahat Johor Darul Takzim Tel No.: 07-4326 963	073-017	KENANGA INVESTMENT BANK BERHAD Suite 16-02, 16-03 & 16-03A Level 16, Manara MSC Cyberport No. 5, Jalan Bukit Meldrum 80300 Johor Bahru Johor Darul Takzim Tel No.: 07-2237 423	073-019

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
KENANGA INVESTMENT BANK BERHAD No. 57, 59 & 61, Jalan Ali 84000 Muar Johor Darul Takzim Tel No.: 06-9532 222	073-024	KENANGA INVESTMENT BANK BERHAD Ground Floor No. 234, Jalan Besar Taman Semberong Baru 83700 Yong Peng Johor Darul Takzim Tel No.: 07-4678 885	073-025
M & A SECURITIES SDN BHD Suite 5.3A, Level 5 Menara Pelangi Jalan Kuning, Taman Pelangi 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3381 233	057-003	M & A SECURITIES SDN BHD 26 Jalan Indah 16/5 Taman Bukit Indah 81200 Johor Bahru Johor Darul Takzim Tel No.: 07-2366 288	057-006
M & A SECURITIES SDN BHD No. 27,27A & 27 B Jalan Molek 3/10, Taman Molek 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3551 988	057-007	MALACCA SECURITIES SDN BHD 74 Jalan Serampang Taman Pelangi 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3351 533	012-005
MERCURY SECURITIES SDN BHD Suite 17.1, Level 17 Menara Pelangi Jalan Kuning, Taman Pelangi 80400 Johor Bahru Johor Darul Takzim Tel No.: 07-3316 992	093-005	PM SECURITIES SDN BHD No. 41, Jalan Molek 2/4 Taman Molek 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3513 232	064-005
PM SECURITIES SDN BHD Ground & 1 st Floor No. 43 & 43A, Jalan Penjaja 3 Taman Kim's Park Business Centre 83000 Batu Pahat Johor Darul Takzim Tel No.: 07-4333608	064-008	RHB INVESTMENT BANK BERHAD 6 th Floor, Wisma Tiong-Hua 8, Jalan Keris, Taman Sri Tebrau 80050 Johor Bahru Johor Darul Takzim Tel No.: 07-2788 821	087-006
RHB INVESTMENT BANK BERHAD 53, 53-A & 53-B Jalan Sultanah 83000 Batu Pahat Johor Darul Takzim Tel No.: 07-4380 288	087-009	RHB INVESTMENT BANK BERHAD No. 33-1, 1st & 2nd Floor Jalan Ali 84000 Muar Johor Darul Takzim Tel No.: 06-9538 262	087-025
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 119 & 121 Jalan Sutera Tanjung 8/2 Taman Sutera Utama 81300 Skudai Johor Darul Takzim Tel No.: 07-5577 628	087-029	RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 3, Jalan Susur Utama 2/1 Taman Utama 85000 Segamat Johor Darul Takzim Tel No.: 07-9321 543	087-030

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 40 Jalan Haji Mana 86000 Kluang Johor Darul Takzim Tel No.: 07-7769 655	087-031	RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 10, Jalan Anggerik 1 Taman Kulai Utama 81000 Kulai Johor Darul Takzim Tel No.: 07-6626 288	087-035
RHB INVESTMENT BANK BERHAD Ground, 1 st & 2 nd Floor No. 343, Jalan Muar 84900 Tangkak Johor Darul Takzim Tel No.: 06-9787 180	087-038	RHB INVESTMENT BANK BERHAD 1 st Floor, No. 2 & 4 Jalan Makmur, Taman Sri Aman 85300 Labis Johor Darul Takzim Tel No.: 07-9256 881	087-039
RHB INVESTMENT BANK BERHAD 2 nd Floor, No. 21 & 23 Jalan Molek 1/30 Taman Molek 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3522 293	087-043	TA SECURITIES HOLDINGS BERHAD 7A Jalan Genuang Perdana Taman Genuang Perdana 85000 Segamat Johor Darul Takzim Tel No.: 07-9435 278	058-009
UOB KAY HIAN SECURITIES (M) SDN BHD 42-8, Main Road Kulai Besar 81000 Kulai Johor Darul Takzim Tel No.: 07-6637 398	078-005	UOB KAY HIAN SECURITIES (M) SDN BHD No. 70, 70-01, 70-02 Jalan Rosmerah 2/17 Taman Johor Jaya 81100 Johor Bahru Johor Darul Takzim Tel No.: 07-3513 218	078-006
UOB KAY HIAN SECURITIES (M) SDN BHD No. 171 (Ground Floor) Jalan Bestari 1/5 Taman Nusa Bestari 81300 Skudai Johor Darul Takzim Tel No : 07-5121 633	078-008		
KELANTAN DARUL NAIM			
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 3953-H PT225, 1 st Floor, Jalan Kebun Sultan 15350 Kota Bharu Kelantan Darul Naim Tel No.: 09-7430 077	087-020	TA SECURITIES HOLDINGS BERHAD 298, Jalan Tok Hakim 15000 Kota Bharu Kelantan Darul Naim Tel No.: 09-7432 288	058-004

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
PAHANG DARUL MAKMUR			
ALLIANCE INVESTMENT BANK BERHAD Ground, Mezzanine & 1st Floor B-400, Jalan Berserah 25300 Kuantan Pahang Darul Makmur Tel No.: 09-5660 800	076-002	CIMB INVESTMENT BANK BERHAD Ground 1 st & 2 nd Floor No. A-27 Jalan Dato' Lim Hoe Lek 25200 Kuantan Pahang Darul Makmur Tel No.: 09-5057 800	065-007
JUPITER SECURITIES SDN BHD 2 nd Floor, Lot No. 25 Jalan Chui Yin 28700 Bentong Pahang Darul Makmur Tel No.: 09-2234 136	055-005	KENANGA INVESTMENT BANK BERHAD A15, A17 & A19, Ground Floor Jalan Tun Ismail 2 Sri Dagangan 2 25000 Kuantan Pahang Darul Makmur Tel No.: 09-5171 698	073-027
RHB INVESTMENT BANK BERHAD B32 & B34, Lorong Tun Ismail 8 Seri Dagangan II 25000 Kuantan Pahang Darul Makmur Tel No.: 09-5173 811	087-007	RHB INVESTMENT BANK BERHAD Ground Floor 98 Jalan Pasdec 28700 Bentong Pahang Darul Makmur Tel No.: 09-2234 943	087-022
RHB INVESTMENT BANK BERHAD Ground Floor No. 76-A, Persiaran Camelia 4 Tanah Rata 39000 Cameron Highlands Pahang Darul Makmur Tel No.: 05-4914 913	087-041		
TERENGGANU DARUL IMAN			
ALLIANCE INVESTMENT BANK BERHAD Ground & Mezzanine Floor Wisma Kam Choon 101, Jalan Kampung Tiong 20100 Kuala Terengganu Terengganu Darul Iman Tel No.: 09-6317 922	076-009	FA SECURITIES SDN BHD No. 51 & 51A Ground, Mezzanine & 1st Floor Jalan Tok Lam 20100 Kuala Terengganu Terengganu Darul Iman Tel No.: 09-6238 128	021-001
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor 9651, Cukai Utama Jalan Kubang Kurus 24000 Kemaman Terengganu Darul Iman Tel No.: 09-8583 109	087-027	RHB INVESTMENT BANK BERHAD 31A, Ground Floor 31A & 31B, 1 st Floor Jalan Sultan Ismail 20200 Kuala Terengganu Terengganu Darul Iman Tel No.: 09-6261 816	087-055

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
SABAH			
CIMB INVESTMENT BANK BERHAD 1 st & 2 nd Floor Central Building No. 28, Jalan Sagunting 88000 Kota Kinabalu Sabah Tel No : 088-328 878	065-005	HWANGDBS INVESTMENT BANK BERHAD Suite 1-9-E1, 9 th Floor, CPS Tower Centre Point Sabah No. 1, Jalan Centre Point 88000 Kota Kinabalu Sabah Tel No.: 088-311 688	068-008
KENANGA INVESTMENT BANK BERHAD Aras 8, Wisma Great Eastern 68, Jalan Gaya 88000 Kota Kinabalu Sabah Tel No.: 088-236 188	073-032	RHB INVESTMENT BANK BERHAD 5 th Floor, Wisma BSN Sabah Jalan Kemajuan, Karamunsing 88000 Kota Kinabalu Sabah Tel No.: 088-269 788	087-010
RHB INVESTMENT BANK BERHAD Lot 14-0, Ground Floor Lorong Lintas Plaza 2 Lintas Plaza, Off Jalan Lintas 88300 Kota Kinabalu Sabah Tel No : 088-258 618	087-036	RHB INVESTMENT BANK BERHAD Ground Floor, Block 2 Lot 4 & Lot 5, Bandar Indah, Mile 4 North Road 91000 Sandakan Sabah Tel No : 089-229 286	087-057
UOB KAY HIAN SECURITIES (M) SDN BHD 11, Equity House, Block K Sadong Jaya, Karamunsing 88100 Kota Kinabalu Sabah Tel No.: 088-234 090	078-011		
SARAWAK			
AMINVESTMENT BANK BERHAD No. 164, 166 & 168 1 st , 2 nd & 3 rd Floor Jalan Abell 93100 Kuching Sarawak Tel No : 082-244 791	086-005	CIMB INVESTMENT BANK BERHAD Level 1, Wisma STA 26 Jalan Datuk Abang Abdul Rahim 93450 Kuching Sarawak Tel No.: 082-358 606	065-004
CIMB INVESTMENT BANK BERHAD No. 6A, Ground Floor Jalan Bako, Off Brooke Drive 96000 Sibu Sarawak Tel No.: 084-367 700	065-008	HWANGDBS INVESTMENT BANK BERHAD Ground Floor & 1 st Floor No. 1, Jalan Pending 1 st Floor, No. 3, Jalan Pending 93450 Kuching Sarawak Tel No.: 082-341 999	068-005

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
HWANGDBS INVESTMENT BANK BERHAD No. 282, 1 st Floor Park City Commercial Centre Phase 4, Jalan Tun Ahmad Zaidi 97000 Bintulu Sarawak Tel No.: 086-330 008	068-016	KENANGA INVESTMENT BANK BERHAD Lot 2465, Jalan Boulevard Utama Boulevard Commercial Centre 98000 Miri Sarawak Tel No.: 085-435 577	073-002
KENANGA INVESTMENT BANK BERHAD Level 1-5, Wisma Mahmud Jalan Sungai Sarawak 93100 Kuching Sarawak Tel No.: 082-338 000	073-003	KENANGA INVESTMENT BANK BERHAD No. 11-12, (Ground & 1 st Floor) Lorong Kampung Datu 3 96000 Sibul Sarawak Tel No.: 084-313 855	073-012
KENANGA INVESTMENT BANK BERHAD Ground Floor of Survey Lot No. 4203 Parkcity Commerce Square Phase 6, Jalan Diwarta 97000, Bintulu Sarawak Tel No.: 086-337 588	073-018	KENANGA INVESTMENT BANK BERHAD Suite 9 & 10, 3 rd Floor, Yung Kong Abell Lot 365, Section 50 Jalan Abell 93100 Kuching Sarawak Tel No.: 082-248 877	073-036
RHB INVESTMENT BANK BERHAD Yung Kong Abell Units No. 1-10, 2 nd Floor Lot 365, Section 50 Jalan Abell 93100 Kuching Sarawak Tel No.: 082-250 888	087-003	RHB INVESTMENT BANK BERHAD Lot 170 & 171 Section 49, K.T.L.D Jalan Chan Chin Ann 93100 Kuching Sarawak Tel No.: 082-422 252	087-008
RHB INVESTMENT BANK BERHAD Lot 1268, 1 st & 2 nd Floor Lot 1269, 2 nd Floor Centre Point Commercial Centre Jalan Melayu 98000 Miri Sarawak Tel No : 085-422 788	087-012	RHB INVESTMENT BANK BERHAD 102, Pusat Pedada Jalan Pedada 96000 Sibul Sarawak Tel No.: 084-329 100	087-013
RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 10, Jalan Bersatu 96100 Sarikei Sarawak Tel No.: 084-654 100	087-050	RHB INVESTMENT BANK BERHAD Ground & 1 st Floor No. 221, Parkcity Commerce Square Phase III, Jalan Tun Ahmad Zaidi 97000 Bintulu Sarawak Tel No.: 086-311 770	087-053

16. PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Name, Address and Telephone Number	ADA Code	Name, Address and Telephone Number	ADA Code
TA SECURITIES HOLDINGS BERHAD 12G, Jalan Kampong Datu 96000 Sibu Sarawak Tel No.: 084-319 998	058-002	TA SECURITIES HOLDINGS BERHAD 2 nd Floor, (Bahagian Hadapan) Bangunan Binamas Lot 138, Section 54 Jalan Pandung 93100 Kuching Sarawak Tel No.: 082-236 333	058-006

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