

# Management Discussion And Analysis

## OVERVIEW OF THE GROUP'S OPERATIONS

HHRG is an investment holding company with subsidiaries involved in following business activities as following:

- (i) Oil palm empty fruit bunch ("EFB") fibre and value-added products,
- (ii) Coconut fibre and value-added products;
- (iii) Fully-Integrated fibre mattress, kids' bed and other bedding accessories; and
- (iv) Property development and management.

Apart from upstream activities, our Group has also ventured downstream to manufacture and distribute our own-brands of mattresses and related products utilising primarily the coconut fibre produced internally.

## FINANCIAL RESULTS & CONDITION

### • Financial Performance

	2023 RM'000	2022 RM'000	Year-on-Year Variance (%)
Revenue			
Biomass materials and related products	76,865	80,985	-5.09
Furniture, mattresses and related products	77,783	22,517	245.44
Property development and management	620	-	100.00
	<b>155,268</b>	<b>103,502</b>	<b>50.01</b>
Profitability			
Gross profit "GP"	53,954	37,667	43.24
GP margin	34.75%	36.39%	
Profit before tax "(PBT)"	33,367	14,847	124.74
(PBT) margin	21.49%	14.34%	
Net profit for the year "(PAT)"	30,012	14,756	103.39
(PAT) margin	19.33%	14.26%	

The Group's revenue for the financial year ended ("FYE") 31 March 2023 increased by RM51.77 million (or 50.01%) to RM155.27 million was arising from:

The increase of sales performance was primarily attributable to the following factors:

- i. Contributions of a subsidiary from furniture business segment which was acquired on 30 March 2022; and
- ii. Increase in sales volume of bio-oil product, where total quantities sold during the financial year under review, which has improved by approximately 13.39% as compared to the preceding year.

The Group's PAT for the FYE 31 March 2023 increased by RM15.26 million (or 103.39%) to RM30.01 million mainly due to:

- i. Increase in gross profit in line with the enhanced sales performance as explained above;
- ii. Increase in other income due to one-off, non-recurring transaction from fire insurance compensation on biomass, materials and related products segment; and
- iii. Higher of administrative expenses mainly due to one off, non-recurring transaction incurred for the FYE 31 March 2022. The non-cash expenses amounted RM7.66 million recognised was in relation to the equity-settled share-based payment transactions.

# Management Discussion And Analysis (cont'd)

## FINANCIAL RESULTS & CONDITION (CONT'D)

### • Financial Performance (cont'd)

The revenue growth was, however, partially offset by the following factors:

- i. Higher of administrative expenses mainly due to impairment loss on property, plant and equipment from one of the subsidiaries. This was due to the management's intention to cease the operation of that subsidiary as at the end of the financial year; and
- ii. Higher of administrative expenses mainly due to additional segment from furniture division which was acquired on 30 March 2022.

### • Financial Position

	2023 RM'000	2022 <sup>(1)</sup> RM'000	Year-on-Year Variance (%)
Total assets	251,205	134,789	86.37
Total liabilities	61,935	34,130	81.47
Shareholders' equity	165,880	100,191	65.56
<b>Net assets per share (sen)</b>	<b>22.34</b>	<b>74.46</b>	

<sup>(1)</sup> Excluded the impacts of the newly acquired subsidiary, MG Furniture Sdn Bhd on 30 March 2022.

As at 31 March 2023, our Group's total assets and total liabilities stood at RM251.21 million and RM61.94 million respectively, representing an increase of 86.37% and a increase of 81.47% as compared to the preceding year.

As at 31 March 2023, our shareholders' equity remained at a positive level, stood at RM165.88 million (2022: RM100.19 million).

### • Liquidity

	2023 Days	2022 <sup>(3)</sup> Days	Changes Day
Trade receivables' turnover period <sup>(1)</sup>	23	34	- 11 days
Inventories' turnover period <sup>(2)</sup>	44	33	+ 11 days
Trade payables' turnover period <sup>(2)</sup>	22	24	- 2 days
<b>Cash conversion cycle</b>	<b>45</b>	<b>43</b>	<b>+ 2 days</b>

<sup>(1)</sup> This is derived using the formula: (Closing balance as at year-end / Total revenue) x 365 days

<sup>(2)</sup> This is derived using the formula: (Closing balance as at year-end / Cost of sales) x 365 days

<sup>(3)</sup> Excluded the impacts of the newly acquired subsidiary, MG Furniture Sdn Bhd on 30 March 2022.

# Management Discussion And Analysis (cont'd)

## FINANCIAL RESULTS & CONDITION (CONT'D)

### • Liquidity (cont'd)

The cash conversion cycle was increased from 43 days in the FYE 2022 to 45 days in the FYE 2023. This was due to increase of inventories' turnover period by additional segment from furniture division which was acquired on 30 March 2022.

	2023 RM'000	2022 <sup>(1)</sup> RM'000
Cash flows from operating activities	41,255	22,234
Cash flow used in investing activities	(28,853)	(4,206)
Cash flow from financing activities	4,260	6,215
<b>Net movements in cash and cash equivalents</b>	<b>16,662</b>	<b>24,243</b>
Cash and cash equivalents at the end of the financial year:		
Cash and bank balances	23,784	21,750
Fixed deposits with licensed banks	9,441	10,514
Short-term money market deposit	600	-
Short-term investment	16,028	2,000
	49,853	34,264
Less:		
Deposits pledged to licensed banks	(9,441)	(10,514)
	<b>40,412</b>	<b>23,750</b>
<b>Current ratio (times)</b>	<b>3.03</b>	<b>2.15</b>

<sup>(1)</sup> Excluded the impacts of the newly acquired subsidiary, MG Furniture Sdn Bhd on 30 March 2022.

Our Group's current ratio had improved from 2.15 times in the preceding year to 3.03 times for the financial year under review, mainly due to improvement in cash and cash equivalents which derived from collection received from increased sales during the financial year.

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

Capital Commitment	2023 RM'000	2022 RM'000
Capital expenditure in respect of purchase of property, plant and equipment		
Approved but not contracted for	2,420	107
Contacted but not provided for	131	10,366
	<b>2,551</b>	<b>10,473</b>

As of 31 March 2023, our Group did not incur any new expansion or future project.

# Management Discussion And Analysis (cont'd)

## FINANCIAL RESULTS & CONDITION (CONT'D)

### • Capital Expenditure Requirements, Capital Structure and Capital Resources (cont'd)

Borrowings	2023 RM'000	2022 <sup>(1)</sup> RM'000
Short terms (repayable within 12 months)	3,347	2,186
Long terms (repayable within 12 months)	28,977	6,371
	<b>32,324</b>	<b>8,557</b>
<b>Gearing ratio (times) Borrowings /Shareholders' Equity</b>	<b>0.19</b>	<b>0.09</b>

<sup>(1)</sup> Excluded the impacts of the newly acquired subsidiary, MG Furniture Sdn Bhd on 30 March 2022.

During the financial year under review, our Group's gearing ratio increased to 0.19 times as compared to 0.09 times in prior year. Our borrowings increased by RM23.77 million or 277.75% from RM8.56 million in the preceding year to RM32.32 million as at 31 March 2023.

The increase in our Group's borrowings was primarily attributable to the additional segment from furniture division which was acquired on 30 March 2022.

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

## REVIEW OF OPERATING ACTIVITIES

### Proposed Bonus Issue: Announcement dated 13 January 2022

On 13 January 2022, the Company announced to undertake Proposed Bonus Issue.

On 14 January 2022, the Company announced that the additional listing application in relation to the Proposed Bonus Issue has been submitted to Bursa Securities.

On 14 February 2022, the Company announced that Bursa Securities had, vide its letter dated 14 February 2022, resolved to approve the following:

- up to 588,189,057 Bonus Shares to be issued pursuant to the Proposed Bonus Issue;
- up to 101,422,671 Additional Warrants to be issued pursuant to the adjustment arising from the Proposed Bonus Issue; and
- up to 101,422,671 additional new HHRG Shares to be issued pursuant to the exercise of the Additional Warrants.

# Management Discussion And Analysis (cont'd)

## REVIEW OF OPERATING ACTIVITIES (CONT'D)

### Proposed Bonus Issue: Announcement dated 13 January 2022 (cont'd)

The approval granted by Bursa Securities for the Proposed Bonus Issue is subject to the following conditions:

- a. HHRG and TA Securities must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Bonus Issue;
- b. HHRG and TA Securities to inform Bursa Securities upon the completion of the Proposed Bonus Issue;
- c. HHRG to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Bonus Issue is completed; and
- d. HHRG and TA Securities are required to make the relevant announcements pursuant to Rule 6.36(2)(a), Rule 6.36(2)(b) and Rule 6.36(4) of the Listing Requirements.

The Additional Warrants and Bonus Shares must be listed simultaneously.

The Proposed Bonus Issue was subsequently approved by the shareholders of the Company in the Extraordinary General Meeting held on 15 March 2022.

The proposed issuance new ordinary shares for above acquisition has been completed on 18 April 2022, following the listing of 424,693,236 Bonus Shares and 101,095,710 new Warrants arising from the adjustment to the number of outstanding Warrants pursuant to the Bonus Issue respectively on ACE Market of Bursa Securities.

### Proposed Change of Name of Company From "Heng Huat Resources Group Berhad" to "HHRG Berhad": Announcement dated 20 May 2023

On 20 May 2023, the Company announced that the Board of Directors of Company wishes to inform that the Company is proposing to change its name from "Heng Huat Resources Group Berhad" to "HHRG Berhad" ("Proposed Change of Name").

The proposed name "HHRG Berhad" was approved by the Companies Commission of Malaysia ("CCM") and the reservation for the use of the proposed name was extended to 17 June 2023.

The Proposed Change of Name, if approved by the shareholders, the new name will take effect from the date of issuance of the Notice of Registration of New Name by the CCM to the Company.

On 26 May 2023, The Company announced the Notice of Extraordinary Meeting "EGM". The Proposed Change of Name is subject to the approval of the Company's shareholders at an Extraordinary General Meeting to be convened at 24 May 2023.

On 27 May 2023, the Company announced the circular of Proposed Change of Name.

Save from the above, there were no other corporate proposals announced as at date of this announcement.

# Management Discussion And Analysis (cont'd)

## ANTICIPATED OR KNOWN RISKS

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

## FORWARD LOOKING STATEMENT

### Prospect

The current economic situation remains challenging. The Group expects the demand on our biomass products will be soften and we are closely monitoring the pricing movement of our products. The Group is currently exploring various opportunities to expand our biomass business. We have invested in bio-compost production facilities as downstream investment. The product will allow us to enter new markets and expand our customer base, while providing additional revenue streams to the group in coming quarters.

Our furniture and mattress are mostly export to overseas markets likes United States, United Kingdom, and other Asian countries. Given the current challenges in the global economic market, we anticipate a slowdown in demand for our furniture and mattress products due to the prevailing market conditions.

The Group is actively engaging in various initiatives to further strengthen its cost control and operation efficiency. The Group is also prudently managing its cash flow, capital expenditure and medium to long term investment. With this, the Group is confident that it will be able to navigate through the current headwinds and be well-positioned for the future.

### DIVIDEND POLICY

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

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